



City of Norfolk

TO: Honorable Council Members

FROM: John H. Sanderlin, Jr., City Auditor

JHS

DATE: April 12, 2013

SUBJECT: Citywide Credit Card Audit Report

Please find attached our final report on the Citywide Credit Card Audit. Should you have any questions please feel free to contact me at 664-4045.

cc: Marcus Jones, City Manager
Sabrina Joy-Hogg, Assistant City Manager
Alice Kelly, Finance Director
Michael Helmke, Assistant City Auditor

Citywide Credit Card Audit

April 12, 2013



**Office of the City Auditor
Norfolk, VA**



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Executive Summary

As part of the fiscal year 2010 Annual Audit Plan, we performed an audit of the Bank of America procurement charge card program and the issued SunTrust credit cards. Our primary objectives were to determine compliance with applicable city policies and procedures and to assess the usage of the procurement cards. Procurement card usage has become the normal method for businesses to purchase goods and services. With the exponential growth in the number of such transactions increasing the exposure and risk for the potential for misappropriation of resources through fraud, waste, and abuse, we determined the need for this audit. In April 2010, after our audit had commenced, city management suspended the use of all procurement charge cards (See Background and Appendix A). The reason given for the suspension¹ was that the program presented challenges as budget projections were developed, particularly at the end of the fiscal year. Further, the expanded number of cards in the system, beyond the initial intent when the program was conceived, was another significant concern. Our goal was to determine whether the policies and procedures in place were adequate to manage risk associated with procurement card programs and to provide information to management to assist in its determination as to whether procurement cards should be reactivated on a citywide basis.

We found, in general, that the procurement charge card purchases were in compliance with established policies and the program promoted efficiency in all aspects of city operations. Therefore, we feel the procurement charge cards should be reactivated to increase the efficiency of procuring goods and services for appropriate city purposes. We found no indication of procurement charge card fraud or a pattern of abuse occurring amongst the card users based on transactions we tested. However, we found a limited number of transactions which lacked adequate supporting documentation or diverged from city policy. This can be attributed to policies being too broad or in some cases non-existent and improper training in the use of the procurement charge card which may have resulted in a relaxed control environment. We found control activities² and monitoring processes in place at the departmental level and, in general, we found them adequate. However, we noted oversight and monitoring of the program on a citywide basis was weak. We attributed this primarily to the fact that there was not a fulltime Procurement Card Administrator.

On a limited and periodic basis prior to this audit, our office reviewed procurement charge card statements for unusual transactions and misuse. From these reviews, we found several purchases at local grocery stores and restaurants and other purchases that did not readily appear to support the City of Norfolk's operations, maintenance or repair needs. For these purchases, we contacted the respective employees to determine if the purchases in question were for city business. In the majority of these instances, our prior efforts focused on senior and executive employees.

¹ Although the majority of cards were suspended, a very limited few remain activated for emergency or special needs purposes.

² Control activities are the policies and procedures that help ensure that management directives are carried out. They help ensure that necessary actions are taken to address risks to achieve the entity's objectives. Control activities are one of the five interrelated components of an internal control system. The other components are control environment, risk assessment, information and communication, and monitoring. Under the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework these components work together to support efforts to achieve an organization's mission, strategies and related business objectives. COSO is a voluntary private-sector organization, established in the United States, dedicated to providing thought leadership to executive management and governance entities on critical aspects of organizational governance, business ethics, internal control, enterprise risk management, fraud, and financial reporting. COSO has established a common internal control model against which companies and organizations may assess their control systems. COSO is supported by five supporting organizations, including the Institute of Management Accountants (IMA), the American Accounting Association (AAA), the American Institute of Certified Public Accountants (AICPA), the Institute of Internal Auditors (IIA), and Financial Executives International (FEI).



In comparison to SunTrust cardholders³, Bank of America cardholders appeared to have better card usage accountability, likely due to greater supervision accompanying their use of the card. In contrast, SunTrust cardholders did not have a superior to validate purchases because of the nature of their positions and their rank in the organization. Similarly, senior executives, Council Appointees, and Constitutional Officers also had limited oversight of their Bank of America card usage.

As previously stated, we believe the procurement charge cards should be reinstated. With adequate controls and monitoring, the benefits outweigh identified risks. Our research indicated that procurement charge card programs have a significant impact on reducing administrative costs. A 2009 survey by RPMG Research Corporation found that the average cost of the traditional purchase order process, including receiving and payment was \$92.49 per transaction. The average cost of a purchasing card transaction was \$21.91, a savings of \$70.58 (76%) per transaction⁴. The City of Norfolk benefited from having the procurement charge card program for the period September 1999 through April 2010 in the following ways:

- Reduced paperwork
- City receives a rebate for procurement card usage
- Better controls over purchases
- Reduced transaction processing costs
- Facilitation of low dollar spending
- Creation of a visible audit trail through the procurement card usage log
- Reduced invoice volume, order time and process time
- Improved transparency and financial accountability
- Freeing staff time to concentrate on more productive activities

This citywide credit card audit was part of the City Auditor's Audit Plan for fiscal year 2010. We held exit meetings with the Finance Director and the Assistant Finance Director on February 1, 2013 and the City Manager on February 25, 2013 to discuss our audit results. In general, management viewed our audit favorably and agreed to implement our recommendations (See Appendix B). We appreciate the cooperation and assistance of the staff during the audit.

³ These cards were limited to the City Manager, the Assistant City Managers, the City Attorney, and the Mayor

⁴ Palmer, Richard J. and Gupta, Mahendra. 2010 Purchasing Card Benchmark Survey Results. RPMG Corporation, 2010. Pg. 64.



Background

The City of Norfolk began using procurement charge cards as a purchasing method with a contract with American Express in September 1999, followed in October 2005 with GE Capital, and then in March 2009 with Bank of America. For the Bank of America procurement card, the City used a cooperative purchasing agreement with the Commonwealth of Virginia.

Although in April 2010 city management suspended the use of all procurement charge cards, as indicated in the Executive Summary, there remained a limited number of cards activated for emergency purposes such as for natural disasters or the extradition of prisoners. However, because the preponderance of cards was suspended, in this report, we refer to the program in the past tense as if it is no longer functioning.

The procurement cards were used as a vehicle to purchase certain low-dollar-cost goods and services including maintenance and repair services with a \$1,000 limit⁵ per transaction. Travel-related purchases were authorized for specific users (restricted in most cases to Department Heads, Council Appointees and Constitutional Officers) and had a \$2,000 transaction limit. Items carried in the City Storehouse or items covered by city price agreements could not be purchased through the Procurement Charge Card Program. Use of the procurement charge card did not exempt a user from complying with the City of Norfolk's Procurement Code. All competitive pricing requirements contained in those guidelines applied. Proper documentation was to be retained confirming that adequate research was performed to obtain the best price.

In addition to the general procurement charge card program (currently with Bank of America), the City of Norfolk also provided a SunTrust Credit Card to the City Manager, Assistant City Managers, the City Attorney, and the Mayor as the result of the City's involvement and business partnership with SunTrust Bank. This card, which is currently active, is used to purchase goods and services for City purposes and travel-related activities. At the time of our audit, the credit limit for cardholders ranged from \$2,500 to \$20,000. There was no program administrator for this credit card, nor written policies and procedures that guided its use.

