

HERNANDO COUNTY CLERK OF CIRCUIT COURT
AUDIT SERVICES DEPARTMENT
PURCHASING CARD OPERATIONS REVIEW
NOVEMBER 2, 2005

PURCHASING CARD OPERATIONS REVIEW

**HERNANDO COUNTY CLERK OF CIRCUIT COURT
AUDIT SERVICES DEPARTMENT
MEMORANDUM**

TO: Amy Gillis, CPA, Finance Director
James "Jim" Gantt, Purchasing and Contracts Director

VIA: Karen Nicolai, CPA, Clerk of Circuit Court
Gary Adams, County Administrator

FROM: Peggy Prentice, CIA, CISA, Audit Services Director

DATE: November 2, 2005

SUBJECT: Purchasing Card Operations Review

The Audit Services Department's (ASD) Audit Projects Schedule included a review of the Board of County Commissioners' and the Clerk of Circuit Court's purchasing card operations. Based on testing, observations, and communications with key personnel, the ASD has produced the attached report for your review. This report includes the ASD's opinion of the purchasing card operations' internal control environment and its recommendations for enhancing business practices. Management's responses to the recommendations are also included. A copy of the report has been forwarded to the Board of County Commissioners as an agenda "correspondence to note" item.

The purpose of this report is to furnish management independent, objective analyses, recommendations, counsel, and information concerning the activities reviewed. The audit report is a tool to help management discern and implement specific improvements. It is not an appraisal or rating of management.

Although the ASD exercised due professional care in the performance of this audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected. Specific areas for improvement are addressed later in this report.

If you have any questions, concerns, or need additional information in regard to the above or the attached report, please do not hesitate to contact me at (352)540-6235, or just stop by my office in Room 201.

ATTACHMENT

PURCHASING CARD OPERATIONS REVIEW

copy: BOARD OF COUNTY COMMISSION:

Commissioner Christopher "Chris" Kingsley

Commissioner Hannah "Nancy" M. Robinson

Commissioner Diane Rowden

Commissioner Robert C. Schenck

Commissioner Jeff Stabins

Kurt Hitzemann, Senior Assistant County Attorney

George Zoettlein, Office of Management and Budget Director

OTHER:

Chip Jones, Partner, KPMG

Hernando Today

St. Petersburg Times - Hernando Edition

WWJB Radio Station

Hernando County Public Library

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Acknowledgement

Other minor findings, not included in this report, have been communicated to management and/or corrected during fieldwork. I thank management and staff for their cooperation.

Fieldwork was performed by: Barbara Fichter, Internal Auditor
Assistance provided by: Peggy Prentice, CIA, CISA, Audit Services Director

Management responses were provided by:
Amy Gillis, CPA, Finance Director
James “Jim” Gantt, Purchasing and Contracts Director

Management responses were authorized by Karen Nicolai, CPA, Clerk of Circuit Court, and Gary Adams, County Administrator, respectively.

This report was reviewed by Peggy Prentice and authorized by Karen Nicolai on November 1, 2005.

Purpose and Scope

PURPOSE

The ASD addressed the efficiency and effectiveness of the purchasing card life cycle and the purchasing card internal control environment. The ASD also considered the effectiveness of the software program utilized to document and maintain a record of the purchasing card administration records.

SCOPE

The testing period was from October 1, 2003, to January 3, 2005. The interview and observation period was from September 30, 2004, to May 4, 2005.

To evaluate the adequacy of records, written policies and procedures, recordkeeping practices, internal controls, and reconciliation practices, the ASD performed the following:

- ✚ Conducted interviews and performed observations of actual practices;
- ✚ Reviewed written policies and procedures;
- ✚ Traced original source document purchasing cardholders and card transactions through the financial and recordkeeping cycles; and
- ✚ Conducted a cursory overview of InfoSpan, the bank software program utilized to document and maintain a record of the purchasing card administration records.

Executive Summary

The VISA purchasing (credit) card program was established in 1998 when the County piggy-backed onto the State of Florida's contract with Bank of America (the issuing bank). This contract expires in July 2007. As of January 3, 2005, there were 282 active purchasing cards (plus 20 emergency cards) in the population. Of these active cards, 278 were assigned to Board employees and four (4) were assigned to Clerk employees. Emergency cards are only activated during emergency situations. When not in use, emergency cards are stored in a safe located in the Finance Department.

Purchasing cards are issued to cardholders embossed with the name of the individual assigned the card and are only to be used by that person. Cardholders are responsible for the security of their purchasing card. The standard cardholder per transaction limit is \$1,000 and the standard credit limit is \$5,000. The Director of Purchasing and Contracts has the authority to authorize other cardholder specific limits.

During the 14 month period ending December 2, 2004, the County averaged 1,000 purchasing card transactions and \$156,300 in purchases per month.

Based upon an opinion from the County Attorney's Office, it appears that a liability clause in the member agreement with Bank of America adequately limits the County's liability in instances where: the card is lost and misused; stolen and misused; otherwise fraudulently used by a non-employee; or exceeds single, per-transaction or other limits the County imposes.

To ensure consistency throughout the purchasing card life cycle, management created a Purchasing Cards User Manual. Per policy, purchasing cards are not to be used for the following: entertainment, meals, personal use, cash advances, alcoholic beverages, tobacco products, non-work or personal use items and services, stock replenishment of contract items, items on County term contracts, service contracts, or telephone credit cards.

Purchasing and Contracts, user departments, and Finance utilize automated tools to administer, reconcile desk audit and record financial purchasing card transactions. The purchasing card administration function is performed by the Purchasing and Contracts Department. Certain Purchasing and Contracts employees are authorized to communicate with Bank of America. No other management or employees have this authorization. User departments perform their own in-house clerical and management oversight functions. The financial function is performed by the Clerk of Circuit Court's Finance Department. Purchases made by employees are paid and audited by Finance.

Based upon a review of the purchasing card operations, the ASD recommends the following:

- 1) Enhance the Purchasing Card and the Emergency Purchasing Card Policies.
- 2) Perform and document annual physical inventory counts.
- 3) Shift to the cardholder, the responsibility of taping small receipts to letter size paper (for imaging) and ensuring that receipts are readable.

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- 4) Emphasize during new cardholder training, that any cost less than a standard dollar amount should be allocated to the financial line item that represents the largest portion of that cost.
- 5) Encourage cardholders to process weekly and monthly purchasing card documents timely.
- 6) Periodically conduct a review of purchasing card activities to determine if any cardholder discontinues to have a need for a purchasing card
- 7) Add a high ranking County representative to Bank of America's authorized list of representatives who can request information from the bank. This individual's authorized access should be restricted to obtaining information and to removing authorized contact persons.
- 8) Have the Purchasing and Contracts Director authorize by signature the New Cardholder Setup Form before it is faxed to Bank of America.
- 9) Retain the Cardholder Setup Forms in the Purchasing and Contracts administration files.
- 10) Do not allow cardholders to approve their own application and cardholder limits.
- 11) Assign the receipt and distribution of new or replacement cards to one employee and assign the remaining purchasing card administration functions to a second employee.
- 12) Maintain a purchasing card receipt and distribution log.
- 13) Run disputed transactions through a special account and balance it semi-annually.
- 14) Determine if there is a need to maintain and safeguard emergency purchasing cards.
- 15) Develop a formal notification process whereby employee retirements, terminations, transfers to other departments, or extended leaves of absence are communicated timely and effectively to those departments/individuals that have a need-to-know status.
- 16) Establish a monthly reconciliation roster to monitor the purchasing card reconciliation process.
- 17) Focus on the importance of desk auditing on a timely basis and review the system for inefficiencies and paper flow bottlenecks.
- 18) Streamline the paper document and the electronic data flows between Bank of America, Purchasing and Contracts, user departments, and Finance.
- 19) Any transaction that may at first glance be an exception to policy should have adequate support.
- 20) Cardholders should not allow the use of their assigned purchasing card by another individual.

