



Credit Card Transactions Audit
Year Ending December 31, 2020

City of Reading

Internal Audit Report

Presented by:

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To: City of Reading

The purpose of this Internal Audit is to communicate the results of all City of Reading Credit Card Transactions that were completed during the fiscal year 2020.

The report includes the following sections: Objective, Scope, Methodology, Background, and Audit Results.

The City of Reading Purchasing Division Department of Administrative has a policy in place for the use of the credit cards that identified the credit card issuance process and supporting approval documentation to submit to Accounting.

The City Auditor staff reviewed the applicable City of Reading credit card if the cardholders are in compliance and accurately reflected current practices. In addition, if the purchasing department provided the city employees with clear direction for appropriateness of charges, reconciliation requirements, and monthly processing statements.

Most of the City's credit card transactions conducted by its 25 cardholders adhered the policy as written. Maintaining documentation for follow-up actions taken for policy noncompliance would improve internal controls. As a result, three audit findings from the City of Reading were discussed and found them remediated.

During the course of this audit, individual assisted by providing, and supplied evidence for testing on varying process regarding the City of Reading's credit card activities: card issuance/approval, training manual, cardholder's monthly reconciliation, general ledger review, and payments to the bank. Internal Audit appreciates their assistance.

Objective

For the Fiscal Year of 2020, the City Auditor office reviewed in details the 2020 monthly statements of the credit cards to ensure that all transactions were in compliance with the City credit card policy and procedures.

Scope

The timeframe of the credit card activities under review was from January 1, 2020 through December 31, 2020.

Methodology

Internal Audit reviewed all credit card transactions. Due to the sensitive nature of this area of review, Internal Audit tested for 100% compliance. Internal Audit reported all exemptions to allow management to improve controls surrounding the process.

Internal Audit focused on an examination of the credit card issuance, cardholder transactions, monthly reconciliations, accurate ledger posting, and that policies are align with current processes.

To achieve our objectives, Internal Audit performed the following audit procedures:

- Obtained Accounting Posted General Ledger Transactions report for FY 2020 and compared it to the cardholder's bank monthly statements to determine if Accounting posted all transactions.
- Reviewed the monthly credit card folders maintained by Accounting and prepared a summary spreadsheet for the year to determine compliance with applicable City of Reading policies.

Background

The following policy was the basis for our review of evidence to determine compliance with the City of Reading Purchasing Division Department of Administrative Services/Purchasing Card Policy & Procedures:

- Allowed credit card purchases for purchasing of any goods and/or services in a manner that complied with the Purchasing Card Policy for a limit of \$500 for individual transactions and a monthly limit of \$5,000.
- Prohibited credit card purchases including meals and fixed assets.
- Cardholder must notify all vendors that all purchases are tax exempt.
- Cardholder's must provide all original receipts.

Items reviewed included: approval transactions limit (single and monthly), documentation of policy, all credit card transactions, monthly reconciliations, applicable general ledger posting, bank statements, and the City of Reading Purchasing Division Department of Administrative Services/Purchasing Card Policy & Procedures.

Internal Audit verified the Purchasing Coordinator maintained City of Reading Purchasing Card Cardholder Agreement, Request & Change forms approved by management for all cardholders. Also, this policy required cardholders to sign the City of Reading Purchasing Card Cardholder Agreement, Request & Change form for policy changes, form updates, and as an annual acknowledgement of the current policy.

Cardholder Spend Summary from January 1, 2020 through December 31, 2020

The following table provides a breakdown by month of cardholder spend during FY 2020:

Table 1: Monthly Breakdown

Month	Sales Tax Paid	No Receipts	Food/Restaurant	Total Spend
January	233.42	0.00	428.22	14,454.44
February	208.73	155.70	834.20	25,703.67
March	142.36	739.52	1,222.38	28,294.51
April	560.90	934.84	306.65	35,538.27
May	170.58	347.82	424.82	16,220.22
June	150.03	1,687.79	796.73	15,751.44
July	175.00	1,084.68	1,075.40	21,615.27
August	96.17	1,880.25	302.46	19,518.84
September	98.30	618.42	563.15	15,288.70
October	355.63	232.21	1,117.52	17,122.23
November	142.10	713.20	902.25	17,702.03
December	187.48	3,636.53	330.37	31,410.18
Totals	2,520.70	12,030.96	8,304.15	258,619.80

Internal Audit noted sales and use tax were charged and paid to various vendors for a total payment of \$2,520.70. According to the City of Reading Purchasing Card Policy of Procedures all city employee’s cardholders must notify all vendors at the point of purchase that purchases are tax exempt and it also states that all cardholders must notify vendors of the City’s tax exempt status.

