


CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

DATE: June 26, 2018

TO: Michael Shull, General Manager
Recreation and Parks Department

FROM: Georgia Mattera, Chief Deputy Controller
Office of the Controller 

SUBJECT: **COMPLIANCE REVIEW OF PURCHASING CARDS**

The Office of the Controller completed a compliance review of the Department of Recreation and Parks (RAP) oversight of Purchasing Card (PCard) usage to ensure expenditures are authorized, supported, and comply with the City's PCard Program Cardholder Manual (Manual).

Management of each City department must design, implement, and maintain a system that reasonably assures PCard usage is authorized, supported, and complies with the Manual. The Office of the Controller assists management by performing periodic assessments of the effectiveness of this departmental system. These assessments complement, but do not in any way replace, management's assurance responsibilities.

Our review identified certain areas in which RAP can enhance its oversight to ensure PCard usage is authorized, supported, and complies with the Manual, as detailed in the attached report.

Attachment



Department of Recreation and Parks Compliance Review

Purchasing Card (PCard) Issuance and Usage

[June 26, 2018]

Background

The City of Los Angeles (City) created the PCard Program to provide departments with an efficient, cost-effective way of routinely paying for low value items, and a quick way to make large purchases during disasters. PCards are credit cards issued to City employees. The Office of the Controller Office administers the PCard Program for Council-controlled departments, while each department's management chooses which employees to receive PCards, approves and reviews PCard transactions, and ensures compliance with the City's PCard Program Cardholder Manual (Manual). The Department of Recreation and Parks (RAP) also developed its own Special Purchasing Card Handbook (RAP Handbook) which contains specific RAP PCard guidelines to supplement the Manual. The Office of the Controller conducts periodic compliance reviews of PCard usage to ensure expenditures are authorized, supported, and comply with the Manual and department specific policies (e.g., the RAP Handbook).

Compliance Review Results

We identified opportunities where RAP can enhance its oversight and ensure PCard usage by its employees is authorized, supported, and complies with the Manual, as follows:

- Ensure PCard holders are not using PCards to purchase items from vendors with established contracts in the City's procurement program, as the City's purchasing agent may have negotiated better prices.
- Periodically remind PCard holders of prohibited purchase items, such as electronics and advertising services.
- Canceling PCards for employees who fail to submit their monthly PCard Payment Record (PCPR) and related receipts.

Further, during 2017, RAP employees used PCards to purchase tickets totaling \$1.3 million for amusement parks and related attractions for youth (and accompanying employees and chaperones) for summer camp programs. However, the RAP Handbook does not include any procedures for purchasing, redeeming, or inventorying these types of tickets.

Due to the associated risks of improprieties, all recreation center and park facilities should apply the same guidelines to monitor and track these ticket purchases. Further, RAP may be forgoing opportunities to better negotiate ticket purchase prices.

KEY FACTS

FACT #1: RAP oversees more than 16,000 acres of parkland, offering recreation, social and cultural programs at 444 park sites in the City. RAP maintains and operates hundreds of athletic fields, 422 playgrounds, 321 tennis courts, 184 recreation centers, 72 fitness areas, 62 swimming pools and aquatic centers, 30 senior centers, 26 skate parks, 13 golf courses, 12 museums, 9 dog parks, and 187 summer youth camps.

FACT #2: RAP's \$235 million budget for fiscal year 2018 included \$72 million for land maintenance, \$44 million for recreational programming, and \$23 million for building and facilities maintenance. RAP has approximately 1,437 employees.

FACT #3: RAP assigned 305 PCards to certain employees and they collectively spent \$3.2 million through PCards.

FACT #4: Most PCards issued to RAP employees have a \$7,000 monthly limit and a \$1,000 single purchase limit. However, six RAP managers also hold Emergency PCards that have a \$250,000 limit.



RAP COMPLIANCE REVIEW – PCard ISSUANCE AND USAGE

OPPORTUNITIES FOR IMPROVEMENT

#	ISSUE	RISK	RECOMMENDATION	P	SUMMARY OF RAP'S RESPONSE
1	We analyzed 12,452 PCard transactions totaling \$3.2 million for calendar year 2017. Some purchases were for products from vendors with existing City contracts. RAP may have been able to procure the items under these contracts at better prices.	Circumventing the City's established procurement system, which was designed to ensure best pricing through negotiated contracts with vendors, may result in the department spending more than necessary.	The Department's PCard Coordinator should monitor PCard purchases to ensure employees do not use PCards to purchase items available through established contracts of the City's procurement program.	A	<p>RAP management indicated that the Department's PCard Coordinator monitors P-card purchases and requests justification for contracted items purchased. Immediately after the compliance review, RAP sent a reminder to PCard holders on prohibited transactions and the procedures for requesting an exception. RAP also developed a standardized form for PCard holders to complete when requesting an exception.</p> <p>RAP management reported that in most cases it is cost effective to use PCards for purchasing small items such as nails, screws, tape, etc., especially for purchases by maintenance staff, as it saves time and the repairs are completed faster. At times, RAP management also reported that it can be cheaper to buy from the non-contracted vendor when these small items are on sale.</p> <p>RAP management indicated they will request the Office of the Controller to grant an exception to allow its maintenance staff to use their PCards to purchase small items, even items with established contracts, to enable staff to repair facilities quicker, and during emergency situations.</p>
2	Based on a sample of 30 PCard transactions, we noted that eight (27%) transactions violated the City's PCard policies. The items purchased were specifically prohibited by the Manual and included electronics and advertising services.	Employee purchases of items prohibited by PCard policies and City rules may increase the risk of improprieties.	Annually, provide PCard with a list of prohibited purchasing practices and items, and monitor PCard holder compliance.	A	<p>RAP management indicated that in addition to the recent reminder sent to PCard holders on prohibited transactions and procedures for requesting an exception, they are also completing monthly reviews of PCard purchases and requestor justifications.</p> <p>In addition, RAP management reported that PCard training has been provided to PCard holders to remind them of PCard policies, such as prohibited purchasing, and future training will be provided for any new policies or updates.</p>

