

# **Performance Audit: Small Purchases**

**January 2009**

City Auditor  
City of Lawrence, Kansas

January 15, 2009

Members of the City Commission

The design of the City of Lawrence's process for making small purchases – those under \$1,000 – generally follows good practices. Following those practices helps ensure the City benefits from small purchases and reduces the risk of improper purchases.

City employees use “purchase orders” and Visa purchasing cards to buy needed items. Through the first three quarters of 2008, small purchases totaled over \$3 million. Visa purchasing cards represent a significant share of these purchases and have grown recently.

Based on this performance audit, I made five recommendations. Implementing the recommendations should reduce the risk of buying something the City doesn't need; buying something the City doesn't receive; or violating City purchasing policies.

I provided a draft of this report to the City Manager and the Director of Finance on January 5, 2009. The City Manager's written response is included in the report.

In completing the work, I interviewed staff from every department and received survey responses from 100 City employees. I appreciate the cooperation and assistance I received from every City department; and I especially appreciate the cooperation and assistance I received from the Finance Department.

Michael Eglinski  
City Auditor

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# Performance Audit: Small Purchases

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# Performance Audit: Small Purchases

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## Results in Brief

The process departments use to make purchase of under \$1000 generally match recommended practices. City employees make most small purchases through a “purchase order” or by using a City-issued Visa purchase card.

Putting small purchases on a Visa purchase card benefits the City. For a department, it provides a fast and flexible way to buy something. For the City as a whole, it reduces the costs associated with paying an invoice.

More and more small purchases for the City are made through the Visa purchase cards.

**Table 1 Purchasing card payments**

Year	Payments to Visa
2004	\$384,092
2005	\$501,237
2006	\$635,257
2007	\$799,538
2008	\$1,547,974

The audit recommends steps that would strengthen the use of Visa purchases cards:

- Cancel cards in a timely manner when cardholders leave employment
- Eliminate “purchase order cards”; replace them with Visa cards as appropriate
- Revise guidelines to include instruction on making internet purchases
- Revise guidelines to include process for reviewing purchases by the City Manager and City Auditor
- Continue providing training for employees involved in purchasing

The City Manager agrees with the recommendations.

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## Performance Audit: Small Purchases

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### How the City Makes Small Purchases

Most City purchases under \$1000 are made through purchase orders or with City-assigned Visa purchasing cards. A purchase order authorizes vendors to deliver the specified items or services. The City then pays the vendor directly. Employees who have Visa purchasing cards “charge” items or services to their card instead of using a purchase order. Visa then pays the vendor and the City pays Visa.

City policy allows individual departments to make purchases under \$1000 but requires approval by the City Manager for purchases of more than \$1000. The City generally requires a competitive process for purchases over \$1000. The director of finance serves as the central purchasing officer of the City. Finance adopts operational procedures for purchasing with the approval of the City Manager.

#### Examples of Small Purchases

##### Using a Purchase Order

The Utilities Department asked the Finance Department to authorize a “blanket purchase order” for miscellaneous repairs with a locksmithing business. The purchase order would allow Utilities to make small purchases through the business for a 6-month period. Finance reviewed the request and both Finance and the City Manager approved it.

In mid-January, Utilities used the business to drill a lock cylinder, open a locked door, and replace some hardware. The business gave the city an invoice for \$178.50 for the work. Utilities staff reviewed the invoice, approved it for payment, and sent the invoice to the Finance Department. Finance reviewed the invoice and issued a check for the amount to the business in early February.

##### Using Visa Purchase Card

The Utilities Department ordered some materials and fabrication for a lid for an electric vault at a water plant. An employee authorized to use a Visa purchasing card placed an order with a business at the end of July and charged the purchase to the card. The business charged the city \$557.84 after correcting an initial transaction that had incorrectly included sales taxes, which the city is exempt from. Visa paid the business.

