

1 FRANK H. OGAWA PLAZA • OAKLAND, CALIFORNIA 94612

Office of the City Auditor
Roland E. Smith, CPA
City Auditor

(510) 238-3378
FAX (510) 238-7640
TDD (510) 839-6451
www.oaklandauditor.com

Council Meeting Date: November 8, 2005

OFFICE OF THE MAYOR

IGNACIO DE LA FUENTE, PRESIDENT
AND MEMBERS OF THE CITY COUNCIL
OAKLAND, CALIFORNIA

Attention: Finance and Management Committee

**SUBJECT: INTERIM REPORT ON PERFORMANCE AUDIT OF CITY-
GUARANTEED CREDIT CARDS USED BY CITY OF OAKLAND
EMPLOYEES AND COUNCIL MEMBERS FOR THE PERIOD MARCH
30, 2004 THROUGH JUNE 28, 2004**

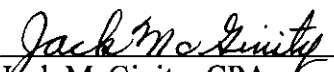
Attached is our report the performance audit of City guaranteed credit cards.


Although we conducted our audit in accordance with Generally Accepted Government Auditing Standards, as issued by the Comptroller General of the United States, our report does not contain the views of the City Administrator. On March 9, 2005, we gave the City Administrator a copy of the draft report, discussed the contents of the report with her, and asked for her written comments. However, we have not received them to date.

The City Auditor is elected by the citizens of Oakland to serve as an officer in charge of an independent department auditing City government activities. The independence of the City Auditor is established by the City Charter.

Prepared by:

Issued by:


Jack McGinity, CPA


Roland E. Smith, CPA, CFS
City Auditor



George Briggs
Deputy City Auditor

Field work completion date: April 7, 2005

Issue date: October 5, 2005

Attachments:

OFFICE OF THE OAKLAND CITY AUDITOR

REPORT ON

**PERFORMANCE AUDIT OF CITY-GUARANTEED CREDIT CARDS
ISSUED TO CITY OF OAKLAND EMPLOYEES AND COUNCIL MEMBERS
FOR THE PERIOD MARCH 30, 2004 THROUGH JUNE 28, 2004**

05011

Item # _____
Finance and Management Committee
November 8, 2005

**OFFICE OF THE OAKLAND CITY AUDITOR
REPORT ON PERFORMANCE AUDIT OF CITY-GUARANTEED CREDIT CARDS
ISSUED TO CITY OF OAKLAND EMPLOYEES AND COUNCIL MEMBERS
FOR THE PERIOD MARCH 30, 2004 THROUGH JUNE 28, 2004**

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05011

OFFICE OF THE OAKLAND CITY AUDITOR
REPORT ON PERFORMANCE AUDIT OF CITY-GUARANTEED CREDIT CARDS
USED BY CITY OF OAKLAND EMPLOYEES AND COUNCIL MEMBERS
FOR THE PERIOD MARCH 30, 2004 THROUGH JUNE 28, 2004

***EXECUTIVE
SUMMARY***

The City of Oakland established a Credit Card program for selected City employees and Council members with Bank One effective October 1, 2000. Although the stated purpose of the program is to provide a convenient, carefully controlled, cost-efficient method for making numerous low-dollar-amount purchases, many Cardholders have abused the program, i.e., they have used it to circumvent the City's controls over purchases of goods and services. This occurred because the City did not set up adequate controls, or the Cardholders and their managers did not implement the controls that do exist.

During our audit, which covered the period March 30, 2004 through June 28, 2004, Cardholders made 141 purchases totaling \$34,524.04 -- an average of \$244.85. Individual purchases ranged from \$2.68 to \$2,317.38.

FINDINGS

1. The City is potentially liable for \$350,000 in Credit Card purchases.
2. Responsible City Officials did not establish controls that are adequate to protect the City against risk of loss from fraud or abuse, and did not enforce the controls that were established.
3. Some Cardholders did not submit the required documentation for purchases.
4. Some Cardholders did not respond to the City Auditor's questions regarding the Credit Card program.

This does not necessarily mean that Cardholders have intentionally abused the program. Nevertheless, the City has allowed these abuses to occur by failing to adequately monitor the program.