BASELINE

The VISA purchasing (credit) card program was established on April 14, 1998, when the County piggy-backed onto the State of Florida's contract with Bank of America (the issuing bank). This contract expires July 5, 2007.

Card Member Agreement

Per the County Attorney's Office, the card member agreement the County has with Bank of America and the County's purchasing card policies appear to accomplish different things. The Bank of America liability clause limits the County's liability in instances where the card is: lost and misused; stolen and misused; otherwise fraudulently used by a non-employee; or exceeds single, per-transaction or other limits the County imposes. However, this language does not protect the County when a County employee misuses a card acting under "apparent" scope of authority and acting within the transaction limits. Thus the County policies are targeted to the situations of use/misuse by County employees of County-issued cards. The County has administrative disciplinary remedies and/or civil remedies against an employee who uses a card fraudulently or for non-authorized transactions.

Policies and Procedures

The Purchasing Cards User Manual and the Purchasing Cards Policy (BCC 050B) are basically one in the same. The Purchasing and Contracts Department is considering revising the Purchasing Card User Manual and the Department is considering developing a Purchasing Card Administrators' Manual.

Per the Purchasing Cards Policy, Appendix 23 – of the Accounts Payable Policy Manual:

- ✚ “Purchasing cards are issued to cardholders embossed with the name of the individual assigned the card and are only to be used by that person. Assigned personnel shall not allow use of their assigned purchasing card by another individual.”
- ✚ “Cardholders are responsible for the security of their purchasing card. All precautions shall be used to maintain confidentiality of the cardholder's account number and expiration date of the purchasing card.”
- ✚ “Fuel purchases for use in personal vehicles are not an authorized use. A copy of the Voucher for Reimbursement of Travel Expenses form should be attached for all travel related expenses. Purchasing cards are not to be used for the purchase of meals while traveling on County business. Request for reimbursement of meals should be made using the County's standard Voucher for Reimbursement of Travel Expenses form.”
- ✚ Purchasing cards are not to be used for the following:
 - Entertainment
 - Meals
 - Personal Use
 - Cash Advances
 - Alcoholic Beverages
 - Tobacco Products

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- Non-work or Personal Use Items and Services
- Stock Replenishment of Contract Items
- Items on County Term Contracts (must utilize Contract Release Order)
- Service Contracts (i.e., consultants, construction, personal services, etc.)
- Telephone Credit Card.

One of the difficulties with purchasing cards is that the transaction data is received by the reviewers (cardholder's supervisor and Finance) after the purchase and after the disbursement has been made to the issuing bank. This means that reliance to comply with County purchasing policies before or during the purchase is shifted to the cardholder.

Automated Limits and Restrictions of Use

The purchasing card program has the ability to automate limits and restrictions, such as:

- ✚ Spending amount per day, billing cycle, and month;
 - Hernando County utilizes the billing cycle spending amount control.
- ✚ Number of transactions per day, billing cycle, and month;
 - Hernando County does not utilize this control.
- ✚ Single purchase amounts (a predetermined dollar amount for any single transaction);
 - Hernando County utilizes this control and the policy does not allow cardholders to split transactions to stay within their limits.
- ✚ Merchant Category Codes (MCC) – These are assigned by VISA to a merchant which identifies the primary type of goods or services they provide. MCCs are designed to offer every combination possible, and restrictions are imposed at the point-of-sale if the blocked merchant requests authorization for the transaction.
 - Hernando County utilizes this control. See list of blocked MCCs in Appendix A.

Authorized Contact with the Issuing Bank

Authorized organization contact with Bank of America as of November 1, 2004, was as follows:

- ✚ Jim Gantt - Purchasing and Contracts Director
- ✚ Colleen Cook - Purchasing and Contracts Accounting Technician
- ✚ Tonya Griffin - Purchasing and Contracts Supervisor
- ✚ Marie Warren - Recreation Division Accounting Technician, transferred from Purchasing & Contracts to Recreation in September 2003 (*authorization was discontinued during fieldwork*)
- ✚ Amy Gillis - Finance Director (Ms. Gillis had settlement contact authority only; she had no authority to speak with the bank regarding purchasing card administrative records.)

Purchasing Card Administrator Function

The purchasing card administration function is performed by the BCC's Purchasing and Contracts Department. Purchasing and Contracts is responsible for:

- ✚ issuing new cards, updating card or cardholder data, and canceling cards;
- ✚ training new cardholders;
- ✚ processing any disputed transactions;
- ✚ distributing monthly cardholder billing statements;
- ✚ coordinating the flow and authorization of electronic and paper documents/transaction records to/from Purchasing and Contracts, user departments, and the Finance Department;
- ✚ recommending and overseeing purchasing card policies; and
- ✚ Per the Purchasing Cards Policy, Appendix 23 – of the Accounts Payable Policy Manual, on an annual basis, providing a list of purchasing cards issued to employees for each department and conducting a physical inventory of purchasing cards and providing a report to Finance and Audit Services of the inventory results.

The Purchasing and Contracts Department's cardholder administrator was Colleen Cook at the end of fieldwork.

User Department Clerical and Oversight Functions

User departments perform their own in-house clerical and management oversight functions as follows:

The cardholder - The cardholder is required to review the billing statement and to note any errors on the bill. The receipts are stapled to the billing statement in the order they appear on the statement. The cardholder signs the statement certifying items purchased, assigns accounting numbers and forwards it to the department's designated representative (a cardholder administrator) within seven (7) working days after the billing statement is received.

The Cardholder Administrator - Each user department has a cardholder administrator who:

- ✚ collects purchasing card transaction records from cardholders (i.e., billing statements, receipts, and purchasing card receipt envelopes);
- ✚ data inputs allocated costs to the appropriate financial line items in InfoSpan; and
- ✚ reviews billing statements and verifies accounting numbers are correct and as applicable, a "Statement of Dispute" is attached; once review is complete, forwards the document package to the

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Department Director for review and approval. The electronic file is then e-mailed back to Purchasing and Contracts.

The Department Director is responsible for:

- ✚ reviewing billing statements for all subordinate cardholders;
- ✚ verifying approval of purchases;
- ✚ resolving any questionable purchases;
- ✚ authorizing by signature the billing statements; and
- ✚ forwarding complete cardholder statements with all attachments to Purchasing and Contracts within seven (7) working days after receipt from the cardholder administrator.

Approval of cardholder purchasing transactions is not fully defined in the Purchasing Cards Policy. The approving Director, because of his/her knowledge of the job responsibilities of his subordinates, is required to look at each cardholder's purchases and at the merchant who made the sale in order to determine if these items were for official use and if the items were allowed to be purchased in accordance with the prescribed policies and procedures.

Financial Function

The financial function is performed by the CCC's Finance Department. Purchases made by employees are paid and audited by Finance. Finance is responsible for:

- ✚ reconciling the County's purchasing card records to cardholder billing statements and performing desk audits as follows:
 - Finance generates two reports from Pentamation to perform electronic reconciliations:
 - Cash Requirements/Check Format which provides the dollar total of transactions by cardholder; and
 - Batch Payables Edit List which mirrors the InfoSpan report and provides a detail listing of transactions.
 - Finance reconciles the batch totals between the InfoSpan report, the issuing bank's billing statement summary, and the Pentamation record.
 - Finance reconciles each transaction on a cardholder's billing statement to the cardholder's envelope and receipts. During this process, Finance looks for transactions that may not be in compliance with policy.
 - Utilizing the Cash Requirements report, Finance reconciles each cardholder's total on their billing statement to the corporate statement. This report is also utilized to reconcile to the bank

statement.

