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TO: Mary Hull Caballero, City Auditor

FROM: Tom Rinehart, Chief Administrative Officer
Michelle Kirby, Chief Financial Officer

DATE: Tuesday, April 13, 2021

RE: Performance Audit Response – City Procurement Cards

We thank the Auditor's Office for their work on this Audit Report. The Procurement Card Program allows for the purchase of goods and services up to \$10,000 (with some exceptions), the current small procurement threshold, and provides the City an avenue to make purchases without a contract or purchase order. The City initially implemented the Procurement Card Program over 15 years ago. Since then, the program has saved the City significant administrative payment processing costs as the program has steadily grown. During fiscal year 2019-20, the Procurement Card Program served over 1,200 procurement cardholders and processed nearly 67,000 transactions, accounting for \$15.4M in spending.

21 transactions of the original 10,522 that the Auditor's Office reviewed were found to be out of compliance. As the audit report points out, however, "[t]he judgmentally selected samples are not statistically valid, so results cannot be projected to the entire population" of procurement card transactions. So, while we cannot use this report to fully evaluate risk, the report does identify several areas of ambiguity in and non-compliance with City policies that OMF intends to address. Last year, Procurement Services released a Request for Proposals for and selected a new procurement card provider. Transitioning to a new procurement card payment management-system will drive improvements in the program and provide a timely opportunity to address the recommendations in the audit, to update the manual, and to clarify roles and responsibilities for compliance monitoring and rules enforcement.

The following are our responses to recommendations in the Audit Report.

1. Procurement Services should update the manual to ensure that the rules it references are accurate and enforceable.

Procurement Services agrees that the Procurement Card Program manual needs updating so that the rules are accurate and enforceable. In March 2020, Procurement paused releasing an updated version of the manual when the Auditor's Office initiated this audit of the Procurement Card Program.

Additionally, the City will transition to a new procurement card vendor in the latter half of 2021, and this transition will drive substantial change in the program, necessitating the release of an updated manual. Procurement Services will update the manual as this recommendation suggests, in line with the timeline driven by the transition to the new vendor.

2. Procurement Services should implement certification and recertification testing to ensure cardholders can demonstrate knowledge of rules.



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As mentioned above, the Procurement Card Program will transition to a new vendor in the latter half of 2021. The new vendor's system includes cardholder certification and recertification testing functionality, which Procurement Services will utilize to ensure that cardholders can demonstrate their knowledge of the rules. Procurement Services will use the transition to the new vendor system as an opportunity to set expectations for the program's improved processes, including the implementation of certification and recertification testing.

3. Procurement Services should ensure that the Bureau of Technology Services has direct access to Citywide procurement card transaction data so it can use the data to identify violations of technology purchasing rules and opportunities to maximize savings.

Procurement has already granted the Bureau of Technology Services' Technology Purchasing & Cellular Services Supervisor direct access to citywide procurement card transaction data. This took place on January 19, 2021. Prior to this, Procurement periodically ran reports at the request of the Bureau of Technology Services.

4. The Office of Management and Finance should determine who is responsible for monitoring compliance with rules throughout the purchase cycle and ensure they have the appropriate authority to enforce them.

OMF agrees it can significantly improve the clarity of the specific responsibilities that various parties have for monitoring that procurement card transactions comply with City expenditure policies. These various responsible parties include procurement cardholders, approvers, bureau accounting & finance staff, procurement card program administrators, and the City Controller. To this end, OMF plans to convene these responsible parties to draft and adopt a policy that clearly documents these roles, responsibilities and enforcement options. This will occur concurrent with the implementation of the new procurement card vendor system slated for the latter part of 2021.

5. Procurement Services subsequently should update its manuals to incorporate the responsible parties.

When the City implements the new procurement card vendor system the latter half of 2021, Procurement Services will clarify and clearly communicate roles and responsibilities for monitoring compliance and enforcing rules regarding procurement card usage among cardholders, approvers, and bureau accounting & finance staff, procurement card program administrators, and the City Controller. These roles and responsibilities will be clearly documented in the program documentation (e.g., policy manual) as well as in training materials and other communications.

6. The Office of Management and Finance should develop a Citywide policy to address the purchase, documentation, safeguarding, and appropriate use of gift cards, including guidance specific to rewarding volunteers.

The City was operating under a declared state of emergency during the test period. The state of emergency created an increased need for volunteers and bureaus were working under a tremendous amount of pressure, while handling multiple unfolding crises. Further, this is a complex area which needs to involve Human Resources and Legal expertise regarding the appropriate methodology for rewarding volunteers, and also requires Treasury expertise related to the controls for proper safeguarding and usage of gift cards. Therefore, the Office of Management and Finance will convene a team of subject matter experts to recommend the appropriate policy actions needed to address this issue – with the goal of developing and approving the policy within the next year.



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Cc: Ted Wheeler, Mayor
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