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RECOMMENDATIONS

We recommend that the City Administrator:

- 1) suspend the Credit Card program until all the controls set forth in Administrative Instruction 1055 have been established; and ensure that the controls are enforced;
- 2) reduce the number of individual Cardholders, especially those whose credit limits exceed \$5,000;
- 3) determine how much total Credit Card risk the City is willing to accept;
- 4) require each Cardholder to sign an Indemnity agreement to repay the City for all unauthorized purchases;
- 5) cancel the Credit Cards of those Cardholders who:
 - a. made purchases that were not supported by detailed receipts;
 - b. did not make the required monthly review of their purchases; or
 - c. did not respond to the City Auditor's requests for information or documentation at all, as well as the twenty-one (21) Cardholders who did not send the City Auditor detailed receipts and/or other documentation supporting their purchases;
- 6) recover the cost of purchases made by Cardholders who:
 - a. made purchases that were not supported by detailed receipts;
 - b. did not make the required monthly review of their purchases; or
 - c. did not respond to the City Auditor's requests for information or documentation at all, as well as the twenty-one (21) Cardholders who did not send the City Auditor detailed receipts and/or other documentation supporting their purchases.

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BACKGROUND

The City of Oakland entered into a Purchasing Card (Credit Card) Agreement with Bank One on October 1, 2000, in order to provide a convenient, carefully-controlled, cost-efficient method for purchasing numerous low-dollar-amount goods and services. Pursuant to the Agreement, Bank One issues Credit Cards under the MasterCard symbol that can be used wherever a MasterCard is accepted. As of June 28, 2004, thirty (30) City employees and two (2) City Council members held credit cards with limits totaling \$376,500.

Monthly Statements

The Bank mails two types of billing statements each month:

1. to each Cardholder, an itemized statement showing their card's purchasing activities; and
2. to the City's Credit Card Administrator, a summary billing statement showing all purchases made by each Cardholder.

The City is required to pay Bank One fourteen days (14) days after the end of the billing cycle via an electronic funds transfer.

Responsible Officials

The City officials responsible for making sure that Cardholders comply with the City's Purchasing Guidelines are:

- Director, Finance and Management Agency (formerly Financial Services Agency)
- Treasury Division Manager
- Purchasing Card Administrator
- The Purchasing Division Manager
- Cardholder's Agency or Department Head
- Purchasing Card Liaison (selected for each Department)
- Cardholder's Supervisor/Manager

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OBJECTIVE

As provided by Administrative Instruction 1055, effective April 15, 2002, we have conducted a performance audit of the City-guaranteed Credit Card program. The objective of our audit was to answer the following question:

“Does the program provide a convenient, carefully controlled, cost-efficient method for purchasing numerous low-dollar-amount goods and services?”

**Intent of the
Credit Card Program**

The City Council passed Resolution #75909 C.M.S., dated July 25, 2000, which instructed the City Administrator and/or the Director of the Finance and Management Agency to enter into a Purchasing Card contract.

The accompanying Council Agenda Report, dated July 18, 2000, described the program as:

“a means of economizing and increasing purchasing efficiency, especially for small-dollar-amount purchases.”

The Report went on to state that the purpose of the program was to save money by:

“eliminating the labor-intensive, cost-inefficient process of authorizing and issuing separate checks for individual purchases.”

The Report also instructed the City staff to:

“develop an Administrative Instruction outlining a set of procedures and guidelines to govern the use of the cards, to ensure that it is consistent with the City’s purchasing and budgeting systems.” (Underscored added.)

The implementing Administrative Instruction 1055, effective April 15, 2002, states that the purpose of the Purchase Card is:

“to provide a convenient, carefully controlled, cost-efficient method for purchasing low-dollar volume goods and services.”

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Administrative Instruction 1055 goes onto describe the Purchase Card as:

“ a standard credit card, issued to an individual City Associate for purchase transactions which will be paid by the City. Use of the Purchasing Card is designed to (a) reduce the paperwork, effort and expenses related to processing purchase orders and individual payments for many low-dollar City purchases of goods and services, (b) increase convenience, speed, and flexibility in making City purchased, and (c) improve the flexibility and quality of reports on City purchasing activity.”

