


Hernando County Clerk of Circuit Court & Comptroller
Audit Services Department
Audit Report
Of
Clerk of Circuit Court and Comptroller Purchasing Cards
July 22, 2022

MANAGEMENT LETTER

TO: The Honorable Doug Chorvat, Jr.

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

DATE: July 22, 2022

SUBJECT: Purchasing Cards Audit

In accordance with the Audit Services Department's Audit Project Schedule, the internal audit team conducted an audit of the Clerk of Circuit Court and Comptroller's Purchasing Cards processes. 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.

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 Circuit 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 300C.

ATTACHMENT: Purchasing Cards Audit Report

Copy: Joshua Stringfellow, CPA, Director of Financial Services

Copy: Audit Services Planning & Priorities Committee

The Honorable Doug Chorvat, Jr., Clerk of the Circuit Court and Comptroller
Toni Brady, Director, Office of Management & Budget/Chief Procurement Officer
Joshua Stringfellow, CPA, Director of Financial Services
Jon Jouben, County Attorney
Tobey Phillips, Deputy County Administrator
Jeffrey Rogers, PE, County Administrator
William Blend, CPA, CFE, Shareholder, MSL P.A.
Jeff Wolf, CPA, Senior Audit Manager, MSL P.A.

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Executive Summary

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

To accomplish this review, we reviewed the Clerk's Purchasing Policy dated April 6, 2016; obtained purchasing card data from the Bank of America Works Program; interviewed cardholders; and tested transactions.

P Cards provide an efficient and cost-effective means for authorized Clerk personnel to purchase small dollar goods and/or services. During the audit period, 11 staff members were authorized to use a P Card to purchase goods and services deemed to be necessary to accomplish the mission of the Clerk's office.

The results of our review are addressed in the following discussion points.

Discussion Point 1: Cardholder Accounts

To address the control environment of cardholder accounts, the ASD reviewed Bank of America P Card account data and eFinance Plus Payroll data.

Based on the Bank of America data provided by the Board of County Commissioner's Purchasing and Contracts Department, no cardholder had been assigned multiple P Cards and all cardholders used their P Card at least once.

The card control features within the Bank of America Works Program limit the per transaction amount and the amount that can be spent per day. The Clerk's Purchasing Policy, however, has established purchasing limits based on the per item (unit) cost of up to \$500 and up to \$1,000 for Information Technology purchases and a monthly limit of \$5,000.

The review of the P Card accounts disclosed an Opportunity for Improvement regarding credit limits. Credit limits in the Bank of America Works Program did not align with the purchasing limits set forth in the Clerk's Purchasing Policy. Of the 11 P Card accounts, seven (63%) were granted higher credit limits in the Bank of America Works Program than the purchasing limits allowed by the Clerk's Purchasing Policy. These cardholders had a credit limit of \$10,000 per day in the Bank of America Works Program.

To strengthen internal controls and reduce the Clerk's liability pertaining to the cardholder account credit limits, management should consider aligning the credit limits allowed by the Clerk's Purchasing Policy with the Bank of America Works Program system controls.

In addition to the review of credit limits, the ASD compared eFinance Plus payroll data to the Bank of America Works Program account data. During the audit period, one cardholder terminated their employment with the Clerk's office. This cardholder's account was not closed timely. The date of the account closure was 18 days after the employment termination date. To minimize potential liability for the Clerk's office, P Card accounts should be closed immediately upon termination.

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 interviewed Financial Services Department staff and cardholders, traced transactions to eFinance Plus, and tested for the splitting of transactions. In addition, transactions were reviewed for potential duplications, weekend or holiday transactions, and compliance with the Clerk's Purchasing Policy.

All transactions reviewed were supported by an invoice and they all appeared to be for a valid purpose. In addition, transactions traced to eFinance Plus appeared to be posted to an appropriate general ledger account. Our review, however, did identify several Opportunities for Improvement.

