

A close-up photograph of a person's hands working at a desk. The person is wearing a blue denim shirt and is holding a silver credit card in their right hand while typing on a silver laptop with their left hand. The scene is brightly lit by natural light from a window in the background, creating a warm, golden glow. A pair of glasses is visible on the desk to the left of the laptop.

CITY OF CORAL GABLES, FLORIDA

Internal Audit of Home Depot Card

February 2021

Distribution:
Mayor and City
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EXECUTIVE SUMMARY

Overview

Crowe LLP (“Crowe” or “we”) performed internal audit procedures related to the City of Coral Gables’ Home Depot card. The objective of the procedures was to test if the City had proper policies and procedures in place to ensure that purchases on the Home Depot card were paid for in a timely manner. Crowe performed procedures to determine if the Home Depot card statements were being properly reconciled by the City, and if the policies and procedures surrounding the Home Depot card sign-out are being followed. Crowe reviewed policies and procedures, conducted interviews with personnel, and sampled card logs and reconciliations.

Summary of Results

The following is a summary of our observations as a result of our procedures. We listed the opportunity for improvement and corresponding risk rating.

Process	Observation #	Opportunity for Improvement	Risk Rating**
Policies and Procedures	1	No formal written policies and procedures	High
Card user	2	Develop a list of authorized Home Dept card users	Moderate
Audit trail	3	Safekeeping of receipts and retention	Moderate
Invoice Payment	4	Timely payment of invoices	Moderate
Reconciliation	5	Monthly statement reconciliation	Moderate

**For explanation of *Risk Rating* determination, refer to page 5.

INTRODUCTION

Background

The City of Coral Gables (The City) has two Home Depot cards that are used for in-store purchases by various City departments. This allows any employee, with supervisor approval, to make tax-exempt purchases the same or next day.

Objective and Scope

The objective of the procedures performed was to evaluate and test the design and effectiveness of selected internal controls, and to see if policies and procedures were being properly followed. In summary, this internal audit evaluated the following:

- Assess if the card sign-out process is designed effectively, and policies and procedures are being properly followed.
- Determine if the Home Depot statement is being properly reconciled and supported by proper documentation.
- Determine if purchases are being paid by the due date indicated on the monthly statements.
- Determine if improvements can be made to streamline the process.

The detailed procedures performed can be found starting on page 6 of the report.

Although our testing was performed in some areas without exception, we can provide no assurance that exceptions would have been detected had procedures been changed or expanded.

It should also be recognized that internal controls are designed to provide reasonable, but not absolute, assurance that errors and irregularities will not occur, and that procedures are performed in accordance with management's intentions. There are inherent limitations that should be recognized considering the potential effectiveness of any system of internal controls. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes on judgment, carelessness and other factors.

Internal control procedures can be circumvented intentionally by management with respect to the execution and recording of transactions, or with respect to the estimates and judgments requirement in processing of data. Controls may become ineffective due to newly identified business or technology exposures. Further, the projection of any evaluation of internal control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, and that the degree of compliance with procedures may deteriorate.

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Risk Management

Risks are evaluated based on its “significance” to management’s strategy and its “likelihood” to occur. This will result in a risk profile of the highest risks to the organization as presented below:



