

Date: May 3, 2013
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**City of Hartford
Finance Department
Procurement Card Program Audit
Report 1314**

I. Executive Summary

At the request of the City of Hartford Court of Common Council, we completed an examination in April 2013 of the Procurement Card Program of the City of Hartford. The purpose of the examination was to evaluate and test internal accounting and operating controls, the accuracy and propriety of transactions processed, the degree of compliance with established operating policy and procedures, and to recommend improvements where required. The results of our examination were reviewed with the interim Chief Operating Officer and Finance Director who are responsible for the administration of and control over the Purchasing Card program. The summary, which follows, includes exceptions disclosed and recommended operating improvements. Management has also noted actions taken or planned including time periods to resolve each finding and/or recommendation in this report. We thank management and staff for their cooperation and courtesies extended to us during our audit.

Background

The City of Hartford (the City) Procurement Card (P-Card) program provider is Bank of America (BOA) and administered through their related financial system called "WORKS". The Accounting Division of the City Finance Department is responsible for administering the program. The original P-Card program was started in 2004 and was intended to reduce processing costs and make routine small purchases easier and more efficient. Originally, there were almost 500 P-Cards issued to Employees City wide. In 2010, the program was significantly scaled back to less than 200 P-Cards. In the summer of 2012, the administration decided to expand selective spending with the P-Card's to take advantage of increased processing cost savings and available rebates being offered by BOA. At this time, Finance management developed and issued new P-Card policies and procedures and examined and appropriately revised the MUNIS workflow approval process and P-Card spending limits. In addition, all P-Card holders had to justify to Finance management, based on business needs, what kinds of goods and services they procure during the course of their everyday business. Finance management, in turn, placed Merchant Class Code (MCC) purchasing restrictions on those MCC codes that were not needed to conduct City business. At the start of our audit, there were 168 active P-Cards, including 55 that were held by the Hartford Public Library (HPL), Hartford Parking Authority (HPA) and the Hartford Public School System (HPSS), that had access to 100% of the MCC. These cards were reduced to an average of 21% from 100% access to MCC, significantly improving the P-Card internal control environment. See Exhibit 3 for MCC permissions by City department groupings. In April 2013, the Finance Department, at the request of the Mayor's Office, deactivated 72 P-Cards in order to reduce spending for the balance of the fiscal year. Currently there are 41 active City P-Cards.

On a bi-monthly basis, the Finance Department downloads the P-Card purchasing data recorded in WORKS to the City's MUNIS Financial Management System (MUNIS). The transactions are coded to the related budget accounts and approved through the MUNIS workflow process hierarchy. The P-Card is a procurement tool that is designed to increase efficiency in the purchasing process, reduce administrative costs, improve financial and managerial control and simplify the purchasing process for smaller dollar purchases. BOA provides a rebate to the City based on the

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level of spending on the cards. The City has received P-Card rebates totaling about \$25,000 year-to-date, based on past spending patterns. Finance management also estimates that the City saves about \$50,000 in payment processing costs and the equivalent cost of one full time employee a year because of the P-Card program. Each department that has a P-Card assigned to an employee also has a Department Card Coordinator who is responsible for oversight of the cards and the review and approval of all purchases. The spending limits for most of the active cards is \$3,000 to \$5,000, however, 23 employees have spending limits up to \$10,000 and one Finance Accounting Division employee has a \$20,000 limit. These higher dollar limits were assigned for specific purchasing requirements and business needs. City P-Card purchases for the first nine months of fiscal year 2013 totaled about \$761,000. By law, the City is required to keep supporting documentation for all purchases. P-Card detailed transaction documentation fulfills this requirement. The primary responsibilities of the Accounting Division of the City Finance Department, as outlined in the P-Card User Guide procedures, are to; review department approved transactions for appropriate allocation and sufficient cash-in-fund; review card activity documentation for propriety; and reconcile WORKS transactions to BOA billing statements. The Purchasing Division of the Office of the Chief Operating Officer is responsible for the administration of the P-Card program including management oversight, issuing cards, training users and coordinating activities and communicating with BOA, the Treasurer's Office, Finance Department, Pre-Audit and Cardholders. The following statistics relate to the 9 months ending March 31, 2013, which was the scope and period that was established and agreed to with the City Council President. It should be noted that the scope of this audit was limited to only City of Hartford P-Card Charges. P-Card charges for all other applicable entities including HPSS, HPA and HPL will be audited at a later date.

