



City Auditor's Office

CONSENT CALENDAR

June 26, 2018

To: Honorable Mayor and Members of the City Council
From: Ann-Marie Hogan, City Auditor
Subject: Credit Card Use Audit: Clearer Guidance Needed

RECOMMENDATION

Request that the City Manager report back by May 1, 2019, and every six months thereafter, regarding the status of recommendations until reported fully implemented.

FISCAL IMPACT OF RECOMMENDATIONS

The City's credit card limit is \$154,000 with actual expenditure charges totaling \$404,600 in fiscal year 2017. Those charges included over \$15,000 in food purchases for various City events and functions. Current City policy is ambiguous as to when food purchases are allowable and disparity exists; some departments prohibit all food purchases while others do not.

Finance has controls in place to prevent the City from incurring credit card fees and late charges and to mitigate fraud and misuse risks. As the City moves forward with replacing the current credit card program with a purchasing-card (p-card) program, it is in its best interest to adopt additional practices to strengthen controls.

CURRENT SITUATION AND ITS EFFECTS

Finance implemented the use of credit cards to pay vendors who do not accept purchase orders and for when it is not practical to wait through the normal purchase order process, such as during an emergency. Finance manages the City's credit card program well and uses many best practices to provide the necessary oversight.

Not all necessary procedures are in place. Purchasing policies that staff are expected to follow do not always align, and none specific to credit card use were in place until December 2017. Reliance on existing procedures led to some ambiguity regarding allowable purchases, especially in regards to food purchases. It also removed some transparency in purchases, put the City at risk of noncompliance with purchasing restrictions, and led to some gaps in oversight.

Though policies and procedures were lacking, staff demonstrated their overall understanding of management expectations. Their purchases were generally sufficiently supported and approved, and for an appropriate City business need. We examined 232 credit card transactions with an emphasis on high-risk transactions and none indicated a pattern of fraud and misuse.

BACKGROUND

The City of Berkeley provides the use of credit cards as an alternative means to its traditional purchase order process. The City does not use purchasing cards (p-cards). While similar, p-cards differ from credit cards. They allow for more restrictions, such as controlling purchases to specific merchant categories and vendors. The City plans to implement a p-card program to replace the existing use of credit cards.

The City has one primary credit card account with Wells Fargo Bank with a total credit limit of \$154,000. Under the account are 20 subaccounts with credit card limits ranging from \$1,000 to \$55,000.

ENVIRONMENTAL SUSTAINABILITY

Our office manages and stores audit workpapers and other documents electronically to significantly reduce our use of paper and ink. This particular report has no other identifiable environmental effects or opportunities associated with it.

RATIONALE FOR RECOMMENDATION

Implementing our recommendations will help the City strengthen its control over credit card use and better prepare for management's plan to implement a purchasing card program to replace the current use of credit cards.

CONTACT PERSON

Ann-Marie Hogan, City Auditor, City Auditor's Office, 510-981-6750

Attachment:

1: Credit Card Use Audit Report: Clearer Guidance Needed

City of Berkeley Office of the City Auditor



Credit Card Use: Clearer Guidance Needed

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Presented to Council June 26, 2018

TABLE OF CONTENTS

Executive Summary.....	1
Audit Objectives.....	2
Background	2
Finding and Recommendations	5
Finding 1: Credit card use practices out of alignment with City purchasing policies	5
Recommendations:.....	10
Fiscal Impact.....	12
Conclusion.....	13
Appendix A:	
Scope and Methodology.....	14
Appendix B:	
Audit Finding, Recommendations, and Management Response Summary.....	17
Appendix C:	
Fiscal Year 2017 Total Credit Card Expenditures by Department	21
Appendix D:	
GFOA P-Card Best Practices Used as Benchmark in Assessing Credit Card Management and Oversight	22



City of Berkeley - Office of the City Auditor

Credit Card Use: Clearer Guidance Needed

June 26, 2018

Purpose of the Audit

Our audit asks: Are cardholders using their City issued credit cards in accordance with City policies and would the City benefit from adopting industry best practices to manage its credit card program?

Executive Summary

Credit cards are a business need

The use of credit cards is a necessary business practice. It allows staff to purchase goods and services for a City business need when the traditional purchase order process is not practical. Finance manages the City's credit card program well and uses best practices to provide the necessary oversight. These practices mitigate fraud and misuse risks commonly associated with the use of credit cards. They also prevent incurring credit card fees and late charges.

Finance uses best practices to mitigate fraud and misuse risks

Not all necessary procedures are in place. Purchasing policies do not align and none specific to credit card use were in place until December 2017. This was after our audit review period. Reliance on existing procedures led to some ambiguity regarding allowable purchases, especially in regards to food purchases. It also removed some transparency in purchases, put the City at risk of noncompliance with purchasing restrictions, and led to some gaps in oversight. The use of best practices not currently in place would help the City strengthen its control over credit card use and better prepare for management's plan to implement a purchasing card program to replace the current use of credit cards.