For the period covered by our audit (see the Scope section below) expenditures made on the Bank of America procurement charge cards totaled approximately \$3.47 million on 23,922 transactions and for the SunTrust credit cards totaled \$46,876 on 249 transactions. Notable statistics obtained from our audit are contained in Table 1 below.

Table 1

Statistics	Bank of America++	SunTrust++
Number of Cardholders	435	7
Average Monthly Spending Per Card ⁺	\$145	\$221
Average Monthly Transactions Per Card	3.7	1.8
Average Monthly Spending Total All Cards ⁺	\$231,981	\$2,344
Average Monthly Transactions Total All Cards	1,594.8	12.5
Maximum Transaction Charge on a Card ⁺	\$2,969	\$4,654
% Spent below \$500	92.71%	90.76%
% Spent between \$501 and \$1,000	7.09%	6.02%
% Spent between \$1,001 and \$2,000	0.18%	1.61%
% Spent over \$2,000	0.02%	1.61%

+ Amount rounded to nearest dollar

⁵ Since the suspension of the cards, the limit increased to \$2,000



++ Reflects expenditures incurred using the Bank of America charge card for the period March 2009 through May 2010 and those incurred using the SunTrust credit card for the period July 2008 through May 2010.

The Operations Manager in the Department of Finance and Business Services functions as the City of Norfolk's Bank of America Procurement Charge Card Program Administrator. In this report we are referring to this employee in terms of current responsibilities as the person continues to administer the program for the limited cards that maybe used for emergency or special need purposes and his current responsibilities parallel those he had before the suspension of cards. This individual is registered with the procurement charge card vendor as the person authorized to make changes (e.g., add or cancel cards, change limits) for the procurement charge card program at the agency or corporate account level. He is also responsible for any necessary communication with the issuing card company including, but not limited to, the names of those who will receive cards, monthly billings and additional statements, management reports, resolution of payment discrepancies, formatting of payment transmittal data, and ensuring the timely reconciliation and payment of credit card company invoices.

As part of the established internal controls for the procurement charge card program, all new procurement charge cardholders were to read and acknowledge an understanding of the City of Norfolk Procurement Charge Card Policies and Procedures, Charge Card FAQs, City Travel Policy, and City of Norfolk Procurement Manual. Additionally, cardholders were required to pick up their procurement charge card from the program administrator. At that time the cardholders were given an acknowledgement document to sign that stated, in part, that they would comply with the procurement card program policies and procedures. Additional key requirements included:

- Proper documentation must be kept confirming that adequate research was performed to obtain the best price and that the purchase was in compliance with the City of Norfolk's Procurement Code and all competition requirements contained in those guidelines.
- The purchase of gift certificates with the procurement charge card is prohibited.
- The use of the city's procurement charge card for car rental is restricted, with very limited exceptions, and gas purchases using the procurement charge card are prohibited.
- Prepared and non-prepared meals must be purchased for city purposes only, consistent with the city's current travel policy and supported by a detailed explanation on the charge log indicating the purpose of the meal purchase and for whom. The original itemized receipts must be attached to the corresponding charge log before payment is made to the procurement card vendor.
- Cardholders must record all purchases made with the procurement charge card on an individually-kept charge log. All related charge receipts for each transaction must be retained with the charge log.
- Procurement charge cardholder's failure to follow the established procedures could result in one or more of the following:
 - a. Reporting of the violation to the department head.
 - b. Revocation or suspension of the procurement charge card.
 - c. Appropriate disciplinary action as warranted.
 - d. Appropriate criminal credit card fraud charges as warranted.
 - e. Cardholder reimbursement to the City for unauthorized charges.



Objective, Scope, and Methodology

Our primary objectives were to determine compliance with applicable city policies and procedures and to assess the usage of the procurement card. We conducted a review of procurement charge card expenditures incurred using the Bank of America charge card for the period March 2009 through May 2010 and those incurred using the SunTrust credit card for the period July 2008 through May 2010. During these periods the disbursements made on the Bank of America procurement charge cards totaled approximately \$3.47 million on 23,922 transactions and for the SunTrust credit cards totaled \$46,876 on 249 transactions. We sampled 1,013 Bank of America transactions with a total dollar amount of \$216,673 and 37 SunTrust transactions totaling \$11,951. This audit excluded charge card expenditures of the Commissioner of Revenue because our office had reviewed them in a prior separate review.

We reviewed and tested various records and data to address the audit objectives including:

- City Procurement Charge Card Policies and Procedures
- City travel policy
- Bank of America (BOA) procurement charge card contract
- City of Norfolk Acknowledgement for Receipt of the BOA Purchasing Card
- Invoices and receipts for both procurement charge cards
- Procurement charge card billing statements for both procurement charge cards
- Procurement purchase card logs for both procurement charge cards
- BOA Purchase Card Program Frequently Asked Questions on the city's intranet site
- Other documents as deemed necessary

We interviewed cardholders, management, and key employees to obtain an understanding of the purchase card program and to obtain explanations of procurement charge card expenditures. We documented the process to identify any potential or perceived risks, internal control deficiencies, and efficiency or effectiveness issues. We performed various procedures for the time periods covered by our audit to provide assurance that procurement card expenditures were properly accounted for. We used charge card statements and receipts as the primary record to determine how funds were expended. Further, the purpose of each sampled transaction as obtained from the departments and agencies provided additional information to support the reason for a transaction.

During the fieldwork we conducted a survey of each department and agency requesting feedback on the benefits of having a procurement charge card, training that was provided to use the card, and clarity of the policies and procedures in effect. We performed a cursory review of all 23,922 Bank of America transactions and all 249 SunTrust transactions noting improper documentation of food purchases, purchased items that could be construed as for personal use, vendors that appeared out of the ordinary for a particular department, travel, split purchases, gift card purchases, and other unusual transactions. We subjectively sampled 3% or a minimum of three transactions for each Bank of America cardholder or more if deemed warranted. For the SunTrust cardholders, we sampled a minimum of 10% of the transactions for each cardholder.

Using invoices, receipts, e-mails, and other support documentation, we verified compliance with procurement charge card and travel policies and procedures. We applied these procedures to the SunTrust transactions as well because there were no established guidelines governing the use of this credit card. We used the procurement charge card statements, prepared spreadsheets for each year



reviewed, and tested for the applicable attributes indicated below. We tested to determine whether a purchase:

- * Was properly supported with an original receipt or invoices (no missing documents).
- * Did not include prohibited items per City of Norfolk Procurement Policies and Procedures.
- * Did not exceed the cardholder's individual purchase threshold or procurement bid solicitation thresholds or appeared to be a split purchase to avoid the city thresholds.
- * Was reasonably priced (including any freight and shipping cost) and appropriate (i.e. cardholder did not pay \$100.00 for a hammer).
- * Was exempted from sales tax.
- * Was supported by monthly cardholder statements reconciled by card representative/cardholder in accordance with city policy.

In addition, we determined whether card logs were completed, purchases were approved by purchaser's supervisor or other higher level manager, non-consumable items were appropriately recorded and physically existed, and travel expenditures followed city policies and procedures.

