November 7, 2011

The Honorable City Council
Palo Alto, California

Finance Committee Recommendation to Accept the Audit of Purchasing Card Transactions

In accordance with the Fiscal Year (FY) 2011 Annual Audit Work Plan, the City Auditor's Office has completed an Audit of Purchasing Card Transactions, primarily administered through the Administrative Services Department (ASD). The audit contains two main findings with a total of six recommendations.

The City Auditor's Office recommends acceptance of the Audit of Purchasing Card Transactions. At its meeting on September 20, 2011, the Finance Committee approved and unanimously recommended the City Council accept the Audit of Purchasing Card Transactions. The Finance Committee minutes are included in this packet.

Finding 1: Most purchasing card transactions appear to comply with City policy, but additional improvements could enhance oversight

While our review found most purchasing card transactions appear to comply with City policy, some improvements could enhance oversight. Specifically, CAL-Card data in SAP could be more complete and accurate to improve oversight. In addition, supporting documentation to substantiate the business purpose of expenses could be improved and oversight could be strengthened with improved data and reporting utilization. The audit recommends ensuring all purchasing card transactions contain descriptive annotations of items purchased and clear explanations of business purpose of expenses and strengthening some procedures. The audit also recommends obtaining more detailed transaction data and utilizing available reporting options to enhance oversight and suggests a performance audit of procurement, which includes an assessment of contract pricing accuracy.

Finding 2: The City should take steps to increase usage of purchasing card program

Purchasing cards can help organizations achieve process efficiencies and lower the cost of procurement. While the City has established purchasing cards as a method of payment for low dollar goods and services, opportunities exist for the City to further increase purchasing card usage and realize additional operational efficiencies. The City should consider steps to mandate purchasing card usage for lower dollar goods and services and consider options to increase purchasing card usage. The audit recommends ASD should evaluate options to increase usage of purchasing card program, including: 1) evaluating options to mandate purchasing card usage

under certain dollar thresholds, and 2) evaluating increasing purchasing card limits.

We thank the staff in ASD for their time, information, and cooperation during the audit process.

Respectfully submitted,

Ian Hagerman
Senior Performance Auditor

ATTACHMENTS:

- Attachment A: Audit of Purchasing Card Transactions (PDF)
- Attachment B: Finance Committee Minutes Excerpt (September 20, 2011) (PDF)

Department Head: Mike Edmonds, Interim City Auditor

AUDIT OF PURCHASING CARD TRANSACTIONS

OFFICE OF THE CITY AUDITOR

SEPTEMBER 2011

Office of the City Auditor

CITY *of* PALO ALTO
Office of the City Auditor

September 20, 2011

Honorable City Council
Attn: Finance Committee
Palo Alto, California

AUDIT OF PURCHASING CARD TRANSACTIONS

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We thank the staff in ASD for their time, information, and cooperation during the audit process. I will present this report to the Finance Committee on September 20, 2011.

Respectfully submitted,

Michael A. Edmonds

Mike Edmonds
Interim City Auditor

Audit Staff: Ian Hagerman, Senior Performance Auditor

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Introduction

In accordance with the Fiscal Year 2011 Annual Audit Work Plan, the City Auditor's Office has completed an Audit of Purchasing Card Transactions.

We conducted this 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.

The City Auditor's Office would like to thank the staff of the Administrative Services Department (ASD) for their time, information, and cooperation during the audit process.

Background

The City of Palo Alto's procurement card program was established to reduce costs and increase the efficiency of the City's procurement process. The City launched its initial purchasing card program in 1996 and transitioned from this program to its current CAL-Card[1] program in 2004. The City receives purchasing card services as a participant of the State of California's CAL-Card Program, which is a Master Services Agreement with US Bank for VISA procurement card services. The City maintains oversight of its purchasing cards including transaction limits and restrictions on the types of merchants where the cards can be used. Some of the restricted merchant types include casinos, financial institutions, timeshares, and bail and bond payments. The City has transaction restrictions of $5,000 maximum amount per transaction, $15,000 maximum amount in a 30-day cycle, and over eight transactions in a single day. The City also receives three types of incentives (average transaction, sales volume, and prompt payment) from the card provider for participating in the program. In calendar year 2010, the City received incentive payments of nearly $25,000.

