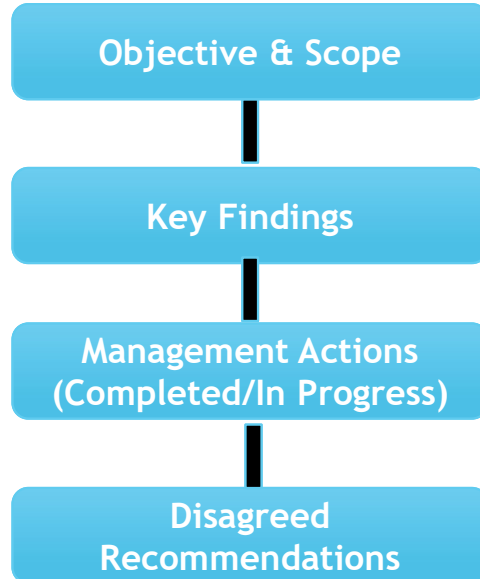


City of Corpus Christi City Auditor Office

Finance - Procurement Card Expenses
& Spending Audit
AU24-SP3



Presentation Roadmap



Audit Objective & Scope

Objective:

Determine if procurement card charges and spending on meals comply with City Policy.

Scope:

October 1, 2021 - July 31, 2024

Total P-Card purchases during the audit scope period

Fiscal Year	Food Expenditures for the Selected Sample	Total Expenses
10 Mos. Ending 7/31/2024	\$270,850	\$12,979,891
FY 2023	\$343,634	\$16,371,004
FY 2022	\$272,528	\$10,569,410
Total	\$887,012	\$39,920,305

Findings

1. Inconsistency with Best Practices of Receipts for Reimbursement
2. City Manager's Payment Practice & the Employment Contract
3. Terminated Employees with Active P-Cards
4. Enhance the P-Card Segregation of Duties
5. Merchant Category Codes (MCC) Not Periodically Reviewed
6. Cardholder Noncompliance with P-Card Spot Audit Transactions
7. P-Card Policy Updates Needed for Compliance Best Practices
8. Whataburger Field Suite Attendance & Expenses Missing Documentation
9. Payroll Expense Reimbursements (Non-P-Card) Need Additional Automated Controls
10. The Office of Management & Budget P-Card Transactions

Management Responses:

- Agree (23), Partially Agree (3)
- Disagree (1)
- Not Applicable (1)

1. Inconsistency with Best Practices of Receipts for Reimbursement

1. Tipping over the 20% tipping threshold was frequently miscalculated. Excessive tips paid were approximately \$1,643, and 130 of 160 (or 81%) of the tips tested were overpaid.
2. Excessive meal spending was evidenced. For example, food expenses charged to the City at the Vietnam Restaurant included two Chateaubriand steaks for a total of \$150.00 plus side orders, tax, and tip. The CAO inquired but was not provided with the names of attendees in that direction of the City.
3. Receipts submitted for reimbursement frequently lack a detailed business purpose and a comprehensive list of attendees for meal expenses.
4. The total amount of alcohol expenses incurred by the City Manager during the audit scope period was \$1,692, of which \$72.75 was erroneously reimbursed to the City Manager.

2. City Manager's Payment Practice & the Employment Contract

1. The City Manager (CM) has not obtained a City P-Card despite discussions at the September 24, 2024, Audit Committee meeting. Using a City P-Card would enhance spending controls, transparency, compliance, accountability, and budget management. Additionally, the City lost approximately \$506 in Wells Fargo Revenue Share because the CM used a personal card for payroll reimbursements instead of a City P-Card.
2. The City Manager agreed on September 24, 2024, Audit Committee, to take action to revise the employment contract from a minimum \$7,200 annual expense reimbursement for city promotion to a defined spending allowance. However, this update hasn't been implemented, creating a risk of excessive public spending due to the lack of an upper limit on promotional expenses.

3. Terminated Employees with Active P-cards

1. Four terminated employee test samples out of approximately 400 employees (1%) had active P-Cards for an average of 235 days after termination of employment.

During the audit, based on the Procurement Department's review, terminated employee P-Cards were deactivated. The Procurement Department has begun receiving a Terms and Transfer Report, which includes terminated employees with P-Cards. No unauthorized purchases were detected in these transactions for these former employees.

4. Enhance the P-Card Segregation of Duties

Although the Reconciler role is not required by the Procurement Policy or the Wells Fargo system, controls are missing to identify missing or unreadable receipts, correct GL codes, and verify that amounts are accurate, include all attendees, and serve the business purpose. Additionally, the Approver of P-Card purchases usually reports directly to the person for whom they are approving either P-Card or reimbursement transactions, which creates a lack of proper segregation of duties.

1. The lack of sufficient internal controls results in insufficient evidence for adequate review and approval.
2. Segregation of duties is not optimized by some departments for proper Internal Control.

5. Merchant Category Codes (MCC) Not Periodically Reviewed

1. Merchant Category Codes (MCCs) were not being reviewed frequently to ensure that all MCCs align with best practices. For Best Practices per industry standards, the City Auditor's Office presented 90 MCCs for Contracts and Procurement to review.

During the audit, the Contracts and Procurement Department updated the MCCs blocked codes and chose 21 additional MCCs to complement the City's existing MCCs. The City currently blocks a total of 719 MCCs.

6. Cardholder Noncompliance with P-Card Spot Audit Transactions

1. Total P-Cardholder transactions with noncompliance due to Spot Audit Tests during the audit scope period were \$2,209.31.

