

Hernando County Clerk of Circuit Court & Comptroller
Audit Services Department
Audit Report
Of
Purchasing Cards
November 18, 2019

MANAGEMENT LETTER

TO: County Administrator Jeffrey Rogers

VIA: The Honorable Doug Chorvat, Jr.

FROM: Elizabeth Hogan, CIA, CFE, Director of Audit Services

DATE: November 18, 2019

SUBJECT: Purchasing Cards Audit

In accordance with the Audit Services Department's Audit Project Schedule, the internal audit team conducted an audit of Purchasing Cards. Based on testing, observations, and communications with key personnel, the audit team produced the attached report for your review. Management's responses to the recommendations are also included. A copy of this 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 with 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 internal audit team 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.

The courtesies and cooperation extended by the employees of the Purchasing and Contracts Department and the Clerk of Court and Comptroller's Financial Services Department during the audit were sincerely appreciated.

If you have any questions, concerns, or need additional information regarding the above or the attached report, please do not hesitate to contact Audit Services at (352) 540-6589, or just stop by our offices in Room 362.

ATTACHMENT: Purchasing Cards Audit Report

Copy: James Wunderle, Purchasing and Contracts Manager

Copy: **Board of County Commissioners**

Chairman Jeff Holcomb
Commissioner John Allocco
Commissioner Wayne Dukes
Commissioner John Mitten
Commissioner Steve Champion

Copy: **Audit Services Planning & Priorities Committee**

The Honorable Doug Chorvat, Jr., Clerk of the Circuit Court and Comptroller
Amy Gillis, CPA, CGFO, Director, Financial Services
Jon Jouben, Deputy County Attorney
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Helen Painter, CPA, Partner, Purvis Gray & Company
Jeffrey Rogers, PE, County Administrator
Stephanie Russ, Budget Director, Office of Management & Budget
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Executive Summary

The Audit Services Department (ASD) conducted an audit of Purchasing Cards internal controls. The purpose of this audit was to provide management with some level of assurance that the internal controls for the issuance and use of Purchasing Cards were adequate.

To accomplish this review, we obtained an understanding of the Cardholder account life cycle and the monthly review and approval of purchasing card transactions. In addition, Florida Statutes, County Ordinances, and Purchasing Cards Policy 050H were reviewed,

Purchasing Cards (P Cards) provide an efficient and cost-effective means for designated County personnel to purchase small dollar goods and/or services. As of September 2018, there were 197 P Card accounts for the Board of County Commissioners' departments. Purchases for Fiscal Year 2017 and Fiscal Year 2018 totaled \$2,728,845 and \$2,827,757, respectively

Although test results were generally positive, our review disclosed several Opportunities for Improvement that are addressed in the following discussion points.

Discussion Point 1: Cardholder Accounts

To address the control environment of the P Card application cycle (enrollment, training, position transfers, and terminated employees), the ASD reviewed the set-up of new accounts, inactive accounts, transferred or terminated employee accounts, and duplicate accounts.

The Purchasing and Contracts Department establishes new Cardholder Accounts and deactivates accounts based on requests received from department Directors, or their designated representatives.

To request a new account, modify an account, or terminate an account the department Director, or their designated representative submits a completed Purchasing Card Application/Acceptance/Termination Form to the Purchasing and Contracts Department. The department Director determines the Cardholder transaction and monthly purchasing dollar limits.

The ASD identified 12 accounts that were set-up during the audit period. The review of these 12 new accounts disclosed unauthorized Cardholder purchasing dollar limits were input into the Bank of America system. Four of the twelve accounts were granted higher limits than approved. One of the twelve had a higher limit without proper supporting documentation and approval.

To strengthen internal controls pertaining to the set-up of new accounts, the modification of existing accounts, and the closing of accounts, management should consider implementing a verification process to ensure Cardholder account data is accurate.

During this review, a lack of segregation of incompatible duties was identified. One staff member in the Purchasing and Contracts Department received new account requests, set-up the account in the Bank of America system, and received the P Card from Bank of America.