The City has established policies and procedures to provide guidance on the appropriate use of purchasing cards. The purchasing card policies specify a number of prohibitions on the use of City purchasing cards including:
- Use of purchasing cards for non-City purposes
- Use of the purchasing card by any person other than the cardholder
- Cash advances
- Purchases of flowers and gifts for fellow employees

The Procurement and Contract Administration Division of ASD administers the CAL-Card program and individual departments have the primary responsibility for ensuring purchasing card purchases do not violate City policies.

As shown in Exhibit 1 below, purchasing card expenditures increased more than 50% from July 2006 and June 2010 totaling about $15.4 million over that period. However, a majority of that growth occurred between July 2006 and June 2008.

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[1] CAL-Card is the official registered service mark name for the State of California's purchase card program.

Exhibit 1: Monthly Purchasing Card Transaction Amounts July 2006 – December 2010
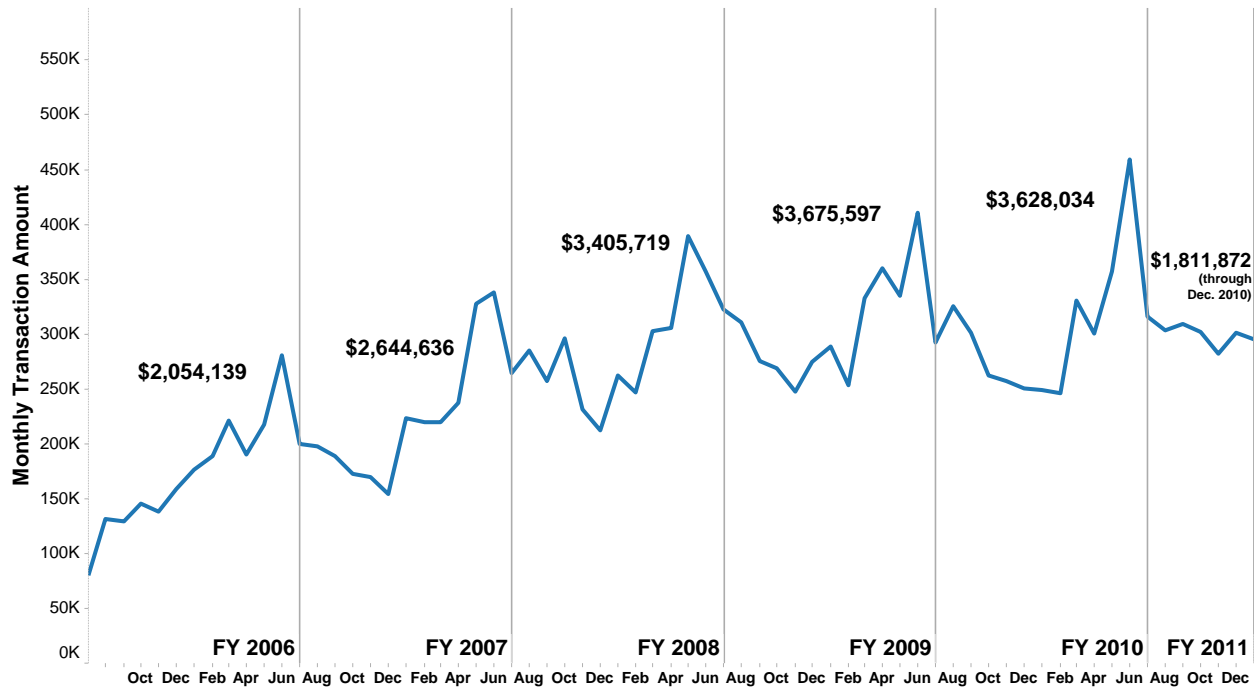
Audit Objectives, Scope, and Methodology

The objective of this audit was to review the adequacy of controls over purchasing card transactions, and to assess compliance with existing guidelines and procedures. The scope of our review was limited to calendar year 2010 transactions.

To achieve the audit objectives, we downloaded calendar year 2010 transaction data from US Bank's online database and compared it to data in the City's financial system to determine if the data was reliable. We performed analytical testing on more than 12,500 purchasing card transactions. We also reviewed detailed supporting documentation for more than 120 transactions.

We reviewed the State's contract with US Bank and also reviewed purchasing card program best practices. We reviewed purchasing card audits from several other jurisdictions and identified purchasing card practices from other jurisdictions.

