

# City of Snohomish

## *General*

*Code:* 07Snohomish-AC16-FS16  
*Name:* City of Snohomish  
*Group:* Everett  
*Type:* 07-City/Town  
*Location:* Snohomish  
*Scope:* Not Applicable

## *Team*

*Lead:* Matthew Heist  
*Manager:* Tina Hjorten

## Procedures

### D.3.PRG - Credit Cards

*Procedure Step:* Credit Cards

*Prepared By:* MM, 10/30/2017

*Reviewed By:* TMH, 12/6/2017

<b>Purpose/Conclusion:</b>
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# City of Snohomish

Purpose:

to gain an understanding of the entity's process for ensuring adequate controls over credit cards.

Conclusion:

We determined to perform a review of the City's credit card policies and ensure the City has appropriate controls to monitor and safeguard the use of credit cards. We found the following potential issues.

- **The City is not following its policy by allowing the Service Manager to authorize the use of fuel cards, which should be done by the Finance Director.**
- **The City is not following its policy by not requiring employees with Home Depot cards to sign an affidavit.**
- **The Service Manager has the authority to use, review, and authorize fuel cards. Further, he also has access to all employee's personal pin numbers. This is a lack of segregation of duties.**
- **Not all users of credit cards, store cards, and fuel cards are required to sign an affidavit to document an employee's understanding of expectations of use.**

**We will add this to our recommendation as seen at [E: Credit Cards](#)**

**Testing Strategy:**

Accountability audit topics (scope)	Audit risk(s) (what could go wrong?)	Planned audit procedures
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<p>Credit Cards</p>	<p>Public Works Department - The City submitted a loss report (F-17-209) to our office due to fraudulent charges on the City's credit card. Initially we closed the loss report, however, upon further information from the City during the planning of our audit, we found the card was given to another employee to use, and this employee stated he lost the card (5/19/2017 Friday). However, upon further information we found this employee is dating another employee, and the fraudulent activity occurred during the birthday weekend of this employee. First, there is a risk the City is not following its credit card policies by allowing other staff to use the credit card. Further, there is a potential risk that the card charges were done by an employee and not some random citizen.</p> <p>The City has 11 personnel with a Visa card, 19 with a Home Depot Card, and 44 with a Fuel card. There is a risk the City does not have adequate monitoring over the use of the different cards to ensure charges are only for legitimate City purposes.</p> <p>The City has experienced three separate instances of fraudulent charges on the City's credit cards (all of these were cards that belong to the Public works department). One has been reported to SAO, but there is suspicion that the charges could be more than petty theft and potentially involve employee involvement. There was concern brought up about this through our risk assessment inquiries. There is a risk the City doesn't have adequate controls or following its policies to ensure proper use of the City's credit cards.</p>	<p>We will perform a review of the City's credit card policies and ensure the City has appropriate controls to monitor and safeguard the use of credit cards. We will be mindful of any employee involvement of misuse as we identified some risks that may indicate potential employee involvement in misuse of credit cards. We will also look through credit card transactions and judgementally select some to test for proper use.</p>
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**Policy/Standards:**

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## Record of Work Done.

Based on the risks we identified , we determined to perform a review of the City's credit card policies and ensure the City has appropriate controls to monitor and safeguard the use of credit cards. We will be mindful of any employee involvement of misuse as we identified some risks that may indicate potential employee involvement in misuse of credit cards. We will also look through credit card transactions and use a good judgment to select some to test for proper use. Our write up is seen as follows:

### Key Personnel:

Kaylee Beckell, Accounting Technician  
Diana Bruland, Senior Account  
Debbie Burton, Finance Director  
Mike Johnson, Service Manager  
Larry Bauman, City Manager

