



**OFFICE OF INSPECTOR GENERAL  
PALM BEACH COUNTY  
AUDIT REPORT: 2013-A-0005  
CITY OF BOCA RATON  
AUDIT OF PURCHASING CARDS**

Sheryl G. Steckler  
Inspector General

*"Enhancing Public Trust in Government"*

**SUMMARY RESULTS AT A GLANCE**

The City of Boca Raton (the "City") was ranked as the top Palm Beach County municipality in purchasing card ("p-card") expenditures based on our survey of p-card activity. As a result, we initiated an audit of controls over the City's use of p-cards.

During the fiscal year October 1, 2010-September 30, 2011 (the period covered by our audit), the City made over 15,000 purchase transactions totaling \$4.7 million.

We reviewed the City's policies and procedures relative to p-cards. In addition, we tested controls for a sample of 30 representative transactions totaling \$136,084, with each transaction tested for 12 control attributes. The audit applied various analytical procedures to transactional data for all p-card transactions.

Based on our review, we conclude that the City's p-card and related internal policies and procedures provide adequate control over p-card use. In addition, testing of transactions and interviews of personnel indicated operational compliance with those policies and procedures in all significant respects.

However, our testing of p-card transactions identified the following findings:

**We identified p-card purchases totaling \$15,882 where we question the public purpose or public benefit.**

In addition to the 30 transactions selected to test internal controls, we performed additional testing of p-card expenditures for public purpose or public benefit. We requested details for 339 transactions totaling \$44,909 focused primarily on food related purchases. We identified 95 transactions totaling \$15,882 that we do not believe have a clear public purpose or public benefit. Examples include the City paying \$4,500 to a local country club for a Boca Raton Chamber of Commerce members' breakfast at which the Mayor delivered a speech on the budget and fiscal challenges facing the City. Other examples included food provided during meetings of City management and staff, water service for the City Attorney's Office, an employee retirement party and various other meals and refreshments.

Such items are generally not allowable expenditures for State agencies. Although municipalities have more latitude in the expenditure of public funds,

we believe that State guidelines are a sound point of reference and we question whether these expenditures are ordinary and necessary expenses in the course of City business, and whether they have a clear public purpose or public benefit.

**We identified eight of fifty transactions (16%) totaling \$2,397 that were approved and paid without all required supporting documentation.**

The City's p-card policy requires that cardholders shall submit credit card receipts and sales receipts to their Department Coordinators for review. The eight purchases were all food items and did include a City Host Account Form and/or a credit card charge slip. However, without the required itemized sales receipts, there are no assurances that the funds were expended only on authorized items and that no sales taxes were paid. Review of the other supporting documentation indicated that the charge was for a City purpose.

**We identified one p-card transaction totaling \$5,739 that was split into multiple purchases circumventing the cardholder's maximum limit.**

One purchase of \$5,739 was split into five p-card transactions so as to not exceed the maximum charge permitted for that cardholder. While the purchase was for City use and supported by a purchase order, pre-approval was not obtained prior

to splitting the transaction as required by the City's p-card policy.

Our report contains the following three recommendations to address our findings:

1. Establish specific policies regarding allowable and unallowable food purchases.
2. Remind cardholder and coordinators of the requirement to submit itemized sales receipts to support p-card purchases.
3. Remind cardholders to follow guidelines prohibiting transaction splitting and coordinators of the need to look for patterns of transaction splitting.

Management did not agree with our first finding that the p-card purchases we identified did not serve a public purpose or public benefit and did not propose action on our first recommendation. We affirm our position that these expenditures do not have a clear public purpose or public benefit and the City would benefit from establishing more guidance in this area. Management proposed corrective actions on our remaining two recommendations that will satisfactorily correct the findings.

## BACKGROUND

Purchasing card ("p-card") programs have been widely implemented at governmental entities across Palm Beach County. P-cards provide an efficient means to procure lower value, high volume items. In addition, p-cards may be used for higher value transactions, based on agreements with vendors. Studies have shown that there are significant benefits to using p-cards including reduced purchasing costs and improved compliance and monitoring of purchasing activities. While p-cards present a wide range of financial and operational benefits, certain risks may also be present when p-cards,

which are essentially credit cards with additional restrictions applied, are made available to users within those entities. Agreements with p-card providers usually include a rebate feature that varies based on total amount of spending.

We conducted a p-card survey that included thirty-six (36) municipalities to determine the extent of p-card use in terms of total spending, number of transactions, and number of employees authorized to use p-cards, among other factors. We used the results of the survey to assess risk and prioritize audits of the activity.