**Use of the Credit
Cards**

The City of Oakland Purchasing Card Cardholder Agreement originally dated July 30, 2001, revised on September 6, 2002 and September 6, 2003 and signed by all Cardholders, states:

“the Purchasing Card is to be used for authorized City purchases only.”

“the Purchasing Card may only be used under the guidelines and procedures established for the Purchasing Card program, which are detailed in the City of Oakland Purchasing Card Manual.” (Emphasis added.)

“the Purchasing Card may not under any circumstances be used for personal non-City-related travel, entertainment purposes, or computer software or hardware purchases.”

“the Cardholder must submit to the Accounts Payable section a hard-copy of the billing statement stapled to detailed receipts for all Card transactions during that reporting period.”

“the Cardholder may be asked to product the card to validate its existence and produce statements and receipts to verify appropriate use.”

“misuse or fraudulent use of the Card may result in disciplinary actions, including revocation of the Card, and may be grounds for dismissal.”

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The outline of the City of Oakland Purchasing Card Program, dated December 14, 2004, essentially reiterates the above requirements.

**SCOPE AND
METHODOLOGY**

We conducted our audit in accordance with Generally Accepted Government Auditing Standards, as issued by the Controller General of the United States. Our audit covered all Credit Card transactions for the period March 30, 2004 through June 28, 2004, which was the most recent period for which records should have been available.

In conducting our audit we examined:

1. Oakland City Council Resolution 75909 C.M.S., dated July 25, 2000;
2. the contract between the City of Oakland and Bank One, dated October 1, 2000;
3. City guidelines for purchases and the use of credit cards, as contained in Administrative Instruction 1055; City Administrator Memorandums, Cardholder Agreements and various purchasing forms (See Exhibit III.);
4. Accounts Payable files maintained by the City Controller;
5. files of purchase transactions maintained by the Treasury Department;
6. various statements issued by Bank One for April, May and June 2004;
7. the travel and booking website Orbitz, to verify travel destinations; and
8. the Legistar website for recorded City Council Resolutions and authorizations.

We examined various accounting records, and interviewed staff regarding policies and procedures.

We also sent questionnaires by certified mail to all thirty-two (32) Cardholders of record who made purchases during the period of our audit.

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***FINDINGS AND
RECOMMENDATIONS***

Finding #1

The City is potentially liable for \$350,000 in Credit Card Purchases.

In accordance with the contract between the City of Oakland and Bank One, the City is authorized to:

1. establish credit limits for Cardholders in aggregate amount not to exceed \$350,000; and
2. use the Credit Cards for purchases and travel and entertainment.

City's Risk

Moreover, the City is liable for any such charges made by the Cardholder, members of the Cardholder's family and other persons with whom the Cardholder has a personal relationship or other employee of the City.

As of June 30, 2004, there were thirty-two (32) Cardholders, with aggregate credit limits totaling \$376,500:

Credit Card Limits

<u>Office or agency</u>	<u>Cards</u>	<u>Credit Limits</u>
City Council	2	\$ 40,000
City Administrator	2	100,000
Finance & Management	13	146,000
Oakland Museum	1	25,000
Public Works	14	65,500
Totals	<u>32</u>	<u>\$ 376,500</u>

Although the credit limits totals are \$26,500 more than the \$350,000 that the contract with Bank One allows, the City's maximum liability under the contract is \$350,000.

Additionally, nineteen (19) of the Cardholders had credit limits of \$10,000 or more, -- including two (2) City employees who have limits of \$50,000 each. This raises the question: "Why would any City Cardholder need a \$50,000 credit limit?"

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Finding #1
(continued)

City's Risk

At a substantial risk, twenty-four (24) Cardholders had credit limits that exceeded \$5,000. This gave them the opportunity to exceed the \$5,000 limit on purchases prescribed by Section 2.04 of the Municipal Code the City Manager's memorandum dated September 2, 2003:

"Authorized Agency/Department personnel are designated to bind the City by signature on purchase orders involving an expenditure not exceeding \$5,000..."

Although we did not find any instance in which a single purchase exceed the \$5,000 limit, nowadays, when identity theft is widespread, the risk is great that thieves will run up large charges without the knowledge of the Cardholders.