In mid-August, the bank provided the Finance Department with a Visa statement for the entire City. Finance loaded the data into the City’s purchasing log system – VEGI – and asked cardholders to review their logs. The cardholder in Utilities reviewed the log, provided it to a supervisor for review, and the log and supporting documentation were sent to the Finance Department. Finance reviewed the documentation and issued a check to Visa to cover the entire statement, which included the \$557.84 transaction.

The City made over \$3 million in small purchase transactions through the first 9 months of 2008. About \$1 million were made through Visa purchase cards. Three departments – Utilities, Public Works, and Parks and Recreation – made the most small purchases.

**Table 2 Small purchase (first 9 months of 2008)<sup>1</sup>**

	Visa	Non Visa
Utilities	352,991.84	684,168.87
Public Works	233,679.14	734,306.14
Parks and Recreation	204,671.08	357,183.20
Police	48,025.01	207,026.87
Fire/Medical	22,228.39	141,313.15
Legal Services	3,455.04	80,792.93
Public Parking	20,803.75	25,519.98
Finance	18,941.60	21,326.94
Planning and Development Services	6,554.52	32,956.20
Information Systems	5,282.03	33,589.72
Administrative Services	5,773.13	29,772.94
Health	23,328.91	8,371.52
City Manager's Office	2,013.19	12,301.55
City Commission	1,152.61	669.38
Total	948,900.24	2,369,299.39

Employees throughout the City use Visa purchasing cards to make small purchases. Departments request cards for employees who have authority to make purchases on behalf of the City. Departments submit request forms to the purchasing card program administrator in the Finance Department. Finance then requests the bank to issue the card. The bank sends cards to the program administrator who then provides them to the employee after providing them with training and after the employee signs an agreement that highlights the cardholder's understanding of the process and their responsibilities. Cards are issued in employees names but all purchases are billed to the City.

The City places restrictions on each card. Cards have both spending and merchant limits. Most City cards fit into two categories. Most cards have a monthly purchase limit of \$5000 and a single transaction limit of \$999.99. The standard authorization prohibits cash advances and alcohol purchases. The non-travel policy extends the standard policy to prohibit purchases for hotels, motels, gasoline, and groceries.

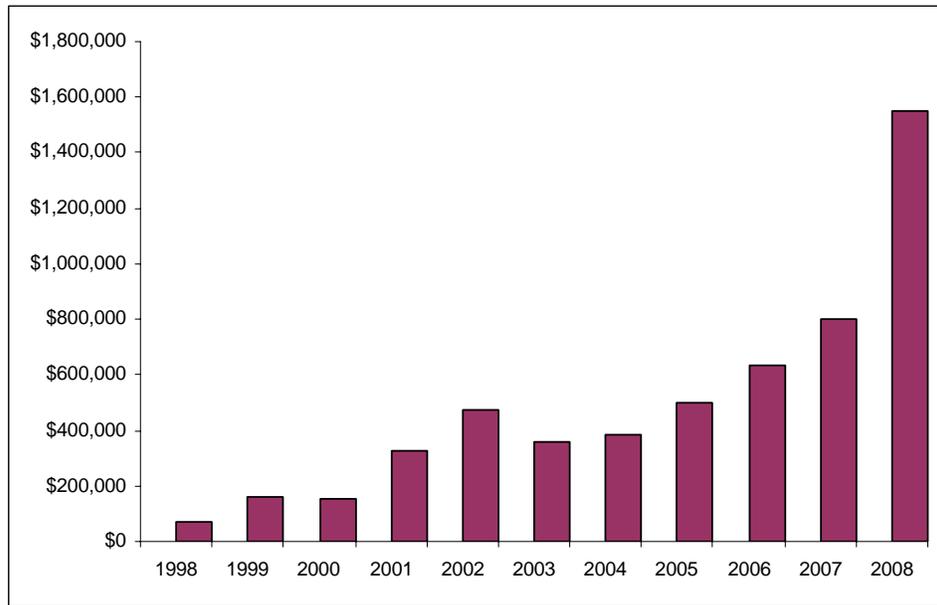
<sup>1</sup> Table 2 excludes transactions from the Worker's Comp Reserve fund and non-budgeted funds; health insurance administration spending; certain travel-related transactions, dues and memberships, and spending from prior year encumbrances.

