INTERNAL AUDIT REPORT

PURCHASING CARD PROGRAM

LIMITED OPERATIONAL AUDIT

January 1, 2014 – May 31, 2015

ISSUE DATE: October 6, 2015
REPORT NO. 2015-11

EXECUTIVE SUMMARY

AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was:

1. To determine whether department controls are adequate to ensure compliance with the requirements of CPO-7.
2. To identify possible changes to improve the efficiency and effectiveness of the program.

We reviewed information for the period January 1, 2014 – May 31, 2015. Details of our audit's scope and methodology are on page three.

BACKGROUND

As of April 1, 2011, the Port of Seattle introduced a new procurement card program (P-card) and policy (CPO-7). The P-card is a credit card-based system used to purchase non-strategic goods and services. This program provides a more efficient process for small dollar purchases because of direct contact with suppliers and faster order processing. It additionally reduces the costs of purchasing routine goods and services, as the transaction costs are significantly lower than using a Purchase Order. P-cards are a commonly used tool by purchasing to reduce transactional costs.

The transaction limit on a single P-card purchase is $5,000, with a typical monthly maximum expenditure of $25,000. A few cardholders have higher limits based on business needs.

During the audit period, there were 136 active cards. The total procurement card expenditures for the period January 1, 2014 - May 31, 2015, were over $12 million.

AUDIT RESULT

Department controls are adequate to ensure compliance with CPO-7. We did not identify additional significant changes to improve the efficiency and effectiveness of the program.

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TRANSMITTAL LETTER

Audit Committee
Port of Seattle
Seattle, Washington

We have completed an audit of the Purchasing Card Program. We reviewed information for the period January 1, 2014 – May 31, 2015.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis of 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.

We extend our appreciation to the management and staff of the Central Procurement Department and Accounting and Financial Reporting for their assistance and cooperation during the audit.

Joyce Kirangi, CPA, CGMA
Internal Audit, Director

AUDIT TEAM	RESPONSIBLE MANAGEMENT TEAM
Brian Nancekivell, Senior Auditor	Nora Huey, Director, CPO
Jack Hutchinson, Manager	Tim Jayne, Sr. Manager Purchasing, CPO

BACKGROUND

As of April 1, 2011, the Port of Seattle introduced a new procurement card program (P-card) and policy (CPO-7). The P-card is a credit card-based system used to purchase non-strategic goods and services. This program provides a more efficient process for small dollar purchases because of direct contact with suppliers and faster order processing. It additionally reduces the costs of purchasing routine goods and services, as the transaction costs are significantly lower than using a Purchase Order. P-cards are a commonly used tool by purchasing to reduce transactional costs.

The policy has limitations and restrictions on the type of purchases allowed. The P-card program is operated under an agreement with Bank of America, which provides an on-line system, Works, for recording and approving transactions. A purchase is initiated by an approved purchase request or requisition. The cardholder then purchases the goods or services directly from the vendor using the P-card. On a regular basis, the cardholder logs onto the Works application and allocates the transaction to the appropriate accounting chart fields and signs off on the transaction. On a monthly basis, an approver reviews the transactions and approves the purchases.

The transaction limit on a single P-card purchase is $5,000, with a typical monthly maximum expenditure of $25,000. A few cardholders have higher limits based on business needs.

As of May 2015, there were 126 active cards. The total procurement card expenditures for the period January 1, 2014 - May 31, 2015, were over $12 million.

FINANCIAL HIGHLIGHTS

TOP TEN DEPARTMENTS AND VENDORS OF P-CARD PROGRAM
January 2014 – May 2015

TOP 10 DEPTS	(in 000's)		TOP 10 VENDORS	(in 000's)	
Av. Maint.	$4,712	39%	Keeney's Office Supply	$ 544	4%
Marine Maint.	1,594	13%	Aramark Uniform	469	4%
Port Const. Svcs.	717	6%	Grainger	407	3%
ICT	489	4%	Cummins NW	187	2%
Police	363	3%	Amazon Marketplace*	175	1%
Public Affairs	360	3%	Act 3 Catering	169	1%
Fire	315	3%	Google	168	1%
Av. Bus. Dev.	269	2%	Amazon.com*	134	1%
HR	236	2%	The Part Works	132	1%
Av. Landside	151	1%	National Safety	122	1%
Top 10 Total	$ 9,206	76%		$2,507	19%
Grand Total	$ 12,165	100%		$ 12,165	100%

Data Source: Bank of America

*Amazon Marketplace is third party vendors selling thru Amazon. Amazon.com is direct sales with that company

AUDIT SCOPE AND METHODOLOGY

We reviewed information for the period January 1, 2014 – May 31, 2015. We utilized a risk-based approach from planning to testing. We gathered information through research, interviews, observations, and data analysis, in order to obtain a complete understanding of the purchasing card program. We assessed significant risks and identified controls to mitigate those risks. We evaluated whether the controls were functioning as intended.

We applied additional audit procedures to areas with the highest likelihood of significant negative impact as follows:

1. To determine whether department controls are adequate to ensure compliance with the requirements of CPO-7:
   - We interviewed personnel in the Central Procurement Office and Accounting and Financial Reporting.
   - Reviewed applicable policies, procedures, and program documentation.
   - Performed data analytics using specialized audit software on all P-card transactions during the audit period.
   - Selected 10 departments with 35 cardholders, representing about 75% of P-card spend for the audit period, for detailed testing:
     - We interviewed at least one cardholder and one approver in each department and reviewed the department's P-card process and controls.
     - We tested a risk-based sample of at least 30 P-card transactions in each department selected from detailed analytics for the following:
       - ✓ Approval obtained prior to purchase.
       - ✓ Monthly reconciliation performed.
       - ✓ Monthly reconciliation approved.
       - ✓ Proper use of S-contracts, where applicable.
       - ✓ Proper retention of original receipts.
       - ✓ Proper evidence that purchased item received.
       - ✓ Proper compliance with threshold limits.
       - ✓ Proper compliance with prohibition against splitting purchases.
       - ✓ Purchases related to business purpose.
       - ✓ Appropriate chart field allocation.
       - ✓ Sales/use taxes accurately calculated/included, where appropriate.
   - We selected 4 departments with the highest P-card spend and analyzed as follows:
     - ✓ Selected 3 high-spend months.
     - ✓ Selected the cardholders with the highest spend – 3 cardholders each for the maintenance departments and 1 cardholder each for the other departments.
     - ✓ Tested the monthly transactions for proper inclusion of sales/use taxes, in most cases 100% of the transactions.

2. To identify possible changes to improve the efficiency and effectiveness of the program:
   - We interviewed over 30 program participants for possible improvements.
   - We performed data analytics on all P-card transactions during the period.

CONCLUSION

Department controls are adequate to ensure compliance with CPO-7. We did not identify additional significant changes to improve the efficiency and effectiveness of the program.