The City makes extensive use of p-cards. The City ranked highest in total p-card transaction value for the period October 1, 2010 through September 30, 2011 (Fiscal Year 2011). Over 15,000 transactions were made totaling \$4.7 million during this period. There were 295 City p-cardholders as of September 2012. During Fiscal Year 2011, Bank of America served as the City's p-card provider. The Purchasing Department reviews cardholder charge activity by vendor and type of purchase to identify opportunities to leverage purchasing activity into contracts with terms including more favorable pricing.

## OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of this audit were to:

1. Determine whether internal controls were in place and adequate to govern p-card use, including controls to prevent and detect fraud and misuse.
2. Determine whether p-card expenditures complied with such controls, including if expenditures were of a nature that have a clear public purpose or public benefit.

Our audit scope covered procurement card activities during Fiscal Year 2011.

Our audit procedures included but were not limited to:

- Evaluating the internal control procedures over monitoring and approving card expenditures;
- Evaluating compliance with applicable regulations and procedures;
- Using sampling software to select samples for testing;
- Interviewing personnel of the City of Boca Raton to gain an understanding of the controls and ascertain operational compliance;
- Reviewing supporting documentation.

To efficiently execute our work, we utilized a "controls reliance" approach, whereby we tested a representative sample of 30 transactions totaling \$136,084 to test compliance with policies and procedures. In addition, we sampled p-card activity in certain higher dollar value transactions where a p-card was used to pay on items supported by a contract or purchase order. We also separately selected and tested p-card transactions related to spending for food, restaurants, catering, in-house meetings and other

categories typically at higher risk for not having a substantiated public purpose or public benefit.

This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## FINDINGS AND RECOMMENDATIONS

Based on the audit procedures performed, as outlined above, we concluded that the City has adequate policies and procedures to monitor and approve p-card expenditures. Testing of transactions and interviews of personnel indicated operational compliance with those policies and procedures in all significant respects. However, our detailed testing of p-card transactions identified the following three findings:

### **Finding (1): P-CARD EXPENDITURES TOTALING \$15,882 HAD A QUESTIONABLE PUBLIC PURPOSE OR PUBLIC BENEFIT**

In addition to our initial sample of 30 transactions totaling \$136,084 selected and reviewed to test compliance with controls and public purpose, we requested details for 339 additional expenditures totaling \$44,909 which were charged under certain merchant category codes identified in Bank of America transactional detail, water service, and four miscellaneous additional items selected by reviewing charge detail. The merchant category codes we selected represent purchases in restaurants, grocery stores, and vendors offering food services, and typically are considered a general risk area with respect to substantiating public purpose when p-cards are utilized.

As shown in the schedule on the next page, we identified 95 transactions totaling \$15,882 that we do not believe have a clear public purpose or public benefit. Examples include a \$4,500 breakfast at the Country Club of Boca Raton for members of the Chamber of Commerce (the "Chamber"). The Chamber holds monthly breakfast meetings sponsored by various entities that fund the cost. The Chamber promotes these events as networking opportunities for their members. At the August 8, 2011 breakfast meeting sponsored and paid for by the City, the Mayor gave a speech on the budget and fiscal challenges facing the City. While the information presented in the speech may have benefited all the citizens of the City, we question whether funding a breakfast for the Chamber members is a necessary expense using public funds and has a clear public purpose or public benefit.

Examples of other expenditures we questioned include in-town food provided during meetings involving City employees, water service for the City Attorney, an employee retirement party and various other refreshments and meals involving City management and staff.

Questionable Public Purpose / Public Benefit Items Fiscal Year Ended September 30, 2011		
Description	# Transactions	Amount
In-town Food – Meetings and Training	81	\$10,558
Breakfast for Chamber of Commerce members	1	\$ 4,500
Water Service - City Attorney	12	\$ 416
Employee Retirement Party	1	\$ 408
<b>Total</b>	<b>95</b>	<b>\$15,882</b>

The City p-card policy and procedures manual does provide for the use of a City Host Account Summary Form for food purchases not related to travel. We observed that these forms were filled out and approved for the food transactions for which we requested supporting documentation. However, the City's p-card guidelines do not specifically address the types of events or activities where food purchases are allowed.

It is a basic tenet in Florida law that public funds should only be used for public purpose or public benefit. The types of expenditures we identified in the above schedule have generally not been allowable for State agencies. Although municipalities have more latitude in the expenditure of municipal funds, we believe the State guidelines and practices are a sound point of reference and we question whether these items have a clear public purpose or public benefit.

### Recommendation

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(1) The City should establish specific policies concerning allowable and unallowable expenditures involving food related items for City employees.

### Summary of Management Response:

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The City disagrees with the audit finding and considers expenditures such as those noted in the finding to be of public purpose or public benefit. City management states that the sponsorship of the annual Chamber of Commerce breakfast meeting was authorized by City Council.

