

Audit Report



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“Selected Transaction Testing - Airport P-Card Activity”

Report #0402

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Summary

The purpose of this audit is to report on specific issues noted during additional P-Card transaction testing at the Airport. This transaction testing was performed because of incidents of fraud that led to our original audit of “P-Card Controls at the Airport” (audit report #0301).

Based on the additional testing, we noted that:

- Efforts should be continued to obtain/prepare complete and adequate documentation that supports the validity and propriety of P-Card purchases;
- Efforts should be continued to adequately document that the most appropriate procurement methods are employed;
- Guidance should be obtained on the appropriateness of using City funds to make certain purchases. Additional efforts should be made to document expenditures when the public purpose served is not readily apparent for the purchase; and
- Appropriate action should be taken to address the other issues identified.

We recommend that training activities planned by airport management address the level of documentation needed to support the variety of expenditures incurred by the airport. Consideration should be given to the necessity of the expenditure, the public purpose served, and the identified direct benefit accruing to airport operations.

Scope, Objectives, and Methodology

Our additional transaction testing consisted of a review of 30 randomly and 10 judgmentally selected P-Card transactions during the period October 1, 2002, through

March 31, 2003. These transactions were tested for compliance with applicable department and City policies and procedures as well as good business practices.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards and the Standards for the Professional Practice of Internal Auditing, and accordingly included such tests of the records and other auditing procedures as were considered necessary.

Identified Issues

Issues identified in the additional transaction testing are addressed in the following categories.

Documentation

We noted three transactions where better efforts should have been made to comply with the Airport’s internal procedures that require proper justification and documentation for P-Card purchases.

The first transaction of \$114.28 was with a local garden center. The only support for that transaction was the signature slip from the credit card machine and a handwritten description of “flower bed” on the standard Request For Purchase (RFP) form. The signature slip did not provide a description nor the quantity of items purchased. The reasonableness of that purchase may have been determinable from the available support and personal knowledge of the approving supervisor. However, it would have been more appropriate to also obtain from the vendor a detailed listing identifying what was purchased. (Facilities Maintenance Division)

The second transaction of \$4.42 was a charge from the United States Postal Service. There was no attached support indicating what the charge was for other than the handwritten description of “certified mail” on the RFP form. P-Card records did not indicate what had been sent by that certified mail or why it was sent in that manner. In response to our inquiry on this matter, Aviation staff provided support from their personnel files showing that the certified mail had been used to send official correspondence to a former employee. In this instance, an explanation on the support (e.g., RFP form)

tying that mail to the applicable personnel issue would have been appropriate. (Facilities Maintenance Division)

The third transaction of \$24.95 was a charge for bottled water and soft drinks. Available P-Card support showed those beverages were for the ticket booths operated by Republic Parking, the vendor contracted to manage Airport parking. In response to our inquiry, Aviation staff explained that this water was purchased during a period that the booth's water supply was temporarily cutoff because of nearby repairs. A notation/explanation to that effect should have been included as part of the P-Card support. (Facilities Maintenance Division)

We acknowledge that the approving supervisors in the above instances may have been personally knowledgeable of the items purchased when approving the purchases. However, P-Card records (at the time of our testing) did not adequately substantiate that these purchases were appropriate and served a public purpose. The circumstance of inadequate support was also noted in those questioned purchases made by the former Airport employee who was dismissed for P-Card misuse and found guilty of credit card fraud. We recommend that the Airport continue their efforts to provide complete and adequate documentation that substantiates the validity and propriety of P-Card purchases.

Procurement

Several instances were noted where adequate documentation was not prepared showing that the procurement method used was the most appropriate under the circumstances.

The first instance involved the purchase of Airport entrance and exit signs identifying the new mayor of the City. That purchase (\$1,544) exceeded the \$1,000 competitive procurement threshold. An emergency justification form (i.e., to justify not obtaining competitive quotes) was completed for the purchase, which indicated the signs "had to immediately be updated to reflect the outcome of the mayoral election" and that the vendor "was the only local vendor capable of fulfilling the request expeditiously."

In our discussions on this purchase, Airport staff explained that the determination that the sign should be immediately updated was made at the time that City management decided to give the "old" sign to the former mayor at an event held in his honor. The decision to provide the former mayor with the sign was made immediately prior to the event. At that point, Airport staff requested the vendor to remove the "old" sign for that purpose. Airport staff indicated that a determination was made to have the vendor removing the old sign provide and install the new sign at the same time. This verbal

explanation was not part of the emergency justification form prepared for this purchase.