City can improve oversight and transparency with clearer procedures and additional use of best practices

No patterns of fraud and misuse

Though policies and procedures were lacking in some areas, staff did demonstrate their general understanding of management expectations. We examined 232 credit card transactions with an emphasis on high-risk transactions and none indicated a pattern of fraud and misuse.

Recommendations

The City can improve its oversight and management of credit cards by:

- Creating and issuing written policies and procedures specific to the use of credit cards.
- Creating and issuing written policies and procedures regarding food purchases.
- Aligning City policies and procedures to reflect purchasing requirements and restrictions.

AUDIT OBJECTIVES

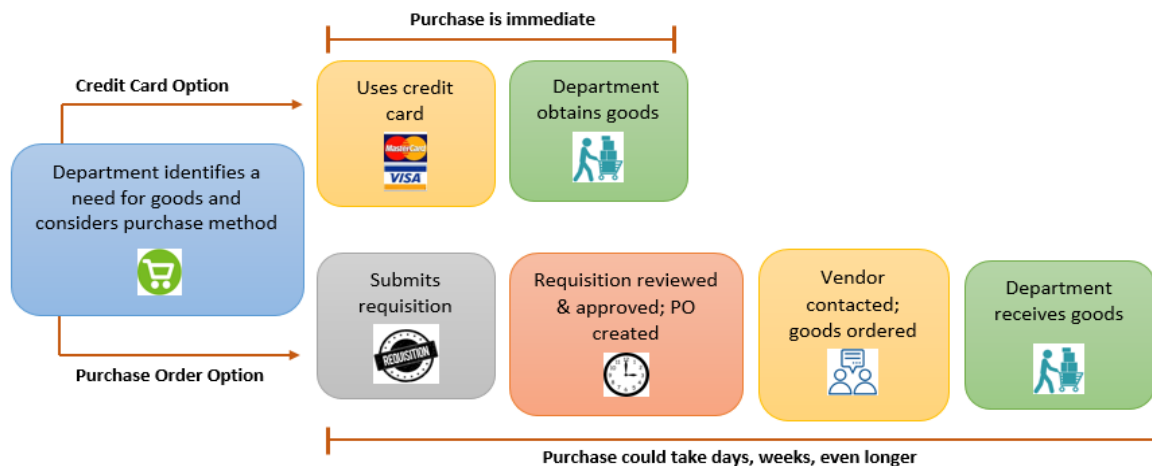
We asked whether the City would benefit from adopting industry best practices to manage its credit card program and whether cardholders were using their City issued credit cards in accordance with City purchasing policies. We included this audit in our [2018 Audit Plan](#) as part of our recurring audit series.¹

BACKGROUND

Not all vendors accept purchase orders creating a need to use credit cards

The City of Berkeley provides for the use of credit cards as an alternative means to traditional purchasing practices because some vendors that the City must conduct business with do not accept purchase orders. For example, the Superior Court of Alameda County accepts only credit cards for court related costs and, in representing the City's interests, the City Attorney's Office incurs such costs.

The traditional purchase order process is also time consuming, which causes a delay in obtaining goods. This makes the use of credit cards more appropriate when there is an immediate need for goods, such as during an emergency. The following flowchart depicts the process needed to make a purchase with a purchase order versus a credit card.



¹ Berkeley City Auditor Fiscal Year 2018 Audit Plan: <http://bit.ly/2BwW6FS>

City uses credit cards, not p-cards

The City does not use purchasing cards (p-cards). While similar, p-cards differ from credit cards. They allow for more restrictions, such as controlling purchases to specific merchant categories and vendors. The Government Finance Officers Association (GFOA) recommends the use of p-cards to improve efficiency. Finance is planning to switch to a p-card program.

20 credit card subaccounts; limits range from 1k to 55k

The City has one primary credit-card account with Wells Fargo Bank with a total credit limit of \$154,000. Under the account are 20 subaccounts; 17 are assigned to a specific employee and three² are assigned to a department. Credit-card limits range from \$1,000 to \$55,000.

Department	Card 1 Limit	Card 2 Limit	Card 3 Limit	Card 4 Limit	Total
Berkeley Fire Department	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 20,000
Berkeley Police Department	\$ 55,000	\$ 5,000	\$ 5,000		\$ 65,000
City Attorney's Office	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 4,000
City Clerk's Office	\$ 5,000				\$ 5,000
City Manager's Office	\$ 5,000				\$ 5,000
Finance Department	\$ 10,000				\$ 10,000
Health, Housing, & Community Services	\$ 10,000	\$ 5,000			\$ 15,000
Human Resources	\$ 15,000				\$ 15,000
Information Technology	\$ 5,000				\$ 5,000
Parks, Recreation, & Waterfront	\$ 5,000				\$ 5,000
Rent Stabilization Board	\$ 5,000				\$ 5,000
Total:					\$ 154,000

Credit card requests go through Finance

To obtain a credit card, a department must submit a formal request to Finance identifying why it needs the card, the desired credit limit, and the name and position of the cardholder. The cardholder may be a specific employee or the department. Credit card requests must be approved by the employee's supervisor and department director, the Treasury manager, and the Finance Director. Finance provides a credit card request form for departments to use in requesting a new card, changing the credit limit, or cancelling the card.