We also reviewed check payments and purchase order activity for calendar year 2010 to identify transactions that where potentially purchasing card eligible; however, we did not conduct detailed testing of these transactions.

While we conducted our audit in accordance with generally accepted government auditing standards and have obtained reasonable assurance the evidence was sufficient to support the audit report findings and conclusions, the audit does not guarantee the discovery of abuse or illegal acts.

Finding 1: Most purchasing card transactions appear to comply with City policy, but additional improvements could enhance oversight

While our review found most purchasing card transactions appear to comply with City policy, several improvements could enhance oversight. Specifically, CAL-Card data in SAP could be more complete and accurate to improve oversight. In addition, supporting documentation to substantiate the business purpose of expenses could be improved and oversight could be strengthened with improved data and reporting utilization.

Several improvements would enhance CAL-Card program oversight

We performed analytical testing on more than 12,500 transactions and reviewed detailed supporting documentation for more than 120 transactions. Our review found most purchasing card transactions appear to comply with City policy. This conforms to expectations, as purchasing card programs tend to have low levels of abuse. Statistics show that purchasing card misuse accounts for an average of .034% of all dollars spent or $340 of misuse for every $1 million of purchasing card spending.

The Procurement and Contract Administration Division of ASD administers the CAL-Card program and individual departments have the primary responsibility for ensuring purchasing card purchases do not violate City policies. In addition, the City has established policies and procedures to establish proper controls over CAL-Card purchases. As a result, each transaction should have information to substantiate the cost, authorization, and business purpose of the expense. While our review found that most purchasing card transactions appear to comply with City policy, we did identify several necessary improvements that would improve oversight of the program. Specifically, the City should ensure that CAL-Card data in SAP is complete and reliable, ensure that its discipline program for program infractions is consistent, and utilize data to perform more efficient oversight.

Some CAL-Card data is incomplete - Some CAL-Card data in SAP is incomplete, which makes oversight of the program more difficult. In calendar year 2010, 540 transactions, totaling more than $190,000, did not have any descriptions of the contents or necessity of the transaction in SAP. This is particularly problematic because some transactions we physically reviewed during the course of the audit also lacked adequate documentation specifying the business purpose of the purchase. We identified similar issues regarding insufficient supporting documentation on CAL-Card transactions in our Audit of Citywide Cash Handling and Travel Expenses. ASD should continue to take steps to address this issue.

Adequate descriptions of transactions facilitate more thorough reviews by approving officials and those charged with oversight of the program and assist in determining the necessity or appropriateness of the expenses. City departments should ensure, with ASD oversight, that all purchasing card transactions contain descriptive annotations of items purchased and clear explanations of the business purpose of expenses.

In addition, the audit trail for some cardholder data is lost in SAP because of a process used to assign unauthorized purchasing card activity from outside parties to generic SAP user IDs. There are 52 active, generic SAP user accounts associated with the CAL-CARD program and all of a cardholder's transaction history up until the incident may be assigned to one of these generic "CALCARD" user IDs when the cardholder receives a

new purchasing card. ASD has not formalized this process and assignment of these user IDs is not well-documented and may not be consistent. As a result, transaction histories from multiple cardholders may share a generic user ID, inhibiting the audit trail in SAP for these transactions. In addition, these generic user IDs may violate Payment Card Industry (PCI) Data Security Standards, which is addressed in more detail in the City Auditor's 2011 SAP Security Audit, which recommends security improvements for these accounts. In addition to the recommendations from the SAP Security Audit, ASD should also evaluate options to make this process more consistent and better documented.

RECOMMENDATION #1: City departments should ensure, with ASD oversight, that all purchasing card transactions contain descriptive annotations of items purchased and clear explanations of the business purpose of expenses.

RECOMMENDATION #2: ASD should evaluate options to improve the process related to external unauthorized card activity, ensuring it is consistent and well-documented.

CAL-Card discipline program should be more consistent – Disciplinary actions for purchasing card policy violations should be clearly defined and consistently applied. However, our review found disciplinary guidelines may not be consistently applied. For example, we identified several unallowable/personal purchases made by employees that did not result in official CAL-Card program discipline.

While the employees subsequently reimbursed the City for the expenses and these may be instances where employees inadvertently used their CAL-Card, these transactions were program violations that should have resulted in disciplinary action from ASD. We also identified instances where employees received less severe disciplinary actions for more severe policy violations, such as personal use of their card, than other employees who committed more minor infractions, such as turning in paperwork late.