- Finance assures that each cardholder's department number on the receipt envelope matches the cardholder's actual department number per Pentamation.
 - Any potential exceptions identified are noted on an Exception Form which is forwarded to the cardholder's Director for signature and a letter of explanation, then to the County Administrator or the CCC, as applicable, for signature. Once returned to Finance, the Finance Director considers the letter of explanation and either concurs or does not concur that the transaction is in compliance with the Purchasing Cards Policy. The Finance Director signs the form. If it is determined that it is not in compliance with the Purchasing Card Policy, the Exception Form is forwarded to the BCC.
- ✚ via an auto payment arrangement, paying Bank of America for purchasing card invoices (billing statements); and
 - ✚ creating and maintaining the purchasing card financial records in the general ledger and on imaging.

Automation

The primary automated tools utilized to administer, reconcile, desk audit and record financial purchasing card transactions are as follows:

- ✚ Purchasing card transactions are downloaded in raw text format on a dedicated analog line (point-to-point/modem-to-modem) from the issuing bank to Purchasing and Contracts into the Card Program Administrator (CPA) Program. Purchasing and Contracts sends this file to a Technology Services' server where it is converted from a raw text file to InfoSpan. Purchasing and Contracts e-mails the InfoSpan file to user departments. At their desk tops, cardholder administrators open the file using ECH Viewer and data input costs allocations before returning the InfoSpan file back to Purchasing and Contracts.
- ✚ Pentamation is the financial recordkeeping software program utilized by the Finance Department to create and maintain a financial record of purchasing card transactions in the general ledger. InfoSpan data must be converted into a usable format for Pentamation. This conversion is performed by the CCC's MIS Department. Pentamation records and scanned images of user transactions are available to users who have authorized access to those records.

Cardholder Population

As of January 3, 2005, there were 282 active purchasing cards (plus 20 emergency cards) in the population. Of these active cards, 278 were assigned to BCC employees and four (4) were assigned to CCC employees.

Emergency cards are only activated during emergency situations such as during hurricanes. When not in use, emergency cards are stored in a safe located in the Finance Department.

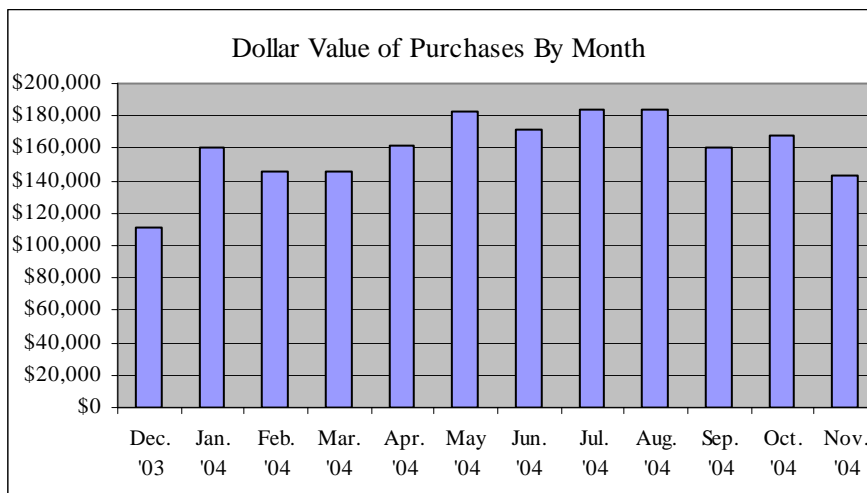
The standard cardholder per transaction limit is \$1,000 and the standard credit limit is \$5,000. Per the Purchasing Cards Policy, Appendix 23 – of the Accounts Payable Policy Manual, “the delegation of

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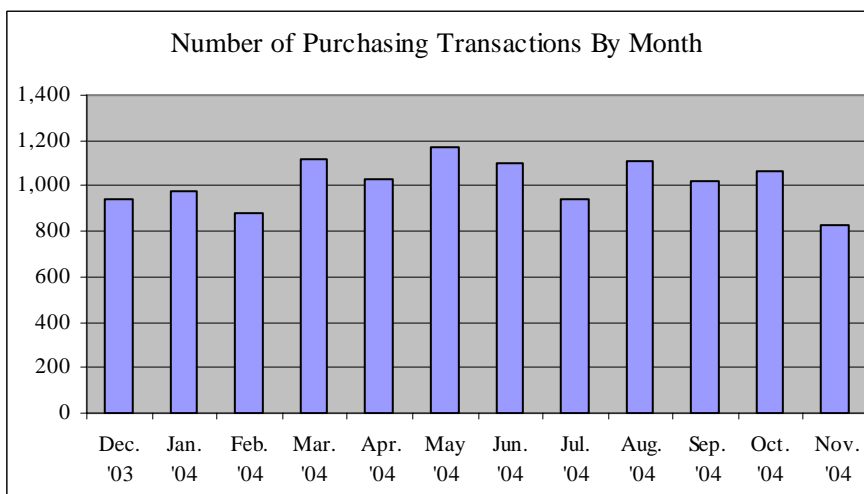
authority that has been provided to each cardholder sets the maximum dollar amount for each single purchase made by the cardholder to \$1,000 unless specifically authorized by the Director of Purchasing and Contracts.” Per Bank of America’s records, as of January 1, 2005, 12 (or 4.5%) of the cardholders had a per transaction limit exceeding \$1,000 and 37 (or 13%) of the cardholders had a credit limit exceeding \$5,000.

The County averaged 1,000 purchasing card transactions and \$156,300 in purchases per month during the 14 month period ending December 2, 2004. The average number of purchases per cardholder, per month, was 3.5. The average purchase dollar amount per transaction was \$156.

The graph below depicts the dollar value of those purchases during the 12 month period ending November 2004. The total dollar value was \$1,918,993 and the total number of purchases was 12,183.