According to the American Institute of Certified Public Accountants (AICPA), "Segregation of Duties (SOD) is a basic building block of sustainable risk management and internal controls for a business. The principle of SOD is based on shared responsibilities of a key process that disperses

the critical functions of that process to more than one person or department. Without this separation of key processes, fraud and error risks are far less manageable.”¹

In addition to implementing a data input verification process, management should consider realigning job responsibilities such that one individual is not responsible for the set-up of new accounts and the receipt of P Cards.

The ASD also reviewed inactive accounts to determine if the inactive account should remain open. The Purchasing Cards Policy 050H states that “Purchasing and Contracts will provide an annual report to Department Directors indicating cardholders who have not used their Purchasing Card for the previous twelve-month period. Department Directors will be required to furnish to Purchasing and Contracts justification for continued card activation or the card will be cancelled within thirty (30) calendar days.”

Purchasing and Contracts Department staff members indicated that an annual report of inactive P Cards was not distributed to department Directors.

In compliance with County Policy and to limit unnecessary exposure to fraudulent transactions, the Purchasing and Contracts Department should provide an annual report of inactive P Cards to Department Directors.

The ASD compared Payroll data to Bank of America data to identify the accounts of transferred and/or terminated employees. Based on the results of the review, it appears that P Cards issued to transferred or terminated staff members were properly updated or de-activated in the Bank of America system.

Finally, the ASD utilized data analytics software to identify Cardholders with multiple accounts. Based on Bank of America data, employees were not issued multiple P Cards.

Discussion Point 2: P Card Transactions and Monthly Review & Approval Process

To review the control environment within the P Card transaction life cycle, the ASD reviewed transactions for compliance with County policy, identified potential duplicate transactions and identified transactions posted on a weekend or holiday. A total of 100 transactions were reviewed. Based on the supporting documentation, all transactions appeared to be valid, were properly approved, and were within the Cardholder's authorized purchasing limit.

The Purchasing Card Procedure No. 050H clearly addresses the monthly timeline for review, approval, and submission of the P Card statement and receipts. To accomplish this review, a random sample of 50 transactions along with the applicable statement was selected for review. These transactions and the applicable statement were reviewed for proper approvals, adherence to the monthly review timeline, and compliance with established purchasing dollar limits. Based on the supporting documentation, all transactions appeared to be valid, were properly approved, and were within the Cardholder's authorized purchasing limit.

Eleven of the 50 statements reviewed did not comply with the timelines stipulated in the County's Policy. Six statements were not approved by the Cardholder within seven work days; four statements were not submitted to the Financial Services Department by the end of the

¹ <https://www.aicpa.org/interestareas/informationtechnology/resources/value-strategy-through-segregation-of-duties.html>

statement month, and one statement for March 2018 was approved and submitted to the Financial Services Department in August 2018.

Bank of America automatically drafts payment for the monthly P Card transactions. Therefore, it is incumbent upon the Cardholders to review their monthly statement timely to ensure all charges incurred were valid. Delays in the review and approval process negatively impacts the timely identification of billing errors, inappropriate use, and the validity of financial information. To ensure compliance with County Policy, management should consider communicating the importance of timely review, approval, and submission of monthly statements and receipts to the Financial Services Department. Furthermore, if a Cardholder is continuously non-compliant, management should consider revoking the Cardholders account. The County Policy clearly states, "Noncompliance may mean denial of future use."

Along with the timely review and approval of monthly statements, an automated control within the Bank of America system, Merchant Category Codes (MCC), helps to ensure that transactions are for business purposes. This control feature would allow the County to block the usage of P Cards based on the retail establishment type.

According to the Government Finance Officers Association (GFOA), one of the best practices is to have "clear guidelines on the appropriate uses of purchasing cards, including approved and unapproved Merchant Category Codes." In addition, there should be "regular review of spending per vendor and merchant category codes".²

Based on discussions with Purchasing and Contracts staff members, the County does not utilize the MCC control feature within the Bank of America system. To strengthen the internal control environment, management should consider implementing this automated control.