² The Berkeley Fire Department must have credit cards available for fire captains deployed on mutual aid requests. The department has 29 captain positions, which makes having three department assigned cards more appropriate.

Employees must certify that they will use their credit card for the City's benefit

Employees issued a credit card are required to sign a credit-card use agreement outlining the City's policies on the use of the card. Among other things, cardholders must certify that they understand that the use of a City credit card is limited to legitimate business purchases, misuse could lead to disciplinary action, and review of monthly statements is necessary to ensure timely payment.

As outlined in the credit card use agreement, employees must also adhere to existing City policies and guidelines when using a credit card. The three primary policies are administrative regulations:

- *3.4: Purchasing Policy and Purchasing Manual* - Outlines the City's procurement process meant to ensure that the City receives the most favorable price, quality, and/or service available through a competitive process. The purchasing manual requires employees to follow "all administrative regulations" for procurement of goods and services.
- *3.9: Policies and Procedure for Payment of Conference and Meeting Attendance* – Establishes procedures for incurring costs for travel and obtaining reimbursement for out-of-pocket expenses. Travel must be for the City's benefit.
- *3.17: Fraud, Abuse, and Misuse of City Resources* – Describes City employees' responsibility to use City resources for only the City's benefit and uphold the public's trust by safeguarding City assets.

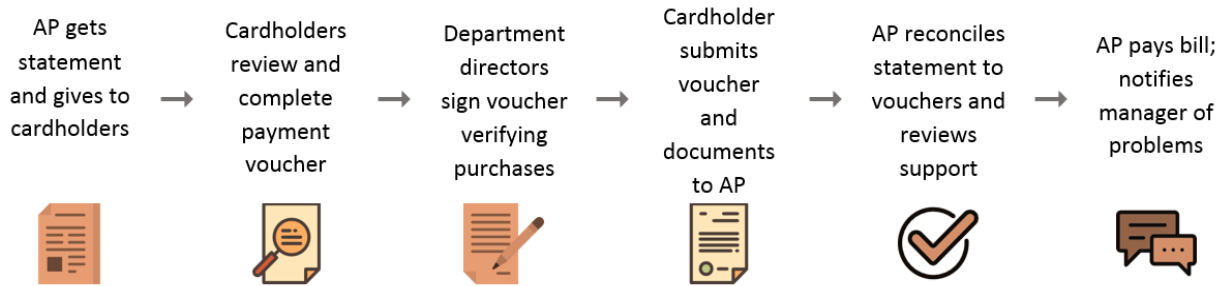
Employees must adhere to all regulations when using credit cards; three primary policies govern credit card program

Accounts Payable ensures timely payments to avoid interest and fees

The Finance Accounts Payable (AP) unit oversees the City's Wells Fargo Bank credit card account to ensure timely payments and avoid interest charges and late fees. The AP supervisor obtains the monthly credit card statement from Wells Fargo Bank and provides it to cardholders. Each cardholder is required to review charges for accuracy, complete a payment voucher itemizing purchases by account code, obtain approval from their department director, and submit their documentation, including purchase receipts, to Accounts Payable within seven days.

The AP supervisor then checks that the cardholders provided supporting documentation and used the appropriate account codes. When the AP supervisor notices a cardholder used a credit card for a purchase that they should have made with a purchase order, the AP supervisor reminds the cardholder of the City's purchasing policy and notifies the General Services Manager.

Finance Accounts Payable Credit Card Payment Process



Icons made by Freepik, Becris, and Smashicons from www.flaticon.com

FINDING AND RECOMMENDATIONS

Finding 1: Credit card use practices out of alignment with City purchasing policies

The City's credit card program is a work in progress. Necessitated by a business need, the use of credit cards has expanded faster than the City's response to create and update policies and procedures regarding their use. Cardholders were instructed to follow existing policies, which do not address risk areas specific to credit cards. Though written guidance was lacking, staff generally limited their use of City credit cards to legitimate business purchases. There were no indications of fraud or abuse in our examination of credit card transactions. However, it was not always clear whether the transaction represented the most reasonable and economical purchase. Nor was it always evident whether staff followed pertinent purchasing policies.

Finance did implement practices to control and manage the program. Those include more than half of the best practices for purchasing card management recommended by the Government Finance Officers Association. Implementing additional best practices would further reduce potential risks for fraud, abuse, and misuse associated with the use of credit cards now and purchasing cards later, and better control spending.

