



MEMORANDUM

City of Fort Smith
Internal Audit

TO: Board of Directors, City of Fort Smith

FROM: Tracey Shockley

DATE: March , 2016

SUBJECT: Credit Card Audit – Executive Summary

Background:

The City of Fort Smith allows authorized employees to pay for certain types of expenses using two different credit cards. For the testing periods, the City utilized two types of credit cards, American Express (AE) and Mastercard (MC) through Bancorp South. At the time of testing, there were five departments that had both credit cards. The AE credit card was used by Utilities, A&P, City Clerk Office, District Courts, and the Finance Department. The MC credit card is used by Sanitation, Purchasing, District Courts, Planning and Zoning, A&P, Community Development, Parks & Rec, Streets, Finance, Administration, Finance, Convention Center, Transit, Fire, Police, Transit, and the IT Department. The use of the City credit cards provides an alternative to traditional procurement methods. It is not intended to replace existing purchasing methods, but rather to supplement them for expenses related to travel such as airfare, baggage, hotel, car rental and rental car fuel. Hotel and meal charges must adhere to the annually approved per diem allowances which must be supported with paper documentation. However, the credit cards have been also used to purchase supplies, accessories, software, equipment, travel agent fees, stamps, and other like items. Use of cards for these purchases generally circumvent established purchasing procedures. Based upon the information provided by the Finance Department for the years 2013, 2014 and the first half of 2015, the amount spent on behalf of the City credit cards was \$607,674 respectively. There were some statements that could not be located at the time of testing and therefore were not included in the testing. They could have been

Below totals are based upon 9 AE credit cards and 32 MC credit cards issued. These totals do not include charges made on Walmart, Lowes, Home Depot credit cards, or any other City type of credit card.

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Categories	Dollar Amount Spent	Percent of Usage
Travel & Food	\$324,446.60	53.39%
Supplies	\$97,783.61	16.09%
Awards & Gifts	\$1,364.60	0.22%
A&P/Convention Alcohol	\$2,271.44	0.37%
Registration/Conference	\$122,260.90	20.12%
Card Fees	\$2,030.61	0.33%
Accessories/Equipment	\$51,021.53	8.40%
Unexplained charges	\$6,495.70	1.07%
Total	\$607,674.99	100.00%

Seventeen departments were reviewed. Based upon the analysis, five of those departments had 64% of the total expenditures. Of those five departments, one department has a large number of employees who utilize the credit card, and one department purchased items on behalf of other departments. The departments with the largest credit card expenditures were:

- A&P with \$105,874
- Sanitation with \$87,085
- IT with \$69,740;
- Convention Center with \$64,259; and
- Police Department with \$63,290.

It should be noted that for the A&P expenditures, 89% of that amount was for travel, food, registration and conferences for three employees. A&P does not receive City funding, they are funded by a 3% Lodging Tax. However, the Finance Department receives a 3% fee for processing their payables and A&P states they align their policies and procedures with the City’s policies and procedures. For the IT Department, 34% of their expenditures were coded to accessories and equipment, however the IT department charged the City departments who went through their department for those specific assets. The Convention Center had 59% of their expenditures relating to travel, food, registration and conferences for four employees. The Police Department has one card that is utilized by the department with Department Head approval, therefore, 87% of their expenditures were for travel, food, registration, conferences, and supplies.

Objective and Scope:

The purpose of this audit was to assess the City of Fort Smith credit card charges and to specifically review the controls over the expenditures, both financially and by department. The objective was to determine whether the credit card purchases made within the parameters of the City of Fort Smith policies and procedures.

The additional objectives were to ensure that the statements had the proper documentation support attached, were properly approved, and were paid timely. This analysis also provided an opportunity to determine whether any expenses were duplicate charges or reimbursed, the charges were not split to avoid purchasing amount limits, and charges were not reimbursed on the employee’s expense report.

Interviews were conducted with the Finance Department personnel. A review of policies and procedures was performed to assess the overall procedures for adequacy and, where necessary, recommend improvements to avoid further reporting discrepancies when they are noticed during the review.

Additionally, testing was done to evaluate whether controls are sufficient to prevent abuse of travel privileges and to determine if controls provide adequate assurance against the risk of fraud and abuse.

Conclusion:

The employees within each department who has or had an AE and/or MC credit card assigned to them have the responsibility for managing the card and its expenditures. Effective management of resources requires that reliable information be maintained, proper support detailing the expense be attached, expenditures are City related, and that any items purchased that would be considered an asset were communicated and documented to the necessary departments for appropriate record-keeping purposes. All credit card owners must comply with the City's credit card policies and procedures as well as be good stewards of City funds.

A strategic objective for the Finance Department would be to provide account payable services in the most cost effective manner and reduce the number of checks written each year by exploring other payment methods such as electronic payments if available and purchasing cards. Also having the City utilize a travel and expense/p-card system would save time, and possible late/interest fees if all departments were able to enter the data directly. One of the systems that is available would also allow for the employees to scan their support and attach it to their statement. After the report was completed in this system, it would electronically flow to the approver, and then to the Finance Department. This would cut down on the time for all approvals and ensure that all expenses are appropriately approved. After discussions with the Finance Director, both Finance and Internal Audit were in agreement that this would be very beneficial for the City.

Additionally, there are some banks who have an E-Payables (E-Pay) program. This could reduce processing costs and could possibly generate revenue. The City would receive a rebate on all P-card transactions while simultaneously reducing the number of invoices that accounts payable must process. After discussions with the Finance Director, Finance and Internal Audit were in agreement that this could be beneficial for the City.

After conducting a review of the City policies and procedures, conducting credit procedure walkthroughs within the different departments, and reviewing the reporting procedures, it was determined that:

- 1) Credit Card statements were not paid in a timely manner.
- 2) Credit Card statements did not contain the proper support. Receipts were not itemized and/or names not listed, receipts were missing, and no conference/training agendas attached.
- 3) Credit Card statements were not properly approved.
- 4) Credit Card statements contained non-City expenses. This was related over the per diem amounts, unexplained charges, interest charges, late fees, over limit fees, preferred seating, flowers, door prizes, room upgrades, air internet, valet parking, prepaid gas for rental cars, traveling earlier and/or stayed later for conferences/training, overweight baggage, over the allowable daily hotel rate, non-policy car rentals, snacks, and internet charges.
- 5) Electronics and/or accessories were not purchased through the ITS Department.
- 6) Fixed Assets were not purchased through the Purchasing Department.