The ASD also reviewed transactions that appeared to be duplicates. Using data analytics software, a total sample size of 20 transactions was selected for review. Based on the supporting documentation, all transactions appeared to be valid, were properly approved, and were within the Cardholder's authorized purchase limits.

To complete this review, purchases that were posted on weekends or holidays were identified. A total sample size of 30 transactions was selected for testing. Based on the supporting documentation, most of the transactions actually occurred during the work week but were not posted by the bank until the weekend or holiday. All transactions appeared to be valid, were properly approved, and were within the Cardholder's authorized purchase limits.

² <https://www.gfoa.org/purchasing-card-programs>

Acknowledgement


Other minor findings not included in the attached report were communicated to management and/or corrected during fieldwork.

Fieldwork was performed by: Elizabeth Hogan, Director of Audit Services
Kayla Liberato-Berdon, former Assistant Auditor

Management's response was provided by: James Wunderle, Purchasing and Contracts Manager

Management's response was approved by: Jeffrey Rogers, County Administrator

This report was reviewed and authorized by Doug Chorvat, Jr. Clerk of Circuit Court and Comptroller.



Doug Chorvat, Jr.

11-18-19

Date

BACKGROUND INFORMATION

To provide an efficient, cost-effective process to purchase small dollar goods and/or services the County established a Purchasing Card (P Card) program. The P Card program was initially established on April 14, 1998 when the County utilized the State of Florida's contract with Bank of America. On November 4, 2014 the Board of County Commissioners (BOCC) approved the utilization of the Hillsborough County contract with Bank of America, N.A. for Purchasing Card Program Services Consortium. The current Hillsborough County Contract No. S-0001-09/JSW expires August 16, 2019 yet, Hillsborough County extended its Contract No. S-0001-09/JSW with the Bank of America N.A. to expire on September 30, 2019. Hillsborough County will not re-bid its Contract No. S-0001-09/JSW. Hillsborough County will utilize the State of Florida Purchasing Card Program Contract No. 84121500-15-01. Hernando County shall also utilize the State of Florida Contract No. 84121500-15-01 seeking use approval by the Hernando Board of County Commissioners on September 10, 2019, DOC ID 16066 with an effective date of October 1, 2019. Hernando County Purchasing and Contracts Department assigned File No. 19-P00177/JSW Entitled: Purchasing Card Program. Use of this contract with Bank of America will result in no service disruption to County Departments.

As of September 2018, there were 197 P Card accounts for the Board of County Commissioners' departments. Purchases for Fiscal Year 2017 and Fiscal Year 2018 totaled \$2,728,845 and \$2,827,757, respectively.

Total P Card purchases made by the departments during the audit period are depicted in the chart below. The Utilities, Fire Rescue, Facilities, Public Works, and Waste Management departments were the five highest users based on the total dollar amount of purchases.