OBSERVATIONS AND RECOMMENDATIONS

PROCEDURES PERFORMED	RESULTS
<u>General Operations</u>	
1) Review the policies and procedures in place surrounding the Home Depot card sign-out process and statement reconciliation.	<p>Crowe obtained processes to gain an understanding of the card sign-out process and statement reconciliation.</p> <p>Crowe noted opportunities for improvement relating to policies and procedures currently in place.</p> <p>Refer to opportunity for improvement 1.</p>
2) Gain an understanding, through communications with management and key personnel, of the internal operations and document internal controls over key procedures.	<p>Crowe performed interviews and discussions over the course of the audit. Interviews were held with key personnel within the City.</p> <p>Compliance with policies and procedures were reviewed and tested throughout all aspects of the audit.</p>
3) To ensure the Home Depot card sign-out process and policy was being followed, Crowe performed the following: <ol style="list-style-type: none"> a) Obtained the sign-out sheet for four months b) For the four months selected, Crowe tested: <ol style="list-style-type: none"> i) Employee had supervisor approval ii) Employee sign-in and signed-out iii) Procurement employee signature acknowledging receipt of card. 	<p>There were no exceptions to attributes ii and iii. As noted during the interview, there is no procedure in place to check if employees have obtained supervisor approval to check out the Home Depot card.</p> <p>Refer to opportunity for improvement 2.</p>
4) To ensure that the Home Depot statement is being properly reconciled, Crowe performed the following procedures: <ol style="list-style-type: none"> a) Obtained the reconciliation package for four months b) For the four months selected, Crowe tested: <ol style="list-style-type: none"> i) Every transaction on the statement is supported by a purchase order, a receipt, and proof of payment. ii) Invoices were paid by the due date. 	<p>During our interviews and testing we noted that there is not a timely monthly reconciliation that is provided by the Departments to the Finance Department. Refer to opportunity for improvement 5.</p> <p>During our testing we noted that not all transactions were supported by a receipt. Refer to opportunity for improvement 3.</p> <p>During our testing we noted that some invoices included on the monthly Home Depot statements were paid after the due date. Refer to opportunity for improvement 4.</p>

OBSERVATIONS AND RECOMMENDATIONS

1. OPPORTUNITY FOR IMPROVEMENT – No Formal Written Policies and Procedures: HIGH RISK

Although there is documentation of the Home Depot card process, the documentation is high level and does not appear to be incorporated in the City's procurement/accounting policies. There is no formal documentation of the policies and procedures in place regarding a department's responsibility to reconcile their respective Home Depot monthly statements including reconciliation to the purchase order, purchasing thresholds, authorized users, record retention and actions to be taken if employees misuse card privileges.

Recommendation: We recommend that formal written policies and procedures be developed in conjunction with the City's procurement policies to include, at a minimum, the following:

- Purchasing thresholds
- Record retention of receipts
- Authorized users including criteria and procedures to ensure only authorized users have the ability to check out cards
- Reconciliation procedures and responsibilities to include matching purchases to purchase orders
- Department responsibilities to reconcile the monthly Home Depot statements and proper recording and payment of the expenditures
- Consideration of written agreement to be signed by authorized users to use the Home Depot card and disciplinary or other actions to be taken for not following procedures or providing supporting documentation for all purchases.

Management Response/Action Plan:

The City agrees with the findings and recommendations. Working closely with a consultant, the City of Coral Gables is in the process of developing and documenting citywide Standard Operating Procedures (SOP) for all major processes. As part of these SOPs, the Finance Department is developing a policy and procedure for Home Depot Cards.

2. OPPORTUNITY FOR IMPROVEMENT – Maintenance of Home Depot cards and List of Authorized Card Users: MODERATE RISK

There are two Home Depot cards currently housed in the Procurement Division of the Finance Department for checkout. When employees wish to checkout a Home Depot card, they are required to go to Procurement to sign out the card for use to make purchases at Home Depot and then return to Procurement to check the card back in. There is no formal procedure that Procurement follows to make sure that the employee has supervisor approval and is mostly based on familiarity with the employee. This presents a risk that employees without supervisory approval or terminated employees may checkout the card and make unauthorized purchases.

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Further, the process is not efficient for those departments that are housed in the City Hall area. The Procurement Division is housed at the Public Works site outside of City limits and several miles from City Hall. Public Works employees represent approximately 90 percent of the card users. The other 10 percent represent users from the City Hall area.

In follow up discussion by City staff with Home Depot, beginning in April 2021, Home Depot will be updating procedures in order to comply with Federal regulations. These procedures include the necessity to maintain an authorized user list that contains specific identifying information for each employee. Further, the City employee must be on the Authorized user list and present a form of personal identification and City identification in order to make purchases.