Management is responsible for ensuring resources are used efficiently and economically and that regulations, policies, and procedures are followed. We are responsible for using professional judgment in establishing the scope and methodology of our work, determining the tests and procedures to be performed, conducting the work, and reporting the results. 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. There were no significant constraints, such as limitation of information or denial of access to certain records or individuals, imposed on the audit approach.



Audit Results

Section 1 – Satisfactory Compliance with Established Policies and Procedures with Minor Deviations Noted

From our sample of 1,013 Bank of America transactions totaling \$216,673 and 37 SunTrust credit card transactions with a total dollar amount of \$11,951, we found minor inconsistencies with established policies and procedures. These deviations from city policy, although immaterial to the City as a whole, included card users and representatives⁶ not maintaining original or detailed receipts, the splitting of purchases⁷, the purchasing of gift cards, tipping over 20%, cardholders approving their own purchases, not reconciling statements, and paying sales taxes, cable TV movies, and parking tickets. The table below summarizes some of the minor deviations noted.

Examples of Minor Non-compliances Observed

Minor Non-compliances	# of Instances/ Transactions	% of sample	Total Dollars Involved	Notes
<u>Bank of America Procurement Card</u>				
No Detail or Original Receipts	87	8.29%	\$8,079	1
Split Purchases	14	1.38%	\$8,334	2
Gift Cards Purchases	18	1.77%	\$1,720	3
<u>Sun Trust Card</u>				
No detail or No Original Receipts	12	32.43%	\$533	1

Notes:

1. City Procurement Charge Card Policies and Procedures require original and detail receipts to be retained as proof of purchases.
2. Section 33.1-26 of the Norfolk City Code prohibits purchases from being artificially divided to circumvent purchasing limits. (See footnote 7)
3. Gift card purchases are prohibited by City Procurement Charge Card Policies and Procedures. Tracking the ultimate purchases made with gift certificates would be difficult, if not impossible.

For the Bank of America and SunTrust cards, it appears the lack of monitoring of purchases (by the charge card representatives in the case of Bank of America) and lack of familiarity with policy and procedures by the cardholder caused the noted minor deviations from the guidelines. As further evidence of divergence from the guidelines, it appears in some cases cardholders simply did not adhere to the prescribed procedures for the procurement card. Also, in particular, there was not a program administrator for the SunTrust credit cards, therefore, each individual cardholder was responsible for managing his or her credit card statements, all communication with the credit card company, resolving payment discrepancies, and ensuring the timely reconciliation and payment of invoices.

⁶ Each city department or office for which an employee was granted a procurement charge card had one or more card representative responsible for collecting all charge logs for the department, reconciling approved charge logs against the detailed invoice(s), identifying any changes to the default account distribution furnished by the charge card company and summarizing charges by account distribution.

⁷ Split purchases represent purchases that were divided so a single purchase would not exceed the \$1,000 limit, thus allowing the purchaser to still buy the item. See footnote 5.

**Recommendations:**

1. Institute an ongoing training program to instruct and remind cardholders to adhere to existing procurement charge card policies and procedures and have the Program Administrator enforce consequences when procedures are not followed.
2. Enforce the city's procurement charge card policy⁸ on conducting unannounced departmental audits of charge logs and supporting purchase documents and review of returns/exchanges for proper credits to accounts and impose policy consequences for non-compliance with procedural requirements.
3. Add to the policy the notification of the City Auditor of possible fraud, waste, and abuse if the card administrator suspects it as the result of his audit.
4. Consider amending the current procurement charge card policy to prohibit a cardholder that is a department or agency head from approving their own purchases on the charge log and charge card payments in the city's financial system.
5. Eliminate the use of the SunTrust credit cards and issue Bank of America procurement charge cards to the necessary employees to provide and facilitate consistent citywide application of procurement card policies and resultant compliance, or extend the procurement charge card rules to cover the SunTrust credit cards.

Management's response: Concur

See Appendix B for response to the above recommendations.

Section 2 - Merchant Category Codes Need to be Restricted

The Procurement Charge Card Program did not restrict Merchant Category Codes (MCC). As a result, cardholders could possibly purchase goods or services disallowed or limited under city policies. MCC's are standard codes used by the credit card industry to classify merchants based on the type of business or services provided. The Procurement Charge Card Policies and Procedures document states that the city's Program Administrator can set restrictions within MCC's to provide departments with additional controls to ensure compliance with the city's procurement guidelines and to customize each user's purchasing ability⁹. We analyzed each MCC to determine the types of purchases made by city employees but concentrated on food, hotel, airline, and rental car expenses for the period of our scope and identified expenditure types that appeared to be high risk for misuse and/or non-compliance with city guidelines. Although our analysis of MCC did not reveal any major noncompliance with policy, we did note there were 213 fuel transactions in the total amount of \$6,181.13. The procurement charge card policies and procedures prohibit gas purchases. Also, we noted 1,443 transactions related to food totaling \$116,286.85 of which 76% (\$88,835.58) was purchased locally. The number of transactions for these local purchases was 921. The City does not have a citywide food policy for non-travel related food purchases.¹⁰ Again, having restrictions on MCC would improve controls over procurement charge card purchases by further establishing acceptable and inappropriate purchases.

⁸ City of Norfolk Procurement Charge Card Policies and Procedures – Audit Procedures (Sec. E.7).

⁹ City of Norfolk Procurement Charge Card Policies and Procedures – Purchase Limits and Industry/Transaction Restrictions (Sec. C).

¹⁰ Our office previously issued a memorandum in 2005 to the Finance Director – “Need for Guidance Clarifying Appropriate Purchases” - that addressed food purchases. (See Appendix C for the memorandum)

**Recommendations:**

6. Establish a meal policy to clearly address purchasing of food, beverages, and other refreshments while conducting local city business. This policy should not apply to city facilities that serve food as a normal part of their operation.
7. Fully utilize the Works™ MCC constraint capability of our procurement charge card management software to enforce purchase restrictions set forth in our procurement charge card policy and procedures and to limit cardholder point of sale purchases to authorized vendors.
8. Reassess the use of the procurement charge card for the purchase of fuel for a city-owned vehicle, a rental vehicle, and an employee's personal vehicle while on city business.

Management's response: Concur

See Appendix B for response to the above recommendations.

Section 3 - Works™ Purchase Charge Card Management System On-line Features not fully utilized by Management

The Works™ Purchase Charge Card Management system on-line features are not being utilized by the Card Program Administrator or cardholders, thereby causing inefficiencies in the following processes because they are performed manually:

- o Sorting and the breaking down of the charge card report and distribution to cardholders
- o Completion of monthly charge card log form that is forwarded to supervisor
- o Supervisor review and approval of charge card log and forwarding to department card representative
- o Department card representative reconciliation of cardholder's charge card activity and forwarding to department head for payment authorization
- o Department head review of charges and authorization for payment in financial accounting system
- o Card representative coding and entering of payment in financial accounting system

These processes must be completed within a 15-day period to avoid charge card finance charges and late fees.