**Table 3 Purchasing cardholders**

<b>Department</b>	<b>Cardholders</b>
Public Works	67
Police	58
Parks & Recreation	53
Utilities	41
Fire & Medical	27
Planning	14
Information Systems	7
CMO	7
Legal Services	6
Administrative Services	6
Finance	4
Human Relations	3
Transit	1

The use of Visa purchase cards for City purchases has been increasing in recent years. Growth in purchase card spending is typical as governments shift spending to purchasing cards as a way of reducing administrative costs.

**Figure 1 Purchasing card payments**



## City Processes Consistent with Recommended Practices

The design of the City’s purchasing card program follows recommended good practices. Following good practices helps ensure the City benefits from small purchases and reduces the risks of misuse. The *City of Lawrence Purchasing Procedures* and *Purchasing Card Program Administrative Guidelines* are available to employees online.

The City Auditor identified good practices by reviewing relevant reports from other jurisdictions and organizations, including recommendations from the Association of Government Accountants and the Government Finance Officers Association. The following table compares good practices with the City’s written policies, procedures, and guidelines for purchasing.

**Table 4 City's implementation of good practices**

<b>Good Practice</b>	<b>City's Implementation</b>
Follow a competitive process to select a card provider	The City selected UMB Bank as the purchase card provider through a competitive process
Enter into written agreements with the card provider	The City entered into a written agreement with UMB Bank in January 1998
Card policies and procedures should be written	The City's <i>Purchasing Procedures</i> and <i>Purchasing Card Program Administrative Guidelines</i> provide written procedures
Policies define acceptable purchases	Guidelines list examples of acceptable and unacceptable purchases. Personal purchases are unacceptable. Cards should not be used to circumvent the <i>Purchasing Procedures</i> .
Bank blocks purchases at unacceptable merchants	UMB Bank blocks transactions at certain categories of merchants, such as liquor stores.
Limit amount on each purchase and over a month	UMB Bank blocks transactions that exceed established limits (most City cards are limited to under \$1000 per transaction, 5 transactions per day, and under \$5000 per month).
Provide guidance on phone, fax, and internet purchases	The guidelines instruct cardholders to request detailed documentation and ensure that taxes are exempted on phone purchases. The guidelines don't discuss fax or internet purchases.
Provide guidance on unauthorized purchases	The guidelines direct cardholders to notify the department coordinator of incorrect charges, attempt to resolve the problem with the vendor, contact UMB Bank if the dispute isn't resolved, and contact the Finance Department if a resolution hasn't been reached.
Establish procedures for issuance and cancellation, lost or stolen cards, and employee termination	Departments request cards through the Finance Department. Under the guidelines cardholders must notify coordinators of changes in status. Coordinators notify the Finance Department of lost or stolen cards and employee terminations. The guidelines instruct cardholders to report lost or stolen cards to the bank.

Require cardholders to sign acknowledgement of policies and procedures	Cardholders sign an agreement acknowledging that they receive a card and are responsible for using it in accordance with policies and procedures.
Specify consequences of misuse	Cardholders sign an agreement that improper use of the card can result in disciplinary action, including termination, and that improper use may subject the cardholder to criminal
Cardholders maintain and submit original documentation for review	The guidelines require cardholders to retain all charge slips, register receipts, invoices, and packing lists.
Cardholders and coordinators review purchase logs	The City uses a system called VEGI (Visa Entries Graphic Interface) to compile purchasing logs. The guidelines require cardholders and coordinators to review the purchasing logs.
Purchases reviewed by someone in authority	The guidelines require coordinators to review purchases. Though not specified in the guidelines, the City Manager reviews department heads' purchases.
Provide training for cardholders and card coordinators	The guidelines place responsibility for orientation for cardholders with the Finance Department. Cardholders sign and acknowledge that they received training.
Require timely reconciliation	The guidelines require cardholders to record transactions on the purchasing log in a timely manner, and card coordinators to review purchases and documentation on a monthly basis.
Audit card activity on a periodic basis	The guidelines make the Finance Department's purchasing card program administrator responsible for auditing new accounts and periodically auditing existing accounts on a random or as-needed basis.