Total Spending City

- | | |
|--|-----------------|
| • Total Spending | \$761,000 |
| • Total Transactions | 3,180 |
| • Average Transaction Size Amount | \$239 |
| • Detail Spending by Merchant Class | See Exhibit I |
| • Top Ten by MCC Code | See Exhibit II |
| • Merchant Class Code Allowance Analyses | See Exhibit III |
| • P-Card Spending Limits | See Exhibit IV |

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General

In general, P-Card and Travel policies, procedures and controls need strengthening and better enforcement as indicated by the details in this report. All transactions were ultimately supported by vendor receipts, invoices or other sufficient evidential matter, except for a few minor charges, currently being followed up on by the Finance Department. We did note that internal controls including the systematic workflow approval process and detail reviews of all transactions by the Finance Department needed to be revised and strengthened. Some procedural controls also needed strengthening including providing details as to those attending and the business purpose of all business meals/entertainment. Adherence to the City Travel Policy requiring the preparation of a Travel Expense Report should also be enhanced and enforced. Controls need to be established to minimize incurring State Sales Taxes wherever possible. The P-Card duplicate transaction approval process embedded in the MUNIS Workflow needs to be revised to improve the approval process internal controls. We believe that the P-Card program is beneficial in that it is an efficient process and generates cost savings to the City. As long as the program embodies strict controls, documented policies and procedures are in place, violations of P-Card use are strictly enforced, and our recommendations in this report are implemented, we would recommend retaining the program.

Scope

The scope of our review included a detailed examination of 461 City P-Card purchases totaling about \$225,232 and related activity processed primarily during the Fiscal Year to date 2013. This test group represents about 30% of the P-Card spending and about 15% of the total transactions recorded during the audit period. The following audit procedures and tests were performed:

- Reviews of policies, procedures and controls including process flows;
- Reviews of management's oversight;
- Examination of evidential matter supporting P-Card transactions and adherence to under current policies and procedures;
- Reviews of MUNIS workflow approvals;
- Interviews with the Mayor, Cabinet members and certain Department Heads;
- Reviews of unallocated P-Card charges;
- Tests of City P-Card purchases for adherence to existing policies and procedures and required supporting documentation; and,
- Reviews of transactions highlighted by the media and others as large and questionable transactions.

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II. Detail Findings

Finance Department Oversight

The primary responsibilities of the Accounting Division of the City Finance Department relating to the P-Card program are to (1) review department approved transactions for appropriate allocation and sufficient cash-in-fund; (2) review P-Card activity documentation for propriety; and (3) reconcile WORKS transactions to BOA billing statements. Also, they are responsible for enforcing penalties related to specific P-Card Policy infractions. For example, when the Finance Department receives three “Missing Receipt Waiver Forms” the P-Card holder comes under consideration for P-Card deactivation. It should be noted that this provision of the P-Card policy was not being enforced. Also, the Accounting Division of the City Finance Department was not always exercising control over P-Card activity as required under the terms and conditions of the P-Card User Guide. As a result, Finance management cannot be reasonably assured that all P-Card transactions are apparently prudent and proper. We recommend that the Accounting Division of the Finance Department exercise management control as outlined in the Municipal Code and the P-Card User Guide when it comes to the prudent and proper use of the P-Card by City employees. Also the “Missing Documentation” deactivation provision in the P-Card Policy should be exercised when deemed appropriate.

Management Response

Due Date: June 30, 2013

Responsible Person: Julio Molleda, Director, Finance Department

We agree with the auditors and we will implement their recommendations.