Of these Spot Audit Tests, 14 transactions were identified as noncompliant with City Policy. Noncompliant transactions included:

- Nine (9) missing receipts,
- One outside fraud charge (fraud not committed by the cardholder)
- Two transactions over-tipped for a total of \$21.46.
- Documentation of the final resolution was not adequately documented.

2. Accountability of compliance with policies is not always documented by the Procurement Department after a Spot Audit Test, as there are no policies for the Cardholder to respond.

3. No training is required after the infraction of a P-Card parameter.

7. P-Card Policy Updates Needed for Compliance Best Practices

The Finance Department updated the P-Card policy on August 20, 2024. The updates include documentation requirements for meals, business purposes, daily per diem rates, and tips. Itemized receipts must show the date, time, vendor, location, and a detailed list of food items purchased.

Test samples for meal transactions *before the policy updates* identified:

- Meal receipts did not indicate business purpose.
- P-Card transactions were incorrectly made with regular P-Cards instead of an Executive P-Card.
- Meal receipts did not indicate business purpose,
- The GSA per diem rates were not observed for the cost of meals.
- Tips exceeded the customary 20% of the cost of the meal.
- Itemized receipts did not, in most cases, include attendees or other Policy-recommended items.
- P-Card transactions include reported meal expenditures for individuals not in attendance at the corresponding events.

8. Whataburger Field Suite Attendance & Expenses Missing Documentation

Policies and procedures were lacking for transactions at Whataburger Field, which resulted in non-compliance with Best Practices for using the City Suite.

1. City Suite usage is inconsistently tracked for attendees.
2. Reasonable spending limits and attendance per person documentation for the City Suite at Whataburger Field and similar events were not required.
3. Departmental usage was not equitable and representative of all departments within the City for half of the home games.

As a response : This has been addressed, and the CM issued policies as of March 28, 2025 to improve internal controls.

9. Payroll Expense Reimbursements (Non-P-Card) Need Additional Automated Controls

The Infor Travel XM application (Travel XM) is used for payroll reimbursements when employees pay for expenses with their personal credit cards. Payroll reimbursement begins with the employee entering expense details into Travel XM. The following receipts or documents are required for payroll reimbursement:

- the meeting agenda,
- lodging, meals, mileage, and transportation, and
- documented business purpose.

The Payroll Assistant manages multiple Excel spreadsheets to track employee expenses through Travel XM.

A preventative automated control is missing to ensure that an employee cannot obtain expense reimbursement both through the P-Card system and Travel XM.

10. The Office of Management & Budget P-Card Transactions

1. Purchases of non-business-related food were identified.
2. The person usually ordering the snacks was not the Cardholder.
3. Approval of orders was not documented.
4. Purchase codes were incorrectly classified.

Figure 3: 2024 Office of Management and Budget Expenses

	June	July	August	Total \$
Office Equipment	-	174.73	-	174.73
Advertising	150.00	-	-	150.00
Memberships	-	-	350.00	350.00
Food & Food Supplies	389.48	4,002.45	-	4,391.93
Total	\$539.48	\$ 4,177.18	\$350.00	\$ 5,066.66

Management Actions: Actions Completed

As a response to the audit recommendations, the following actions have been taken by the Finance Department and City Manager's Office.

- ▶ The Procurement Department has begun receiving a Terms and Transfer Report, which includes terminated employees with P-Cards.
- ▶ Contracts and Procurement Department updated the MCCs blocked codes and chose 21 additional MCCs to complement the City's existing MCCs.
- ▶ The Finance Department updated the P-Card policy on August 20, 2024. The updates include documentation requirements for meals, business purposes, daily per diem rates, and tips. Itemized receipts must show the date, time, vendor, location, and a detailed list of food items purchased.
- ▶ City Manager issued policy update on City Suite usage at Whataburger Field.

Management Actions: In Progress

- ▶ To enhance controls over reimbursement calculations.
- ▶ Implement an employee expense policy to address gratuity percentages.
- ▶ Update policy to place responsibilities on the Department of the Card Holder to notify Procurement regarding changes in employment status of cardholders.
- ▶ Update policy to place responsibility on the P-Card holder and reconciler for reviewing receipts and coding of transactions.
- ▶ Procurement Division to conduct an annual review of all Merchant Category Codes (MCC).
- ▶ Ensure follow-ups on Spot Audits are properly documented.
- ▶ Update policy to implement additional training for cardholders who are noncompliant.
- ▶ Implement a procedural manual for P-Card holders with training.
- ▶ Develop a non-P-Card expense policy.

Disagreed Recommendation

Finding 1: Inconsistency with Best Practices of Receipts for Reimbursement

Recommendation: The CM should use a City P-Card primarily to enhance controls on spending limits, transparency, compliance, accountability, and budgetary control.

Management Response: P-card programs are intended to improve the efficiency of purchasing high-volume, low-dollar purchases. P-cards lower the cost of procurement by eliminating requisitions and purchase orders. Revenue share is not an appropriate criterion for selecting cardholders.

Management Stated : N/A

Finding: The City Manager agreed on September 24, 2024, Audit Committee, to take action to revise the employment contract from a minimum \$7,200 annual expense reimbursement for city promotion to a defined spending allowance. However, this update hasn't been implemented, creating a risk of excessive public spending due to the lack of an upper limit on promotional expenses.

Recommendation : The City Manager's employment contract should be changed from a minimum spending of \$7,200 to a defined upper limit per year for business promotion expenses. Business promotion expenses must be reported and disclosed annually, clearly demonstrating their business purpose and the actual business outcome that directly supports City Initiatives.

Management Response: This is a contractual issue between the City Council and the City Manager. It is not a matter within the purview of the Finance Department.

Thank You!