The City of Norfolk should implement use of the Bank of America Works™, a web-based purchase card management and optimization software system, to its full potential. Works™ features make the current manual operations more efficient and effective through automation via the web. For example, the application can provide for:

- ✓ Self Administration and Reporting – real time program management and reporting



- ✓ Pre- and Post-Purchase Approval – ability to set rules for management approval and sign-off online
- ✓ Works™ Active Card Control – use of workflow approval to control card usage, zero dollar, and declining balance cards
- ✓ Automated Reconciliation – general ledger account allocation and export to the financial accounting system

The lack of experience with the application and available time for implementation are probable reasons for the card program administrator not taking full advantage of Bank of America Works™. By not taking advantage of the features of Works™, the City incurs the time and labor costs associated with non-automated operations in addition to the added potential for errors and omissions inherent in manual processes. Also, the City is missing the opportunity to use features to enhance monitoring capability and management controls. As indicated in the Executive Summary of this report, we noted oversight and monitoring of the program on a citywide basis was weak and that we attributed this to the fact that there was not a fulltime Procurement Card Administrator.

Monitoring is a major factor in maintaining an effective internal control system. Internal control systems need to be monitored to assess the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities and other actions personnel take in performing their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported to top management, the Office of the City Auditor, and City Council.

Recommendations:

9. Fully utilize all beneficial features that are available through Works™ to help reduce paperwork and time requirements and improve monitoring and reporting.
10. Establish ongoing monitoring objectives and procedures and designate a fulltime program administrator.

Management's response: Concur

See Appendix B for response to the above recommendations.

Section 4 - City Procurement Charge Card Policy and Procedures Need Enhancement

In our review of the procurement charge card (PCC) policy and procedures, we noted clarity is needed for some provisions. Policies and procedures should be comprehensive, complete, and address real-work situations a cardholder may encounter. Specifically, clarity is needed in regards to payments of sales taxes, non-travel food purchases, support documents retention, policy violation threshold, and training. The lack of clarity and appropriate directions in the policies and procedures created uncertainty on the “when, where, and what” in purchasing items for the City. For the purpose of further enhancing city policies and procedures, we benchmarked eight Virginia localities and public school systems on



their procurement charge card program management practices. From comparing the City of Norfolk's policies and procedures with other local government entities, we determined opportunities exist for policy and procedures to be expanded. Details of our observations are below.

Clarity of Policies and Procedures

- **Payment of sales tax on purchases:** Neither the procurement charge card policy and procedures nor the procurement manual address the payment of sales tax.
- **Non-travel food purchase events:** The procurement charge card policy and procedures refer to the city's travel policy regarding the purchase of food. Although the city travel policy does address the documentation of food purchases, it does not give guidance on when it is appropriate to purchase food locally.
- **Retention of supporting documents for procurement charge card purchases:** The city's records management policies and procedures (02-017) refer to the Library of Virginia for record retention schedules. The procurement charge card policy and procedures state that records must be maintained but does not give any reference to record retention period of charge cards files or refer users to state guidelines.
- **Procurement charge card policies threshold violations:** The city procurement charge card policy and procedures states reasons to suspend procurement charge cards and punishments for violating the policy. However, it does not define the number of violations for the term "history of abuse" before management action is taken.
- **Procurement charge card training:** Mandatory training and an acknowledgement of understanding of the rules and regulations covering the user of the charge card are required before a cardholder signs for and is issued a charge card. The procurement charge card acknowledgement for receipt document does not identify who will be conducting this training. Additionally, a cardholder representative can pick-up the card and sign for the cardholder.

Benchmarking Results

- **Payment of sales tax on purchases:** Four benchmarked localities mentioned in their policies and procedures the use of tax exempt status when purchasing items. One locality has its city seal and Virginia tax identification number imprinted on its procurement charge cards to remind the vendor and the cardholder of tax exempt status.
- **Non-travel food purchase events:** Three benchmarked localities provided a detailed explanation of when the purchase of food and refreshments are allowable outside of travel situations. Our office previously issued a memorandum in 2005 to the Finance Director – "Need for Guidance Clarifying Appropriate Purchases" - that addressed food purchases. (See Appendix C for the memorandum)
- **Retention of supporting documents for procurement charge card purchases:** Three surveyed localities provided retention periods for PCC files ranging from 3 to 5 years in their policy and procedure with one city meeting the minimum retention guidelines of the Virginia Public Records Act, § 42.1-76, which is 5 years. Policies of the remaining benchmarked localities require the retention of PCC records but did not give a retention period.



- Procurement charge card policies threshold violations: All benchmarked localities addressed the consequences to a cardholder if they violate established policy and procedures, however, one locality applies a threshold limit before action is taken by management. This gives a cardholder a boundary limit and eliminates discretionary judgment by management.
- Procurement charge card training: All benchmarked localities have a formal training program for new cardholders. One municipal entity conducts refresher training if requested by departments and another locality provides all training for cardholders online via their website.
- Periodic audits of procurement charge card purchases: Three benchmarked localities perform periodic audits of procurement charge cardholder documentation to ensure policy and procedures are followed.¹¹
- Management of procurement charge card program: The purchasing department in four surveyed localities managed their procurement card program and three others jointly manage their procurement card program between the finance and purchasing departments.

From benchmarking, we determined management should focus on the following:

- ✓ Communication of the city's tax exempt status when purchasing
- ✓ Comprehensive food and refreshments policy outlining items that can be purchased and for what purpose
- ✓ New budgetary code for food with emphasis on budgeting for these items
- ✓ Minimum record retention period for cardholder records
- ✓ Policy violation limit for cardholders
- ✓ Mandatory training for all cardholders
- ✓ Performing periodic audits of cardholder records
- ✓ Study the possibility of moving the procurement card administration duties to the Office of the Purchasing Agent or, at a minimum, have the Department of Finance and the Purchasing Agent managing them jointly

Recommendations:

11. Modify procurement charge card policies and procedures and the acknowledgement of receipt agreement to direct cardholders to contact the Office of the Purchasing Agent to provide the vendor with a tax exemption certificate if required. Further, to help with the visibility of tax exempt status, consider imprinting the city seal and the city's Virginia State tax identification number on the procurement charge card.
12. Develop a comprehensive food and refreshments policy that strictly outlines what items can be purchased and for what business reason.
13. Coordinate with the Office of Budget & Grants Management to develop a new budgetary code for non-travel food purchases and emphasis should be placed on budgeting for these items.
14. Establish a minimum record retention requirement for cardholder records that is in accordance with the "Virginia Public Records Act, § 42. 1-76".

¹¹ Our audit indicated that the acting credit card administrator performed spot checks but documented audits were not performed.



15. Develop a violation threshold for the PCC program such as the number of personal charges incurred within a year before a warning is given or cardholder privileges are revoked.
16. Provide mandatory training with required attendance for all cardholders prior to cards being issued. Management should consider the possibility of providing training online on the city intranet website to supplement mandatory training attendance and as a refresher course tool.
17. Study the possibility of having the Office of the Purchasing Agent administer the procurement charge card program or, at a minimum, have the Department of Finance and the Purchasing Agent managing them jointly.

Management’s response: Concur

See Appendix B for response to the above recommendations.