Recommendation for Finding #1

We recommend that the City Administrator:

- a. reduce the number of individual Cardholders, especially those whose credit limits exceed \$5,000;
- b. determine how much total Credit Card risk the City is willing to accept; and
- c. require each Cardholder to sign an Indemnity Agreement to repay the City for all unauthorized purchases.

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Finding #2

Responsible City Officials did not establish controls that are adequate to protect the City against risk of loss from fraud or abuse, and did not implement the controls that were established.

**Controls not
Established**

Administrative Instruction 1055, effective April 15, 2002, specifies various controls that are to be established over the use of Credit Cards. Nevertheless, responsible City officials did not establish the following required controls – more than three years later.

Required control	Responsible party
Issues Cardholder manual.	Director, Finance and Management Agency (formerly Financial Services Agency)
Revises definition of eligible purchases, including maximum allowable limit.	Director, Finance and Management Agency (formerly FSA)
As needed, drafts and revises the Cardholder manual; provides manual to each Cardholder and Supervisor.	Purchasing Card Administrator
Monitors Purchasing Card usage reports;	Purchasing Card Administrator
Provides usage analyses to Director, Finance and Management Agency.	Purchasing Card Administrator
Revises Purchasing Administrative Instructions to reflect Purchasing Card Procedures.	Purchasing Division
Monitors Purchasing Card usage reports.	Purchasing Division
Analyzes cost-effectiveness of the program.	Purchasing Division

**Controls not
Implemented**

Administrative Instruction 1055 also requires Cardholders and their Managers to perform monthly reviews of Credit Card purchases:

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Finding #2
(continued)

“Cardholder: Prior to two weeks after the Cycle Date for any purchase, reviews account record to verify purchase charges and accounting coding; as needed inputs changes to correctly reflect the appropriate coding.”

“Cardholder’s Supervisor/Manager: Reviews Purchasing Card purchases under his/her jurisdiction within 2 weeks after each Cycle Date, to ensure program compliance and account coding; if needed, inputs coding change(s).”

Bank One provides reports on purchases that Cardholders and their managers can access through a website called PVS Net Logon.

We found that Cardholders and/or their Supervisors/Mangers did not review ninety-four (94) of the one hundred forty-one (141) purchases (67 percent), as summarized below:

<u>Period</u>	<u>Purchases</u>	
	<u>Total</u>	<u>Not Reviewed</u>
April 2004	56	23
May 2004	47	41
June 2004	<u>38</u>	<u>30</u>
Totals	<u>141</u>	<u>94</u>

Recommendation for Finding #2

We recommend that the City Administrator:

- a. suspend the Credit Card program until all the controls set forth in Administrative Instruction 1055 have been established; and
- b. ensure that the controls, once established, are implemented.

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Finding #3

Some Cardholders did not submit the required documentation for purchases.

Detailed Receipts

Administrative Instruction 1055 requires Cardholders to obtain a detailed receipt for every transaction and send it to the Accounts Payable section:

“The Cardholder must obtain a hard-copy receipt of each transaction, identifying the sales tax amount (if any), and must forward all such receipts to the Accounts Payable section.”

The Cardholder Agreement reiterates this requirement:

“...the Cardholder must submit to the Accounts Payable section a hard-copy of the billing statement stapled to detailed receipts for all Card transactions during that reporting period.”

We were under the impression that the references were to Accounts Payable section of the City’s Accounting Department.

Notwithstanding these requirements, the Purchasing Card Administrator (a member of the Finance and Management Agency), told Cardholders to send receipts to him and not to the Accounts Payable section. At any rate, the receipts should be on file with either the Accounts Payable section or the Purchasing Card Administrator, but they generally were not.

We found that:

1. Eight (8) of the thirty-two (32) Cardholders (25 percent) did not submit required receipts to either the Accounts Payable section or Purchase Card Administrator.
2. Thirty (30) of the thirty-two (32) Cardholders (93.75 percent) did not submit the required receipts to the Accounts Payable section.
3. Twenty-four (24) of the thirty-two (32) Cardholders (75 percent) submitted incomplete receipts to the Purchase Card Administrator.