In addition, while the City has CAL-Card policies and procedures that identify unallowable purchases and other actions warranting administrative action, disciplinary actions may be subjectively enforced. In our opinion, ASD should strengthen its CAL-Card policies and procedures to identify clear disciplinary guidelines for policy violations and ensure that they are consistently applied.

RECOMMENDATION #3: ASD should strengthen its CAL-Card policies and procedures to identify clear disciplinary guidelines for policy violations and ensure that they are consistently applied.

CAL-Card oversight could be strengthened with improved data and reporting utilization – The City does not effectively utilize the data and analytic resources available to oversee the CAL-Card program. Presently, much of the program oversight is performed through manual processes that are less efficient and effective than analyzing data. In addition, more detailed data, which is available to the City, could improve oversight of the CAL-Card program.

The City could use reports already available from its card provider to identify high-risk purchases for further review. For example, the City is able to generate reports by vendor category to identify high-risk merchant types. However, this type of reporting is not a consistent component of the City's CAL-Card oversight.

In addition, the City could use more detailed data available from US Bank, as well as data analysis software, such as ACL, to enhance oversight of the CAL-Card program and improve general procurement oversight. The City has access to detailed transaction data that lists unit cost and unit descriptions for individual components of some transactions. This allows reviewers to quickly identify specific items purchased and the cost charged, rather than only seeing transaction totals.

Simply reviewing high-level transaction details may not adequately identify potentially inappropriate charges. For example, we identified several purchases that appear to be gift purchases for employees in conjunction with a safety recognition program. Staff stated that they could not tell what the specific items purchased were because the transaction had a generic description in SAP and Staff did not have access to sufficiently detailed data. In addition, Staff stated that they were unaware of clear guidance on the permissibility of these purchases.

More detailed data could also enhance monitoring of vendor relationships and contract compliance. For example, the City could use more detailed data to identify opportunities to realize procurement efficiencies by identifying high-volume vendors and attempting to negotiate preferred pricing or by streamlining the procurement of some items.

RECOMMENDATION #4: ASD should obtain more detailed transaction data and utilize reporting options available from its card provider to enhance oversight of CAL-Card program. In addition, ASD should consider utilizing data analysis software, such as ACL, to further enhance its review.

Procurement process should be audited to assess contract pricing accuracy

City staff uses CAL-Cards to purchase items from vendors which the City has established contracts. While determining contract pricing accuracy was beyond the scope of this review, our limited review raised some concerns about the adequacy of internal controls in the procurement process to ensure prices stipulated in City contracts match what the City is actually charged. For example, the City does not appear to have established processes to verify contracted rates or negotiated discounts are applied to contract purchases. Furthermore, other jurisdictions have identified significant pricing discrepancies on office supplies contracts. Accordingly, the City Auditor's Office will include on its proposed FY 2012 Workplan a procurement audit, which includes an assessment of contract pricing accuracy.

RECOMMENDATION #5: The Finance Committee should consider approving a performance audit of procurement, which would include an assessment of contract pricing accuracy, on the City Auditor's FY 2012 Workplan.

Finding 2: The City should take steps to increase usage of purchasing card program

Purchasing cards can help organizations achieve process efficiencies and lower the cost of procurement. While the City has established purchasing cards as a method of payment for low dollar goods and services, opportunities exist for the City to further increase purchasing card usage and realize additional operational efficiencies. The City should consider steps to mandate purchasing card usage for lower dollar goods and services and consider options to increase purchasing card usage.

Opportunities exist to increase purchasing card usage

Purchasing cards can yield process efficiencies and lower the cost of procurement for organizations. Purchasing card spending in North America grew from $137 billion to $161 billion between 2007 and 2009, with city and county purchasing card spending growing 22.9% over that period. While the national trend has been toward increasing utilization of purchasing cards, the amount of purchasing card spending by the City has leveled off.

However, we identified several opportunities to increase the City's utilization of purchasing cards. Specifically, the City could take steps to encourage or mandate departments utilize purchasing cards for certain transactions and potentially increase its purchasing card spending by at least 30%.

The City processed several thousand checks that could potentially have been paid with a CAL-Card - In calendar year 2010, the City processed more than 12,000 Accounts Payable checks. As shown in Exhibit 2 below, of these transactions, the City processed more than 7,400 checks under $1,000, nearly 9,000 checks under $2,500 and more than 10,000 checks under $5,000. While not all of these transactions are appropriate for CAL-Cards, nearly a third of these payments we sampled were to vendors that also had CAL-Card transactions, suggesting the CAL-Card could be used to make many of these purchases.