FY 2017 credit card expenditures: \$404,600	<p><u>Examination of Fiscal Year 2017 Credit Card Transactions</u></p>
Purchases generally appropriately substantiated	<p>Credit card expenditures totaled \$404,600 in fiscal year 2017. See Appendix C for expenditures by department. We performed an extensive examination of those transactions with an emphasis on high-risk areas. We explain our methodology in Appendix A. Overall, staff appropriately substantiated their transactions:</p> <ul style="list-style-type: none"> • 95% of all transactions were sufficiently supported with proper documentation • 97% of transaction amounts agreed with invoices and receipts • 98% of travel and attendance transactions were supported by original receipts • 100% of payment vouchers were approved by authorized personnel
	<p>The variances were minimal and not indicative of patterns of fraud or misuse. There was either an isolated error, an associated transaction to support differences, or a need to clarify City expectations.</p>
Reliance on existing policy led to some ambiguity and gaps in oversight	<p><u>Existing Policies and Procedures</u></p> <p>The City launched the credit card program about a decade ago to assist staff in obtaining goods and services when it is not practical to use the purchase order process. Staff provided with credit cards were instructed to refer to existing purchasing policies and procedures to guide their use of the cards. Reliance on existing policy leads to some disconnect regarding management expectations and opens staff to inadvertently circumventing requirements.</p>
Purchases should be economical and reasonable	<p>An overarching principle of the City’s purchasing policy is ensuring that the City obtains goods and services at the most economical price and that purchases are reasonable. The policy also covers Council mandates such as restricting the purchase of bottled water. The purchase order process overseen by Finance General Services helps ensure purchases agree with policies and mandates, and serves as a mitigating control to prevent fraud and misuse. The very nature of using a credit card bypasses these controls.</p>

Practices mitigate fraud and misuse risks; additional procedures needed to prevent noncompliance

Use of cards online presents risks exposure not addressed in current policy

Documentation needed to make some purchases more transparent and support compliance

As a result, staff are making purchases that may not be in compliance with City policy and that lack transparency and oversight:

- Amazon: Some staff purchased goods using Amazon. This removes the ability to ensure that vendors comply with City mandates, e.g., sweatshop-free procurement.
- PayPal: Some staff set up PayPal accounts using their City credit card. This leaves the card vulnerable to misuse and removes the City's ability to monitor its risk exposure.
- Self-Approved Purchases: Department directors approve their own City credit card purchases. This removes a system of checks and balances ensuring expenses are independently reviewed and approved.
- Limited Documentation: Travel-related purchases lacked documentation showing comparable prices when the purchase was deemed higher than expected. This removes the ability to verify that the purchase was the most reasonable and economical.
- Attendance Support: Staff are required to submit with travel documentation proof of attendance at conferences, meetings, seminars, trainings, and workshops. This is not feasible as credit card payment is often due before the employee attends the event, and there is no guarantee that the vendor hosting the event will provide documented proof of attendance.
- Itemized Receipts: Staff did not always include itemized receipts with support documentation. This removes the ability to verify that the employee did not purchase restricted items, for example, alcohol at a lunch event.
- Payment Choice: Staff made some purchases with vendors known to accept purchase orders. The circumstances requiring the use of a credit card are not evident in support documentation.

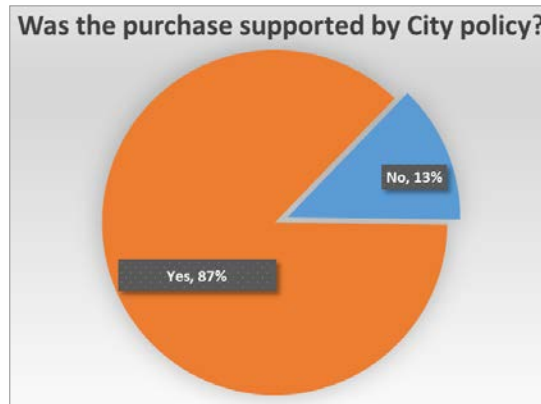
No significant concerns with procedural gaps; potentially greater risk exposure if gaps not addressed

None of the listed examples represent significant concerns with the transactions we examined during this audit, but the potential for greater impact does exist. The City plans to implement a purchasing card (p-card) program, which will result in more transactions bypassing the traditional purchase order process. The lapses in the City’s current credit card program signify where clearer policy and procedures are needed now and when the City moves to a p-card program.

Food Purchases

13% of transactions not supported by clear policy

About 13% of the transactions were for purchases not supported by clear written City policy. A few were immaterial purchases, e.g., greeting cards. Most were for food. The City’s purchasing policy, Administrative Regulation 3.4, prohibits the use of public funds for “any items of personal consumption or use” and items “not needed to perform duties.”



Most unsupported purchases for food; policy is ambiguous

The City spent just over \$15,000 on food in fiscal year 2017. The purpose for these purchases varied. Examples include staff working on assignment; department open houses; goal achievement celebrations; employee training events; staff meetings; and outside subject-matter experts assisting with employee recruitment.³ Whether these events are strictly prohibited is open to interpretation as these events do relate to a business need or function. Further, City Administrative Regulation 3.3: Petty Cash Accounts does list food for recruitment practices and employee training as items for which staff may use the petty

³ Individuals from other municipalities participate in Qualifications Appraisal Board panels. The impartial panelists volunteer their time to interview and rate applicants using a standard set of pre-determined questions.

cash fund. The regulation does not, however, define a food purchasing policy and how it differs from the restrictions defined in Administrative Regulation 3.4: Purchasing Policy and Purchasing Manual.