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Finding #3
(continued)

We also found that some departments or agencies (such as Information Technology and the Fire Department) have their own Accounts Payable sections and some receipts were on file there.

The eight (8) Cardholders who did not submit any of the required receipts had been on travel with overnight stays, as shown on the following table:

<u>Points of Travel</u>	<u>Date(s)</u>	<u>Missing Receipts</u>	
		<u>Airfare</u>	<u>Hotel</u>
Oakland, CA to Washington, DC	5/15/04	x	
Boston, MA to New York, NY	6/25/04	x	
Washington, DC to Oakland, CA	6/28/04	x	
Oakland, CA to Boston, MA	6/23-26/04	x	x
Oakland, CA to Boston, MA	6/23-26/04	x	x
Oakland, CA to Boston, MA	6/23-26/04	x	x
Oakland, CA to Las Vegas, NV	5/10-13/04	x	x
Oakland, CA to Las Vegas, NV	5/10-13/04		x
Oakland, CA to Las Vegas, NV	5/10-13/04	x	x

Recommendation for Finding #3

We recommend that the City Administrator:

- a. cancel the Credit Cards of those Cardholders who have made purchases that were not supported by detailed receipts;
- b. recover from those Cardholders the cost of such purchases; and
- c. revise Administrative Instruction 1055 and the Cardholder Agreement to clearly state that receipts are to be sent to the Accounts Payable section of the Finance and Management Agency.

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Finding #4

Some Cardholders did not respond to the City Auditor's questions regarding the Credit Card program.

By accepting a Credit Card and signing a Cardholder Agreement, each Cardholder agrees to:

“...produce statements and receipts to verify appropriate use...”

**City Auditor's
Questionnaires**

As one of our audit procedures we sent questionnaires, via certified mail, to each of the thirty-two (32) Cardholders, to determine whether they had complied with the various City guidelines, as stated in Administrative Instruction 1055 and the Cardholder Agreement.

Recommendation for Finding #4

We recommend that the City Administrator immediately cancel the credit cards of the six (6) Cardholders who did not respond at all, as well as the twenty-one (21) Cardholders who did not send us detailed receipts and/or other documentation supporting their purchases.

CONCLUSION

Under the Credit Card program, the City is at risk for \$350,000 in purchases and cash advances. Moreover, the program makes it too easy for Cardholders to circumvent the City's controls over purchases of goods and services. Specifically, Cardholders did not submit the required documentation for purchases; and did not respond to the City Auditor's questions regarding the Credit Card program. Responsible City officials have not set-up adequate controls, and have not implemented the controls that do exist. We recommend that the City Administrator suspend the program until all the controls set forth in Administrator Instruction 1055 have been implemented and enforced.

Based on the results of our sample, it is likely that problems existed in other periods.

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***VIEWS OF
RESPONSIBLE
OFFICIALS***

On March 9, 2005, we gave the City Administrator a copy of the draft report, discussed the contents of report with her and asked for written comments. However, we have not received them to date.

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EXHIBIT I

SUMMARY OF CARDHOLDERS' CREDIT LIMITS AS OF JUNE 28, 2004

Cardholders		Credit Limits	
		\$ 50,000	
		50,000	
		25,000	
		20,000	
		20,000	
		20,000	
		20,000	
		20,000	
		10,000	
		10,000	
		10,000	
		10,000	
		10,000	
		10,000	
		10,000	
		10,000	
		10,000	
		10,000	
		10,000	
		10,000	
		10,000	
		7,000	
More than \$5,000	21		<u>\$352,000</u>
		5,000	
		5,000	
		5,000	
		1,500	
		1,500	
		1,500	
		1,000	
		1,000	
		1,000	
		1,000	
		1,000	
\$5,000 or less	<u>11</u>		<u>24,500</u>
Grand Totals:	<u>32</u>		<u>\$376,500</u>

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EXHIBIT II

**GUIDELINES THAT CARDHOLDERS MUST FOLLOW WHEN MAKING
CREDIT CARD PURCHASES OF GOODS OR SERVICES**

<u>DESCRIPTION</u>	<u>SUBJECT</u>
Administrative Instruction 1055, dated April 15, 2002	Purchasing Cards
City of Oakland Purchasing Card Cardholder Agreement, dated July 1, 2002, September 6, 2002 and September 6, 2003	Participating Employee Acknowledgement of Cardholder Responsibilities
Outline of the City of Oakland Purchasing card Program, dated December 14, 2002	Description of Cardholder Responsibilities
Cardholder Manual	[Not issued.]
The Purchasing Card Cardholder Guide	[Not issued.]
List of Restricted Goods or Services	[Not released to Cardholders.]