The City's process relies on strong supervisory review. Supervisory responsibilities related to the purchasing logs include:

- Review for correct signatures and use by non-cardholders;
- Review for correct account numbers;
- Ensure supporting documents are available and match purchasing logs;
- Determine purchases are for appropriate City use;
- Review and investigate possible split transactions and other inappropriate transactions;
- Determine prices are reasonable; and
- Determine sales taxes are excluded.

Cardholders expressed confidence that improper purchases would be identified. Improper purchases could include buying products not needed, buying products the City never received, violating City policies and procedures, or having fraudulent purchases.

**Table 5 Cardholder confidence misuse would be identified**

Indicate your level of confidence that improper purchases would be identified.	Percent of respondents
No confidence	1
Little confidence	7
Neutral	10
Confidence	38
High Confidence	42
N/A or don't know	2

While there are significant benefits, the City also faces risks through the purchasing process. Key risks can be summarized as:

- Buying something the City didn't need
- Buying something the City never received
- Violating purchasing policies

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## Using Purchasing Cards Benefits the City

Using purchasing cards to make small purchases reduces administrative costs of purchasing and allows items to be provided quickly. Because employees don't have to use purchase orders, items can be ordered and received quicker and administrative costs associated with purchasing are lower. While the City hasn't estimated the reduced administrative costs, other organizations estimate that using a card to make a purchase saves \$50-70 per transaction in administrative costs.

**Table 6 Benefits of purchasing cards**

Cardholder	Government	Vendors
Convenience of avoiding a purchase order	Simplified procurement process	Fast payment
Fast delivery	Lower processing costs per transaction	Reduced paperwork
Better pricing	Increased management information	Lower risk of non-payment
Expanded access to merchants	Reduced paperwork	
Reduced paperwork	Decentralized procurement	
	Control over purchasing dollar limits and merchant categories	
	Bank rebates	

Source: GFOA Recommended Practice: Purchasing Card Programs (2008)

The City's purchase card provider pays the City a rebate based on how much the City buys with Visa purchase cards. The rebates range from 0.46 percent to 0.6 percent depending on total spending. The City spent

about \$1.5 million in 2008. The bank would pay a rebate of about \$9000 on that level of spending.

Surveyed cardholders generally recognized benefits of purchasing cards.

**Table 7 Cardholder evaluation of benefits of purchasing cards**

<b>Level of agreement with statements about making purchases using Visa cards compared to other methods (such as purchase orders or petty cash) for making small purchases</b>	<b>Percent of respondents who agree or strongly agree</b>
Reduces processing time	70.4
Expedites availability of needed goods and services	83.9
Increases number of merchants available to use	78.5
Provides a detailed record of transactions	81.6
Provides reasonable prices	45.9

**Cardholders Commented on Benefits**

Some of the surveyed cardholders commented on the benefits of using purchasing cards to make small purchases:

The cards are an important way to expedite some purchases while minimizing paperwork. However, just as with other purchases, the proper trail of expenses and justification is needed and is very important. I think both are achieved with the current system for my purposes.

Visa cards have been helpful in the last few years with so many more registrations for conferences or audio training being on-line

I really like the credit cards because it allows quick purchases and gives you a written record that is easy to track. It's fast and convenient.

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## **Changes Could Improve Small Purchasing Controls**

The City could strengthen controls over small purchasing by implementing several changes and ensuring continued refresher training. The City should cancel the purchasing cards of employees who leave employment in a timely manner. The City should eliminate “purchase order cards” and, as appropriate, replace them with purchasing cards. The City should update written guidance to cover purchases made over the internet and the process for review and approval of transactions made by the City Manager or City Auditor.