No patterns of fraud and abuse; food purchases associated with business function

There was no pattern of abuse or indications of fraud, but the lack of clear City policy leads to ambiguity as to when food purchases are allowable and when they are not. There is disconnect with the City’s guidance and disparity across the City as some departments prohibit any food purchases, while others do not.

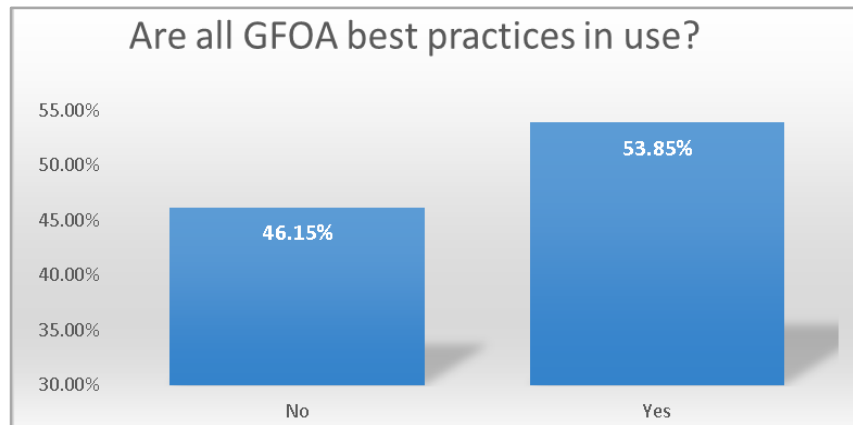
Use of Best Practices

City follows more than half of industry best practices

Finance implemented a number of practices to control and manage the City’s credit card program. This includes half of the best practices recommended by the Government Finance Officers Association (GFOA) for overseeing purchasing card programs. To our knowledge, there are no industry best practices specific to controlling the use of “credit cards.” However, the risks associated with the use, management, and oversight of credit cards are similar to those with p-cards. Therefore, we determined that, as a leader in promoting the professional management of government financial resources, GFOA’s best practices provided relevant standards for overseeing the City’s credit card program. See Appendix D for a complete list of the GFOA best practices.

The use of best practices provides for the checks needed to mitigate fraud and misuse risks, and was instrumental in ensuring appropriate use of City credit cards and timely payments in fiscal year 2017.

Use of additional best practices will strengthen oversight



While many best practices are in place, others are not. Some of the best practices that would strengthen the City's current credit card program include:

- Setting per transaction and per month limits to control spending.
- Requiring reconciliations against the financial system to ensure correct postings to expenditure accounts.
- Clarifying recordkeeping requirements to allow for transparency in purchases.
- Providing use guidelines and ongoing training so that cardholders are informed of policies and expectations.
- Clarifying use when not in person, e.g., over the internet, to protect against fraud.

Payment card transactions likely to increase with implementation of p-card program

Having these practices in place now will better prepare the City when it rolls out the purchasing card program, which will likely increase the volume of transactions and involve more employees in the process.

New Credit Card Procedures

City management issued Administrative Regulation 3.26: Credit Card Policy and Procedures Guidelines in December 2017. This was done after we completed our examination of credit card transactions and our assessment of purchasing policies in place during our review period. Therefore, we did not assess the sufficiency of the newly issued guidance. We recognize, however, that some of the issues cited in this finding may already be addressed at the time we issue this report and we commend City management on taking action to adopt changes to strengthen its oversight and management of credit card use.

Recommendations

Issue written policies and procedures specific to credit cards

The Department of Finance should:

- 1.1 Issue written credit card use policies and procedures that:
 - Reflect the City's expectations regarding credit card use, e.g., when a vendor that the City must do business with does not accept purchase orders.

- Clarify acceptability, or not, of creating accounts with third-party payment groups, e.g., PayPal.
- Address the use of Amazon or similar organizations that offer cheaper prices but may result in noncompliance with procurement restrictions.
- Incorporate current practices used by Finance to issue and manage credit cards.
- Include best practices, for example, spending limits and reconciliation requirements.
- Require staff provide itemized receipts to support purchases.
- Require the City Manager approve department head credit card purchases.
- Require the Finance Director approve the City Manager's credit card purchases.
- Require staff verify that a purchase order is not the more appropriate procurement option before making a purchase in circumstances that do not clearly warrant the use of a credit card. For example, travel purchases clearly warrant use of a credit card while purchases of supplies may not.
- Require indication of the need to use a credit card versus a purchase order on supporting documentation when it is not clear based on the purchase.
- Require Accounts Payable staff report to the Finance Director any City Manager and department head purchases that do not agree with City policies.
- Outline steps for reporting disallowed or questionable purchases to higher management and taking appropriate action to prevent further occurrence.
- Require demonstrating that travel costs represent the lowest, reasonable fare available when costs do not reflect the most common economical purchase.