Sales Tax Paid on P-Card Transactions

We noted that state sales tax totaling \$2,412 was paid on 32 hotel stays both within and outside of Connecticut. We were informed by Finance management that out-of-state hotels are not required to recognize Hartford’s tax-exempt status. The City would need to obtain written permission from a State’s department of revenue services in order to obtain tax-exempt status in that state. The hotels in Connecticut recognize Hartford’s tax-exempt status and the hotels located in the city have tax-exempt forms on file because the City Finance Department sends those out every year. We recommend that steps be taken in the future to eliminate/minimize, to the greatest extent possible, the amount of sales tax paid to states other than Connecticut for hotel stays. In advance of a planned out-of-state business trip, a tax-exempt status should be requested from the applicable state. The traveler should present the tax-exempt documentation to the hotel at check in and request not to pay the sales tax. In addition, The Hartford Club is charging Connecticut Sales Tax for all P-Card charges incurred by the City on one card holder. We found that about \$450 in sales related taxes was incorrectly paid to the Hartford Club according to the Connecticut State Statute exempting municipalities. We contacted the Hartford Club and they will reimburse the City for sales tax paid and not charge tax in the future. We recommend that steps be taken in the future to eliminate/minimize the amount of sales tax paid on P-Card purchases.

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Management Response

Due Date: July 31, 2013

Responsible Person: Julio Molleda, Director, Finance Department

We agree with the auditors and we will take the steps necessary, and establish appropriate controls to eliminate/minimize the amount of sales tax paid on P-Card purchases.

P-Card Policy

To improve the controls related business entertainment, the P-Card Policy should prohibit the use of the P-Card for business entertainment. Business entertainment should be pre-approved and paid for by the employees' personal credit cards, and then, the employee could seek reimbursement through the Travel Expense Policies and Procedures. This process requires the completion of an Expense Report which requires a full explanation of the business purpose of the entertainment, detailed receipts supporting the expenditures and the names and titles of those entertained. The expense report then requires the approval of the employee's superior prior to being reimbursed. In the case of the Mayor and his Cabinet, the Mayor would approve the Cabinet members' expense reports and the Finance Director would approve the Mayor's expense report.

Management Response

Due Date: June 30, 2013

Responsible Person: Julio Molleda, Director, Finance Department

We agree with the auditors and we will amend the P-Card Policy as appropriate and enforce the use and approval of expense reports prior to employees being reimbursed in the future. Also, effective immediately every charge has to have a proper description (replacing the default Vendor Name and Purchases), for restaurant receipts, these items must be provided: (a) detailed receipt listing of purchased items; (b) note on receipt as who attended the meal; and (c) summary receipts noting tips and the individuals names, titles and entity and business purpose and supporting documentation must be attached to each transaction/charge individually.

Travel Policy

In Fiscal Year 2013, total City travel related spending for lodging and transportation, totaled about \$59,000 for about 187 individual P-Card transactions. It should be understood that all of these P-Card transactions are allocated to the appropriate budgets and have gone through the P-Card approval process. Current Travel Policy requires pre approval of all business related travel from the Management and Budget Department including estimates of the related travel costs. Most of this activity would subject the traveler to complete a Travel Expense Report in accordance with the City Travel Policy dated July 2007. However, the Finance Department never enforced this section of the Travel Policy. Also, there is no process or control

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to ensure that Travel Expense Reports are prepared, approved and submitted to the Accounting Division of the Finance Department for review and retention. Throughout our testing, we found no evidence that Travel Expense Reports were prepared and submitted to Finance for review for business travel and business entertainment related expenses. Although this issue is not directly related to this audit, we recommend that controls be established to make sure Travel Expense Reports are completed and approved when P-Card documentation indicates that a travel expense report should accompany the documentation. In addition, the Travel Policy needs to be updated. For example, the section related to business entertainment is not specific when it comes to explaining the business purpose of the entertainment and the names and titles of those entertained. It also does not indicate the processing method, reimbursement check or reimbursement through payroll. We informed Finance that we would work with them to update the Travel Policy by fiscal year end 2013.