### **Cancel cards in a timely manner**

When cardholders leave City employment, the City doesn't always cancel the cards in a timely manner. City guidelines requires cardholders to inform their department coordinators of changes in their status; card coordinators to notify the program administrator in the Finance Department of terminated cards; and the program administrator to inform the bank of cancelled cards. Cancelling cards of terminated employees in a timely manner reduces the chance of inappropriate purchases.

Almost half of the cardholders who left the City in 2007 and 2008 did so before their cards were cancelled. The City Auditor compared the termination dates with the dates the bank was asked to cancel their Visa cards. Of 31 cardholders reviewed, 15 left employment with the City before their cards were cancelled. The median number of days between leaving City employment and cancelling the cards was 6 days, but five of individuals left more than 20 days before their cards were cancelled.

None of the 15 individuals who left City employment when their Visa cards were still active made any purchases after leaving the City.

### **City should stop using Purchase Order Cards**

Purchase order cards (POCs) allow assigned employees to make purchases as certain vendors and "charge" the cost to the City. The vendor then invoices the City and includes the POC number on the invoice. Replacing POCs with purchasing cards strengthens controls and reduces the costs associated with paying the invoices. For example, Visa purchase cards can be turned off when an employee leaves the City or their authority to make purchases changes.

The Finance Department stopped issuing purchase order cards, but some employees still use them to make small purchases. A Finance Department list of POC holders identifies 170 employees with POCs. Most of those employees are in the Fire/Medical Department. According to Finance Department staff, purchase order cards are still used, but are not used very often.

The City should eliminate the use of purchase order cards and provide Visa purchase cards to employees needing to make small purchases.

### **Provide guidance on internet purchases**

One of the good practices for purchasing cards involves providing guidance on internet purchases. The City's guidelines don't explicitly address internet purchases. Guidance on internet purchases could include

directions on identifying secure web sites and ensuring cardholders maintain appropriate documentation related to each transaction.

### **Develop policy on Manager and Auditor purchases**

The City Manager and City Auditor have unique positions and their purchases warrant additional controls. The City Manager has authority over all City staff, which could reduce the ability of staff to question his purchases. The City Auditor is independent of the City Manager and other City staff, which reduces the ability of staff to question his purchases. When the planning work for this performance audit began, the City Manager suggested that the work should include reviewing recommended practices for reviewing the purchases of the organization's top manager.

The City Manager's current practice is to submit documentation to the Finance Department for review and provide the City Commissioners with access to the documentation. Additional oversight could include providing documentation to support purchases to a designated member of the City Commission for review. The City Auditor doesn't currently have a purchasing card.

#### **Effective Controls Over Top Management Purchases**

State auditors reviewed controls over purchasing cards at Kansas school districts in 2001. They found that a school superintendent misused a credit card because he:

- Wasn't required to submit receipts to document his purchases;
- Essentially approved his own purchases; and
- The school board didn't review detailed transactions.

The state audit reported highlighted the Lawrence School District for an effective process for reviewing the superintendent's purchases. The School Board President reviews the superintendent's purchases and documentation.

Source: *School District Credit Cards: Determining Whether School Districts Exercise Adequate Oversight Over the Use of Those Cards*, Kansas Legislative Division of Post Audit, May 2001.

### **City Manager reviews department head Visa purchases**

The City Manager reviews department head Visa purchases, providing oversight of their purchases. The City Auditor reviewed at least one Visa purchase transaction for each department head and found evidence of review by the City Manager's Office. The auditor identified several transactions by department heads that didn't include evidence of City Manager review. These appear to have been isolated instances rather than systematic oversight problems.

## Provide continued training

The City should provide continued training to cardholders and card coordinators. Training should cover the technical aspects of the purchasing process and educate cardholders and card coordinators on their responsibilities. Both initial training and refresher training are important, functioning as controls to reduce risks associated with purchasing. The City agreement with UMB Bank requires the City to make every effort to inform cardholders of the proper use of cards.