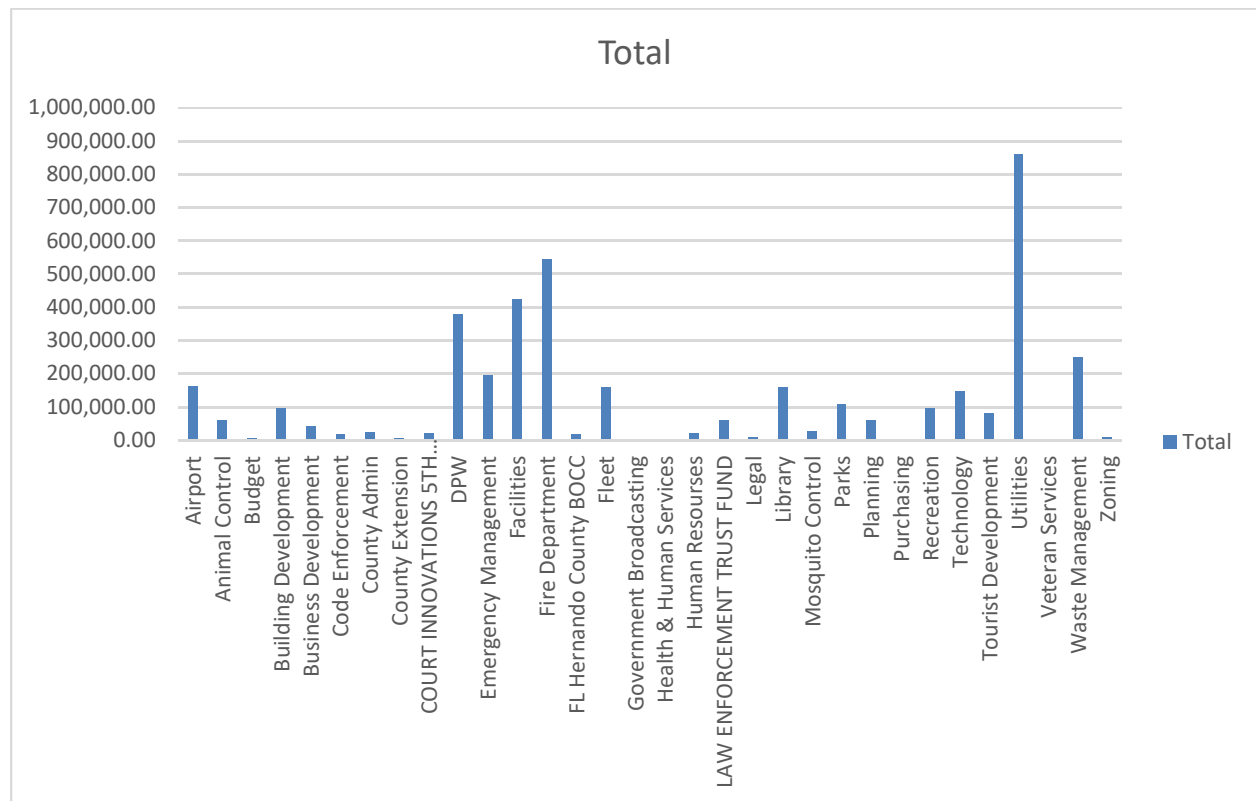


Figure 1 – Auditor generated based on transaction data

The County's Purchasing Card Procedure 050H, approved by the BOCC on April 12, 2016, establishes "those procedures under which departments will control the use of Purchasing Cards assigned to and utilized by Hernando County employees for purchasing materials and services, on behalf of the County." This procedure clearly states the responsibilities of the Cardholders, Department Directors or designated representatives, Purchasing and Contracts Department, and the Clerk of Court and Comptrollers' Financial Services Department.

As stated in the Cardholder Limitations section of the Procedure 050H, "Pursuant to Purchasing Procedure 020 (latest revision) the Delegation of Authority that has been provided to each Cardholder sets the maximum dollar amount for each single purchase made by the Cardholder to \$2,500, and the monthly maximum total purchase to \$5,000 unless specifically authorized by the Chief Procurement Officer and the County Administrator." The monthly and single purchase credit limits entered into the Bank of America Works system serve as an automated control point.

OBJECTIVES

The objectives of this audit were to obtain reasonable assurance that:

- The internal control environment of the purchasing card application cycle (enrollment, training, position transfers, and terminated employees) was adequate and operating effectively
- The internal control environment within the purchasing card transaction life cycle was adequate and operating effectively

This audit was conducted in conformance with the *International Standards for Professional Practice of Internal Auditing*.

