

**Los Angeles World Airports (LAWA)
Procurement Card Purchasing Review
August 28, 2019**



Key Facts

FACT #1

LAWA staff spent \$7 million through P-Card transactions over the past three years (2016 - 2018).

FACT #2

Thirty-four percent of LAWA P-Card transactions were made at Office Depot, Home Depot, and Amazon.

FACT #3

Office supplies, maintenance materials & parts, and IT peripherals were commonly purchased through LAWA's P-Card program.

FACT #4

LAWA accounting staff manually reviewed over 16,000 P-Card transactions in three years (2016-2018).

FACT #5

P-Card users may exceed transaction limits and/or purchase prohibited items if transactions are approved by LAWA management.

Effective procurement practices are critical to ensure that public funds are spent efficiently and appropriately. LAWA Accounting Operations staff administer a Procurement Card (P-Card) Program that allows airport staff to directly purchase items and services to satisfy a variety of operational needs and administrative functions.

The Office of the City Controller conducts periodic reviews of P-Card expenditures at City departments to assess whether related funds are authorized, reasonable, and adequately supported.

Review Results

During our review of P-Card purchases made from January 2016 through December 2018, significant policy and procedure updates were informally implemented by LAWA accounting staff. An updated policy manual was approved by LAWA management in March 2019; granting additional authority to accounting staff for the approval of temporary P-Card limit increases up to \$20,000 and providing additional documentation and approval requirements for purchases of non-standard items such as food, gift cards, and promotional items.

Administrative flexibility in P-Card policy allowed LAWA facilities and maintenance staff to rely on P-Cards for operational needs when supply contracts expired. In addition, we noted significant use of P-Cards for online transactions. Finally, the current policy allowed staff to rely on P-Cards for special purchases that would have been prohibited unless individual exceptions were pre-approved by LAWA management.

Considering the unique business needs related to airport operations, our Review provides several recommendations for LAWA management to improve P-Card compliance and enhance department operations. Specifically, LAWA management should:

- Proactively monitor and assess contract expirations for all operationally critical supply contracts to ensure continuity of standard purchasing practices.
- Evaluate the business need for online transactions facilitated through P-Cards, and establish additional controls to monitor P-Card purchases facilitated through third-party payment processors such as PayPal, Square, and Intuit.
- Ensure exemption approvals of typically prohibited electronic and personal item purchases have the appropriate level of management level approval and are adequately safeguarded.
- Implement an automated system for processing and approval of P-Card purchases and program applications.





LAWA PROCUREMENT CARD PROGRAM REVIEW

OPPORTUNITIES FOR IMPROVEMENT

#	ISSUE	RISKS	RECOMMENDATION	LAWA RESPONSE
1	<p>Reliance on the Procurement Card (P-Card) Program to bridge procurement gaps when critical purchasing agreements expire.</p> <p>According to LAWA Maintenance staff, over 50 purchasing agreements had expired during the period of our review without timely contract renewals or substitute agreements. To alleviate procurement needs during these gap periods, certain approved P-Card users made purchases over the traditional P-Card limits. Although the justification and reasonableness of these purchases appear sound, we questioned some of the transactions because the nature of the purchases did not appear to match the intent described in the related approved documents.</p> <p>This practice allowed staff to rely on P-Cards for special purchases that would not have been allowed with P-Cards unless individual transaction</p>	<p>Purchase of overpriced or substandard parts and supplies</p> <p>Degradation of strategic supplier relationships</p> <p>Increased demand on P-Card purchasing reviews</p>	<p>To eliminate reliance on P-Card purchasing for critical maintenance parts and supplies, LAWA Management should:</p> <p>1.1 Proactively monitor contract expiration terms to assess continuity risks of critical supply purchases.</p> <p>1.2 Ensure all critical supplier contracts are executed and effective prior to current contract expiration dates.</p>	<p>Some share of contract procurements is delayed due to matters outside of staff control – which the P-card program allows us to mitigate. However, LAWA agrees that the P-card is not meant as a substitute for timely contract replacement.</p> <p>[1.1 & 1.2] LAWA’s Procurement Division regularly distributes reports to highlight contracts with approaching expiration dates. LAWA’s Financial Systems Division has also recently released new on-line reports through our SAP system to provide real-time tracking of contract expirations and contract burn rates to improve visibility of contract status. LAWA will work with staff to increase awareness of these new and existing tools to</p>