Priority A recommendations warrant immediate management attention and corrective action.

Priority B recommendations should be implemented no later than six months after issuance of this report.

Priority C recommendations should be implemented based on a schedule developed at management's discretion.

RAP COMPLIANCE REVIEW – PCard ISSUANCE AND USAGE

OPPORTUNITIES FOR IMPROVEMENT

#	ISSUE	RISK	RECOMMENDATION	P	SUMMARY OF RAP'S RESPONSE
3	While reviewing 28 PCard Payment Records (PCPRs) and receipts, we noted that 12 (43%) were submitted to the Department's PCard Coordinator after the 10 business day timeframe required by the Manual. ² Three employees had not submitted their PCPRs for over a year before we started the compliance review. As of March 29, 2018, there were 20 employees that had not submitted one or more of their PCPRs for at least six months.	Failure by employees to submit PCard records in a timely manner increases the risk of PCard holders losing important supporting documentation and reduces the ability to identify unauthorized PCard usage in a timely manner.	Enforce RAP's PCard cancellation policy when employees repeatedly fail to submit their PCPRs and receipts within the 10 business day timeframe required by the Manual.	A	<p>RAP management indicated they will be enforcing their PCard cancellation policy. Further, to encourage the timely submission of PCPRs as required by the Manual, RAP indicated it would:</p> <ol style="list-style-type: none"> 1) Follow up by telephone and e-mail with the PCard holders and their supervisors close to and after the submission due date for the PCPRs. 2) Reduce the associated PCard credit limit to \$1.00 so PCard holders will not be able to use their PCard until they submit the required PCPR(s).

² Original documents (e.g., receipts) and a PCard Payment Record (PCPR) serve as department certification transactions are authorized and goods have been received. The PCPR, reconciled to PCard transactions, is sent to the Department's PCard Card Coordinator/Accounts Payable Division within ten (10) business days of the PCard's closing cycle date. The PCPR requires the PCard holder and the PCard holder's supervisor to review and certify the accuracy of submitted documentation.

Priority A recommendations warrant immediate management attention and corrective action.
Priority B recommendations should be implemented no later than six months after issuance of this report.
Priority C recommendations should be implemented based on a schedule developed at management's discretion.



RAP COMPLIANCE REVIEW – PCARD ISSUANCE AND USAGE

OPPORTUNITIES FOR IMPROVEMENT

#	ISSUE	RISK	RECOMMENDATION	P	SUMMARY OF RAP'S RESPONSE
4	<p>RAP does not have any guidelines in its Special Purchasing Card Handbook detailing: 1) Required procedures for purchasing, redeeming, and inventorying amusement park and related attraction ticket purchases for youth summer camp programs. Each recreation center and park is responsible for monitoring these purchases.³</p> <p>2) Limitations on how much each recreation center and park can spend on special events without an approved budget. For example, we noted one employee used a PCard to purchase \$3,706 in supplies at Party City for a Halloween Carnival on October 28, 2017.</p>	<p>RAP may be forgoing opportunities to better negotiate ticket purchase prices and controls may not be in place at each recreation center and park to reduce the risk of improprieties associated with PCard purchases for summer camp programs and special events.</p>	<p>Enhance the Department's Special Purchasing Card Handbook to include guidelines on:</p> <ul style="list-style-type: none"> -Procedures for purchasing, redeeming, and inventorying amusement park and attraction tickets. -Requiring approved budgets for special events when purchases will be over an established dollar amount. 	B	<p>The Department will explore having a control of tracking and inventorying amusement park tickets at the regional level; however, it will not be at this time due to a limited resource.</p>

³ The guidelines should also include the authorized ratio of employees and chaperones that can receive City-paid amusement park and attraction entry for these summer camp activities. RAP management indicated the ratio of youth to employees and chaperones at youth camp activities is based upon American Camp Association guidelines, with the exception that the ratio for children with disabilities is 1 to 1. These ratios are not included in RAP's Special Purchasing Card Handbook. Inclusion of the ratios will help to ensure all RAP recreation centers and parks are applying the same guidelines for youth summer camp ticket purchases.

Priority A recommendations warrant immediate management attention and corrective action.

Priority B recommendations should be implemented no later than six months after issuance of this report.

Priority C recommendations should be implemented based on a schedule developed at management's discretion.