SCOPE

To accomplish the audit objectives, the Audit Services Department performed the following procedures:

- Interviewed key personnel
- Obtained and reviewed relevant policies and procedures
- Obtained Bank of America cardholder and transaction files
- Obtained terminated and transferred employee data
- Reviewed supporting documentation for all sampled transactions for proper approval and to verify that the transaction amount was within cardholder dollar limits
- Using IDEA data analytics software
 - Queried the cardholder file for cardholders with multiple P Cards
 - Compared employee data to Bank of America data to identify terminated and/or transferred employees
 - Identified transactions posted on a weekend or holiday and selected a random sample of 20 transactions posted on a weekend date and selected the 10 highest dollar transactions posted on a holiday
 - Identified potential duplicate transactions and selected a random sample of 5 transactions and a judgmental sample of 15 transactions
 - Selected a random sample of 50 transactions to review for compliance with Purchasing Card Procedure 050H
- Reviewed 100% of new accounts (twelve accounts) set-up during the audit period for proper approval and accuracy of account set-up
- Reviewed inactive P Card accounts

The audit period was October 1, 2016 through March 31, 2018.

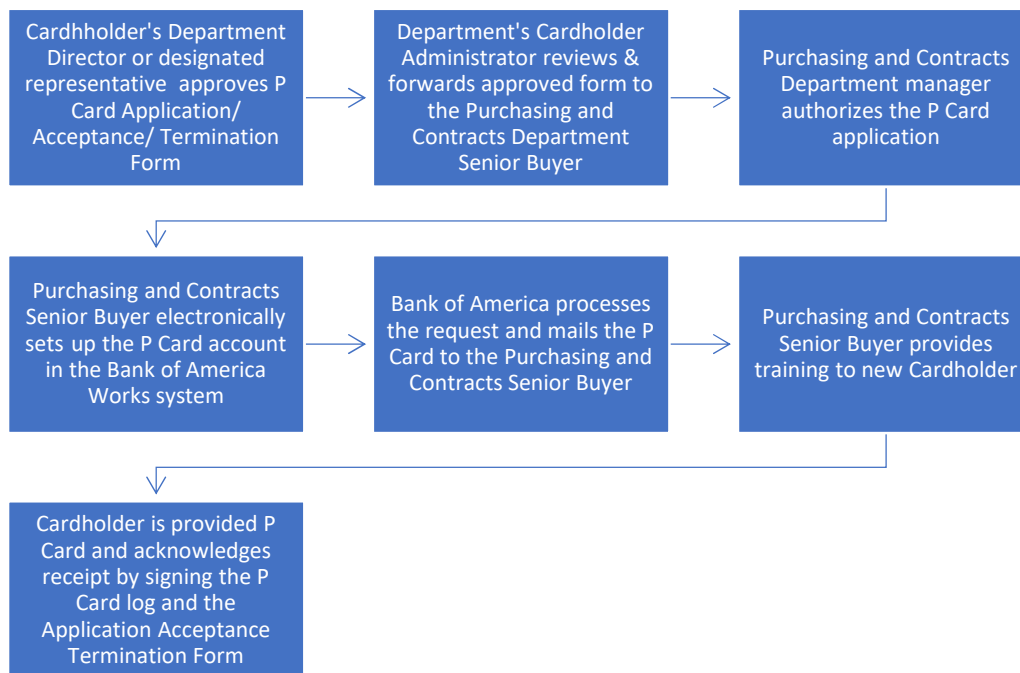
Discussion Point	Opportunity for Improvement	Description	Page Reference
1	1.1	Management review of P Card account data for accuracy.	13
1	1.2	Segregate the duties of P Card account set-up; receipt of new P Cards; and distribution of P Cards.	13-14
1	1.3	Provide an annual report of inactive P Cards to Department Directors in accordance with Purchasing Cards Policy 050H.	14
2	2.1	Review requirements for P Card Statement verification, approval, and submission with Cardholders and management	16
2	2.2	Utilize Merchant Category Code (MCC) control feature in Bank of America Works system.	16-17

Discussion Points

Discussion Point 1: Cardholder Accounts

The ASD reviewed the processes in place for establishing new accounts, modifying existing accounts, and closing accounts. In addition, the Bank of America data was reviewed for duplicate Cardholder accounts.