Section 5 - Future Utilization of Cards – Results from Survey of Departments

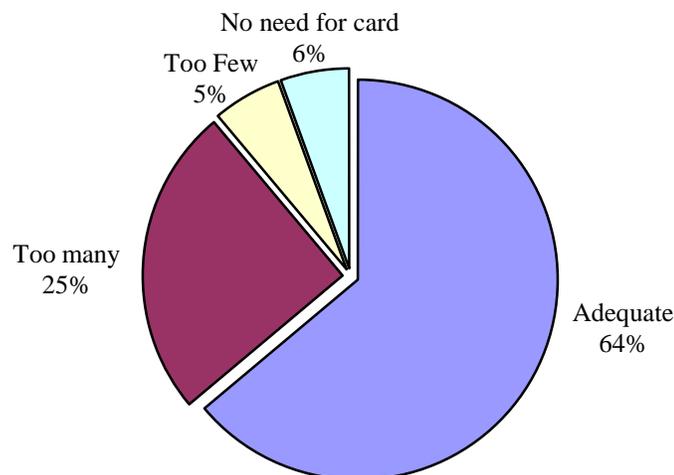
Future Utilization of Cards

We surveyed 36 departments/agencies to evaluate past and possible future utilization of the city’s procurement charge card by cardholders. Some of the survey focus included measuring cardholders’ understanding of the city’s policy and procedures, assessing the training that was provided on how to use the card, and suggestions for improvements that would benefit the procurement charge card process. We present these results for consideration in the redeployment of procurement charge cards:

- a. Sixty-four percent of the departments surveyed were satisfied with the number of procurement charge cards they were assigned; however, 25% of the departments felt they had too many cards. See Figure 1 for the breakdown.

Figure 1

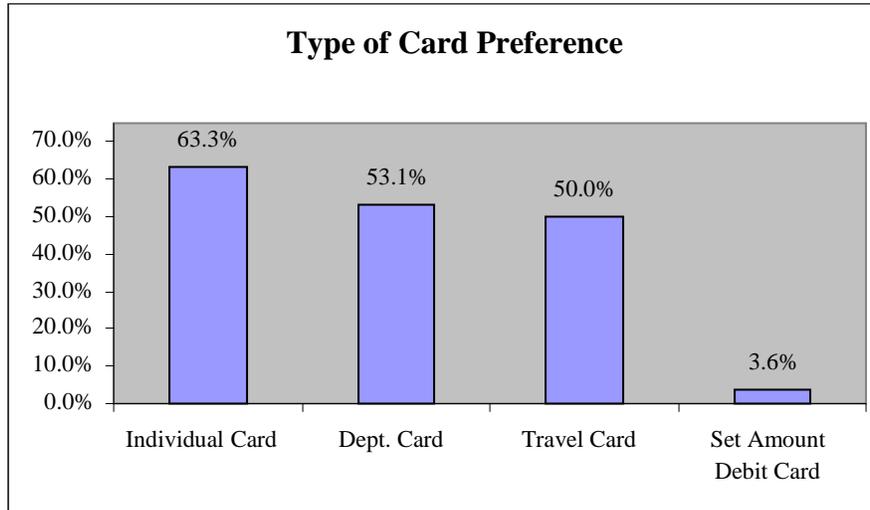
Department Satisfaction Level with Number of Cards





- b. We surveyed departments and asked what type of card they would prefer to use: an individual card (currently now in place), a department card, a travel card, or a set amount debit card. The results of our survey showed that the individual procurement card meets the needs of 63% of the departments. Additionally, 53% of respondents stated that a department procurement charge card would be beneficial and 50% indicated the favorability of a travel expenditure card. See Figure 2.

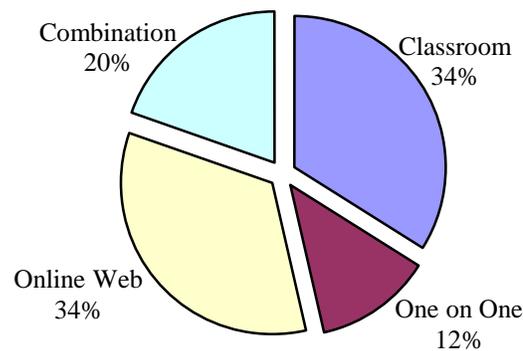
Figure 2



- c. Departments are evenly split between preference for classroom versus online web training for procurement charge cards. A combination of both could be used with initial training delivered by classroom and updates performed on the online web. See Figure 3.

Figure 3

Department's Preference on How Training Should be Delivered

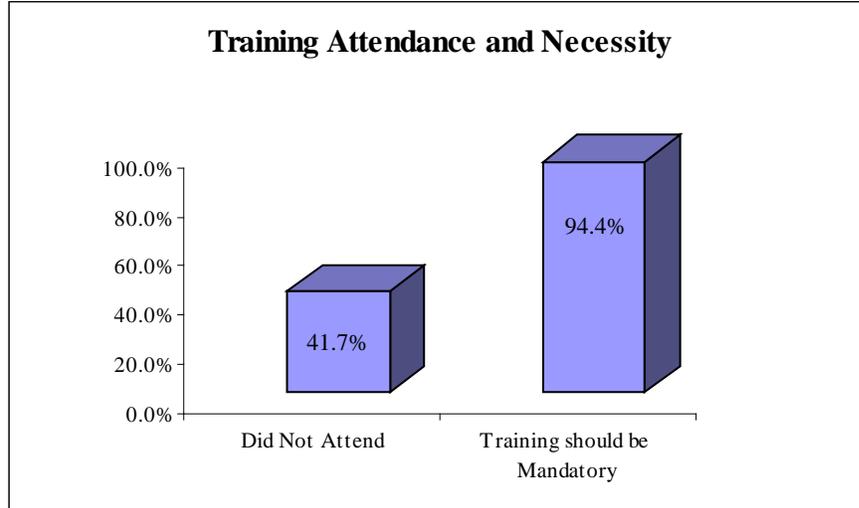


- d. Our survey of departments revealed that 42% of the cardholders did not receive formal training on card usage. We attributed this to an employee other than the cardholder picking up the card, such as administrative or support staff within the department. Additionally, 94% of the surveyed



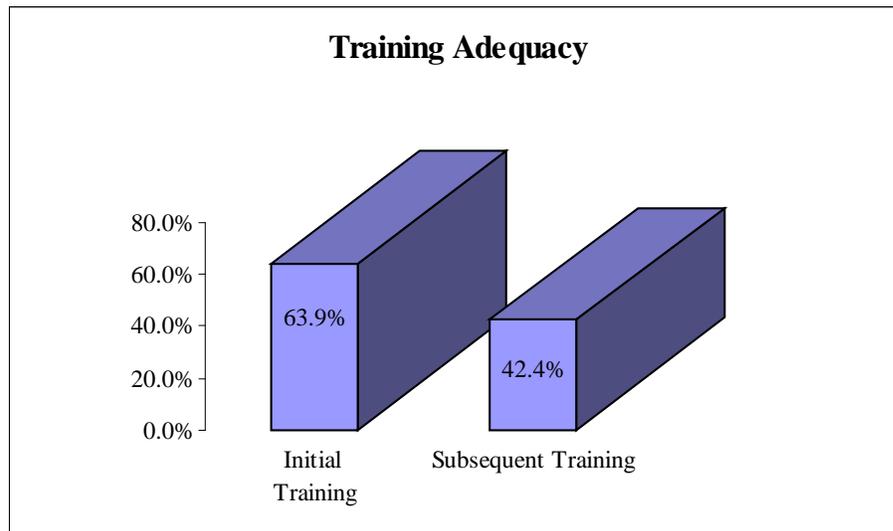
departments believe training should be mandatory before procurement charge cards are issued. See Figure 4.