Recommendation: We recommend the following:

- A listing of approved Home Depot card users be developed by each City Department and provided to the Finance Director (as the official account holder) who should share the compiled lists with Home Depot Corporate (by April 2021) as well as the Public Works administrative office and the Finance Cashier. This list should be used whenever an employee checks out his/her respective card. The list of authorized users should be updated on a quarterly basis or in accordance with the new Home Depot requirements. If major staff changes occur, the list should be updated more often as needed.
- The City should request a Home Depot card for each employee on the authorized user list and that Public Works' employee cards be held by the Public Works' administrative office for a sign in/out process controlled by the Office Manager, and the remainder of the City department cards be held at the Finance Department in City Hall for a sign in/out process controlled by the Finance Cashier.
- All authorized card users should be required to show their employee identification card each time they check out their Home Depot cards. Upon checking the card back in, the employee should submit the purchase receipt along with the card. For Public Works held cards, the receipt should then be sent to the appropriate account payable staff in Public Works. For the Finance Cashier held cards, the Cashier should forward the receipts to the Accounts Payable staff at City Hall.
- The City should design and utilize a new log that includes the employee ID, merchandise description and Home Depot invoice/receipt number.

Management Response/Action Plan:

The City agrees with the findings and recommendations. The process by which the Home Depot Cards are issued is changing with the card company beginning April 1, 2021. Moving forward, individual cards will need to be assigned to authorized users. The cards will still be maintained in a centralized location and the process by which employees sign out the cards will be documented in the policies and procedures.

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3. OPPORTUNITY FOR IMPROVEMENT – Safekeeping of Receipts and Retention: MODERATE RISK

Employees who make a purchase at Home Depot are given an itemized receipt. During our detail testing of 105 purchases, we noted 10 instances where there was no supporting documentation provided. The receipt is needed to facilitate returns and to reconcile items bought to purchase orders and properly record transactions.

Recommendation: We recommend that policies and procedures be developed to require authorized users be held responsible for providing receipts for each purchase to their Department at the time the card is checked back in, and that receipts are maintained for a proper audit trail.

Management Response/Action Plan:

The City agrees with the findings and recommendations and will incorporate specific procedures as to the submission of receipts.

4. OPPORTUNITY FOR IMPROVEMENT – Timely Payment of Invoices: MODERATE RISK

After purchases are made, each Department is responsible for paying their invoices in a timely manner. The City's policy follows the Prompt Payment Act which per Florida statute is 45 days after receipt of the invoice. The receipt that is provided at the time of purchase would trigger the 45-day payment timeline. During our testing of 105 purchases, we noted 23 purchases were not paid within the 45 days, with late payments ranging from 46 days to 135 days.

Recommendation: We recommend that invoices be paid before the indicated due date on the monthly statements and within the City's policy. Although Home Depot does not charge the City a penalty for late payments, it is best practice to pay invoices on a timely basis. Consistent late payments may result in an implementation of late fees or charges and can result in Home Depot declining purchases made with the cards.

Management Response/Action Plan:

The City agrees with the finding and recommendation. The new policy and procedures will allow for a timelier reconciliation of receipts and payments.

5. OPPORTUNITY FOR IMPROVEMENT – Monthly Statement Reconciliation: MODERATE RISK

During our review of procedures through interviews with City staff we noted that each Department pays their own Home Depot purchases and the Finance Accounts Payable Clerk attempts to reconcile the payments to the charges reflected on the statement. If the Accounts Payable Clerk identifies purchases that have not been paid for by a department, it is difficult for the Accounts Payable Clerk to determine which department made the unpaid purchases. Per a discussion by City staff with the Account Manager at Home Depot, the monthly Home Depot

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statement can include the corresponding purchase order number for each purchase if the purchase order number is provided to the Home Depot cashier at the point of sale and that the City has the ability to access detail purchase information on a Home Depot website.

Recommendation: We recommend that the Finance Department develop procedures and a timeline for each Department to follow to complete their reconciliation of the purchases to the monthly statements and provide the reconciliation and supporting documents to the Finance Accounts Payable Clerk. We recommend that the procedures include penalties for untimely preparation and lack of supporting documentation in the form of revocation of card privileges.

We also recommend that the City employees provide the purchase order when making purchases and the City assist the Departments with access to the Home Depot website in order to facilitate the timely completion of monthly reconciliations.

Management Response/Action Plan:

The City agrees with the findings and recommendations. The new process of having an individual card for each user, will allow for ease of identifying which transaction has not been processed by the corresponding department. The online account portal will identify transactions by individual users (instead of by purchase order number).