The auditor also noted that multiple receipts were not included as required by the City’s policy. According to the City’s policy any time a purchase is made with the cards, the cardholder is to obtain a customer copy of the charge slip, which will become the accountable document. When a detailed charge receipt is not provided with the order, the cardholder shall provide a written explanation and why there is no supporting documentation that it was by telephone, fax, or

internet purchase and provide a description of the item, date of purchase, merchant name and total price including shipping and handling. For internet transactions, print out the order confirmation and attach it to the written explanation.

According to the City the policy allowed uses for travels expenses when on City business such as: gasoline, hotel charges, airline tickets, meals, and rental car. During the month of March a few meal transactions were related to travel expenses totaling \$345.22. However, the majority of these meal transactions were utilized for special events in the City of Reading.

Credit Card Transactions – General Ledger Activities

Internal Audit reconciled all credit cards transaction from the bank statements to the City of Reading general ledger and confirmed all transactions were present. Internal Audit then consolidated the general ledger entries to compile the following table showing activities.

Table 2: Credit Card Reconciliation Schedule

Month	Monthly Reconciliation	Monthly Bank Statements	General Ledger Payments	Comments
January	14,454.44	14,454.44	14,454.44	Confirmed
February	25,703.67	25,703.67	25,703.67	Confirmed
March	28,294.51	28,294.51	28,294.51	Confirmed
April	35,538.27	35,538.27	35,538.27	Confirmed
May	16,220.22	16,220.22	16,220.22	Confirmed
June	15,751.44	15,751.44	15,751.44	Confirmed
July	21,615.28	21,615.28	21,615.28	Confirmed
August	19,518.84	19,518.84	19,518.84	Confirmed
September	15,288.70	15,288.70	15,288.70	Confirmed
October	17,122.23	17,122.23	17,611.23	Confirmed
November	17,702.03	17,702.03	17,702.03	Confirmed
December	31,401.18	31,410.18	31,410.18	Rec off by \$9.00
Totals	\$ 258,610.81	\$ 258,619.81	258,619.81	\$(9.00)

The auditor noted a difference of \$9.00 on the December 2020 internal monthly reconciliation worksheet due to a credit memo issued for \$3,990.00 erroneously reconciled for \$3,999.00 instead. No other discrepancies were noted.

Credit Card Transactions – Allowability

Internal audit reviewed all transactions listed on the bank statements for reasonableness and identified specific transactions for further allowability testing. Internal Audit then reviewed supporting documentation to determine if respective department maintained approval

documentation/authorization for any transactions that exceeded the City of Reading Purchase Limit of \$5,000 and overall compliance with applicable City of Reading policies.

Table 3: Allowability: Cash Equivalents/Gift Purchase/Fixed Assets and other items

Month	Description	Comments	Value
January	Gasoline	No description	31.15
	Hotel	Local conference/Occupancy Tax	290.82
February	Hotel	Occupancy Tax	106.77
March	Fridge	Fixed Asset	1,302.74
	Face Masks	Over \$5,000 limit	7,131.96
	Coveralls & Bleach	Over \$5,000 limit	5,765.72
April	Nextiva Subscription Fee	Receipt amount don't match	31.40
	Face Masks & Gloves	Over the \$5,000 limit	18,491.84
	Zoom & training	Over the \$5,000 limit	8,277.35
May	Hardware Supplies	No amount on receipt	164.94
	Sanitizer, filters, paint	Over \$5,000 limit	5,766.15
June	Adobe License	Over \$500 limit	635.87
	Seat covers & sanitizer	Over \$5,000 limit	7,069.63
July	Pet insurance & masks	Over \$5,000 limit	9,753.14
	Leather Chair	Fixed Asset: Office Furniture	1,723.02
August	45 @ \$15 = \$675	Target Gift cards; charged to wrong GL acct	675.00
	Coffee Table	Fixed Assets: charged to wrong GL account	4,234
	Chromebook & chips	Over \$5,000 limit	5,041.79
September	Police Bikes	Fixed Asset	1,344.89
	Hotel	Occupancy Tax	10.68
	Hotel	Occupancy Tax	37.20
October	Gasoline	Not related to travel expenses	45.70
	Gasoline	Not related to travel expenses	61.54
	Hotel	Occupancy Tax	62.80
	Kitchen Cabinet	Fixed Assets	1,787.71
November	7 Hotel Rooms	Missing detail receipt/Occupancy Tax	3,636
	Soap disp/thermometers	Over \$5,000 limit	7,296.74
	Hotel	Occupancy Tax	52.80
December	Fridge	Fixed Asset	1,114.69
	Sprayer, coins & pens	Over \$5,000 limit	12,643.59
	Copier	Over \$5,000 limit	5,321.29

Internal Audit identified one transaction in which one cardholder purchased cash equivalent/gifts (value \$675) for events throughout the year. Specifically, this cardholder purchased 45 gift card.