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1 cont.	exceptions were pre-approved by LAWA management. By allowing temporary increases for items typically procured through competitive public contracting processes, LAWA cannot guarantee that it receives the greatest value for these purchases.			reduce interruptions in the supply chain caused by expiring contracts that would otherwise need to be addressed with P-card use.
2	<p>Allowance of online P-Card transactions and transactions facilitated through third-party payment processors such as PayPal, Intuit, and Square.</p> <p>Our analysis of P-Card transaction data reveals that significant amounts of P-Card activity are processed through online merchants such as Office Depot, Amazon, and McMaster-Carr; with many other P-Card transactions facilitated through third-party payment processors. Even though the use of online merchants and third-party payment processors are commonplace for efficient procurement of goods and</p>	<p>Inappropriate or fraudulent transactions</p> <p>Reputational risk</p> <p>Payment of past due invoices</p>	<p>To avoid the risk of fraudulent or inappropriate P-Card transactions LAWA Management should;</p> <p>2.1 Evaluate the business need for using P-Cards with online merchants and payment processors. If online P-Card transactions are determined to be necessary, establish procedures to monitor online</p>	<p>As mentioned in the Controller’s “issue” statement, on-line merchant transactions have become commonplace and allow for greater price discovery, improvement in product availability, and can expedite delivery of products.</p> <p>[2.1] Standard P-card training includes prohibitions against sharing of the holder’s information with others. In order to improve controls over purchases where the P-card holder is not physically</p>



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2 cont.	<p>services, the speed and convenience of these transactions warrant additional monitoring and oversight to ensure compliance with LAWA’s P-Card policies. For example, our review of online transactions shows that much administrative and support staff make online transactions on behalf of coworkers to satisfy departmental needs. This practice is common, as there are a limited amount of authorized P-Card users within each operating division. However, this practice can also foster undue pressure on P-Card users who are instructed by management to make purchases on behalf of their coworkers. Tools such as data analytics that identify anomalous and repetitive transactions, as well as restricting online purchases through unique P-Card vendor accounts, could assist in preventing waste and foster compliance with department P-Card policies.</p>		<p>purchasing behavior and validate supporting documentation to ensure that the authorized P-Card user is the actual purchaser.</p> <p>2.2 Assess the need for the use of third-party payment processors and establish controls that disallow P-Card transactions facilitated through unapproved third-party</p>	<p>present (internet or otherwise), staff will add a requirement for an additional layer of documentation to verify the purchase was completed by the actual P-card holder and a brief description of the goods being procured. A “P-card Usage Attestation Statement” will be added as a requirement for each vendor online/phone purchase transaction to verify the P-card holder’s execution of the transaction and the actual vendor being paid (rather than the 3rd party processor).</p> <p>[2.2] LAWA believes the approvals required in the existing P-card manual, coupled with the anticipated P-card Usage Attestation Statement” will significantly</p>



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2 cont.			payment processors without appropriate authorization by supervisory staff and P-Card administrator.	<p>improve the transparency of the purchasing and selling parties involved in the transaction.</p> <p>In addition, LAWA began using Card Integrity in July of 2017. Card Integrity is a service that assists LAWA’s monitoring of P-card purchases and highlights card usage for particular vendors. This service provides several monitoring reports that highlight deviations from policies (prohibited items, dollar thresholds, potential misuse, unusual purchases outside of business scope, items that appear for personal use). The service also provides reports on patterns of usage per division, based on employee and vendor transactions with monthly comparisons.</p>



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3	<p>Approvals of typically prohibited electronic and personal item purchases require an appropriate level of management-level approval and additional safeguarding.</p> <p>For example, in August 2016, a secretary within the Risk Management Division purchased four personal electric massagers totaling \$872. Personal electronic items are prohibited items per the LAWA P-Card Policy Manual, and the P-Card Administrator requested deputy director approval for this purchase. No deputy director approval was provided by Risk Management staff; however, a Risk Management Supervisor provided a brief justification for the purchase claiming these massagers were purchased as part of LAWA’s employee injury prevention program for therapeutic use on LAWA employees by the LAWA nurse. Based on this justification, the transaction was</p>	<p>Theft, waste, inefficient and ineffective use of City resources</p>	<p>To avoid P-Card purchases of prohibited items that are prone to theft, LAWA Management should:</p> <p>3.1 Ensure that Deputy Director approval and justification are documented prior to purchasing items prohibited by P-Card policy (i.e., personal and/or electronic items).</p>	<p>[3.1] Per LAWA’s P-Card Manual, the Accounting Operation’s Division Manager can approve items prohibited within the P-card Policy up to \$20,000 (Section 7 - P-card Limits and Blocked Merchants Item, A-3b, P-card Manual Section 8 - Exceptions). Only requests for food, snacks, or refreshments require the approval of the Chief Operating Officer or the Deputy Executive Director-Chief Financial Officer and the Accounting Operation’s Division Manager.</p>