Exhibit 2: Number of Checks by Amount for Calendar Year 2010

8
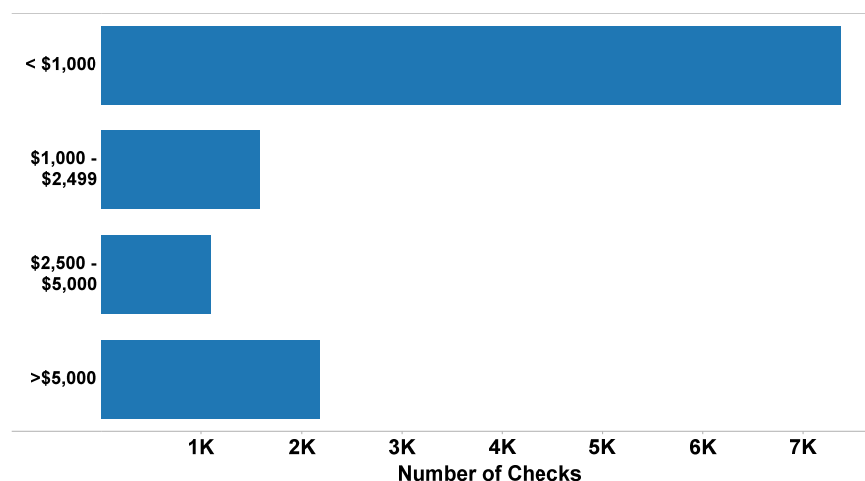
In addition, more than 180 checks, totaling approximately $260,000, within CAL-Card transaction limits, were to vendors ranked in the Top 25 for CAL-Card spending by vendor in calendar year 2010. Processing these transactions on a CAL-Card would have resulted in higher rebate amounts from the City's card provider and could result in administrative cost efficiencies.

The City processed several hundred purchase orders that could potentially have been paid with a CAL-Card – In calendar year 2010, the City processed 200 purchase orders under $5,000, representing approximately $800,000 in purchases. While not all of these transactions may be appropriate for CAL-Cards, the City has established purchasing card relationships with many of these vendors. This suggests the CAL-Card could be used to make many of these purchases. Processing these transactions on a CAL-Card would have resulted in higher rebate amounts from the City's card provider and could reduce the workload for Purchasing and Accounts Payable staff.

According to the RPMG 2010 Purchasing Card Benchmark Survey[2], the average administrative cost (including sourcing, purchasing, and payment activities) of a traditional purchase order-based process was more than four times that of a purchasing card transaction). In addition, the survey noted that in comparison to a traditional PO process, purchasing cards reduce the procurement cycle time by approximately 12 days, and reduce the number of suppliers managed in Accounts Payable databases by an average of 16%.

City should consider mandating purchasing card usage and consider other options to increase purchasing card usage

While the City has established purchasing cards as the preferred method of payment for low dollar goods and services, it has not mandated purchasing card usage. Providing clear senior management support for increasing purchasing usage is important, but the City does not appear to have a process to encourage purchasing card use for these lower dollar purchases of goods and services. As a result, the City's procurement process may be less efficient and more costly.

Best practice guidance suggests mandating purchasing card usage and increasing card distribution throughout the organization are effective mechanisms to increase purchasing card usage. In addition, mandating card usage may establish efficiencies for all parties involved in the procurement process by eliminating dual processes and maximizing the benefits of purchasing card programs.

A few jurisdictions we contacted mandate purchasing card usage under certain dollar thresholds. In addition, several jurisdictions encourage or strongly encourage the use of purchasing cards, but have not mandated usage in their organizations. In particular, staff from San Jose, CA stated their City's purchasing card program has evolved from a program to facilitate "small purchases" to a program intended to be the first purchase option for products below $10,000 and services under $1,000 and that their Finance Department is contemplating raising these limits much higher. Given that our review found most purchasing card transactions appear to comply with City policy, as discussed in Finding 1, the City could consider similar increases in purchasing card limits and increase card distribution in the organization to drive increased purchasing card usage.

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[2] This report is a national survey representing over 1,900 responses from purchasing card end-users representing public and private corporations, state and federal government, city and county government, public and private universities and colleges, and school districts.