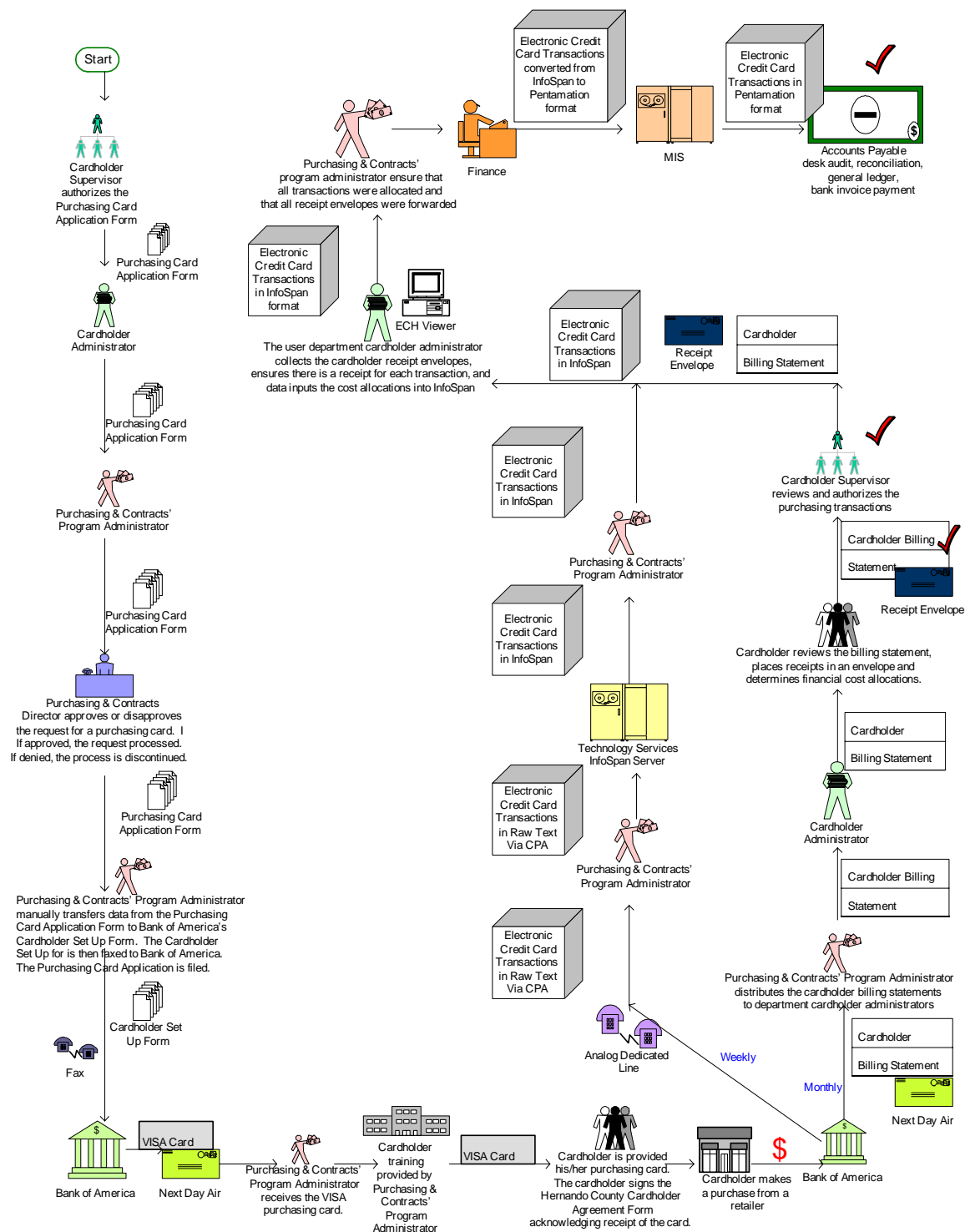


The graph below depicts the number of monthly purchases during the 12 month period ending November 2004.



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This flow chart depicts the hard copy and electronic flow of work during the purchasing card life cycle.



DISCUSSION POINTS, RECOMMENDATIONS AND MANAGERMENTS' RESPONSES

POLICIES AND PROCEDURES

The Purchasing and Contracts Department created a Purchasing Cards Policy (BCC 050B) and a Purchasing Card User Manual. Purchasing and Contracts is considering the creation of a purchasing card administrators' manual. In lieu of this manual, instructions and guidelines are informally communicated to purchasing card administrators via e-mail. During fieldwork, the ASD interviewed some of the purchasing card administrators. There appears to be a general consensus that Purchasing and Contracts keeps them adequately informed.

Purchasing Cards Policy (BCC 050B) – It appears that the Purchasing Cards Policy is well written and easy to understand. It clearly defines which types of purchases are acceptable and which are not. It also defines the delineation of responsibility of the Purchasing and Contracts Department, cardholders, and cardholder managers/supervisors. This policy also communicates processing deadlines. Some processing controls have not been documented in this policy (*see list in recommendation below*). The Transaction Dispute Form utilized in the purchasing card process is not exhibited and the Purchasing Card Application Form requires updating (*see reason below*). The Purchasing Card User Manual has a table of contents that references page numbers. This manual's pages are not numbered. The Purchasing Card User Manual and the Purchasing Cards Policy are basically one-in-the-same.

Recommendation: Consideration should be given to addressing the following in the Purchasing Card Policy or Emergency Purchasing Policy:

- ✚ emergency purchasing card function
 - A formal policy for the acceptable usage of purchasing cards during periods of declared emergencies (i.e., management monitoring and oversight controls, decision points, and acceptable usage such as fuel, meals and other generally unacceptable purchases that are authorized under emergency situations).
- ✚ transaction dispute process;
- ✚ cardholder department transfers;
- ✚ employee terminations and extended leaves of absence;
- ✚ identifying cardholder abuse/misuse, disciplinary action for abuse/misuse, and who is responsible for what and when; and
- ✚ process of reconciling purchasing card transactions to other financial reporting records.

All forms and reports referenced in the policy should be included as exhibits.

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Purchasing and Contracts Management Response: Purchasing and Contracts will consider clarifying those areas noted by Audit Services in the appropriate Policy/Procedure.

The Purchasing Cards Policy, Section IX, Annual Inventory of Purchasing Cards, states that, “On an annual basis, Purchasing and Contracts will provide a list of purchasing cards issued to employees for each department. Purchasing and Contracts will conduct a physical inventory of purchasing cards and provide a report to Finance and Internal Audit of the results of the inventory.” Purchasing and Contracts staff cited that these inventories have not been performed.

Recommendation: To comply with the Purchasing Cards Policy, consideration should be given to performing and documenting annual physical inventory counts.

Purchasing and Contracts Management Response: Purchasing and Contracts concurs.

The Purchasing Cards Policy, Section XII, Audits, states that, “Random audits may be conducted for both card activity and receipt retention as well as statement review by either Purchasing and Contracts or Finance.” This section excludes the Audit Services Department which is in conflict with the Audit Charter.

Recommendation: Consideration should be given to enhancing the Purchasing Cards Policy, Section XII, Audits, so that it lists the Clerk of Circuit Court or her designee.

Purchasing and Contracts Management Response: If so requested by the Clerk of the Court, Purchasing and Contracts will make said recommended change.

INTERNAL CONTROL STRUCTURE

The purchasing card life cycle’s internal control structure is generally based upon detection controls. Detection controls are designed to discover an action or event after the fact. These controls are reactive rather than proactive.

It appears that detection controls are utilized, at least in part, because (per the County Attorney’s Office) the card member agreement the County has with Bank of America limits the County’s potential for significant loss. The Bank of America liability agreement has a clause that limits the County’s liability in instances where the card is: lost and misused; stolen and misused; otherwise fraudulently used by a non-employee; or exceeds single, per-transaction or other limits the County imposes. However, this language does not protect the County when a County employee misuses a card acting under "apparent" scope of authority and acting within the transaction limits. Thus the County policies are targeted to the situations when detection controls identify use/misuse by County employees of County-issued cards. The County has administrative disciplinary remedies and/or civil remedies against an employee who uses a card fraudulently or for non-authorized transactions. The State Attorney’s Office may get involved if there is suspicion of fraud.

The recommendation to suspend or cancel a purchasing card is made by the cardholder’s supervisor/Director, the Purchasing and Contracts Director, and/or the issuing bank. Per Purchasing and

Contracts staff, when a card is cancelled or suspended, a request is made to the cardholder's supervisor to confiscate the card, cut it in half, and forward it to the Purchasing and Contract's program administrator. Once received, the program administrator shreds the card.

Detection controls were identified in two of the purchasing card life cycle steps. The cardholder's Department Director is responsible for reviewing and approving transactions in the month after a purchase is made (upon receipt of the billing statement). Based upon testing, it appears that the turn-around time for review and approval is reasonable.