For the set-up of new P Card accounts, Department Directors are responsible for determining if staff members responsibilities necessitate the need for a P Card. Department Directors or designated representatives submit a completed Purchasing Card Application/ Acceptance/ Termination Form to the Purchasing and Contracts Department to request new accounts, modify existing accounts, or terminate an account. Below is a depiction of the new P Card request process.



The review of the new P Card account set-up process disclosed three Opportunities for Improvement. See Opportunity for Improvement 1.1, 1.2, and 1.3.

To verify that P Card accounts for terminated or transferred employees were de-activated, the ASD used data analytics software to compare payroll data to Bank of America active account data to identify active P Card accounts for terminated and/or transferred employees. Based on the results of the review, it appeared that the Department Directors properly notified the Purchasing and Contracts Department of the staff change. Upon notification of the staff change, the Purchasing and Contracts Department Senior Buyer de-activated the Cardholder's P Card account.

Using data analytics software, the ASD reviewed the Bank of America data to identify if a Cardholder had multiple accounts. No duplicate Cardholder accounts were identified.

1.1. Opportunity for Improvement: Management review of P Card account data for accuracy.

The approving department director indicates the monthly credit limit and the single purchase limit on the Application/Acceptance/Termination Form.

Using data analytics software, the ASD team identified twelve new P Card accounts established during the audit period. These Cardholder accounts were reviewed to ensure the account was properly approved and set-up in Bank of America's Works program.

This review disclosed that unauthorized Cardholder limits were input into the Bank of America System. Four of the twelve new accounts reviewed (33%) were granted higher limits than approved. In addition, one of the twelve new accounts had a higher limit without proper supporting documentation and approval.

Recommendation: To verify the accuracy of Cardholder data, the ASD recommends that Purchasing and Contracts management periodically review Bank of America reports for new P Card accounts and/or modifications to existing cardholder data.

Management Response:

Purchasing and Contracts Department Staff and Management, support audit report recommendation(s).

Action: Purchasing Management shall obtain P-card reports on a quarterly basis from Bank of America. If the County P-card Administrator has access to obtain report data, the P-card Administrator will run / print such P-card reports for procurement management review. Based upon management review, management will evaluate for action as required and as identified. The quarterly reports shall begin on **October 1, 2019** and a separate file will be created and housed with current P-card account folders. Purchasing may share such reports and data with the Clerk's Office - Finance (as needed / as available). **Electronic copy filed in File No. 19-P00177/JSW.**

1.2. Opportunity for Improvement: Segregate the duties of P Card account set-up; receipt of new P Cards; and distribution of P Cards.

According to the American Institute of Certified Public Accountants (AICPA), "Segregation of Duties (SOD) is a basic building block of sustainable risk management and internal controls for a business. The principle of SOD is based on shared responsibilities of a key process that disperses the critical functions of that process to more than one person or department. Without this separation of key processes, fraud and error risks are far less manageable."³

The Senior Buyer in Purchasing and Contracts received new account set-up requests, processed the new account, and received the P Card from Bank of America. In addition, the Senior Buyer received notification to close accounts and was responsible for destroying returned P Cards.

Recommendation: Purchasing and Contracts management should consider realigning job responsibilities such that one individual is not responsible for the set-up of new accounts and the receipt of the new or returned P Cards.

Management Response:

Purchasing and Contracts Department Staff and Management, support audit report recommendation(s).

Action: Purchasing and Contracts Department Management have identified:

³ <https://www.aicpa.org/interestareas/informationtechnology/resources/value-strategy-through-segregation-of-duties.html>

- One (1) employee procurement staff position as P-Card Administrator to **enter** request(s) for new P-cards or changes as requested by and received from County Departments,
- One (1) employee procurement staff position to **issue** new P-cards and,
- One (1) management position (Chief Procurement Officer (CPO)) to **review and approve** requests for new P-cards related to: P-card increase, new employee and employee transfer and termination of card holder rights (but not limited to).

Management will also seek support from the department regarding a request to increase spend limit(s), transfers etc., and attach it to the department request (Form 28 Entitled: Pcard Application-Termination Form) located on County EICE.