- Require that credit card use be included in existing training programs, for example, Accounts Payable processing.

Create and issue a written policy regarding food purchases

1.2 Create and issue a written policy regarding food purchases. This policy should cover when food purchases are allowable, identify purchase limits, and require staff obtain itemized receipts.

Align all purchasing policies and procedures

1.3 Align City policies and procedures reflecting purchasing requirements and restrictions: purchasing; travel and attendance; petty cash; credit card use; food purchases; and any others that, if not updated, would create disconnect regarding the City’s expectations and create confusion for City staff expected to adhere to City policy.

City Manager’s Response

The City Manager agrees with the finding and recommendations. See full response at Appendix B.

FISCAL IMPACT

Credit card limit \$154,000; FY17 expenditures totaled \$404,600

The City’s credit card limit is \$154,000 with actual expenditure charges in fiscal year 2017 totaling \$404,600. Those charges included over \$15,000 in food purchases for various City events and functions. Current City policy is ambiguous as to when food purchases are allowable and disparity exists as some departments prohibit all food purchases while others do not. Overall, all other credit card transactions were associated with a City business need and appropriately reviewed and approved.

Finance’s practices mitigate fraud and misuse and prevent credit card fees and late charges

Finance Accounts Payable has practices in place to prevent the City from incurring credit card fees and late charges and to mitigate fraud and misuse risks. These practices proved invaluable in managing the credit card program during the year in review under this audit. Additional practices exist that will strengthen controls over the use of City credit cards. As payment card transactions will likely increase as Finance moves forward with replacing the current credit card program with a purchasing-card (p-card) program, it is in the City’s best interest to adopt these practices.

CONCLUSION

Policies and procedures specific to credit cards not in place during audit review period

Purchases generally supported and appropriate

We appreciate and thank management and staff for taking time to assist with our audit

Use of City credit cards has outpaced the City's response to establishing and updating its various purchasing policies relevant to the use of the cards. Not all policies align and none specific to credit card use were in place until December 2017. This was after the period under review during this audit. Though policies and procedures were lacking in some areas, staff did demonstrate their overall understanding of management expectations. Their purchases were generally sufficiently supported and approved, and for an appropriate City business function. We examined 232 credit card transactions with an emphasis on high-risk transactions and none indicated a pattern of fraud and misuse.

We would like to thank Finance management and staff for their cooperation and assistance during this audit. We appreciate the time they took to meet with us and discuss their processes and share their insight. We hope that this audit will provide the department with tools necessary for protecting taxpayer money and strengthening oversight of its credit card program.

APPENDIX A:

Scope and Methodology

We audited the City of Berkeley's fiscal year 2017 Wells Fargo Bank credit card purchases. We performed a risk assessment of credit card use, practices, and procedures to identify potential internal control weaknesses and fraud risks within the context of our audit objectives. To gain an understanding of the City's internal controls over and use of Wells Fargo Bank credit cards, and to achieve our audit objectives, we:

- Met with Finance Department personnel to gain an understanding of the department's policies and procedures related to the oversight and management of credit cards.
- Reviewed City Administrative Regulations pertaining to City purchasing requirements, and Finance's use agreement and forms for credit card issuance and management.
- Reviewed audits performed by other local jurisdictions to understand common credit card and procurement card practices and procedures, and findings related to their use.
- Reviewed the Government Finance Officers Association's best practices for purchasing card programs and the Australian Audit Office's Guide to Better Practice Corporate Credit Card report.
- Used [SurveyMonkey](#)⁴ to survey City employees who have access to or are assigned a City issued credit card to gain an understanding of their knowledge, practices, and procedures pertaining to City credit card use.
- Examined 232 credit cards transactions, including store receipts and FN-024 payment vouchers, with an emphasis on those with the highest related fraud and misuse risk, and the highest volume by transaction type. We evaluated each transaction against City regulations and supporting documentation, and verified that they were approved by authorized personnel.
- Researched 32 FUND\$ transactions used to account for a Wells Fargo Bank payment made through an Automated Clearing House (ACH) to expedite payment.
- Obtained copies of signatures of personnel authorized to sign their approval of FN-024 payment vouchers to use in our examination of credit card transactions.

Credit Card Transaction Data Population and Sample Selection

We extracted Wells Fargo Bank credit card transaction data from the City's financial system, FUND\$. We examined expenditure data to identify high-risk and high-volume expenditure types, then separated the expenditures into subgroups for sample selection: food, travel related,

⁴ SurveyMonkey: <https://www.surveymonkey.com/mp/aboutus/>

miscellaneous, office supplies, and all other transactions. We used Macorr⁵ to statistically sample each set of data using a confidence level of 95 percent and a confidence interval of 10 percent. In addition to those samples, we judgmentally selected for examination transactions with vague or unusual descriptions and high transaction amounts. We selected a total of 264 out of 676 individual Wells Fargo Bank credit card transactions recorded to FUND\$ in fiscal year 2017.