Figure 4



- e. As to the adequacy of training, 64% of departments surveyed thought initial training was adequate while 42% felt that subsequent training was adequate. See Figure 5. Other suggestions given by departments during the survey included requiring annual signoff for understanding key points of policy and procedure, ongoing updates to policy and procedures, and having online training as an option.

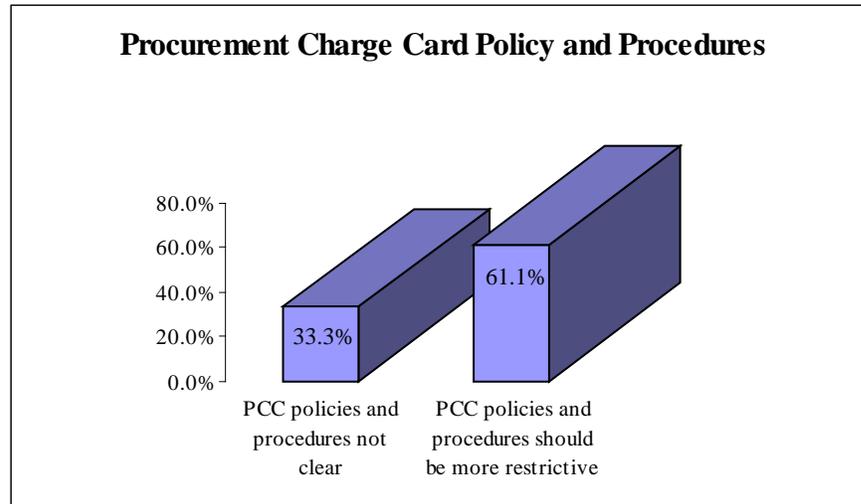
Figure 5





- f. Our survey of departments revealed 33% stated the policies and procedures are not clear and 61% of them believe that the policies and procedures should be more restrictive. See Figure 6.

Figure 6



Section 6 - Other Matters

Previous Memorandum Issued

On October 21, 2005, we provided a memorandum to the Director of Finance entitled “Need for Guidance Clarifying Appropriate Purchases” recommending that guidance and clarification be provided to employees for city purchases with the procurement charge card (See Appendix C). This memorandum was the result of findings from a departmental audit where a number of charges had the appearance of being improper uses of city funds. Specific recommendations applicable to credit card charges included that:

- The departments of Finance and Budget meet to review and revise the city’s budget book object code definitions to ensure all appropriate charges can be addressed with an accurate object code.
- Finance should clarify if donations of city funds can only be authorized by City Council. If donations are permitted to be initiated by departments, procedures should define the appropriate funding source for proper classification and whether these donations are considered as allowable charges for the use of the procurement charge card.
- Finance should develop a citywide policy to clearly address the allowability of local meal costs and tips.

Management concurred with our recommendations and indicated that appropriate guidance would be issued; however, this was not performed.

Procurement Comments

The City of Norfolk has several methods and procedures for procuring goods and services. In addition to the procurement card, decentralized and centralized procurement processes are used. Decentralized procurement allows departments to procure items under \$5,000 by obtaining the lowest acceptable



prices for the City. Centralized procurements are made by the Office of the Purchasing Agent through proposals and solicitations from vendors and businesses. To increase the efficiency of procuring goods and services for appropriate city purposes, the previous city administration asked us to (1) assess the potential for the consolidation of procurement processes, (2) determine whether controls are in place to verify departments are adhering to the guidelines for the increase of the procurement threshold in purchasing goods and services, and (3) determine the processes in place to afford minority- and woman-owned businesses opportunities for procurement vendor prospects. The fieldwork we conducted allowed us to assess the following:

Collaborative and cooperative agreements

Collaborative agreements can be a way for the City to increase savings and procurement efficiencies by increasing efforts to negotiate purchase contracts that are beneficial to the City and associated agencies. Further, as of July 1, 2009 the City was allowed to enter into cooperative procurement agreements with other public bodies for goods and services even if we are not the primary procurement agency. Participating in such cooperative agreements allows the City to piggyback on procurement contracts already in place with other municipalities which could result in savings for the City of Norfolk as well as sharing in a wider selection of equipment, goods, and services. The city's contract for the Bank of America procurement charge card program is an example of this.

Monitoring controls over new bid guideline limits

As of July 1, 2009, the purchase limit under the city's decentralized procurement policy was increased, allowing purchases of products under \$5,000 without the involvement of the Office of the Purchasing Agent. A concern is that the three (3) bid quote requirement for all purchases over \$1,000 will not be followed consistently.

Efforts to attract minority and woman-owned business for city procurement opportunities

The City maintains a vendor database and when a company or person applies as a vendor they are asked whether the entity is a minority or woman-owned business. Using this vendor database information, when three quotes are required to be obtained per procurement policies, the purchaser is encouraged to obtain a quote from a minority or woman-owned business.

Recommendations:

18. Continue its efforts to participate in cooperative agreements as a means to reduce costs for procuring goods and services.
19. Encourage the Office of the Purchasing Agent to make departments aware of, and remind them to make use of, the minority- and woman-owned business database when obtaining quotes for procuring goods and services and put in place a verification process to determine if departments are considering these businesses for purchasing opportunities.

Management's response: Concur

See Appendix B for response to the above recommendations.



Inter Department Correspondence Sheet

TO: Executive Staff; Council Appointees; Constitutional Officers

FROM: Regina V.K. Williams

COPIES TO: Executive Staff Support; Senior Staff

SUBJECT: City of Norfolk - Bank of America Purchasing Card

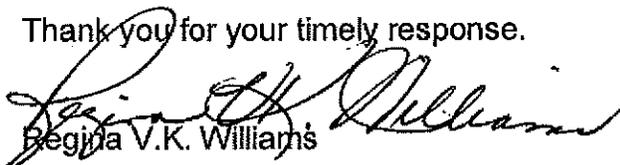
April 14, 2010

In 2005, the City initiated a Purchasing Card Program to further streamline the acquisition of goods and services. Within established procurement procedures, the use of the cards is intended to facilitate the efficient and timely purchases of items heretofore purchased from petty cash and/or reimbursed to an employee making the purchase from their personal funds. I believe the Purchasing Card Program continues to have merit, but should proceed under revised guidelines. As the program has evolved, it has created an unintentional accrual accounting that presents challenges as we develop budget projections, particularly at the end of the fiscal year. Another significant concern of mine is the expanded number of cards in the system, which was never the intent when the program was conceived.

Therefore I have directed Darrell Hill, Director of Finance and Business Services, to suspend the use of all purchasing cards until further notice. Given purchasing authority will be revoked on the City's Bank of America Purchasing Cards, departments should use petty cash, reimbursement vouchers, and purchase order procurement according to the City's purchasing rules. Each department's Charge Card Representative is to collect all of the Bank of America Purchasing Cards issued to staff within their department and return the card(s) to Hermon Corbett in the Finance Department (6th floor of City Hall) **no later than 5:00 pm. Friday, April 16, 2010.**

After the close of Fiscal Year 2010, I will consider authorizing the issuance of purchasing cards on a very limited basis, building upon the City's current experience and best practices. Should you have questions, please contact me or Darrell Hill.