Currently, the purchase card program administrator or department card coordinators provide orientation for cardholders. When cardholders sign their agreements, they acknowledge that they received training in use of the cards and have or will read the guidelines. In addition, the Finance Department provides purchasing training at departments each year.

### Annual Online Training

A participant at a November purchasing card forum said that their organization required annual training for all cardholders. The training includes a 10-question online quiz that cardholders must pass in order to maintain their authority to use the purchase cards.

Card coordinators generally supported additional training, however most surveyed cardholders didn't feel additional training would be useful.

**Table 8 Cardholder perceptions on need for training**

Would additional training on small purchases be useful	Percent of cardholders
Yes	20.2
No	73.7
Don't know	6.1

### Cardholders Commented on Training

Some of the cardholders commented on training for employees involved in making small purchases:

I feel coordinators, cardholders and their supervisors will always benefit from refresher courses or material that they can review and then sign off on. Arranging actual training sessions for everyone can some times be difficult.

Some sort of training for new employees who would be issued a card...go over guidelines at that time...prior to being issued the card. That way there would be no question as to the limitations of the program and their personal responsibilities as a city cardholder.

## **Continue Finance Department review**

Staff in the Finance Department should continue to review payments and supporting documentation to ensure that payments are adequately documented and consistent with City policies and procedures. Finance staff has identified problems, such as payments that include sales taxes and “split purchases.” When they find problems, they inform the departments and follow-up to ensure the problems are corrected.

### **Department review identified and addressed a prohibited transaction**

City policy prohibits “splitting” a transaction over \$1000 into smaller transactions. An employee might split a transaction to avoid obtaining quotes and the requirement that transactions over \$1000 have additional approvals.

Two employees purchased over \$1000 of equipment from a vendor by splitting the purchase into two smaller amounts and charging the amounts to their Visa purchasing cards. City policies prohibit splitting purchases. Purchases over \$1000 require quotes from at least 3 vendors and City Manager approval. By splitting the purchase into amounts under \$1000, the employees violated policy.

Department managers reviewing purchase logs and documentation identified the split purchase. They reviewed the policy with the employees involved, required them to sign an acknowledgment of the rules, and noted the violation in the employee personnel files.

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## **Recommendations**

The City Auditor recommends:

1. The City Manager should ensure cards are cancelled in a timely manner when cardholders leave City employment.
2. The City Manager should eliminate the use of “purchase order cards.”
3. The City Manager should revise the purchasing card guidelines to instruct cardholders on making internet purchases
4. The City Manager should revise the purchasing card guidelines to include a process for review of Visa transactions made by the City Manager and the City Auditor.

5. The City Manager should ensure City employees who make or review small purchases continue to receive refresher training.

This performance audit suggests areas to consider for future audit work. The City Auditor will discuss these ideas with the City Manager as part of developing the proposed audit plan that will be presented to the City Commission in 2009. Areas to consider include:

- Transaction reviews
- Broader review of procurement process, incorporating purchases over the \$1000 small purchase threshold
- Analysis of effects of increasing the small purchase threshold from \$1000

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## Performance Audit: Small Purchases

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### Scope, Methods and Objectives

The City makes a large number of small (under \$1000) purchases, many of these transactions use “purchasing cards.” With appropriate controls, purchasing cards provide for low cost, efficient, and flexible procurement. This performance audit was designed to answer:

- Do the City’s policies and procedures on small purchases incorporate recommended practices?

The City Commission included this project in the approved audit work program for 2008.

The City Auditor reviewed policies, procedures, and guidelines to understand City processes, including *City of Lawrence Purchasing Procedures*; *Purchasing Card Program Administrative Guidelines*; and *UMB Bank Purchasing Card Agreement*. The auditor also reviewed department-level purchasing procedures for the Fire/Medical and Police departments.

The City Auditor reviewed literature to identify recommended good practices, which were used to evaluate the City’s processes. Among the documents reviewed were reports from the Association of Government Accountants, the General Services Administration, and the Government Finance Officers Association. The auditor attended a purchasing card forum hosted by UMB, the City’s Visa card provider. The auditor also reviewed performance audit reports from the Kansas Legislative Post Audit, Government Accountability Office, and several local government auditors.