### Write-ups:

**Gain an understanding of the entity's process for ensuring adequate controls over credit cards:**

### Credit Cards:

We met with Diana Bruland, Senior Accountant to understand the city credit card internal control process and procedures. She explained that when a department employee requests a new credit card , she or he will send an email to his or her manager for an approval including the reason for the request . The department head or departmental manager will approve and send an email to the finance director, Debbie Burton for her approval. When Debbie approves , she will send an email to Diana to process the new credit card order through Kaylee Beckell. There is a spending limit of \$2,499 on every credit card. She will have the employees with a bank credit card sign a Bank Card User Agreement; **however, not for the Home Depot cards. Also, supervisors are allowed to lend their card to employees for use. However, the City does not have these users sign a credit card agreement.** When an employee or a manager makes a purchase, he or she writes the description and reason for the purchase on the receipt along with the email or stamp approval. Every month, Kaylee will receive the monthly invoice, she will send them to the department heads for review. The department head , reviews and approves code to proper accounts. If the invoice or receipt is missing , Kaylee will request the appropriate documentation with that department head. When required documentations are received ,she will enter all the data into the city system (Springbrook). Next, she will send that documentation to Diana for verification. These reports include all transactions which have taken place during the month and what employee's card they were charged to. Diana then compares these transactions to records she has on file and also checks to make sure purchases are reasonable. Receipts from City employees are attached to make sure purchases comply with the City's purchasing policy. The manager's signature indicates they reviewed the transaction, it complies with the City's purchasing policy, and they approve of the purchase. . She will forward the documentation to Debbie for her review and approval. When approved, Kaylee will send send the statement invoice and the prepared check to Larry Bauman , the city manager for review and approval. If the city manager or City Council

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member is unsure of a specific charge, he or she will go back to the source to determine if the charge is appropriate. Depending on the invoice, the city manager will have the council members review and approve. When approved, Kaylee will process the payment.

We met with Kaylee Beckell, Accounting technician, she described the city credit card internal control process and procedures the same way as Diana Bruland. All purchases should be recorded along with the receipt. She gets a pdf of all the transactions along with the receipts to Diana for her approval for payment processing. Diana Bruland, the Senior Accountant will ensure proper support is obtained and purchases appear to be for City purposes. After verifying, she will approve it. Kaylee will send the statement then to Larry Bauman, City Manager for another approval before processing the payment.

We also met with Mike Johnson to discuss his process and review over credit cards. When an employee needs to make a purchase, they will request to use Mike's credit card. Mike has a log book of all transactions on his card. He will log the date and reason for the purchase. He will also list the estimated total. Once the person makes the purchase, they will return the card along with the receipt. The card is typically returned within 24 hours. Mike will update his log book to identify the actual price of the purchase. After, the purchase goes through the same process as mentioned above.

### **Issue Identified:**

- **The City does not have all employees using credit cards, Home Depot cards, or store accounts sign agreements to indicate they understand proper use of credit cards.**

### **Home Depot Cards:**

The Home Depot card program follows the same procedure as the credit card program. Please see above. When an employee makes a purchase, he or she turns-in the receipt and states the description of the item purchased to Mike Johnson for review. Mike then reviews the purchase for reasonability based on his memory of the operations at the City. Every month, Diana will get the monthly bill, fill a slip and send it to him for review. He will review it to ensure proper use. He will approve and send it to Kaylee for payment processing. However, Mike Johnson stated that he did not keep a log on the Home Depot credit card.

We performed testing over the credit card transactions and Home Depot transactions for allowable and reasonable use at Credit Cards Testing. We judgementally selected risky transactions by analyzing the credit card statements that had vague descriptions and/or higher amounts. We specifically focused most our purchases from Public Works, as this was the area we have identified the highest risks of potential misuse of credit cards.

### **Fuel Cards:**

We met with Mike Johnson, service manager in regards to the Fuel and credit card internal control process. He explained that when there is a need to issue a fuel card, he will go online and apply for the new card through the Voyager System or call the bank directly. He will at the same

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time notify Diana of the request. Each vehicle has its own fuel card and each employee has a PIN number that he or she uses for any of the fuel cards. When an employee gets fuel, he or she swipes the credit card (which is linked to the specific vehicle) and then inputs their pin number to authorize the purchase. Some of the vehicles has a second fuel card for the purpose of filling up fuel cans. These cards are used the same way. The Voyager System tracks the fuel cards and will not allow any purchases that are not fuel related. **The employees don't sign an affidavit, commercial card procedure for use, and card holder responsibility upon receiving the card.** Each employee mainly uses the same vehicle. Car washes are allowed on some of the vehicles. These are cars that are used by City Hall staff because they don't have attire to wash the car at the City's car wash. Mike and Debbie are the only people who have access to the list of vehicles that are under his department and all the employees PIN Numbers. When an employee put fuel in the vehicle by entering his or her PIN number, he or she turns-in the receipt and states the vehicle/equipment being fueled to Mike Johnson for review. Mike then reviews the purchase for reasonability based on his memory of the operations at the City. Mike also pulls a statement from online that shows each transaction for the period specificized. Each transaction is color coordinated so Mike can easily see what type of fuel was purchased, whether diesel or regular gas. Every month, Diana will get the monthly bill, fill a slip and send it to him for review. He will review it to ensure proper use. He will approve and send it to Kaylee for payment processing. **However, Mike is a user of the fuel cards but is also a reviewer of the fuel cards. Further, Mike has access to everybody's personal pin number. This is a lack of segregation of duties.**