Management Response

Due Date: June 30, 2013

Responsible Person: Julio Molleda, Director, Finance Department

We agree with the auditors and we will take the steps necessary to make sure that the Travel Policy is followed and enforced. We will also work with the auditors to update the existing Travel Policy.

MUNIS Workflows

A review of the P-Card approval process embedded in MUNIS Workflows disclosed that the initial approvers of the P-Card transactions in various departments, including the Mayor's Office, were subordinate to the P-Card holder. To improve internal controls related to the approval process, we recommend that the first level approver be a supervisor or manager of the P-Card holder. We discussed this issue with Finance management while they were in the process of revising the MUNIS workflow approval process and management agreed, from a good internal control point and to improve the scrutiny over P-Card purchases, the Department Head's should be the first level approver.

Management Response

Due Date: June 30, 2013

Responsible Person: Julio Molleda, Director, Finance Department

Effective immediately, the Finance Department has implemented a new approval process for P-Card transactions. All department heads will be the first level of MUNIS workflow approving all P-Card statements for their respective departments. All P-Card statements will then be reviewed and approved by the Accounting Division. Lastly, the Finance Director will have final approval on all P-Card statements. In case of the Finance Director's absence, the approver will be the City Controller. This P-Card approval process is concurrent with the bi-monthly processing of P-Card transactions in MUNIS.

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P-Card Transaction Testing

Various reviews of FYE 2013 P-Card spending reports, unallocated purchases, detailed tests of 461 purchase transactions totaling \$225,232 and reviews of related programs, policies, procedures and controls disclosed the following:

- We found that supporting documentation for four charges incurred by the Mayor’s Office totaling \$126 could not be located. These purchases are included on the Finance Department’s list of missing documentation. We recommend that the Mayor’s Office take action to complete the “Missing Receipt Wavier Form” for those receipts that cannot be located as required by the P-Card policy and forward it to the Finance Department for their records in MUNIS.
- We found that that supporting documentation for 10 charges incurred by the Human Resources Department totaling \$156 could not be located; however, eight charges, totaling \$125 have the required “Missing Receipt Wavier Form” in MUNIS. The remaining two charges totaling \$31 have no supporting documentation. We recommend that Human Resource Department management take action to complete the “Missing Receipt Wavier Form” for those receipts that cannot be located missing as required by the P-Card policy and forward it to the Finance Department for their records in MUNIS.
- We found that the Fire Department is using multiple P-Cards to pay large Verizon invoices because P-Card limits are lower than the invoice amounts. This practice is in violation of the P-Card policy and circumvents the P-Card controls over card limits. This practice should be stopped immediately. The Fire Department should seek higher spending limits for one P-Card in order to accommodate the need to pay large Verizon invoices.
- We reviewed all 108 Chief of Staff P-Card charges totaling \$35,214 including all 26 business meals totaling \$2,839. Generally, the persons entertained and the related business purpose on the business meals were not indicated on the restaurant receipts. It should be noted that the more recent documentation did indicate who was entertained and the business purpose of the meal. Also, we found that the supporting documentation was not in MUNIS for 18 P-Card transactions totaling \$3,427 at the time we initially performed the testing. During the audit, all of the above missing documentation was located and entered into MUNIS which we subsequently examined. It should be noted that we were informed that the Mayor reviews the Chief of Staff’s P-Card charges monthly and often discusses the business purpose of the related business meals, however; the reviews are not documented.

We recommend that the documentation for all business meals/entertainment incurred in the current Fiscal Year be reviewed for the business purpose and names of attendees. For those instances where this information is not indicated in MUNIS, the Finance Department should request from the P-Card holders a statement containing the above information and attach the document to the P-Card transaction in MUNIS.