Thank you for your timely response.


Regina V.K. Williams



NORFOLK

Office of the City Manager

March 11, 2013

John Sanderlin
City Auditor
City of Norfolk
810 Union Street – Room 806
Norfolk, VA 23510

Re: Management Response to city-wide procurement card audit

Dear John:

Thank you for your work on the city-wide procurement card audit. We have reviewed the report, findings and recommendations and are pleased to be informed that the city's procurement charge purchases were in compliance with established policies. Attached is a detailed response to each recommendation.

We agree that the proper use of procurement cards promotes efficiency in procuring goods and services for city operations. Their use reduces the number of documents to be processed, the number of checks processed to vendors and the lead time for procuring items for operational needs. The City has reissued credit cards on a limited basis. As part of the reissuance we have revised the procurement card manual, expanded the training for use of procurement cards, enhanced internal controls as it relates to the procurement card program and will be moving the oversight function from the Accounts Payable Division to the Purchasing Bureau. The majority of the audit recommendations have been incorporated into the revised procurement card program.

Sincerely,

A handwritten signature in black ink, appearing to read "Marcus D. Jones".

Marcus D. Jones
City Manager

Attachment

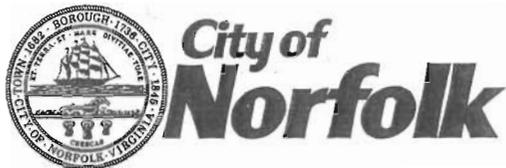
City Auditor's Recommendations	Management Responses
<ol style="list-style-type: none"> 1. Institute an ongoing training program to instruct and remind cardholders to adhere to existing procurement charge card policies and procedures and have the Program Administrator enforce consequences when procedures are not followed. 2. Enforce the city's procurement charge card policy¹ on conducting unannounced departmental audits of charge logs and supporting purchase documents and review of returns/exchanges for proper credits to accounts and impose policy consequences for non-compliance with procedural requirements. 3. Add to the policy the notification of the City Auditor of possible fraud, waste, and abuse if the card administrator suspects it as the result of his audit. 4. Consider amending the current procurement charge card policy to prohibit a cardholder that is a department or agency head from approving their own purchases on the charge log and charge card payments in the city's financial system. 5. Eliminate the use of the SunTrust credit cards and issue Bank of America procurement charge cards to the necessary employees to provide and facilitate consistent citywide application of procurement card policies and resultant compliance, or extend the procurement charge card rules to cover the SunTrust credit cards. 	<p>For the most part we agree with the recommendations prepared by the City Auditor. The City has an extensive procurement card training program that cardholders attend prior to receiving city procurement cards. Before being issued a card, the cardholder is required to sign a form indicating that he/she understood the policies. In the past, Department Heads did not always attend the class so when they were asked by the internal auditors about training they were not necessarily aware of the content of the training class. Policy will be revised and implemented in FY2013.</p> <ol style="list-style-type: none"> 1. We concur with the recommendation. The City intends to make policy changes to enforce mandatory training (one on one /onsite training to be provided to employees unable to attend scheduled training classes due to job responsibilities). 2. We concur with the recommendation. The City intends to make policy changes to conduct unannounced audits to review supporting documentation and to review returns for proper credits to accounts. 3. We concur with the recommendation. The City intends to make policy changes to remind department credit card administrators to notify the City Auditor of possible fraud waste and abuse. 4. We concur with the recommendation. The City intends to make policy changes to disallow card holders from approving their own charge purchases. 5. We concur that the procurement charge card rules should extend to the SunTrust credit card program and will implement.
<ol style="list-style-type: none"> 6. Establish a meal policy to clearly address the 	<ol style="list-style-type: none"> 6. We concur with the recommendation. The City is working on developing a meal policy and it

¹ City of Norfolk Procurement Charge Card Policies and Procedures – Audit Procedures (Sec. E.7).

<p>purchase of food, beverages, and other refreshments at the city's expense during the course of conducting local city business. This policy should not apply to city facilities that serve food as a normal part of their operation.</p> <p>7. Fully utilize the Works™ MCC constrain capability of our procurement charge card management software to enforce purchase restrictions set forth in our procurement charge card policy and procedures and to limit cardholder point of sale purchases to authorized vendors.</p> <p>8. Reassess the use of the procurement charge card for the purchase of fuel for a city-owned vehicle, a rental vehicle, and an employee's personal vehicle while on city business.</p>	<p>will be completed and implemented in FY2013.</p> <p>7. We concur that purchases should be restricted and plan to accomplish that through extensive training and monitoring.</p> <p>8. We concur with the recommendation. The City is working on an alternative method to procure vehicle rentals and associated fuel. The new method will be completed and implemented in FY2013.</p>
<p>9. Fully utilize all beneficial features that are available through Works™ to help reduce paperwork and time requirements and improve monitoring and reporting.</p> <p>10. Establish ongoing monitoring objectives and procedures and designate a fulltime program administrator.</p>	<p>9. We concur with the recommendation. The Procurement Specialist and the Financial Operations Manager will work together to fully understand and utilize the features that are available within Works™, Bank of America purchase card management and optimization software system. This will be implemented in FY2013.</p> <p>10. We concur with the recommendation. The City is in the process of hiring a Procurement Specialist in the Purchasing Department who, working in conjunction with the Financial Operations Manager, will be responsible for procurement card management and oversight. The Procurement Specialist position is currently advertised and anticipated to be filled in FY2013.</p>