Internal Audit noted applicable staff reviewed/approved cardholder cash equivalent/gift purchase transactions; however, City of Reading does not have a documented policy to govern the request, approval, budgeting, purchase, security, tracking, or distribution of cash equivalents/gifts. As a

result, the City of Reading did not maintain consistent documentation or distribution of these gift cards usage description purpose.

Internal Audit also noted that three online transactions classified as fixed assets were posted, reviewed, and approved for office furniture purchase transactions. As such, the cardholder posted two of these transactions to a different general ledger account (contracted services). Three additional transactions for Police bikes and two refrigerators were also classified as fixed assets, however, they were all approved in compliance with the City's policy and procedures.

Eleven transactions over the \$5,000 limit were noted, however, all these transactions were related to the pandemic and other related unexpected expenses during the year. Although, these transactions were over the 5k limit the administration requested and approved a credit card increase limit to few key employees during the year to purchase required items due to the COVID-19 Pandemic.

Occupancy of hotel rooms by United States Government or its agencies shall be exempt from tax, when the occupancy is solely for official purposes and the rent is paid by the Government of the United States or its agency. Occupancy tax was charged and paid on 6 transactions during the year. The City of Reading has an exempt entity status.

Internal Audit also noted that a two day hotel reservation for a conference meeting held at Lancaster, PA with a proximity of 31 miles from the City of Readings' address to the hotel destination was approved. The City does not have a written policy on local conference travel logging mileage limit.

Three gasoline transactions not related to travel expenses were noted.

Credit Card Monthly Reviews

Cardholders' credit card reconciliation packets submitted to Accounting includes monthly bank statements, itemized receipts, approval documents, and unposted list of general ledger transactions memo. The general ledger transactions memo contains the purchasing cards charges, fund number, fund name, amount, and the cardholder's name. Internal Audit noted that all bank statements cardholder's description were included in the monthly statements. Internal audit also noted that itemized receipts contains the transaction descriptions and coding entered by cardholders as part of their monthly reconciliation process. The auditor also noted that cardholders were not providing the monthly activity logs required by the City's policy for accounting reconciliation purposes.

Audit Results:

Finding 1 Sales Tax and Occupancy Tax: City Exempt Status

All cardholders are responsible to notify all vendors of the City's tax exempt status before the order is written up. Management must provide and explain how to utilize the City's exemption certificate to all employees for purchasing purposes including hotel and all travel transactions. Additionally, the City should add a local mileage limit within the 50 miles range from the City's location to the hotel address destination before approving any local logging transactions.

Finding 2 Insufficient/Incomplete Documents within Cardholder Reconciliation Packets

Credit card reconciliation packets are being submitted and processed without a customer copy of the charge slip (receipt) or an attached written explanation of the charges as required by the policy. According to the City's policy "consistent abuse of this provision may result in card cancellation".

Management should include in the credit card transaction review process a method to track and return credit card packets to their respective departments who fail to complete all policy required supporting documentation specifically original receipts. Including an attached cardholder's monthly activity log required according to the City of Reading policy.

Finding 3 Policy Clarification: Prohibited Uses; Fixed Assets / Gift Cards

The City of Reading Purchasing Card Policy and Procedures under page 7 states that fixed assets are prohibited.

Regardless if the City has a written policy for office furniture or gift cards all cardholder are responsible to provide the accounting department with the correct general ledger account numbers to avoid any misappropriation of funds according to our City Ordinances.

All gift cards can essentially be used as cash which are classified as cash advances. Due to the difficult traceability the City must add these transactions under the prohibited uses unless there is a strong internal control in place to track, monitor, and reconcile all gift card transactions.

The administration must provide to the City employees with a policy that specifically addresses clarification of acceptable purchases may lead to inconsistent enforcement of the policy and an increased risk of inappropriate transaction processing.

Administration Response:

According to the administration they will provide their response of this audit at the meeting that will be held on Monday, August 2, 2021.

City Auditor's Comment:

The administration should annually revise and update the Purchasing Credit Card Policy and Procedures manual that the City has in place for best practices.

Distribution

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