Data Reliability

We assessed the reliability of FUND\$ data by tracing to source documents; interviewing Finance personnel; and gaining an understanding of Finance's regular FUND\$ access review process. We determined that the data were sufficiently reliable for the purpose of this report.

We assessed the reliability of SurveyMonkey by reviewing the organization's security statement, privacy policy, and terms of use statement. We also reviewed information about the company, which is widely known, used, and trusted by organizations for survey creation, data collection, and data analysis. We determined survey responses collected through SurveyMonkey were sufficiently reliable for the purpose of this report.

Management Communication

During our audit, we discovered some areas outside the scope of our audit that we believed required management's attention: store cards, honor guard program, and travel expenses for executive position candidates. We did not design our test work to fully examine these areas and draw conclusions in accordance with government auditing standards. We did, however, issue a separate memorandum to City management discussing our limited assessment.

Auditor Independence

We identified items that could be perceived as threats to our independence. In both instances, we determined that no threat existed because we limited our audit work to exclude areas overseen by our office:

- By City Charter mandate, the City Auditor's signature appears on all accounts payable checks. This action is peripheral to our audit objective because of the payments to Wells Fargo for credit card purchases. We did not extend our audit work to evaluate the payments to Wells Fargo. We limited our examination to whether City employees adhered to City purchasing and related policies when using credit cards, and whether City personnel took appropriate action to avoid late fees and interest charges.
- As part of understanding the City policies related to purchasing, we obtained Administrative Regulation 3.17: Fraud, Abuse, and Misuse of City Resources. The City Manager's Office is responsible for enforcing the regulation. However, prior to the

⁵ MaCorr Research Solutions: <http://www.macorr.com>

issuance of stronger independence restrictions set forth by the U.S. Government Accountability Office, the City Auditor's Office drafted and updated the regulation. In order to ensure our independence, we explicitly omitted areas overseen by our office and limited our work to understanding staff's requirement to adhere to the policy.

Standards Compliance Statement

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 objective.

APPENDIX B

Audit Finding, Recommendations, and Management Response Summary

Audit Title: Credit Card Use: Clearer Guidance Needed					
Finding and Recommendations		Lead Dept.	Agree, Partially Agree, or Do Not Agree	Expected/Actual Implementation Date	Status of Audit Recommendations, Corrective Action Plan, and Progress Summary
Finding 1: Credit card use practices are out of alignment with City purchasing policies					
1.1	<p>Issue written credit card use policies and procedures that:</p> <ul style="list-style-type: none"> • Reflect the City’s expectations regarding credit card use, e.g., for immediate needs that cannot wait for the purchase order process. • Clarify acceptability, or not, of creating accounts with third-party payment groups, e.g., PayPal. • Address the use Amazon or similar organizations that offer cheaper prices but may result in noncompliance with procurement restrictions. • Incorporate current practices used by Finance to issue and manage credit cards. • Include best practices, for example, spending limits and reconciliation requirements. 	Finance	Agree	April 1, 2019	A.R. 3.26 Credit Card Policy and Procedures Guidelines implemented 12/22/2017 addresses many of the recommendations in this Finding. Other recommendations will be addressed in A.R. 3.4 Purchasing Manual; A.R. 3.9 Policies and Procedures for Payment of Conference and Meeting; and any other administrative regulations, as applicable.

Audit Title: Credit Card Use: Clearer Guidance Needed				
Finding and Recommendations	Lead Dept.	Agree, Partially Agree, or Do Not Agree	Expected/Actual Implementation Date	Status of Audit Recommendations, Corrective Action Plan, and Progress Summary
<ul style="list-style-type: none"> • Require staff provide itemized receipts to support purchases. • Require the City Manager approve department head credit card purchases. • Require the Finance Director approve the City Manager's credit card purchases. • Require staff verify that a purchase order is not the more appropriate procurement option in circumstances that do not clearly warrant the use of a credit card. For example, travel purchases clearly warrant use of a credit card while purchase of supplies may not. • Require indication of the need to use a credit card versus a purchase order on supporting documentation when it is not clear based on the purchase. For example, travel purchases clearly warrant use of a credit card while purchase of supplies may not. • Require Accounts Payable staff report to the Finance Director any City Manager and department head purchases that do not agree with City policies. 				