Based on the results of the interviews with Financial Services staff members and cardholders, the ASD identified a couple of Opportunities for Improvement. The interview conducted with Financial Services Department disclosed that the department did not have documented Standard Operating Procedures for the processing and audit of P Card transactions. Documented procedures assist in the continuity of operations in the event of staff turnover.

The cardholders that were interviewed described their processes for obtaining the month end statement and compiling the supporting documentation for approval and submission to the Financial Services Department.

During these interviews, the ASD noted that there is a lack of segregation of duties for the ordering and receipt of goods. Three of the four cardholders interviewed indicated that they order and receive the goods directly. 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

To mitigate the potential for fraud and error risks, management should consider having a staff member independent of the ordering process verify the receipt of goods.

The review of transactions identified Opportunities for Improvement related to the security of cardholder accounts and the approval of transactions.

In reference to the security of cardholder accounts, the ASD noted two instances in which staff members made purchases with P Cards that were not assigned to them. To mitigate the potential liability for the Clerk's office, management should consider training staff on the proper security of their P Card account number and cardholders should not save their account number on vendor sites.

The review of transaction and monthly statement approvals for compliance with the Clerk's Purchasing Policy disclosed two Opportunities for Improvement. First, the Clerk's policy indicates

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

that the monthly p card invoice along with supporting documentation was to be submitted to the "... Clerk of approval". Based on the review of transactions, only Directors were submitting their statements to the Clerk for approval. All other staff members were submitting their statements to their supervisor or department director for approval. Second, the Clerk's policy requires pre-approval for transactions that exceed \$500 per item and \$1,000 per item for Information Technology (IT) purchases. The review disclosed that 83% of transactions initiated by non-IT staff and 86% of transactions initiated by IT staff were not pre-approved in compliance with the Clerk's policy. The Clerk's policy does not identify any exceptions to the pre-approval requirement.

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
Vicky Sizemore, Internal Auditor



Management's response was provided by: Josh Stringfellow, Director of Financial Services

Management's response was approved by: Douglas A. Chorvat, Jr. Clerk of Circuit Court and Comptroller

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



Doug Chorvat, Jr.

7/22/2022

Date

BACKGROUND INFORMATION

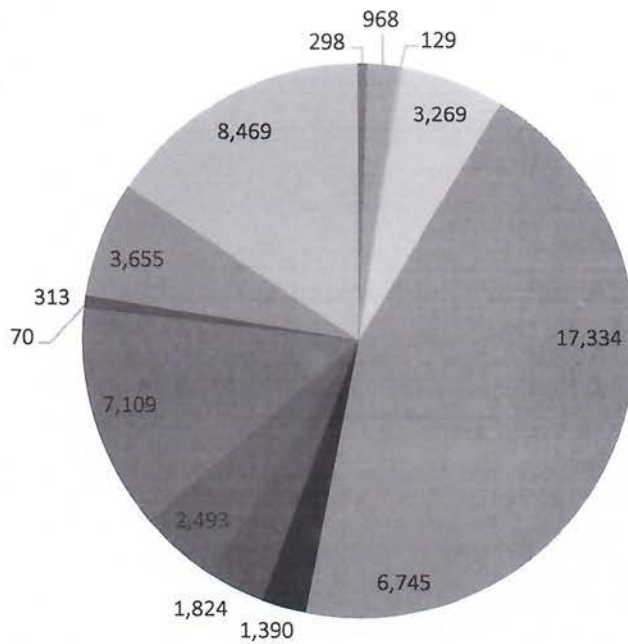
To provide an efficient, cost-effective process to purchase small dollar goods and/or services, the Clerk of Court and Comptroller's (Clerk's) office participates in the Hernando County Purchasing Card (P Card) program, which utilizes the Bank of America Works system. The current Clerk's Purchasing Policy, effective as of April 6, 2016, outlines the purchasing dollar limits and the pre-approval process.

For the period of April through September 2020, the Clerk of Circuit Court and Comptroller's office had total P Card purchases of \$54,066. Of the total amount, 79% was charged to the General Operating Fund. Office Supplies accounted for 32% of the total expenditures of \$54,065. Office Supplies was followed by Uncapitalized Equipment < \$1,000 which accounted for 16% of expenditures. The highest total amount of transactions occurred in period 12.