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Management Response

Due Date: June 30, 2013

Responsible Person: Julio Molleda, Director, Finance Department

We agree with the auditors and we will work with appropriate management to make sure that the P-Card Policy is strictly followed and enforced in the future. We will also take the steps necessary to fully document MUNIS as indicated by the auditors.

Unallocated P-Card Charges

Unallocated P-Card charges are those that have been downloaded to MUNIS but had not been coded to a specific budget line item and the supporting documentation has not been obtained by the time the accounts are closed. Currently, the unallocated P-Card charge balance in MUNIS totals \$2,327 representing about five transactions that are actively being worked on by Finance. However, at the end of Fiscal Year 2012, the balance in MUNIS totaled \$30,391 representing numerous transactions primarily related to the Mayor's, Chief Operating Officer's and Corporation Counsel's offices. This balance was not cleared by obtaining all required receipts/Missing Document Waiver forms and properly allocating the charges to the respective budget line items. Since the books are closed for the 2012 Fiscal Year, appropriate entries to budget line items cannot be done. In order to determine that these charges are properly supported and for bonafied City business purposes, we recommend that Finance do the following:

- Compile the details to the unallocated P-Charges by card holder and by department,
- Notify the respective card holders and department heads of the details,
- Request the supporting documentation or a "Missing Receipt Waiver Form" for all unallocated charges; and,
- Review all documentation for reasonableness and compliance with City Municipal Code and P-Card policy and retain for subsequent inspection.

Management Response

Due Date: June 30, 2013

Responsible Person: Julio Molleda, Director, Finance Department

We agree with the auditors and we will implement the recommendations noted.

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Reviews of Transactions Highlighted by the Media and Others as Large and Questionable Transactions

We examined various transactions scrutinized by the Media and noted the following:

- Palomar Hotel charges for \$7,400 - In February 2012, the City of Hartford Director of the Department of Families, Children, Youth and Recreation and the Mayor accompanied an Early Childhood Delegation with 10 non-City individuals from Hartford and Washington, D.C. on a site visit to the University of California, Los Angeles Center for Healthier Children Families and Communities. The three day site visit was fully funded by a special grant to the City, from the Hartford Foundation for Public Giving totaling \$140,000. In February 2012, the City received a check from the Foundation for \$70,000 or one half of the grant. All travel related expenses were covered by the grant. The hotel Palomar in Los Angeles was selected and a room night charge of \$199 was negotiated. The Palomar hotel bill includes two nights for the delegation of 12 people and one night for six delegates, for a total of 30 nights plus applicable local hotel taxes and some incidentals. Also, meals for the members of the delegation at Tanino Restaurant in Los Angeles totaling \$764 were paid on the P-Card; however, they are covered under the grant. The purpose of the site visit was to enable the delegation to develop a better appreciation about how communities design and launch comprehensive early childhood community initiatives and determine what design elements might be applicable for Hartford. These expenses appeared to be reasonable given the circumstances. It should also be noted that Grants are regularly audited by external auditors and granting agencies.
- Charges at Costa del Sol totaling \$3,000 were not personal dining. These charges were for three different City sponsored events. One charge for \$1,261 related to 29 dinners for the “Parent Leadership Training Institute” Alumni Inaugural event paid for by a Families Civic Engagement Initiative Grant. Another charge for \$1,194 related to the Department of Families, Children, Youth and Recreation Accomplishments Celebration for 32 staff, including some invited consultants that were paid for from the City General Fund. Another charge for \$690 related to the “People Empowering People” Graduation for 14 graduates and facilitators which was paid for by the Kellogg Foundation Grant. All receipts were examined.
- Chief of Staff Computer and Media Equipment – In fiscal year 2013, the Chief of Staff incurred charges on the P-Card for 5 laptop computers, 3 PC and 1 MAC, related peripherals, 3 digital cameras and two 42 inch LCD televisions. All of these purchases were supported by receipts from the various vendors and physically observed by Internal Audit in City Hall. The Chief of Staff informed us that he converted from PC based computer equipment to MAC based equipment for more efficiency and compatibility with related I-Pads and I-Phones. One television is in the Chief of Staff’s office and the other is in the Director of Communications and New Media’s office. We were informed that the televisions are used to monitor the State of Connecticut’s channel and major cable and network news channels. The three PC laptop computers were purchased for the Constituent Services department of the Mayor’s Office from the City approved PC vendor. The MAC equipment was purchased from Apple Inc. and the Apple Store. The digital cameras are used by the Communications Department of the Mayor’s Office.