RECOMMENDATION #6: ASD should evaluate options to increase usage of purchasing card program, including: 1) evaluating options to mandate purchasing card usage under certain dollar thresholds, and 2) evaluating increasing purchasing card limits.

Conclusion

The City's purchasing card program was established to reduce costs and increase the efficiency of the City's procurement process. While our review found most purchasing card transactions appear to comply with City policy, but additional improvements could enhance oversight. In addition, while the City has established purchasing cards as the method of payment for low dollar goods and services, opportunities exist for the City to further increase purchasing card usage and realize operational efficiencies.

Recommendations

RECOMMENDATION #1

City departments should ensure, with ASD oversight, that all purchasing card transactions contain descriptive annotations of items purchased and clear explanations of the business purpose of expenses.

RECOMMENDATION #2

ASD should evaluate options to improve the process related to external unauthorized card activity, ensuring it is consistent and well-documented.

RECOMMENDATION #3

ASD should strengthen its CAL-Card policies and procedures to identify clear disciplinary guidelines for policy violations and ensure that they are consistently applied.

RECOMMENDATION #4

ASD should obtain more detailed transaction data and utilize reporting options available from its card provider to enhance oversight of CAL-Card program. In addition, ASD should consider utilizing data analysis software, such as ACL, to further enhance its review.

RECOMMENDATION #5

The Finance Committee should consider approving a performance audit of procurement, which would include an assessment of contract pricing accuracy, on the City Auditor's FY 2012 Workplan.

RECOMMENDATION #6

ASD should evaluate options to increase usage of purchasing card program, including: 1) evaluating options to mandate purchasing card usage under certain dollar thresholds, and 2) evaluating increasing purchasing card limits.

Memorandum

Date:　　　　　September 9, 2011
To:　　　　　　City Auditor
From:　　　　　James Keene, City Manager
Prepared By:　Lalo Perez, Director of Administrative Services (ASD)
Subject:　　　　ASD Response to Audit of Purchasing Card Transactions

ASD staff is pleased to provide responses to the Purchasing Card Transactions audit.

RECOMMENDATION #1

City departments should ensure, with ASD oversight, that all purchasing card transactions contain descriptive annotations of items purchased and clear explanations of the business purpose of expenses.

Staff Response:

Staff agrees. The A/P group has been reduced by two FTE and the oversight falls primarily on department supervisors. The Cal Card Procedures Manual does not currently require the employee to make comments in SAP. The Cal Card Procedures Manual would need to be updated and City staff trained on the new requirement. In addition, Purchasing staff would also have to add to the list of actions for which a strike is given.

The impacts on A/P staff to review each line item for description would vary depending on the number of transactions. Some cardholders have 100 or more transactions in a month. If staff reviewed comments for every cardholder, this could add up to 2 hours of additional staff time each month for each AP staff employee, which equates to additional 6 hours of processing time. The additional 6 hours of processing time does not include follow up with the employee. The document could not be posted until the employee reenters the system and adds appropriate comments. Not being able to post the SAP documents (transaction MIR7) in a timely fashion holds up the Cal Card reconciliation process. Additional staff hours would be needed to meet this requirement.

As an alternative, once the change is made to the Cal Card Procedures Manual and City staff has completed training on the new process, AP staff could audit the transactions. As an example; AP staff could 5 different cardholders' accounts each month for compliance under a rotation basis making sure each cardholder is audited once each fiscal year.

RECOMMENDATION #2

ASD should evaluate options to improve the process related to external unauthorized card activity, ensuring it is consistent and well-documented.

Staff Response:

Staff agrees. The process for assigning unauthorized transactions to SAP user IDs will be evaluated as part of the City's Auditor's 2011 SAP Security Audit.

RECOMMENDATION #3

ASD should strengthen its CAL-Card policies and procedures to identify clear disciplinary guidelines for policy violations and ensure that they are consistently applied.

Staff Response:

Staff agrees. ASD will review the current Policy pertaining to infractions in the use of the Procurement Card. Whereas "it is the Cardholders responsibility to be aware of and follow the rules and procedures involved with the CAL-CARD Program", and where the Policy does delineate what the infractions are, ASD must determine the "intent" of the violation. Furthermore, ASD has rigorously enforced discipline action when warranted.