The Finance Department is responsible for desk auditing credit card transactions. Desk audits are performed after bank invoices are paid. Finance clerks perform desk audits two to eight months after purchases occur. Due to the time lag between the purchase date and the desk audit, detection of misuse may not be effective. *(This concern and corresponding recommendation are addressed in the Finance section of this report.)*

Efficiency and Effectiveness

The purchasing card life cycle has several areas of inefficiency. For example:

- ✚ Paper and electronic purchasing card data flows through numerous locations/systems before becoming part of the general ledger record. Data is received, converted, added to/edited, and stored during this process. *This concern and corresponding recommendation are addressed in the Finance section of this report.*
- ✚ Some cardholders expend time allocating small dollar expenditures (purchases of less than \$10 were allocated to several line items). The labor costs exceed the benefits received and because cardholder transaction data is not readily available in the Finance imaging record, some user departments are maintaining a spreadsheet. This is a duplication of efforts. *This concern and corresponding recommendation are addressed in the Finance section of this report.*
- ✚ Per Finance, scanning purchasing card documents for imaging is time consuming and tedious. The purchasing card envelopes do not fit the scanner so Finance staff must manually trim the envelopes to a usable size. In addition, any receipt that is smaller than letter size stationary (8.5" x 11") must be taped to a letter size piece of paper for imaging. Also, many retailers utilize receipt paper that fades very quickly making the printed information difficult to read. This process of trimming envelopes, taping receipts to paper, reviewing, and imaging voluminous pages of backup documents is inefficient.

Recommendation: Consideration should be given to shifting to the cardholder, the responsibility of taping small receipts to letter size paper (for imaging) and ensuring that receipts are readable. This would reduce Finance's labor hours.

To eliminate the need for Finance staff to cut-to-size the receipt envelopes prior to scanning, consideration should be given to purchasing envelopes or another type of summary document that are sized for the scanner.

Based upon the cost benefit of allocating small dollar expenditures to several financial line items, consideration should be given to emphasizing, during new cardholder training, that any cost less than a standard dollar amount should be allocated to the financial line item that represents the largest portion of that cost. Cardholders should also be encouraged to process weekly and monthly purchasing card documents timely.

Purchasing and Contracts Management Response: Purchasing and Contracts will work with Finance to resolve this concern.

Finance Management Response: The Finance Office will review the process and determine if it warrants requesting departments to assist our office by preparing the documentation for imaging. **Projected Date of Implementation: July 2006**

- ✚ The frequency of cardholder activity was tested for no or minimal activity. As of January 3, 2005, there were 282 active purchasing cards in the population. Of these, 70 (or 25%) were identified as having no or minimum activity during the 15 month period ending January 3, 2005. Twenty-four (24) cardholders had no activity, 29 had one or two transactions, and 17 had three or four transactions.

Recommendation: Consideration should be given to implementing a procedure whereby cardholders' management periodically conducts a review of purchasing card activities to determine if cardholders' continue to have a need for a purchasing card. Based upon the review, consideration should then be given to closing those accounts with minimal or no activity.

Purchasing and Contracts Management Response: Purchasing and Contracts does not concur with this recommendation as written. Since the purpose of this program was to replace other forms of "small dollar" purchases because of the cost of administration thereof, it would be self defeating to restrict the use of purchasing cards to only those individuals that "regularly" use cards on any structured basis. Purchasing cards carry no cost to the County for use. There are no annual fees for having as many cards as a department needs. Elimination of cards for those individuals using them only on a minimal basis would inevitably result in some other employee having to expend time and resources to make small dollar purchases for the individual.

PURCHASING AND CONTRACTS FUNCTION

Authorized Contact with Bank of America

As of November 1, 2004, the following employees had authorized organization purchasing card related contact with Bank of America:

- ✚ **Primary Contact** – Jim Gantt (Purchasing and Contracts Director)
- ✚ **Program Administrators** – Colleen Cook (Purchasing and Contracts Accounting Technician), Tonya Griffin (Purchasing and Contracts Supervisor), Marie Warren (Recreation Division Accounting Technician)

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- Ms. Warren transferred from Purchasing and Contracts to the Recreation Division on September 8, 2003. During fieldwork, management took corrective action by removing Ms. Warren's authorized contact rights.

✚ **Authorized to contact the bank in reference to all cards issued to and accounts for Hernando County BCC** - Tonya Griffin and Colleen Cook

✚ **Settlement Contact** – Amy Gillis (Finance Director), who has no authority to speak with the bank regarding purchasing card administrative records.

The authorized bank contactors as of the end of fieldwork (Jim Gantt, Colleen Cook and Tonya Griffin) have a set of five (5) security questions and answers that they must know in order to obtain authorization to access to and/or correspond with the bank about the County's purchasing card accounts. These security questions and answers are not unique to the individual contact person.

Per Bank of America, although the following individuals provide the checks and balances in the financial recordkeeping function, neither the, Chairman of the Board of County Commissioners, Finance Director, Clerk of Circuit Court, Audit Services Director, nor the County Administrator are authorized to access Bank of America's County purchasing card bank records or communicate with Bank of America about any purchasing card administrative information or obtain purchasing card transactional data. No one other than Jim Gantt, Tonya Griffin and Colleen Cook have the authority to communicate with Bank of America unless one of these employees authorizes the communication.

Recommendation: Since the purchasing card records are the County's records, consideration should be given to adding a high ranking County representative to Bank of America's authorized list of representatives who can request information from the bank. This individual's authorized access should be restricted to obtaining information and to removing authorized contact persons. This will ensure that original source documents are accessible to those levels of management that provide the checks and balances in the financial recordkeeping process (accountability) and it will ensure that the County has the authority to remove individuals from the authorized access list if the need arises.

When an authorized contact is no longer approved by the County to access the bank's records or to communicate with the bank (i.e., terminate employment, transfer to another position), that individual should be immediately removed from the bank's authorized contact list.

Purchasing and Contracts Management Response: Since access to the Bank of America system is a high security issue, Purchasing and Contracts is reluctant to recommend administrative access to individuals not directly related to the management of the program. However, if it is deemed necessary that someone outside of the department have access to the system, Purchasing and Contracts would concur with the County Administrator authorization for record review and removal of other authorized individuals provided that Bank of America's system will accommodate said limitations.

This is current policy that will be reemphasized. Further, Purchasing & Contracts will follow up with the bank to insure that individuals have been so removed.

New Cardholders

Based upon testing, the internal control structure for authorizing new cardholders appears to be adequate. There were no identified concerns regarding duplicate cards assigned to the same cardholder. The ASD tested for ghost cardholders; none were identified during testing. Cardholder applications are generally authorized by the cardholder's director and the Purchasing and Contracts Director.

Two forms are used to initiate the cardholder application process:

- 1) Purchasing Card Application Form which is used by user departments to enroll and authorize any new cardholder; and
- 2) New Cardholder Setup Form which is used by the Purchasing and Contracts Department to provide Bank of America with the information and authorization necessary to issue a purchasing card to a new cardholder.

The new cardholder application process does not segregate incompatible duties. The New Cardholder Setup Form is prepared by the program administrator after the Purchasing Card Application is authorized. The program administrator manually transfers information from the Purchasing Card Application onto the New Cardholder Setup Form. Management does not review or approve the completed New Cardholder Setup Form before it is faxed to Bank of America.

Recommendation: Consideration should be given to having the Purchasing and Contracts Director authorize by signature the New Cardholder Setup Form before it is faxed to Bank of America.

Purchasing and Contracts Management Response: Purchasing and Contracts will consider this recommendation.

Cardholder Limits

All of the Purchasing Card Application Forms in the test sample were found in the Purchasing and Contracts Department files. Although all of the forms were located, some did not denote the per-transaction spending limit and/or the monthly credit card limit authorized for the cardholder when the limits were set at nonstandard amounts. Some versions of the Purchasing Card Application Form do not have a line space for this information. (*See detailed list below*)

Based upon a review of 31 cardholder administration files, the practice of retaining the Cardholder Setup Form is not consistent. Of the 31 cardholder application files reviewed, 28 did not include the Cardholder Setup Form.