The City Auditor interviewed the card coordinator in each department and staff in the Finance Department. The auditor also surveyed a random selected sample of cardholders (see appendix).

The City Auditor reviewed transaction information from the City’s accounting system for payments under \$1000 and for all payments through Visa for the period of January 1, 2008, through September 30, 2008. To assess the data, the auditor compared the accounting records with other

documents, such as invoices and purchasing logs, and reviewed the query for extracting the data.

This performance audit did not address:

- Specific small purchase transactions
- Petty cash transactions or processes
- City travel policies
- Purchase processes for transactions over \$1,000

The City Auditor did not include individual transaction reviews in the scope of this project; however, the auditor identified several transactions that may have violated City policies and procedures. The auditor provided information on these transactions to the Finance Department for follow-up.

The City Auditor conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require planning and performing the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. The City Auditor believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

The City Auditor provided the Director of Finance and the City Manager with drafts of the report on January 5, 2009. The City Manager's written response is included.

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## Performance Audit: Small Purchases

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### Appendix: Cardholder Survey

The City Auditor surveyed a random sample of cardholders to collect information about the use of Visa cards. The auditor administered the survey November 17-20, 2008. The auditor selected 147 cardholders to survey from a list of 294 City employees with cards. The Finance Department provided the list of cardholders. The auditor notified selected employees by email or through staff in their departments if they did not have City email addresses. Cardholders completed the survey using a web-based survey instrument. Their responses were anonymous. The survey was open until 100 of the cardholders had completed the survey.

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**1. Please indicate your level of agreement with statements about making purchases using the Visa cards compared to other methods (such as purchase orders or petty cash) for making small purchases:**

	<b>strongly disagree</b>	<b>disagree</b>	<b>neutral</b>	<b>agree</b>	<b>strongly agree</b>	<b>N/A or don't know</b>
Reduces processing time	2.0% (2)	6.1% (6)	14.3% (14)	19.4% (19)	<b>51.0% (50)</b>	7.1% (7)
Expedites availability of needed goods and services	1.0% (1)	0.0% (0)	12.1% (12)	27.3% (27)	<b>56.6% (56)</b>	3.0% (3)
Increases number of merchants available to use	1.0% (1)	6.1% (6)	9.2% (9)	26.5% (26)	<b>52.0% (51)</b>	5.1% (5)
Provides a detailed record of transactions	2.0% (2)	3.1% (3)	9.2% (9)	<b>44.9% (44)</b>	36.7% (36)	4.1% (4)
Provides reasonable prices	0.0% (0)	4.1% (4)	<b>38.8% (38)</b>	26.5% (26)	19.4% (19)	11.2% (11)

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**2. Please indicate your level of agreement with statements about the city's guidelines for using the Visa cards:**

	<b>strongly disagree</b>	<b>disagree</b>	<b>neutral</b>	<b>agree</b>	<b>strongly agree</b>	<b>N/A or don't know</b>
Guidelines are clear	2.0% (2)	5.1% (5)	12.1% (12)	<b>56.6% (56)</b>	20.2% (20)	4.0% (4)
Guidelines are complete	1.0% (1)	5.1% (5)	15.3% (15)	<b>54.1% (53)</b>	20.4% (20)	4.1% (4)
Guidelines are useful	2.0% (2)	4.0% (4)	12.1% (12)	<b>55.6% (55)</b>	23.2% (23)	3.0% (3)

**3. Please indicate your level of confidence that improper purchases would be identified. Improper purchases could include buying products not needed, buying products the city never received, violating city policies and procedures, or having fraudulent purchases.**

	<b>Response Percent</b>	<b>Response Count</b>
no confidence	1.0%	1
little confidence	7.0%	7
neutral	10.0%	10
confidence	38.0%	38
<b>high confidence</b>	<b>42.0%</b>	<b>42</b>
N/A or don't know	2.0%	2