We agree that it was appropriate to update the sign to reflect the outcome of the mayoral election. However, based on the explanation provided, it was not apparent why taking down the old sign necessitated immediately replacing that sign rather than handling the replacement in the normal course of business. The additional cost of the new sign as an "emergency purchase" versus normal replacement appears to be approximately \$244. (Facilities Maintenance Division)

Another procurement involved the acquisition of painting and plumbing services. Our tested transactions included two payments to one vendor (Lance Maxwell Plumbing) for plumbing services and one payment to a vendor (J.L. Wilson Painting) for painting services. (Facilities Maintenance Division)

The City has contracts for those painting and plumbing services. Those contracts provide, for each project, that quotes will be obtained from each of three contracted vendors and that the vendor providing the best price should be awarded the job. Lance Maxwell Plumbing is one of the three contracted vendors for plumbing services, and J.L. Wilson Painting is one of the three contracted vendors for painting services. We noted for our three sampled purchases that the Airport did not obtain competitive quotes from the other two respective vendors when determining which vendor should/would provide the requested services.

In response to our inquiries, Airport staff acknowledged that they did not obtain quotes and provided the following explanations:

- In regard to plumbing services, one of the two applicable vendors not used had previously demonstrated an inability to perform a requested job (i.e., repair automatic flushing toilets); and the other vendor not used was purportedly more expensive than the vendor used.
- In regard to the painting services, one of the two applicable vendors not used was located in Jacksonville and had previously demonstrated a lack of interest in "small" jobs; and the other vendor had been in a state of financial difficulty and was therefore unable to perform work for the City during that period.

While these reasons may be true, adequate documentation substantiating these assertions should be prepared and retained. We noted that some documentation was prepared (memorandums sent to Procurement Services and vendor evaluation forms reflecting and describing unsatisfactory performance) for one of the plumbing contractors and for certain mechanical contractors. In addition, Airport staff

indicated that verbal discussions were held with Procurement Services in regard to the other plumbing and painting contractors. We also determined that Procurement Services is currently re-working these contracts such that competitive quotes may no longer be required for these services when the anticipated costs are below an established threshold (\$10,000).

The effect of the above is that, for the most part, only one contracted vendor was contacted to perform the needed work, thereby defeating the original intent of competition. We recommend that the Airport prepare and submit documentation to Procurement Services explaining why competitive quotes are not being obtained for the noted plumbing and painting services. Procurement Services should be requested to provide documented suggestions and direction relating to this issue.

(NOTE: Our further analysis showed a total of 39 payments to Lance Maxwell Plumbing totaling \$8,797 and nine payments to J.L. Painting totaling \$8,098 during the six-month period covered by our review. There were two other payments during that period for plumbing service, one to each of the other two contracted plumbing vendors. There were no other payments during that period for painting services. Of the nine payments for painting services, six were between \$900 and \$1,000. While it could appear that efforts were made to keep costs at less than \$1,000, the City's contracts in effect at that time for plumbing, painting, roofing, and electrical work required three quotes regardless of the costs of the service.)

Public Purpose Served

During the course of our additional testing, it was brought to our attention that a City P-Card was used to acquire a membership in a collegiate athletic booster organization (which is a direct support organization of the university) for 2003. Two season tickets to home football games were also acquired in connection with that booster membership. The cost of the membership was \$250, and the two season tickets were \$60 each. In regard to this purchase, it is our understanding that:

- This has been an annual acquisition in recent years,
- The tickets have been and will be distributed randomly (e.g., random drawing of employee names from a hat) to Aviation Department employees, and
- The department director approved the acquisition.

In our discussions on this purchase, Airport management indicated that the primary purpose of this expenditure was marketing of the Airport. They stated that the purchase of the booster membership provided advertisement of the Airport in booster publications

through recognition as a booster member. Per Airport staff, that advertising method was less expensive than purchasing direct advertising in those or similar publications. Collegiate students were stated to represent a significant share of Airport customers. In addition to marketing, Airport management stated that the provision of the season tickets to Airport employees through a random drawing provided a means to reward employees for their work and service.

The Airport also presented records showing that the Airport provided both monetary and in-kind services to various organizations. They stated that support of those organizations/events was consistent with the Airport's objective of being viewed as a community asset, and that they primarily served those activities in which the organizations/groups are users of the Airport. An example provided to our staff was the Airport's purchase of a sponsorship in a Tallahassee Community College Foundation golf tournament to raise funds for student scholarships. As noted above, collegiate students were indicated to represent a significant portion of the Airport's customer base. In our review of this matter, we noted that the narrative section contained in the City's approved FY 2003 operating budget for the Aviation Department provides that the Airport's Business Services Division is responsible for, among other things, marketing.

