

# Small Purchases Performance Audit

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# Why audit small purchases?

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- Significant amount of money – over \$3.2 million through 3<sup>rd</sup> quarter of 2008
- Growing use of purchasing card use – about \$1.5 million in 2008, up from under \$1 million in 2007.
- Following good practices helps ensure the city benefits from small purchases and reduces risks of improper purchases

# How the city makes small purchases

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## Purchase orders

- Authorizes a vendor to deliver specified items or services
- Vendor submits invoice
- City pays vendor

## Purchasing cards

- Authorized employees “charge” items
- Vendor paid through Visa
- City pays Visa

# Risks of small purchases

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- Buy something the city doesn't need
- Buy something the city never receives
- Violate purchasing policies and procedures

# City processes generally consistent with recommended practices

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- Identified 17 recommended practices from other audits and Government Finance Officers Association
- Lawrence addresses all 17 practices
- Lawrence relies on strong supervisory review
- Following good practices helps ensure benefits and reduces risks

# Benefits of using purchasing cards

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- Reduced administrative costs
- Fast, flexible purchasing
- Vendors paid quickly

# Changes could improve controls

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- Cancel cards in a timely manner
- Stop using purchase order cards (POCs)
- Guidance on internet purchases
- Policy on City Manager and City Auditor purchase reviews
- Continued training

# Cancel cards in a timely manner

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- 31 cardholders that left the city; 15 had active purchase cards after they left
- Median was 6 days between leaving the city and having card cancelled; 5 had over 20 days gap
- None of the 15 charged anything after leaving



# Stop using PO Cards

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- PO Cards allow employees to purchase and item that will be invoiced to the city
- Purchase cards have stronger controls
- Replace PO Cards with purchase cards as appropriate

# Update policies and procedures

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- Provide guidance on making purchases on the internet
- Policy on review of small purchases made by City Manager or City Auditor

# Provide continued training

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- Continue to provide training – both initial and refresher training
- Cover technical aspects and employee responsibility
- Training acts as a control

# Recommendations

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- Ensure cards cancelled in a timely manner
- Eliminate PO cards
- Guidelines on internet purchases
- Process for review of CM and CA purchases
- Ensure continued training

City Manager agrees with recommendations

# Potential areas for future audit work

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- Review specific transactions
- Review overall procurement process (not just under \$1000)
- Analyze effect of increasing the threshold for small purchases

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