Recommendation: Cardholder Setup Forms should be retained in the administration file located in Purchasing and Contracts.

Purchasing and Contracts Management Response: Purchasing and Contracts concurs.

PURCHASING CARD OPERATIONS REVIEW

Based on a review of all 282 active cardholders in Bank of America's electronic cardholder administration records, 12 cardholders were identified as having unrestricted per-transaction spending limits or per-transaction spending limits greater than \$1,000. The ASD compared the Bank's record to the corresponding support documentation (the Purchasing Card Application Form and/or the Cardholder Setup Form, as applicable), to determine if the spending limits agree with the support documentation and if so, the appropriate level of management authorized the spending limit. Of these 12 accounts:

- ✚ three (3) cardholders' per-transaction spending limits agreed with the support documentation and were authorized by the appropriate level of management;
- ✚ four (4) cardholders' per-transaction or unrestricted spending limits were inconsistent with the support documentation;
- ✚ four (4) of these cardholders' per-transaction spending limits were not denoted on the support documentation; and
- ✚ one (1) cardholder, the Purchasing and Contracts Director, authorized his own application and the support documentation does not denote the spending limit (which is unrestricted). The spending limit line item on the support document is not complete.

The Purchasing Cards Policy defines the standard per-transaction spending limit of \$1,000 but it does not define the standard monthly credit limit of \$5,000. Per Purchasing and Contracts, if cardholder limits are not denoted on the Purchasing Card Application Form, the authorized limits are set at these standard limits.

The Purchasing Cards Policy allows for nonstandard cardholder per-transaction spending and credit card limits to be established on a case-by-case basis with authorization by the Purchasing and Contracts Director and the cardholder's director.

Recommendation: Consideration should be given to enhancing the Purchasing Card Policy to include a standard monthly credit limit. In addition, approval levels should be established for authorizing nonstandard monthly credit limits.

Purchasing and Contracts Management Response: Purchasing and Contracts will consider this recommendation.

A separate sample of 11 cardholders who have monthly credit limits greater than \$5,000 (ranging from \$8,000 to \$20,000) resulted in:

- ✚ two (2) cardholders' monthly credit limits were authorized by the appropriate level of management;
- ✚ three (3) cardholders had monthly limits greater than the amount authorized on the support documentation;

PURCHASING CARD OPERATIONS REVIEW

- ✚ five (5) cardholders' monthly credit limits were not specified and/or authorized on the support documentation; and
- ✚ one (1) cardholder, the Purchasing and Contracts Director, authorized his own application and the support documentation does not denote the monthly credit limit. This line item on the form is not complete.

Recommendation: Cardholders should not be authorized to approve their own application and cardholder limits. Authorization should be by the appropriate level of management, documented, and kept on file. Supervisory authorization is essential to the control environment.

Purchasing and Contracts Management Response: All cardholder applications and limits will be authorized by the appropriate level of management, documented and kept on file.

Distribution of New or Renewed Cards

Management oversight and monitoring controls are relaxed. The number of cards created, surrendered, or confiscated per month and to whom those cards are distributed to and returned from is not reported to Purchasing and Contracts management. The program administrator who orders cards has access to bank records and the authority to make cardholder changes via a telephone.

Recommendation: Due to the small staffing level, full segregation of incompatible duties may not be feasible. To maximize the impact of segregating at least some of the key incompatible duties, consideration should be given to assigning the receipt and distribution of new or replacement cards to one employee and assigning the remaining purchasing card administration functions to a second employee.

As a preventative control, for renewal/replacement cards, consideration should be given to maintaining a purchasing card receipt and distribution log, whereby, cards are logged when received and the cardholder or his/her designee signs the log in acknowledgement of receipt when the card is picked up.

Purchasing and Contracts Management Response: Purchasing and Contracts will consider this recommendation.

Disputed Purchase Transactions

The ASD assessed the adequacy of the purchase card disputed transactions process by reviewing four (4) disputed transactions identified and processed between October 1, 2003, and January 3, 2005. The ASD found that two (2) of the disputed transactions were not followed through to conclusion.

Per Finance, the entire dispute process is managed by Purchasing and Contracts. Finance does not receive any disputed transaction documentation. Per Purchasing and Contracts, Statement of Disputed Item Forms should be prepared by the cardholder. This form becomes the permanent record of the dispute.

Recommendation: Consideration should be given to running disputed transactions through a special account. This will allow Finance to see the disputed transactions in the general ledger. Consideration should be given to balancing the special account semi-annually.

Cardholders should be required to complete a Statement of Disputed Item Form for any/all disputed transactions and report them in a timely fashion.

Finance Management Response: We have implemented the process of charging any disputed transactions to a balance sheet account and it will be reconciled on a regular basis. **Projected Date of Implementation: Already implemented.**

Emergency Cards

Purchasing and Contracts personnel cited that an authorized phone call to Bank of America allows cardholder limits per transaction spending of regularly assigned purchasing cards to be temporarily increased during declared emergencies. Per Purchasing and Contracts, there are approximately 10 Florida counties that adjust credit card limits during periods of emergencies as an alternative to maintaining an inventory of emergency cards. Taking into consideration this alternative, the need to maintain and safeguard emergency purchasing cards may no longer be necessary. However, additional controls are necessary to ensure that authorized limits are restored after the emergency situation expires.

During testing, the ASD identified eight (8) cardholders whose spending limits were, per Purchasing and Contracts staff, adjusted for an emergency situation during the 2004 hurricane season. As of April 7, 2005, months after the emergency situation expired, these unrestricted/per-transaction spending limits were not yet returned to their “normal” limits. During fieldwork, the ASD notified Purchasing and Contracts of this oversight. Purchasing and Contracts took corrective action by:

- ✚ resetting four (4) of the cardholders’ spending limits to their “normal” limits;
- ✚ incorrectly resetting one (1) cardholder’s spending limit to an amount inconsistent with his/her “normal” limit; and
- ✚ not resetting the remaining three (3) Purchasing and Contract’s cardholders’ spending limits. Because these cardholders’ historical application documents were incomplete, the ASD cannot comment as to whether these cardholders actually were provided emergency spending limits or what the “normal” limits actually are.

Recommendation: Consideration should be given to determining if there is a need to maintain and safeguard emergency purchasing cards. If it is determined that spending limits will be increased instead of utilizing emergency cards during emergency situations, monitoring controls should be implemented to ensure that any temporary increase in a spending limit is restored to the normal limit after the emergency situation expires.

Purchasing and Contracts Management Response: Purchasing and Contracts will consider this recommendation. However, in light of past emergency events both in this county and the

country, I would not recommend deleting any option we might have available in protecting the health, safety and welfare of the citizens of this county.

Retirements, Terminations, Transfers, Extended Leaves of Absence and Canceling of Purchasing Cards
Based on interviews and an assessment of the internal control environment, it appears that communication and coordination efforts between departments are lacking in regards to when employees retire, terminate employment, transfer to another department, or take an extended leave of absence. Need-to-know departments are not timely notified of these changes in employment.

The ASD performed testing from October 1, 2003, to December 31, 2004, on the timeliness of canceling purchasing cards when employees transfer to another department or terminate employment.

There appears to be a lack of adequate communication and coordination between Purchasing and Contracts, user departments, and Bank of America. Based on testing, purchasing cards are not canceled timely. During the test period:

- ✚ One (1) employee was transferred to another department. This employee's purchasing card was canceled 101 days after his initial transfer. This employee temporarily transferred for 84 days before the transfer became permanent. The time lapse from permanent transfer to card closure is 17 days.
- ✚ Seventeen (17) employees assigned a purchasing card terminated employment. Of those:
 - One (1) account was closed 201 days after termination;
 - One (1) account was closed 159 days after termination;
 - One (1) account was closed 76 days after termination;
 - One (1) account was closed 35 days after termination;
 - Two (2) accounts were closed between 15 and 28 days after termination;
 - Six (6) accounts were closed within 14 days after termination; and
 - Five (5) accounts were closed prior to termination.