### **Issues noted:**

- **The City's Credit Card policy states "The Finance Director will authorize the opening, use and distribution of all commercial cards." Based on our conversations, we found the City's fuel cards are not authorized by the Finance Director but authorized by the Services Manager.**
- **The City's Credit Card policy states "All cards authorized to employees must be activated with a member of finance staff along with a signed affidavit noting Financial Management policy, commercial card procedures for use, and card holder responsibility." We found the City does not require employees with Home Depot cards to sign the affidavit.**
- **The Service Manager has the authority to use, review, and authorize fuel cards. Further, he also has access to all employee's personal pin numbers. This is a lack of segregation of duties.**
- **It is a best practice to have all users of credit cards, store cards, and fuel cards to sign an affidavit to document an employee's understanding of expectations of use.**

**We will add this to our recommendation as seen at [E: Credit Cards](#)**

### **Loss Report F-17-209:**

The City also reported a loss report to our office (F-17-209) over a credit card that was lost and had unauthorized charges, which we subsequently closed due to the initial nature of the loss report. However, when we were onsite, there were some concerns from staff that the loss could have involved a potential employee. We found out the person (Joe Hopper, Parks Lead) who lost the card is dating the AP/Payroll

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Accounting Technician (Kaylee Beckell). We were told the card was lost right before her birthday weekend. Therefore, we reach out to Sarah Walker, Fraud Manager to determine if we wanted to look more into the loss report. Sarah suggested we review the Police investigation report to determine if further work needed to be performed. We also reached out to Mike Johnson, Services Manager (authorized user of the card) to discuss the scenario surrounding the loss report. We noted the following:

### Mike Johnson -

As mentioned above, we discussed with Mike the controls over his credit card. Mike does allow his staff to use it, but he keeps a log of when a person uses it, a description of the use, and the price of the purchase (estimated price and then he changes the price if need be) prior to giving it to the staff member. The staff member is expected to return the card as soon as possible, typically with in a couple hours (however there are a few exceptions when a person will return it the next day). Mike keeps the card in a notebook, which stays in his office. When Mike is not in his office, he locks the door.

As to the loss report, Mike mentioned the staff member (Joe Hopper, Parks Lead) was in the City of Everett for City purposes. Somehow Joe misplaced the credit card and informed Mike of the loss that same day. When they contacted the credit card company, there were already charges on the card.

However, we asked Mike if he recalls why Joe was in the area, and Mike was unsure of the reason. Since Mike records the reason why a person needs the card prior to giving the card, we asked if his log stated anything. There was no record of a purchase to be made that day by any staff. Therefore, Mike was unable to verify why Joe was in the area with his credit card.

Two of the purchases were made at the QFC in Everett (determined based on store number reported on credit card statement). Mike stated that the person purchased meat . Mike was unsure whether it was a joke everybody talked about, or whether the credit card company told him such.

Based on our conversation with Mike, we determine there are unique situations (such as the reason for Joe having the card not being identified) that cause us to exercise professional skepticism with the loss report. Therefore, we reached out to the Officer who performed an investigation to determine if there are any findings that would help us either alleviate our concerns or substantiate our concerns.

### Deputy Jason Harris -

Deputy Harris is a Snohomish County Sheriff that is an officer for the City of Snohomish (the City contracts with the Sheriff's office for Police Services). Deputy Harris mentioned that he only created the initial loss report and sent it to the Snohomish County Sheriff's Department Detective Division. He provided us with Detective Grieve's number and we called Detective Grieve. Detective Grieve found the case has not been reviewed yet, therefore we can not rely on any investigative work performed by the Sheriff's Department.

We talked with Sarah Walker, Fraud Manager of our findings. Since a couple charges were done at a chain grocery store (QFC), we determined to make one last effort to determine if there was any employee involvement. We talked with Debbie Burton, Finance Director, who reached out to QFC and determine if there was any rewards number that was used. Debbie got a reply on 11/9/2017 from the store confirming there was no rewards number that was used. Therefore, we are unable to determine whether or not there was employee involvement.

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As noted above, we performed testing of the credit card statements and the Home Depot card. We did not identify any other indication of misuse of public resources, therefore we will pass on further review.