RECOMMENDATION #4

ASD should obtain more detailed transaction data and utilize reporting options available from its card provider to enhance oversight of CAL-Card program. In addition, ASD should consider utilizing data analysis software, such as ACL, to further enhance its review.

Staff Response:

Staff agrees. In the absence of additional resources, ASD is interested in utilizing any and all "tools" that may be available to provide for efficient review and analysis of Procurement Card Transaction and trends.

RECOMMENDATION #5

The Finance Committee should consider approving a performance audit of procurement, which would include an assessment of contract pricing accuracy, on the City Auditor's FY 2012 Workplan.

RECOMMENDATION #6

ASD should evaluate options to increase usage of purchasing card program, including: 1) evaluating options to mandate purchasing card usage under certain dollar thresholds, and 2) evaluating increasing purchasing card limits.

Staff Response:

Staff agrees. ASD will look at options (including mandating) to increase the utilization of the Procurement Card within the City for low dollar threshold purchases of Goods and Services.

THIS REPORT IS INTENDED TO PROMOTE THE BEST POSSIBLE MANAGEMENT OF PUBLIC RESOURCES

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FINANCE COMMITTEE - EXCERPT

Regular Meeting
September 20, 2011

Chairperson Scharff called the meeting to order at 7:32 p.m. in the Council Conference Room, 250 Hamilton Avenue, Palo Alto, California.

Present: Scharff (Chair), Schmid, Shepherd, Yeh

Absent:

3. Audit of Purchasing Card Transactions.

Senior Performance Auditor, Ian Hagerman explained the CalCard was a state contract with US Bank for credit card services. The City had approximately 200 CalCard users; the users of the cards were determined by the department head. The objectives of the audit were to review the adequacy of internal controls over purchasing card transactions and to assess compliance with existing City guidelines. The audit scope included data analysis and calendar year 2010 check and purchase order payments. The City had established a variety of transaction restrictions on the credit cards such as $5,000 per transaction limit, no more than eight transactions per day, and a $15,000 billing cycle limit. There was an economic benefit for the City to participate in the program; during the 2010 year the City received a total of $25,000 in incentive purchases. He assured the Finance Committee that in general the City Auditor's Office found the program to be in compliance with the City's policies.

Assistant Director of Administrative Services, David Ramberg announced the Administrative Services Department (ASD) overall agreed with the City Auditor recommendations. There was a likelihood of additional tools and resources necessary to accommodate the recommendations. ASD was looking into alternative CalCard like procurement programs offered by other entities that could potentially advance the City into a more efficient credit card tracking system. Essentially the information would continue to be entered into SAP to reconcile the books; although, with the newer system there was a far higher detail level of the transactions.

Council Member Schmid asked if SAP was producing the information needed for accurate accounting tracking.

Mr. Ramberg stated currently the City received physical CalCard statements from the bank addressed to the individual card holder. It was the responsibility of the card holder to input the related information into the SAP system.

Council Member Schmid confirmed there was mention of the City moving towards a bank based system which would encode more details.

Mr. Ramberg confirmed that was correct, the detail was typical to what would be seen through a standard online banking account. The detail would be available but would not be brought into SAP.

Mr. Perez clarified that type of system would make it easier for an auditor to locate information and for Staff to search with parameters.

Council Member Schmid asked if there needed to be variances run inside the overall SAP system to make it more efficient.

Mr. Perez stated the City was moving towards a cloud system which was more cost efficient, there were aggregate savings when more people were paying for a service, and more cost effective to get the information. The banks find when charging people a certain amount they recover their money and then were able to offer incentives.

Council Member Schmid asked if Staff was satisfied with the SAP system providing the base project.

Mr. Perez stated yes.

Council Member Schmid asked if there would be issues surrounding the interfacing of the bank system and the SAP system.

Mr. Perez did not feel there would be an issue although he clarified as the project became more involved Staff would prioritize the needs and share their findings with the Council.

Mr. Hagerman supported more data efficiency, acknowledging from an auditors' perspective housing information in a central system was more effective. In performing the current audit there were multiple areas that needed to be reviewed outside of the SAP system.

Vice Mayor Yeh asked what type of benefits might be available to the City with an increased use of credit cards.

Mr. Ramberg mentioned there were a number of reports available through the banks web-based tools, the ability to set-up automatic flagging around certain parameters, and there were financial benefits to the City. The procurement type programs usually rode on a Visa or MasterCard where there was a financial benefit to the bank and dependent upon what the City negotiated with the bank there could be financial gain greater than what was currently being experienced.