### Office of Inspector General Comment:

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We do not believe the items we identified serve a clear public purpose or public benefit and we believe the City would benefit from additional guidance in this area. With regard to the Chamber of Commerce breakfast, the City points to the minutes of a May 9, 2005 regular workshop meeting of the City Council that states "Mr. Baronoff (Council member at that time) then requested an update on the financial education process for City taxpayers. Mr. Ahnell advised that staff has started working on it, the education flyer is expected to be mailed out near the

end of June. Meetings with the Chamber of Commerce, homeowner associations, and other interested parties would then be scheduled accordingly.” The City paid \$4,500 for the August 8, 2011 Chamber breakfast. At that time, three of the five Council members serving in 2005 were no longer on Council. In addition, we see no mention that the “education process for City taxpayers” authorized sponsoring a business association breakfast using taxpayer funds.

### **Finding (2): COMPLETE DOCUMENTATION OF CREDIT CARD EXPENDITURES WAS NOT OBTAINED PRIOR TO APPROVAL AND PAYMENT FOR EIGHT OF FIFTY TRANSACTIONS**

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The City’s p-card policy requires that cardholders shall submit credit card receipts and sales receipts to their Department Coordinators for review. Approved purchases are then paid by Accounts Payable.

During our review of fifty sampled transactions, we noted that eight purchases (16%) totaling \$2,397 were paid without an itemized sales receipt or invoice. The eight items were all food purchases and did include the City Host Account Summary Form, and for seven of the eight transactions, a credit card slip was also available for review. However without itemized sales receipts, there is no assurance that all items included in the charge were authorized or that sales tax was not inadvertently paid.

### **Recommendation**

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**(2) Management should remind cardholders and p-card coordinators of the requirement for submission of sales receipts, including itemized receipts, to support all p-card expenditures.**

### **Summary of Management Response:**

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To better define the requirements of receipts, the procurement card policy and procedures manual will be amended to detail the information that must be included on a sales receipt.

### **Finding (3): A P-CARD TRANSACTION TOTALING \$5,739 WAS SPLIT INTO MULTIPLE TRANSACTIONS CIRCUMVENTING THE CARDHOLDER’S MAXIMUM TRANSACTION LIMIT**

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The City’s p-card policy requires that temporary permission be requested from the City Financial Services Department when a cardholder anticipates that a charge will exceed the maximum transaction value established for that individual.

We selected a series of p-card charges totaling \$5,739 for review. The purchase was charged to an employee p-card in five simultaneous transactions with the vendor. If the transaction had not been split, the single transaction threshold for the cardholder would have been exceeded and therefore would have required advance approval.



After obtaining the supporting documentation, it was noted that the charges were supported by a \$35,000 purchase order related to the City's fuel dispensing and monitoring system, the Ward Automated Fleet Management System. While the transaction was for a valid City purpose and is therefore not a questioned cost, pre-approval should have been obtained for a higher charge amount rather than structuring payments to circumvent the internal control procedure established by the City. This charge pattern should have been recognized during management review of the transactions.

In this case, the p-card was used as a payment mechanism for purchases relative to a pre-approved purchase order. Therefore, the need to split the transaction to avoid exceeding the transaction threshold indicates that management should review the levels set for the cardholder's maximum transaction value based on their job role and activities and consider adjustments accordingly.

### Recommendation

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**(3) Cardholders should be reminded that p-card guidelines prohibit transaction splitting and coordinators should be reminded to look for patterns of transaction splitting.**

### Summary of Management Response:

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A separate policy will be developed for procurement cards that are issued for use with a City of Boca Raton Purchase Order and the credit card is solely acting as the method of payment. The issuance of the City Purchase Order will be in accordance with the City's Procurement Code and the use of the City procurement card will be the basis of payment in lieu of issuing a City check.

## QUESTIONED COST AND AVOIDABLE COST<sup>1</sup>

Questioned Cost: \$15,882

Avoidable Cost: \$44,709

## ATTACHMENTS

Attachment 1 - – Complete Management Response

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<sup>1</sup> Please see [www.pbcgov.com/OIG](http://www.pbcgov.com/OIG) for description

**ACKNOWLEDGEMENT**

The Inspector General's audit staff would like to thank City management and staff for their assistance in the completion of this audit.

*This report is available on the OIG website at: <http://www.pbcgov.com/OIG>. Please address inquiries regarding this report to D. Schindel, Director of Audit, by email at [inspector@pbcgov.org](mailto:inspector@pbcgov.org) or by telephone at (561) 233-2350.*



## ATTACHMENT 1 – COMPLETE MANAGEMENT RESPONSE

*City of Boca Raton*

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April 1, 2013

Dennis Schindel, Director of Audit  
Palm Beach County Office of Inspector General  
P.O. Box 16568  
West Palm Beach, FL 33416

Re: City of Boca Raton  
Draft Audit Report – Procurement Card Use

Dear Mr. Schindel:

The City of Boca Raton received the draft report of the Palm Beach County Office of Inspector General (OIG) dated March 13, 2013, regarding procurement card use within the City of Boca Raton.