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EXHIBIT III

SUMMARY OF CREDIT CARD USAGE FROM INCEPTION

<u>For the Period:</u>	<u>Travel</u>	<u>Non-Travel</u>	<u>Total</u>
August 9, 2002 through June 30, 2003	44.33%	55.67%	100.00%
	\$22,829.48	\$28,672.83	\$ 51,502.31
July 1, 2003 through June 28, 2004	40.51%	59.49%	100.00%
	<u>\$44,043.35</u>	<u>\$64,675.39</u>	<u>\$108,718.74</u>

SUMMARY

Average Percentage	41.74%	58.26%	100.00%
Total Credit Card Charges:	<u>\$66,872.83</u>	<u>\$93,348.22</u>	<u>\$160,221.05</u>

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**EXHIBIT IV
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SUMMARY OF CREDIT CARD USAGE BY ORGANIZATION

For the Period - March 30, 2004 through June 28, 2004

Organization:	Travel	Non-Travel	Total
City Council Members	\$ 2,062.06	\$ 249.38	\$ 2,311.44
City Administrator Office	5,235.46	475.25	5,710.71
Oakland Museum	0.00	0.00	0.00
Finance and Management	6,408.86	8,138.48	14,547.34
Public Works Agency	0.00	11,484.95	11,484.95
Credit Card Fees & Services	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
	<u>\$13,706.38</u>	<u>\$20,348.06</u>	<u>\$34,054.44</u>
 Percentages:	 40.25%	 59.75%	 100.00%

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**EXHIBIT IV
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SUMMARY OF CREDIT CARD USAGE BY ORGANIZATION

For the Period - August 9, 2002 through June 30, 2003

Organization:	Travel	Non-Travel	Total
City Council Members	\$ 1,561.50	\$ 876.10	\$ 2,437.60
City Administrator Office	12,038.17	5,836.79	17,874.96
Oakland Museum	0.00	0.00	0.00
Finance and Management	9,229.81	16,241.57	25,471.38
Public Works Agency	0.00	4,438.37	4,438.37
Credit Card Fees & Services	<u>0.00</u>	<u>1,280.00</u>	<u>1,280.00</u>
	<u>\$22,829.48</u>	<u>\$ 28,672.83</u>	<u>\$ 51,502.31</u>
 Percentages:	 44.33%	 55.67%	 100.00%

**OFFICE OF THE OAKLAND CITY AUDITOR
REPORT ON PERFORMANCE AUDIT OF CITY-GUARANTEED CREDIT CARDS
USED BY CITY OF OAKLAND EMPLOYEES AND COUNCIL MEMBERS
FOR THE PERIOD MARCH 30, 2004 THROUGH JUNE 28, 2004**

**EXHIBIT IV
Page 3 of 3**

SUMMARY OF CREDIT CARD USAGE BY ORGANIZATION

For the Period - July 1, 2003 through June 28, 2004

Organization:	Travel	Non-Travel	Total
City Council Members	\$ 7,209.47	\$ 2,029.90	\$ 9,239.37
City Administrator Office	11,597.39	8,091.65	19,689.04
Oakland Museum	0.00	0.00	0.00
Finance and Management	20,220.87	32,271.36	52,492.23
Public Works Agency	5,015.62	21,682.48	26,689.10
Credit Card Fees & Services	<u>0.00</u>	<u>600.00</u>	<u>600.00</u>
	<u>\$44,043.35</u>	<u>\$64,675.39</u>	<u>\$108,718.74</u>
Percentages:	40.51%	59.49%	100.00%

For the Period - August 9, 2002 through June 28, 2004

Total Credit Card Charges:	<u>\$66,872.83</u>	<u>\$93,348.22</u>	<u>\$160,221.05</u>
Percentages:	41.74%	58.26%	100.00%