1.3. Opportunity for Improvement: Provide an annual report of inactive P Cards to Department Directors in accordance with Purchasing Cards Policy 050H.

Purchasing Cards Policy 050H states that "Purchasing and Contracts will provide an annual report to Department Directors indicating cardholders who have not used their Purchasing Card for the previous twelve-month period. Department Directors will be required to furnish to Purchasing and Contracts justification for continued card activation or the card will be cancelled within thirty (30) calendar days."

Interviews with Purchasing and Contracts Department personnel disclosed that an annual report of inactive P Cards has not been distributed to Department Directors.

Recommendation: In accordance with Purchasing Cards Policy 050H and to limit unnecessary exposure to fraudulent transactions, Purchasing and Contracts personnel should provide an annual report of inactive P Cards to Department Directors.

Management Response:

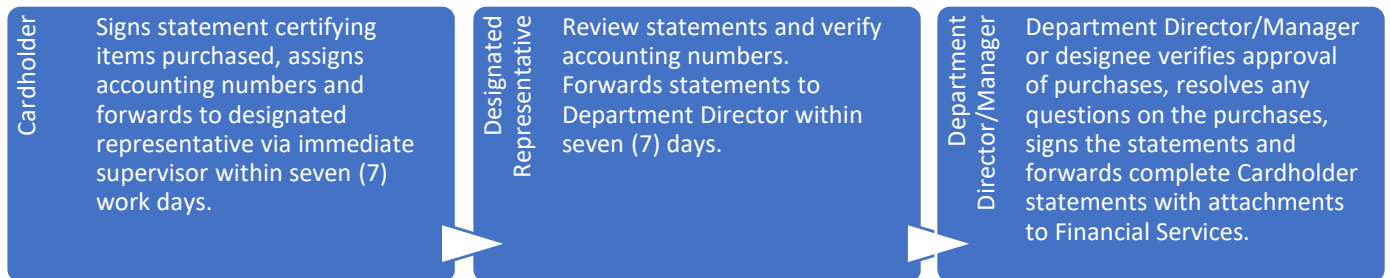
Purchasing and Contracts Department Staff and Management, support audit report recommendation(s).

Action: Purchasing Department Management has identified **October 1**, of each year thereafter to distribute this **annual report** of "Inactive" P-card accounts during the month of October to Department Directors for review and require written reply from the Department Director or designee to close or keep such P-card account active. This will require written reply by the Department Director to the Purchasing Card Administrator. A file of such annual list and department response will be created and kept with other P-card accounts in the Purchasing and Contracts Department and **electronic copy in the File No. 19-P00177/JSW.**

Discussion Point 2: P Card Transactions and Monthly Review & Approval Process

Bank of America automatically drafts payment for the monthly P Card transactions. Therefore, it is incumbent upon the Cardholders to review their monthly statement timely to ensure all charges incurred were valid.

According to the Purchasing Card Procedure No. 050H the monthly timeline for review, approval, and submission of the P Card statements is as follows:



To accomplish this review, the ASD performed several tests. Transactions were tested for compliance with County policy, transaction data was reviewed for duplicate transactions and purchases made on a weekend or holiday.

The ASD randomly selected 50 P Card transactions to review for compliance with County policy. The supporting documentation and Cardholder statements were reviewed for compliance with Procedure No. 050H and the established Cardholder purchase limits. In addition, the selected transactions were traced to the General Ledger to ensure that they were recorded to the appropriate account. See Opportunity for Improvement 2.1.

For transactions that appeared to be duplicates, a total sample size of 20 transactions was selected for review. A judgmental sample of 15 transactions and a random sample of 5 transactions were selected from the transaction data. The ASD obtained the supporting documentation for each transaction to determine if the transaction was valid. All transactions were reviewed for proper approval and that the amount was within the Cardholder's purchase limits. All transactions within the sample appeared to be valid, properly approved, and within the Cardholder's established purchasing limit.