We concluded that the purchase of a membership in a collegiate booster organization and related season tickets provides direct benefits to that booster organization and the employees to whom the tickets are provided. We are aware that the City has a "rewards and recognition program" that recognizes employees for specific accomplishments. However, rewarding employees at random does not appear to meet that criteria. At the time of the review of this transaction, the direct benefit to the City (Airport) and the public purpose served by this purchase had not been made a matter of public record. As such, this purchase should be the subject of further review, discussion, and guidance. In regard to disbursement of public funds by governmental entities, opinions of the Florida Attorney General consistently state that each expenditure should identify the public purpose served. Based on that premise, we recommend that the Airport seek further guidance as to this purchase.

Other Issues

We noted one instance where a P-Card was used to buy flowers (\$62.50) for the funeral of an employee's father-in-law. City policies do not address the use of City funds for that purpose. While we are aware of staff's concern for the employee and family, it appears that purchase should not have been made from City funds. In response to our inquiry, Airport staff indicated that

subsequent purchases of this nature would be paid by alternate methods. (Facilities Maintenance Division)

Two instances were noted where sales taxes were paid (\$3.85 and \$.84) on P-Card transactions. Attempts to recover those taxes had not been made at the time of our inquiry. In discussions with the supervisor of Finance and Administration and the manager of the Facilities Maintenance Division, we recommended that reasonable efforts be made to recover sales taxes when inappropriately paid. We suggest that such efforts be documented and take into account the amount of taxes paid (i.e., cost of recovery efforts versus amount of taxes paid). (Facilities Maintenance Division and Business Services)

During our testing we also noted instances where vendor invoices were not marked or defaced to clearly indicate that payment with a City P-Card had been made. Not marking or defacing vendor invoices increases the risk that such invoices will be processed and paid again. This issue was not addressed as part of our initial Airport P-Card audit. However, it is an issue that has been noted in various City departments and offices during our current City P-Card audit. We are recommending that City departments and offices implement a standard approach to marking/defacing vendor invoices as paid. The most common approach being selected to date is obtaining and using a stamp indicating "Paid by City P-Card."

Conclusion

Airport management has asserted that their actions have been with the best intent and, as managers, they need a reasonable amount of flexibility in order to manage effectively. To this point, our audit did not show any evidence of fraud or illegal acts. However, we do believe Airport management could do a better job of documenting certain expenditures. The documentation should take into consideration the reasonableness and necessity for the expenditure, the public purpose served, and the identified direct benefit accruing to Airport operations. Generally, we are pleased to note that the Airport staff has been very responsive to implementing

corrective actions for the issues noted in our initial audit report "P-Card Controls at the Airport" (#0301) and is responsibly awaiting the finalization of our follow up process and this additional audit in order to address new or continuing issues before finalizing training for the Airport's cardholders and their supervisors.

Response from Appointed Official

City Manager:

The mission of the Tallahassee Regional Airport is somewhat unique when compared to other city operations. To continue to be successful, airport staff must adhere to the financial safeguards that are incumbent upon the expenditure of public funds as well as utilizing policies and procedures more commonly associated with the private sector.

In addition to operating an around the clock, safe facility for use by private, commercial and military aircraft, the Airport is the landlord to multiple airlines, rental car companies and other tenants. It operates large parking facilities, interfaces with federal security forces and serves as host to more than one million airline passengers each year.

It must be an aggressive marketer of its services, continuously seeking ways to grow and encourage more citizens to use its facilities. It is also about to embark into the economic development field as it begins to recruit companies to locate to airport property and expand the community's economic base.

To accomplish its multi-faceted mission, the airport staff needs the ability to be flexible, creative and responsive. It also must be a responsible steward of public funds and take all reasonable steps to responsibly document its expenditures.

Therefore, City Management appreciates the constructive advice contained in this report on Airport P-card activity and will take necessary steps to protect the public while at the same time encompassing private sector concepts and ideas to guide the growth and prosperity of the airport.

Copies of this Audit Report #0402 (or Audit Report #0301, P-Card Controls at the Airport, or Audit Follow-Up Report #0401 Follow Up P-Card Controls at the Airport) may be obtained from the City Auditor's web site (<http://talgov.com/citytlh/auditing/index.html>), or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (auditors@talgov.com).

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