Based on interviews, Purchasing and Contracts requests account closures from Bank of America via telephone or e-mail. When a card is closed via the telephone, a record of the request is not generated.

Recommendation: To enhance the control environment that is designed to safeguard County assets (information systems and other County property such as purchasing and fuel cards, facility keys, etc.), consideration should be given to developing a formal notification (and asset collection) process whereby employee retirements, terminations, transfers to other departments, or extended leaves of absence are communicated timely and effectively to those departments/individuals who have a need-to-know status. The department or individual who is responsible for communicating this information should be identified and assigned this function. There should be an up-to-date distribution list and a reasonable notification time period. Human Resources e-mail termination notices sent to Purchasing and Contracts should be circulated timely to the appropriate personnel.

Purchasing and Contracts Management Response: Purchasing and Contracts will consider this recommendation.

FINANCE FUNCTION

Accuracy of Electronic Records

The ASD tested the accuracy of the Finance Department's electronic purchasing card records by comparing these records to the pre and post-conversion from InfoSpan to Pentamation. To perform this test, the ASD traced November 2003 and June 2004 InfoSpan batch totals to Pentamation Check Register batch totals. These batch totals were then compared to Bank of America bank draft totals. No material concerns were identified during testing.

Reconciliation Process

The ASD tested the accuracy and timeliness of Finance's September 2004 reconciliation process. Since the external audit firm recently performed testing in this area and did not identify any material concerns, the ASD limited testing to this one month. Suntrust Bank's bank statement was traced through to the Pentamation check register summary page. No material concerns were identified during testing. Finance does not maintain a record denoting the date reconciliations are performed or the reconciler's name (i.e., maintaining monthly closeout rosters).

Recommendation: Consideration should be given to establishing a monthly reconciliation roster as a means of monitoring the purchasing card reconciliation process. This form should include each reconciliation task, the date performed, and who performed the task. A space for comments would also be helpful.

Finance Management Response: Finance will review the implementation of a tracking form to monitor the purchasing card reconciliation process in the Finance Office. **Projected Date of Implementation: December 2005**

Desk Audits

Tests were performed to address the timeliness and accuracy of Finance desk audits including assessment and follow up to any open issues/concerns/discrepancies until resolution. The test consisted of reviewing purchasing card transaction details for six (6) cardholders of which, two (2) each were desk audited by each one of the three (3) Finance clerks. Test results indicate that the date which desk audits are performed is not documented which created a scope limitation because the ASD could not determine the number of days between when the paperwork reached Finance and when it was desk audited.

Finance is responsible for performing desk audits. Desk audits consist of reconciling receipts to billing statements, and reviewing the appropriateness of purchase transactions. Generally, after the County receives billing statements from the issuing bank, it takes about four to six weeks (of lag time) for these statements and corresponding backup materials to reach Finance. (*See the flow chart that depicts the hard copy and electronic flow of work in the background section of this report.*) Finance tends to run behind in performing desk audits. As of May 5, 2005, Finance had not yet completed desk auditing the August 2004 purchasing card transactions.

A desk audit is a monitoring and detective control. As such, significant lag time is a concern because:

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- ✚ Finance must pay the issuing bank before the transactions are desk audited;
- ✚ potential fraud, employee abuse/misuse, and/or other noncompliance issues could continue over an extended period of time until such transactions are identified; and
- ✚ purchasing card support documents (i.e., receipts, billing statements, receipt envelopes, etc.) are not imaged until the corresponding desk audit is complete so, user departments have a tendency to keep their records on spreadsheets and in file drawers which is highly inefficient.

When the ASD brought it to the Finance Director's attention that desk audits were not performed timely, Finance began immediate corrective action by implementing an aggressive seven (7) week desk audit schedule which will bring the desk audit and imaging process up-to-date by the first week of July. Implementation began during fieldwork.

As a second layer of desk auditing, once the desk audit is complete, a Pentamation Check Register report (which contains each cardholder's name, purchases by vendor, transaction amounts, etc.) is reviewed and signed off by the Accounts Payable Supervisor for unusual and/or large purchases.

Auditor's Note: Prior to report issuance, Finance communicated that the back log of desk audits was complete and current audits are now performed timely.

Recommendation:

- ✚ Consideration should be given to working out a system that focuses on the importance of desk auditing on a timely basis.
- ✚ Consideration should be given to reviewing the system for inefficiencies and paper flow bottlenecks.

Finance Management Response: We have reviewed the credit card audit and imaging process to ensure it is managed in a more timely and efficient manner, and we will continue with efforts to enhance the process. As of the writing of this response, the Finance Office is current with all credit card audits. **Projected Date of Implementation: Already implemented.**

Discrepancies Identified by Finance

When desk audits identify discrepancies such as: missing receipts, sales tax charges, duplicate charges, and stacked purchases, Finance documents their concerns on Monthly Discrepancy Logs. Finance cited that discrepancy logs are prepared differently by each Finance clerk. These logs are not retained as a permanent historical record; they are discarded when they are no longer useful to staff. Based upon a review of these logs, it does not appear that they contain an adequate audit trail of how and when resolution was reached. Tracking missing cardholder documentation (i.e., receipt envelopes, receipts, billing statements) is not consistent.

Recommendation: To ensure that there is an adequate audit trail of any questioned transactions, and Finance's assessment of those items, consideration should be given to implementing a

procedure whereby the assessment is adequately documented and housed in a logical place.

Finance Management Response: We have implemented a form to identify the status of questioned transactions for follow up purposes to ensure an adequate audit trail exists.

Projected Date of Implementation: **Already implemented.**

Imaging

Purchasing card imaging is done after the desk audit is complete. As of May 5, 2005, purchasing card images from August 2004 through the most recent billing statement were not yet imaged. Considering that some paper receipts are printed on paper that fades quickly, the timeliness of imaging these documents could become a significant concern.

Imaging support documents that contain purchasing card account numbers, cardholders' names, and purchasing card expiration dates is inconsistent with the Purchasing Cards Policy which states that, "All precautions shall be used to maintain confidentiality of cardholders' account number and expiration date of the purchasing card."

Recommendation: Consideration should be given to editing the Purchasing Card Policy so that when Finance images purchasing card transactional data, this process is in compliance with the Policy. Due to the strength of the Card Member Agreement with Bank of America, the County has limited liability if credit card information is made public. *See discussion in the Background section of this report.*

Purchasing and Contracts Management Response: Purchasing and Contracts will consider this recommendation.

AUTOMATION

The electronic data flow and approval process do not appear to be efficient. Purchasing card data flows through numerous locations/systems before becoming part of the general ledger record. Data is received, converted, added to/edited, and stored during this process. The data flows into/out of the Card Program Administrator (CPA), InfoSpan and Pentamation software applications. It appears that the transaction data is more vulnerable at certain points of the processing path than at others as there is the potential for unauthorized access, viewing, and/or editing while the data is in a raw text data format. Other data vulnerabilities include the number of employees that have responsibility for moving this data from point-to-point during the data flow process in a timely and efficient manner.

The electronic purchasing card transactions' costs are allocated to the financial line items weekly whereas the paper billing statements are reviewed and approved and paid monthly. Electronic transactions are the basis for the financial record.