Audit Title: Credit Card Use: Clearer Guidance Needed					
Finding and Recommendations		Lead Dept.	Agree, Partially Agree, or Do Not Agree	Expected/Actual Implementation Date	Status of Audit Recommendations, Corrective Action Plan, and Progress Summary
	<ul style="list-style-type: none"> • Outline steps for reporting disallowed or questionable purchases to higher management and taking appropriate action to prevent further occurrence. • Require demonstrating that travel costs represent the lowest, reasonable fare available when costs do not reflect the most common economical purchase. • Require that credit card use be included in existing training programs, for example, Accounts Payable processing. 				
1.2	Create and issue a written policy regarding food purchases. This policy should cover when food purchases are allowable, identify purchase limits, and require staff obtain itemized receipts.	Finance	Agree	April 1, 2019	Staff will develop a policy for the purchase of food using City funds, clarifying circumstances that may qualify, purchase limits, required documentation, etc. The Purchasing Manual will be updated to reference the requirement to adhere to the food purchase policy and acceptable methods of paying for same, including payment by City credit card.

Audit Title: Credit Card Use: Clearer Guidance Needed					
Finding and Recommendations		Lead Dept.	Agree, Partially Agree, or Do Not Agree	Expected/Actual Implementation Date	Status of Audit Recommendations, Corrective Action Plan, and Progress Summary
1.3	Align City policies and procedures reflecting purchasing requirements and restrictions: purchasing; travel and attendance; petty cash; credit card use; food purchases; and any others that, if not updated, would create disconnect regarding the City's expectations and create confusion for City staff expected to adhere to City policy.	Finance	Agree	April 1, 2019	<p>Partially complete:</p> <p>A.R. 3.26 Credit Card Policy and Procedures Guidelines implemented 12/22/2017; A.R. 3.9 Policies and Procedures for Payment of Conference and Meeting Attendance updated 2/28/2018.</p> <p>To be completed:</p> <p>Review and update of all related administrative regulations to align cohesively.</p>

APPENDIX C

Fiscal Year 2017 Credit Card Expenditures by Department

Department	Amount
Berkeley Fire Department	\$1,603
Berkeley Police Department ⁶	\$309,958
City Attorney's Office	\$3,555
City Clerk's Office	\$5,063
City Manager's Office	\$3,054
Finance Department	\$1,573
Health, Housing, & Community Services Department	\$10,939
Human Resources Department	\$44,472
Information Technology Department	\$9,335
Parks, Recreation, & Waterfront Department	\$2,434
Planning & Development Department	\$29
Public Works Department	\$3,904
Rent Stabilization Board	\$8,714
Total:	\$404,632

⁶ In fiscal year 2017, the BPD completed an extensive police officer recruitment. This required cadets to travel offsite for training programs lasting at least a week. This is a necessary program to assess qualifications and the associated expenditures for this program must be handled using a credit card.

APPENDIX D

GFOA P-Card Best Practices Used as Benchmark in Assessing Credit Card Management and Oversight

	Best Practices: Items Addressed in Written Policies and Procedures	Why it Matters and How It Helps
1	Instructions on employee responsibility and acknowledgements signed by the employee.	Holds employee accountable to using card in accordance with policy.
2	Ongoing training of cardholders and supervisors.	Helps ensure proper and consistent use of cards.
3	Spending and transaction limits for each cardholder, per transaction, and on a monthly basis.	Controls spending, helps with monitoring budgets, and reduces risks associated with fraud, abuse, and misuse.
4	Written requests for higher spending limits.	Ensures upper management awareness of credit card use and spending needs, and reduces risks associated with fraud, abuse, and misuse.
5	Recordkeeping requirements, including review and approval processes.	Provides transparency, supports accountability, and helps ensure purchases are allowable and in accordance with policy.
6	Clear guidelines on the appropriate use of cards, including approved and unapproved Merchant Category Codes.	Helps ensure purchases are made in accordance with policy and reduces risks associated with fraud, abuse, and misuse.
7	Guidelines for making purchases by telephone and fax or over the internet.	Protects against fraud.

	Best Practices: Items Addressed in Written Policies and Procedures	Why it Matters and How It Helps
8	Periodic audits for card activity and retention of sales receipts and documentation of purchases.	Helps detect fraud, misuse, and abuse, and ensures ongoing compliance with policy and documentation requirements.
9	Timely reconciliation by cardholders and supervisors.	Helps detect financial system entry errors, such as posting to the wrong account, and provides better assurance of data accuracy for monitoring budgets and spending.
10	Procedures for handling disputes and unauthorized purchases.	Protects against inappropriate and unauthorized purchases, and provides method for ensuring receipt of goods.
11	Procedures for card issuance and cancellation, lost or stolen cards, and employee termination.	Provides oversight of cards and protects against fraud.
12	Segregation of duties for payment approvals, accounting, and reconciliations.	Helps prevent fraud, misuse, and abuse.
13	Regular review of spending, per vendor and Merchant Category Codes.	Helps detect fraud, misuse, and abuse, and helps identify circumstances in which a purchase order may be the better solution for future and more economical purchases.
<p>Note: Merchant Category Codes (MCC) are not applicable to the use of credit cards. However, the best practices listed above that reference MCCs do identify oversight that is equally as necessary with credit cards: Monitoring vendors to identify misuse; for example, purchases at a local bar or from vendors known to not comply with City purchasing policies.</p>		