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- Mayor's Business Dinner at Max Downtown on the City "First Night" celebration, December 31, 2012 – On December 31, 2012, "First Night" the Mayor hosted a dinner at Max's for eight people including members of his staff, the HPD, the Mayor, his spouse and two other individuals not affiliated with the City. The bill for all the alcoholic beverages, totaling \$205 was paid personally by the Mayor's spouse that night and not by the City. We interviewed the Mayor and Chief of Staff and we were informed that the Mayor and/or the Chief of Staff instructed the Max's waiter that night to charge the Mayor's personal credit card for a portion of the meals and the Chief of Staff's City P-Card for the balance. Max's charged the entire food bill, including tip, for \$707 to the Chief of Staff's P-Card that night and apparently, the lack of a charge to the Mayor's credit card for a portion of the meals went undetected when the bill was settled. We could not determine if the Mayor did in fact, supply his personal credit card to the waiter that night. Upon receipt of the January 2013 P-Card and the Mayor's personal credit card statements, in February 2013, the Mayor's Office found that the statements did not reflect reduced charge to the City P-Card and a corresponding charge to the Mayor's personal credit card. On February 28, 2013, at the suggestion of the Finance Department, Max's was contacted by the Mayor's Office to make sure the Mayor's personal credit card is charged \$251 for a portion of the meals. If you add the liquor bill for \$205 and a contribution from the Mayor for \$251, totaling \$456, it would represent one half of the total charges that night. The owner of Max's took all the information and verbally assured the Mayor's Office that the correct adjustments would be made as requested. Our review and the Mayor's Office review in April 2013 of the March 2013 P-Card statement disclosed that Max's failed to charge the Mayor's personal credit card and credit the City P-Card for the \$251. On April 11, 2013, the Chief of Staff informed us that he intervened which resulted in Max's appropriately putting through the charge to the Mayor's personal credit card and a credit to the City P-Card for \$251. Max's supplied the Mayor's Office with the evidence related to the transaction which we examined. The Mayor's Office received an email and a hand written note from the manager at Max's apologizing for failing to make the appropriate charges when instructed by the Mayor's office in February as noted above which we also examined. There is no documentation to support or further verify the representation made by the Mayor and his staff as to how the food bill was intended to be or ultimately paid. Also, the only documentation to support the Mayor's or his staff's assertions to resolve the billing matter on February 28, 2013, is a phone record that a four minute call was placed to the phone number of Max's and the two apologies from Max's mentioned above. As to the propriety of the entertainment at Max's, there is section 2-37 of the Municipal Code that would appear to allow the above entertainment expense. The code states "The Mayor shall be reimbursed for actual expenses incurred in the entertainment of guests of the City. In light of the above, we recommend that the Court of Common Council take further action, if they deem necessary, to determine if these charges specifically violate any provisions of the City of Hartford Charter, Municipal Code or Code of Ethics.

Other LCD TV Purchases

During our testing of P-Card transactions, we noted the Treasurer's Pension Fund Office purchased one LCD TV and the Department of Public Works (DPW) purchased three LCD TV's. We observed all four TV's at City locations. One TV is on the wall of the Treasurer's Office used to monitor the investment market. One is on the wall of the Deputy Director of DPW, one is in the DPW Yard Plow Room, and one is in the DPW Yard Operations Center all on Jennings Road. We were informed these TV's are used for storm monitoring at the DPW Yard.

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