Vice Mayor Yeh asked what the basis was for the $5,000 threshold.

Mr. Perez clarified the amount was derived from the competitive bid process. He explained anything above $5,000 required a competitive bidding process.

Vice Mayor Yeh thought one of the goals of the CalCard was to eliminate a portion of check writing but there were consistent checks in the amount above the $5,000 limit.

Mr. Perez said the Finance Staff could make the call to decentralize some of the smaller purchases and allow the departments to document that they had met requirements regarding three different sources. There could be exceptions made and the tools available to the City through the banking system could have specific departments with higher thresholds.

Mr. Edmonds noted there was a benefit to decentralized procurement because some of the smaller dollar projects could shift to the departments allowing the procurement Staff to focus on capital or major accounts.

Council Member Scharff asked if Staff agreed with the City Auditor's recommendation.

Mr. Perez believed with a new system the transaction activity would be easier to capture.

Council Member Scharff asked for clarification, the bank provided the City the information, but if Staff entered the information into SAP it was not as clear.

Mr. Perez stated it was not an issue of clarity, but rather an issue of detail. The information entered into SAP was not very detailed.

Council Member Scharff said he in essence agreed with Staff's position that if they had to enter much more detailed information they would have to increase Staff size. Using the cloud computing solution the information will not need to be entered by Staff. He stated he was concerned that Staff did not specifically state that the cloud solution will prevent the need to hire more staff.

Mr. Hagerman clarified there were two pieces; the primary burden to enter the information was the responsibility of the individual to provide an accurate description of the items purchased; next the approving official was responsible to ensure the back-up documentation was accurate to the information entered into SAP.

Council Member Scharff asked if the City Auditor's Office was in disagreement with the Staff suggested time allotment for accurate data entry.

Mr. Edmonds corrected that the data entry would be as labor intensive as suggested. He clarified part of the need was for the card holders to understand the level of detail necessary to be entered into the system.

Council Member Scharff requested a plan be presented to the Council once the system was in place reflecting the recommendation by ASD and the City Auditor's Office. He agreed using CalCard's instead of checks was a more efficient way to conduct business. He said it was his understanding that Purchase Orders (PO) were more expensive to run than checks.

Mr. Hagerman noted there were opportunities with PO's to save time and money in administrative costs.

Council Member Scharff felt the increase in the spending limit from $5,000 to $10,000 would be beneficial. He asked how to prevent personal usage of the card.

Mr. Perez showed the Committee a photo of the current CalCard and explained that the card was more colorful to avoid a mistaken identity to an individual's personal card.

Mr. Hagerman confirmed the audit did not identify a systemic issue of overuse, there were isolated incidents where an employee had mistaken the CalCard for their own and the employee had reimbursed the City prior to there being an incident.

Council Member Scharff asked what type of direction Staff was looking for; to accept the recommendation, move them forward to the full Council, and include the acceptance of a performance order for procurement.

Mr. Edmonds responded that was correct and noted Staff would be returning in October with a work plan. He clarified by accepting the report there was an approval of the recommendations that would then be brought forward for further review of the completed work plan.

MOTION: Vice Mayor Yeh moved, seconded by Council Member Schmid, that the Finance Committee recommend to the City Council to accept Staff recommendations:

1) City departments should ensure, with ASD oversight, that all purchasing card transactions contain descriptive annotations of items purchased and clear explanations of the business purpose of expenses
2) ASD should evaluate options to improve the process related to external unauthorized card activity, ensuring it is consistent and well-documented
3) ASD should strengthen its CAL-Card policies and procedures to identify clear disciplinary guidelines for policy violations and ensure that they are consistently applied
4) ASD should obtain detailed transaction data and utilize reporting options available from its card provider to enhance oversight of CAL-Card program. In addition, ASD should consider utilizing data analysis software, such as ACL, to further enhance its review.
5) The Finance Committee should consider approving a performance audit of procurement, which would include an assessment of contract pricing accuracy, on the City Auditor's FY 2012 Work plan.
6) ASD should evaluate options to increase usage of purchasing card program, including: 1) evaluating options to mandate purchasing card usage under certain dollar thresholds, and 2) evaluating increasing purchase card limits.

MOTION PASSED: 4-0