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3 cont.	<p>subsequently approved by a LAWA Accounting Manager.</p> <p>Even though the purchase of the personal massagers could be considered reasonable for part of LAWA’s employee injury prevention program, this type of a purchase using a P-Card is questionable due to the electronic and personal nature of the items. Furthermore, an inspection of the LAWA nursing office revealed that only two of the four massagers were located. The potential loss of these massagers is indicative of inventory control weaknesses for unique items purchased through the P-Card program.</p>		<p>3.2 Ensure that items purchased with P-Cards intended for employee use are adequately monitored and safeguarded as LAWA property.</p>	<p>[3.2] All items purchased by LAWA for use in the regular course of business are considered LAWA property and are subject to LAWA policies regarding their use. Employees found to have taken LAWA property are subject to discipline, up to and including termination - See LAWA’s Guide to Disciplinary Standards Section 5020- G. Fraud, Dishonesty, Theft, or Falsification of Records. Items with values less than \$5,000 are below the threshold for individually tracked equipment within LAWA’s accounting system; however, Divisions are responsible for assuring the safe keeping of small equipment items and supplies. The disappearance of the two items may have</p>



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3 cont.				<p>occurred after the nurse position responsible for them was vacated and has been reported to the Controller's Office Fraud, Waste and Abuse (FWA) Unit, LAWA Internal Audit, and Airport Police.</p> <p>LAWA will distribute a memo to remind staff of their responsibility for the safekeeping of LAWA property and will also reinforce this requirement by adding additional language to the P-Card policy to this effect.</p>
4	<p>Reliance on manual processing to review purchases and administer the P-Card program.</p> <p>LAWA accounting staff manually reviewed over 16,000 P-Card transactions in three years (2016-</p>	<p>Human error</p> <p>Inefficient processes and document retention practices</p>	<p>To reduce inherent risks of manual reviews and related processing, LAWA Accounting Operations should:</p>	<p>16,000 P-card transactions are checked/reviewed on a line by line basis to ensure compliance and presence of required documentation and signatures. The documents</p>



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4 cont.	<p>2018). LAWA currently relies on a paper-based process to verify and reconcile P-Card purchases. This process requires LAWA staff to manually gather, prepare, and distribute large packets of documentation for verification and documentation purposes. LAWA Accounting Staff is further required to manually verify all P-Card transactions and maintain supporting documents for further audit and reference purposes. The current practices of manual, paper-based processes, do not leverage modern workflow technologies such as electronically shared document files, and secured electronic approvals.</p>		<p>4.1 Evaluate the costs and potential savings for the implementation of an automated system for P-Card applications, electronic document retention, and billing cycle reviews.</p>	<p>are kept intact based on retention rules.</p> <p>[4.1] In July of 2017, LAWA began using Card Integrity, a service that assists in monitoring P-card purchases and highlights card usage for particular vendors. This service provides several monitoring reports that highlight deviations from policies (prohibited items, dollar thresholds, potential misuse, unusual purchases outside of business scope, items that appear for personal use). The service also provides reports on patterns of usage per division, based on employee and vendor transactions with monthly comparisons.</p>



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4 cont.			4.2 Evaluate automated systems implemented by other City departments that administer P-Card programs and assess the feasibility for implementing similar systems at LAWA.	[4.2] In addition to Card Integrity, LAWA is reviewing further options for automation of the P-Card review and approval. Among these options, LAWA’s Financial Systems Division is exploring opportunities for further automation within our existing SAP system that might improve budget transparency and P-card approval workflows. LAWA will also review systems used by other City Departments for the feasibility of implementation.