The transaction data was reviewed to identify purchases made on a weekend or holiday. A total sample size of 30 transactions was selected for testing. For weekend transactions, a random sample of 20 transactions from the 10 Cardholders with the highest transaction volume was selected for review. For holiday transactions, the 10 highest dollar transactions were reviewed. The supporting documentation was obtained for all transactions. All transactions were properly approved and were within the Cardholder's established purchasing limit. Based on the supporting documentation, the majority of the transactions actually occurred during the work week, but were processed and posted by the bank on the weekend or holiday. The two transactions that did take place on a weekend were properly approved and valid.

In addition, the ASD inquired if the County utilizes the Merchant Category Code control feature within the Bank of America Works system. Purchasing and Contracts Department staff indicated that the County did not utilize this control feature. See Opportunity for Improvement 2.2.

2.1. Opportunity for Improvement: Review requirements for P Card Statement verification, approval, and submission with Cardholders and management

Review of the 50 transactions selected for testing disclosed the following lapses in compliance with the stated timeframes.

- Six (12%) of the statements were not approved by the Cardholder within seven work days
- Four (8%) of the statements were not submitted to Financial Services by the end of the statement month.
- One statement for March 2018 was approved and submitted to Financial Services in August 2018

Delays in the review and approval process negatively impacts the timely identification of billing errors, inappropriate use, and the validity of financial information.

Recommendation: The ASD recommends that management communicate to all Cardholders the importance of compliance with the County Purchasing Card Procedure No. 050H regarding the timely approval and submission of monthly statements. If a Cardholder is continuously non-compliant, management should consider revoking the Cardholders account. The Purchasing Card Procedure clearly states, "Noncompliance may mean denial of future use."

Management Response:

Purchasing and Contracts Department Staff and Management, support audit report recommendation(s).

Action: Purchasing and Contracts Department P-Card Administrator and/or Senior Procurement Management will communicate the importance of County-wide Department monthly statement reporting procedure during the following orientation training sessions and/or other County-wide communications:

- New P-card orientation training and/or;
- Through e-mail announcements and notifications to County-wide Departments.

Such training and County-wide communications will advise County Department staff of the potential results for non-compliance regarding monthly P-card statement processing and reporting for review and approval.

2.2. Opportunity for Improvement: Utilize Merchant Category Code (MCC) control feature in Bank of America Works system.

According to the Government Finance Officers Association (GFOA), one of the best practices is to have "clear guidelines on the appropriate uses of purchasing cards, including approved and unapproved Merchant Category Codes." In addition, there should be "regular review of spending per vendor and merchant category codes".⁴

This control would allow the County to block the usage of P Cards based on the retail establishment type. However, the County has not activated this system control.

Recommendation: Purchasing and Contracts management should consider utilizing the MCC control feature in the Bank of America Works system.

Management Response:

Purchasing and Contracts Department Staff and Management, support audit report recommendation(s).

⁴ <https://www.gfoa.org/purchasing-card-programs>

Action: According to the Bank of America Program Manager, the County has access to the Standard MCC Groupings in Works **and the County will implement custom MCC Group Access controls based upon County financial availability and need.**

This standard MCC Grouping Access allows the P-card Administrator to check and see which MCC groupings we restricted in the Works program currently located in the "Spend Control Profiles Section". The County profiles that are currently block/restricted: Cash access. To create custom MCC Groups with the Bank of America, Bank of America has provided a list of its staff within its servicing department for such customization as warranted by the County. It is unknown, at this time, if a cost would be involved or incurred to perform custom MCC Group Access for the County by Bank of America.

Purchasing Management **will review on an annual basis the County spend control profiles** and seek assistance as needed from the Bank of America Project Manager or designee.

Within the Hernando County Contracts Policy and Procedures Manual, Section 050H (or as revised "or" current edition), the policy clearly states what is determined an Unauthorized Purchase. In addition, the Clerk's Office – Finance staff reviews P-card purchase reconciliations and alerts Purchasing's Senior staff if they (Finance) suspect unauthorized purchase activity from their review.