**4. Visa cards have limits (most cards are limited to <\$1,000 per transaction and \$5,000 per month). Are the limits on your card adequate to meet the needs of your job?**

	<b>Response Percent</b>	<b>Response Count</b>
<b>yes</b>	<b>76.0%</b>	<b>76</b>
no	22.0%	22
N/A or don't know	2.0%	2

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**5. Would additional training on small purchases be useful?**

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	<b>Yes</b>	<b>No</b>	<b>N/A or don't know</b>
For you as a cardholder	20.2% (20)	<b>73.7% (73)</b>	6.1% (6)
For your supervisor	13.1% (13)	<b>61.6% (61)</b>	25.3% (25)
For your department card coordinator	11.1% (11)	<b>62.6% (62)</b>	26.3% (26)

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The survey also asked, “if you have suggestions for improving the way the city makes small purchases or any additional comments, please enter them here.” Several of those comments are included in the body of this report.

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## **Performance Audit: Small Purchases**

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### **Management's Response**





# City of Lawrence

## CITY MANAGER'S OFFICE

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### CITY COMMISSION

**MAYOR**  
MICHAEL DEVER

**COMMISSIONERS**  
ROBERT CHESTNUT  
DENNIS "BOOG" HIGHBERGER  
MIKE AMYX  
SUE HACK

January 12, 2009

Mr. Michael Eglinski  
City Auditor  
City of Lawrence  
City Hall  
Lawrence, KS 66044

*Re: Performance Audit: Small Purchases*

Dear Michael:

Pursuant to City laws, you have provided me with a copy of the draft small purchase performance audit. We are pleased that the findings confirm the general efficiency and completeness of our procedures, but are aware that more work is appropriate to substantiate the effectiveness of our internal controls. We agree with your recommendations for improving various aspects of our small purchasing processes. Some of your recommendations have already been implemented, while our responses to the other recommendations are under management review and preparation.

Currently, the City's purchasing card guidelines places the responsibility of requesting the Finance Department to cancel a credit card when an employee leaves with the department's purchasing card coordinator. In addition, the Purchasing Specialist reviews a report prepared by Administrative Services that lists employees who have left employment. This list is compared to the list of credit card holders to verify that purchasing cards have been canceled. To help expedite this process in the future and ensure the timely cancellation of cards, the Human Resources Division of Administrative Services will develop a checklist for departmental use when an employee leaves employment. Included in the list will be a requirement to notify the Finance Department when a purchasing card holder is leaving City employment.

The second recommendation has already been implemented. Purchase order cards were created to allow employees to make purchases by showing vendors a picture identification card. The cards also identified the department and the individual. This allowed vendors to verify that the individual was a City employee and provided the Finance Department necessary information to distribute the invoice. The purchase order cards were developed prior to the current purchasing card program. Employees that still use the cards have been informed that they will no longer be able to use purchase order cards effective January 16, 2009. As appropriate and



necessary, employees will be provided purchase cards for use rather than the purchase order cards.

The Information Systems Department has been requested to work with the Finance Department in developing guidelines related to internet purchases. It is anticipated that the guidelines will become part of the City's purchasing card guidelines.

I appreciate your review, at my request, of the best practices for approval of purchases by the City Manager. The recommendation regarding the review of purchases by the City Manager has already been implemented. Visa card purchases by the City Manager will be reviewed by the Mayor.

The Finance Department will work with Information Systems to develop on-line training that purchasers will take on an annual basis. The number and type of questions will be determined based upon additional study.

We believe our responses to the above recommendations should be fully implemented by mid-year of 2009. We also support your recommendation to continue audits of small purchases, including the necessity of such purchases. We look forward to that review. Your work on this current review is appreciated and your comments and recommendations will help us improve the effectiveness of our purchasing process.

Sincerely,

A handwritten signature in black ink, appearing to read "David L. Corliss". The signature is fluid and cursive, with the first name being the most prominent.

David L. Corliss  
City Manager

c: Mayor and City Commission