As you are aware, the use of procurement cards is an important part of the City's procurement and payment processes. It is a much more efficient program than alternatives such as small purchase orders and has more financial controls than alternatives such as field purchase orders. The City has almost 300 procurement card holders who use the procurement cards to: 1) procure items under the provisions of the City's Procurement Card Policy, and 2) pay for items procured by more traditional methods. The use of procurement cards increases financial controls and reduces the amount of staff resources required in procurement and accounts payable. The use of procurement cards also has the benefit of credits and an annual bank rebate. The amount of annual rebates received by the City in 2011 was approximately \$55,000 and in 2012 was approximately \$64,400.

Despite the changing scope, objectives, and level of detail of the audit, the City fully cooperated with the OIG staff during the audit process, including the staff time for the production of hundreds of pages of documents, policies and records, answering inquiries and requests, and interviews with multiple City staff members.

The most important results of the audit was the conclusion that:

***"the City's p-card and related internal policies and procedures provide adequate control over p-card use. In addition, testing of transactions and interviews of personnel indicated operational compliance with those policies and procedures in all significant respects."***

There were, however, three findings in the draft audit. Several of these findings were outside the assessment of the financial controls in the City's procurement card use and approval process. One finding focused on the OIG staff's opinion of the public purpose or public benefit of several food purchases, the second related to the level of itemization on some vendor receipts, and the third involved the splitting of an invoice amount into several procurement card transactions.

To provide some scale of the aggregate amount of the items in the audit report, the amount of the purchases identified in all of the findings by the OIG staff is \$24,018, (and \$5,739 of this involved the payment of a valid purchase order). This amount is less than 0.4% of the City's annual procurement card

## ATTACHMENT 1 (CONTINUED)

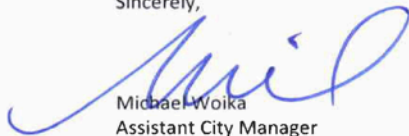
use, and less than 1/20 of 1% of the City's purchase orders in FY2011-12. This is not to suggest that the City should not review its food purchases by the use of procurement cards, just an observation of the magnitude and materiality of the findings based on generally accepted governmental auditing standards.

Regarding the specific findings and recommendations contained in the draft audit:

1. The OIG's review of food and food services purchases by the City questioned \$15,882 of expenses which the IOG staff did not believe had a clear public purpose or public benefit. It should be noted that the OIG's audit determined that all of the purchases were properly documented and authorized, and that all appropriate controls were in place. The finding of the OIG staff was that the purchases, which included the sponsorship of the annual Chamber of Commerce breakfast meeting (authorized by City Council) and the purchase of lunch during the annual three-day City Council public goal-setting session, did not serve a clear public purpose or public benefit. The City disagrees with the audit finding.
2. Eight food purchases were found by the OIG staff during the audit in which the receipts were not detailed. That is, that only the total amount was listed on the sales receipt and the specifics of the purchase were not listed. Current City procurement card and food purchase procedures require receipts or invoices and the completion and approval of a Host Account Form, in addition to the procurement card purchase and approval procedures. All eight purchases identified by the OIG staff had the receipt, had the proper Host Account Forms completed, and were properly approved. To better define the requirements of receipts, the procurement card policy and procedures manual will be amended to detail the information that must be included on a sales receipt.
3. Approximately one third of the City's total credit card transaction dollar volume is by use of a Purchase Order with the use of the City procurement card as the payment mechanism. The splitting of a transaction to below card thresholds, even in the cases where the procurement card is only being used as a payment mechanism for purchases relative to an approved purchase order, is not in accordance with the City's p-card policies and procedures. The transaction that the OIG noted in their audit report should not have been split into multiple transactions, even with the approved purchase order. A separate policy will be developed for procurement cards that are issued for use with a City of Boca Raton Purchase Order and the credit card is solely acting as the method of payment. The issuance of the City Purchase Order will be in accordance with the City's Procurement Code and the use of the City procurement card will be the basis of payment in lieu of issuing a City check.

The City of Boca Raton appreciates the opportunity to comment on the draft audit report.

Sincerely,



Michael Woika  
Assistant City Manager

c: Leif J. Ahnell, C.P.A., C.G.F.O., City Manager  
Linda Davidson, Director, Financial Service  
Lynn Kunkel, Purchasing Manager, Financial Services