Based on observations and interviews, the CPA and InfoSpan systems appear to have an array of functions and reports. The CPA system allows for new cards to be ordered electronically. The InfoSpan system contains a management reporting component that includes spending analysis, program administration and exception reports. The InfoSpan system also offers a custom reporting feature.

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Based on observations and job duties, it appears that the program administrator has adequate knowledge of the CPA and InfoSpan systems (navigating these systems, querying information, and the availability of reports). However, it does not appear that she has adequate knowledge of some of CPA's features such as accurately ordering purchasing cards in the system and knowledge of the types of reports that would be most beneficial to administering the purchasing card program.

Based upon interviews with Purchasing and Contracts and Technology Services employees, web-based software is available as a viable alternative for managing the administrative portion of the purchasing card program. A web-based system could minimize many of the current data vulnerabilities and eliminate the need for manual intervention as well as enhance processing time.

The ASD explored the Electronic Account Government Ledger System (EAGLS), a desktop management tool designed for fast and easy management of Bank of America Government Card accounts. EAGLS could reduce the labor hours and paperwork associated with purchasing card accounting and administrative tasks because many of these tasks could be performed online in real time from staff's PCs with point-and-click functionality thereby eliminating the inefficient electronic data flow.

EAGLS provides the following functions:

- ✚ Daily tasks such as: new account setup, account maintenance, modify spending controls, and review individual and central account statements and current transactions;
- ✚ Create general ledger accounting interfaces, assign and update cost centers, and specify mapping options for individual transactions;
- ✚ Certify and reconcile transactions, initiate disputes, split costs, or reallocate charges to specific cost centers in a paperless environment; and
- ✚ Request, review, and print standard reports.

This type of automated tool could reduce the labor hours and paperwork associated with purchasing card accounting and administrative tasks because many of these tasks can be performed online from staff's PCs with point-and-click functionality thereby eliminating the inefficient electronic data flow. Streamlining this process may:

- ✚ eliminate a significant portion of the paper document flow;
- ✚ minimize the lag time from when transactions occur, are subsequently encumbered and posted to the general ledger;
- ✚ reduce labor hours expended by Purchasing and Contracts, user department cardholder administrators, and Finance;

- ✚ allow multi-user authorized access to queries and reports; and
- ✚ alleviate some of the paper documents currently handled and imaged by the Finance Department.

A web-based system would eliminate the need for electronic purchasing card transaction records to be sent from Bank of America to Purchasing and Contracts, to the user department and back to Purchasing and Contracts prior to being forwarded to Finance. A web-based system would allow this electronic data to be sent directly to user departments in real time. As user departments review, authorize and allocate the transactions, Finance would have this information simultaneously. This would greatly diminish, if not eliminate the normal four to six week lag time currently experienced.

The Purchasing and Contracts Director cited that he and his staff are considering implementing EAGLS software.

Recommendation: Consideration should be given to streamlining the paper document and the electronic data flows between Bank of America, Purchasing and Contracts, user departments, and Finance.

Purchasing and Contracts Management Response: Purchasing and Contracts is considering changing over to the Eagles system when schedule permits.

Cardholder Population

Cardholder Usage

The ASD performed testing on original (electronic) source documentation obtained directly from Bank of America. This electronic file contained 15,795 transactions from October 1, 2003, to January 3, 2005, totaling more than \$2.3 million in expenditures.

A population of 502 purchases occurring on weekends, holidays, and declared emergencies were identified. Of these, a judgmentally selected sample of 48 transactions greater than \$50 was selected for testing. Hard copy or images of purchasing receipts/invoices and other support documents were inspected to determine if the purchased item, per the third party support documents, were delivered to a County government location, as applicable; and if the purchase of the item was in compliance with County policies and procedures. No material concerns were identified with any of the 48 transactions reviewed.

Of a sample of 28 groups of transactions reviewed for stacking, the ASD found that:

- ✚ Six (6) groups of transactions appeared to be stacked. Of these two (2) were identified by Finance and follow-up attempts were made.
 - One of these transactions was followed up on by Finance in August 2004 but there is no documentation showing if the exception has been cleared.
 - One (1) group of transactions was missing the corresponding invoice; therefore, the ASD

provides no conclusion. This billing statement had not yet been desk audited by Finance.

- Three (3) other groups of transactions were identified where the transaction amount would have exceeded the cardholder's per transaction limit. The cardholder had a Purchasing and Contracts employee purchase the item/service on his card. The ASD found no evidence that the cardholder's Director authorized the purchase. The Purchasing and Contracts employee who completed the purchase indicated that the purchase was made at the cardholder's request and not via the cardholder's director. This is a concern because the department director to be charged for these purchases did not authorize the purchases.

Recommendation: Consideration should be given to editing the Purchasing Cards Policy to allow Purchasing and Contracts cardholders to decide if it is more efficient and/or in the County's best interest for them to charge a purchase to their credit card if it exceeds the cardholder's per transaction limit.

Purchasing and Contracts Management Response: The Purchasing Cards Policy will be enhanced in this area.

Appropriateness of Use

The appropriateness of cardholder transactions was tested. (*See the Baseline section of this report for a list of unacceptable purchases.*) To analyze appropriateness, the ASD scanned the vendors in the electronic data file and judgmentally selected potentially inappropriate vendors (i.e., gas stations, restaurants, entertainers, etc.). The ASD sorted the data file by vendor from highest to lowest transaction amount. The highest transaction amount for each vendor was selected for testing which yielded 96 questionable vendor transactions. Although no material concerns were identified during testing, the ASD had difficulty determining compliance because some backup documentation did not adequately support the transaction.

Recommendation: Given the difficulty of desk auditing when purchasing card backup documentation does not stand alone, cardholders and managers should support any transactions that may at first glance be exceptions to the Purchasing Cards Policy with adequate support so that Finance does not have to contact the cardholder for an explanation for the transaction.

Finance Management Response: We concur. In the Accounts Payable Manual, it addresses what should be included on an invoice/bill and what a department should include as supporting documentation. Both Purchasing and Finance offices contact the management of departments that don't comply on a regular basis. To enhance compliance, the Purchasing Office will emphasize this during the training process. **Projected Date of Implementation: Already implemented.**

Allowing Another Individual Usage of a Cardholder's Card

During a review of purchasing card transactions, the ASD identified misuse of a purchasing card. The Purchasing Card Policy states that, "Purchasing cards are issued to cardholders embossed with the name of the individual assigned the card and are only to be used by that person. Assigned personnel shall not

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allow use of their assigned purchasing card by another individual.” Based upon communications with the Fleet Manager, this cardholder allowed use of his assigned purchasing card by another individual.

Recommendation: Cardholders should comply with the Purchasing Card Policy and not allow use of their assigned purchasing card by another individual.

Purchasing and Contracts Management Response: Purchasing and Contracts will enhance training in this area.

APPENDIX A – MERCHANT CATEGORY CODE EXCLUSIONS

CATEGORY NAME	MCC CODE
Automobile Organizations	8675
Bail and Bond Payments	9223
Barber and Beauty Shops	7230
Betting (Including Lottery Tickets)	7995
Cigar Stores and Stands	5993
Court Costs, Including Alimony & Child Support	9211
Dating and Escort Services	7273
Direct Marketing Insurance Services	5960
Direct Marketing Travel-Related Arrangements	5962
Direct Selling Establishments/ Door-to-Door Sales	5963
Drinking Places	5813
Duty-Free Stores	5309
Fines	9222
Furriers and Fur Shops	5681
Health and Beauty Spas	7298
Massage Parlors	7297
Membership Clubs, Country Clubs	7997
Package Stores	5921
Political Organizations	8651
Tax Payments	9311
Tax Preparation Services	7276
Timeshares	7012