<p>11. Modify procurement charge card policies and procedures and the acknowledgement of receipt agreement to direct cardholders to contact the Office of the Purchasing Agent to provide the vendor with a tax exemption certificate if required. Further, to help with the visibility of tax exempt status, consider imprinting the city seal and the city's Virginia State tax identification number on the procurement charge card.</p> <p>12. Develop a comprehensive food and refreshments policy that strictly outlines what items can be purchased and for what business reason.</p> <p>13. Instruct the Office of Budget & Grants Management to develop a new budgetary code for non-travel food purchases and emphasis should be placed on budgeting for these items.</p> <p>14. Establish a minimum record retention requirement for cardholder records that is in accordance with the "Virginia Public Records Act, § 42.1-76".</p> <p>15. Develop a violation threshold for the PCC program such as the number of personal charges incurred within a year before a warning is given or cardholder privileges are revoked.</p> <p>16. Provide mandatory training with required attendance for all cardholders prior to cards being issued. Management should consider the possibility of providing training online on the city intranet website to supplement mandatory training attendance and as a refresher course tool.</p> <p>17. Study the possibility of having the Office of the Purchasing Agent administer the procurement charge card program or, at a minimum, have the Department of Finance and the Purchasing Agent managing them jointly.</p>	<p>11. We concur with the recommendation. The City is in the process of revising the charge card policy to include further information to cardholder on Tax-exemption. The policy will be revised and implemented in FY2013.</p> <p>12. We concur with the recommendation. The City is working on developing a meal policy which will be completed and implemented in FY2013.</p> <p>13. We concur that a new budgetary code could be useful in identifying non-travel food purchases. A review of the Chart of Accounts in conjunction with the financial system upgrade is underway and we will take this recommendation under advisement.</p> <p>14. We concur with the recommendation. The City is in the process of revising the charge card policy to include further information to cardholders on record retention. The policy will be revised and implemented FY2013.</p> <p>15. We concur that actions should be taken for violations of the PCC program. Any violation will be reviewed and the Director of Finance working with the appropriate Department Head will determine the appropriate course of action.</p> <p>16. We concur with the recommendation. The City is in the process of revising the charge card policy to include further information to cardholder's on training availability. The policy will be revised and implemented in FY2013.</p> <p>17. We concur with the recommendation. The City is in the process of hiring a Procurement Specialist in the Purchasing Department who, working in conjunction with the Financial Operations Manager, will be responsible for procurement card management and oversight. The Procurement Specialist position is currently advertised and anticipated to be filled in FY2013.</p>
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<p>18. Continue its efforts to participate in cooperative agreements as a means to reduce costs for procuring goods and services.</p> <p>19. Encourage the Office of the Purchasing Agent to make departments aware of, and remind them to make use of, the minority- and woman-owned business database when obtaining quotes for procuring goods and services and put in place a verification process to determine if departments are considering these businesses for purchasing opportunities.</p>	<p>18. We concur with the recommendation. The City is actively using cooperation agreements when economically feasible to procure goods and services.</p> <p>19. We concur with the recommendation. The City's financial system is undergoing an upgrade which will be completed by year end which will provide more accurate database on business types. It is important to note that current procurement laws do not allow set aside programs for the City. The Purchasing Department is working on programs to both educate small local businesses on how to effectively conduct business with the City and to increase citywide knowledge on how to properly and effectively procure goods and services. These programs are on-going and will be formalized and expanded by March 31, 2013.</p>
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Inter Department Correspondence Sheet

TO: Steve de Mik, Director of Finance

FROM: John H. Sanderlin, Jr., City Auditor *JHS*

COPIES TO: Regina V. K. Williams, City Manager

SUBJECT: Need for Guidance Clarifying Appropriate Purchases

October 21, 2005

The need for guidance clarifying appropriate City purchases was recently evidenced during our departmental review of Planning and Community Development. We noted a number of charges that had the appearance of being improper uses of taxpayer money. These included credit card charges for items such as flowers, local meals, donations, meals for staff and food/beverages in general. Clear guidance from the Department of Finance would provide a baseline to allow employees to better judge the appropriateness of prospective purchases and ensure consistency in discretionary spending. Specific examples cited during our audit follow.

Questionable Purchases

We observed purchases charged to the City’s American Express credit cards including flowers, a charity donation, an excessive tip at a local restaurant, purchases of food/beverages for board members, a staff breakfast and taxes paid for supply purchases all of which we questioned. Seemingly, the charges were isolated, with the exception of the food/beverage services that are provided monthly for board meetings. We saw the need for controls to ensure charges/purchases met the citywide credit card policy, including written guidelines to assist departments in handling charges/purchases that should not be charged to the City.

Improper Use of Object Codes

We observed that improper object codes were used when unallowable charges/purchases were charged to the American Express credit card. Object code 5232, *Supplies* was used for flowers to give staff (\$148.55) and for the funeral of a former employee (\$45.54). In both instances, the business manager stated that accounts 5340 and 5388 should have been used respectively.

The improper use of the object code 5232 resulted in the overstatement of the supply account during fiscal year 04. All object codes should be clearly defined for proper use and set up as a budget line item specifically if these types of cost have been historical or have projected use. Because secretary’s day is an annual event, such costs should be considered as part of the Budget process to ensure fund appropriation is available –if

considered an appropriate cost by the Department of Finance. Similarly, Finance needs to address the appropriateness of using City money to buy flowers for a funeral.

RECOMMENDATION: It is recommended that the departments of Finance and Budget meet to review and revise the City's Budget book object code definitions to ensure all appropriate charges can be addressed with an accurate object code.

MANAGEMENT RESPONSE: *We concur. We will coordinate with the Office of Budget and Management to ensure that the Budget Book includes all active object codes. All uses of object codes can not be anticipated at the time of budget development, however, departments can and will be encouraged to set up approved object codes at the time an expenditure or requisition is made.*

Donation to a Charitable Organization

A \$50 donation to *the St. Jude's Children's Research Hospital* was charged to the City's credit card. While the City manager is charged with executing all of the ordinances and resolutions adopted by the Council to include any ordinance authorizing a gift or grant to a charitable organization and can delegate this to a department head, we found no direction from Council for this donation. Rather, the Department of Planning apparently made the donation on behalf of its bureau.

Records maintained by the Department of Planning showed:

- ❖ An e-mail from the Director stating his approval of making the donation on behalf of Environmental Services.
- ❖ The Director's signature was not indicated on the charge/transaction log approving the donation for payment with the credit card.
- ❖ The supply account 5232 was charged for the donation.

RECOMMENDATION: Finance should clarify if donations of City funds can only be authorized by Council. If donations are permitted to be initiated by Departments, procedures should define the appropriate funding source for proper classification and whether these donations are considered as allowable charges for credit card use.

MANAGEMENT RESPONSE: *We concur. After consultation with the City Manager, the Department of Finance and Business Services will issue appropriate guidance.*

Local Meal Costs and Tips

We observed that the Director's American Express Credit Card was charged for business meals and dinner for staff at two local restaurants inclusive of a 20% tip. According to the City's credit card procedures, local meals at restaurants with tips are not allowable. The business manager recognized the tip as an error and the meals and tip was not reimbursed to the City. Absent a local meal policy, the only policy addressing meals and tips is the Travel Policy. Therefore, when not in an eligible travel status, we consider charges for meals to be unallowable and unreasonable.

RECOMMENDATION: We recommend that Finance develop a citywide policy to clearly address the allowability of local meal costs and tips.

MANAGEMENT RESPONSE: *We concur. After consultation with the City Manager, the Department of Finance and Business Services will issue appropriate guidance.*

Need for an Ordinance

An ordinance does not exist for the current reimbursement mileage rate for business travel of employees. According to a City Manager's memorandum dated October 21, 2003, effective January 1, 2004, the applicable reimbursement rate increased from \$0.345 to \$0.375, consistent with the Internal Revenue Service (IRS) business travel allowance. During our audit of the Planning Department travel and mileage expenses, we noted that an ordinance had not been adopted by the City Council to reflect the change. The last ordinance was dated July 1, 2002 supporting the rate at \$0.345. Subsequently, we notified the Assistant Finance Director (AFD) that an ordinance was needed to cover the increased rate. In response, the AFD initiated steps to correct this oversight, however, as of this correspondence; an ordinance supporting the current rate does not exist.

RECOMMENDATION: We recommend an ordinance be drafted and submitted for approval by the City Council for the current rate and such measures are taken in the future when the rates are changed.

MANAGEMENT RESPONSE: *We concur. The existing travel policy authorizing the City Manager to set the reimbursement rate is not consistent with City Code. After consultation with the City Manager, an ordinance will be submitted to City Council.*

We appreciate your prompt attention to these matters. Detailed and enforced guidance could better limit the City's exposure to the risk of ill-spent City money. If you have any questions, please contact me at 664-4045, or Kelly Stefanko, Deputy City Auditor at 664-4047.