For the period of October through March 2021, the Clerk's office had total P Card purchases of \$50,146. Of the total amount, 85% was charged to the General Operating Fund. Office Supplies accounted for 31% of the total expenditures of \$50,146. Office Supplies was followed by Repair/Maintenance Software expenditures which accounted for 19% of the total recorded to this fund. The highest total amount of transactions occurred in period 5.

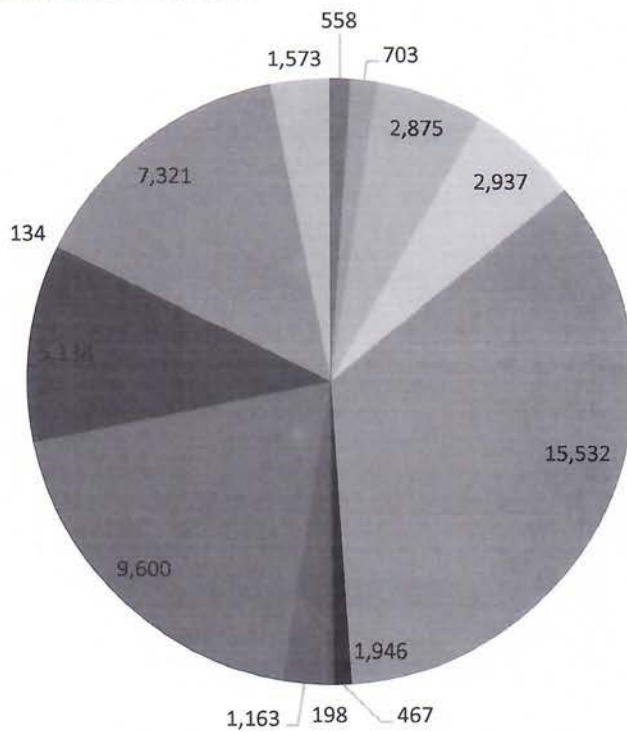
Total P Card purchases made during the audit period are depicted in the charts on page 10. The charts were auditor generated based on eFinance Plus transaction data.

Expenditures April 2020 - Sept 2020



- BOOKS/PUBLICATIONS/SUBSCR
- COMMUNICATION SERVICES
- CONTRACTED SERVICES
- DUES AND MEMBERSHIPS
- OFFICE SUPPLIES
- OPER SUPP-COMPUTER SOFTWR
- OPERATING SUPPLIES
- REPAIR/MAINT-EQUIPMENT
- REPAIR/MAINT-MAINT CNTRCT
- REPAIR/MAINT-SOFTWARE
- TRAINING
- TRAVEL & PER DIEM
- UNCAPZD EQUIP \$1000-\$4999
- UNCAPZD EQUIP <\$1,000

Expenditures Oct 2020 - March 2021



- BOOKS/PUBLICATIONS/SUBSCR
- COMMUNICATION SERVICES
- CONTRACTED SERVICES
- DUES AND MEMBERSHIPS
- OFFICE SUPPLIES
- OPER SUPP-COMPUTER SOFTWR
- OPERATING SUPPLIES
- REPAIR/MAINT-EQUIPMENT
- REPAIR/MAINT-MAINT CNTRCT
- REPAIR/MAINT-SOFTWARE
- TRAINING
- TRAVEL & PER DIEM
- UNCAPZD EQUIP <\$1,000
- UNEMPLOYMENT COMPENSATION

OBJECTIVES

The objectives of this audit were to evaluate the control environment of P Card accounts and the transaction life cycle.

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 appeared to be for a valid business purpose
- 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
 - Selected a random sample of 75 transactions along with the 10 highest dollar transactions to review for compliance with the Clerk's Purchasing Policy
 - Extracted transactions that were equal to or greater than the per item limits
 - Identified transactions posted on a weekend or holiday
 - Identified potential duplicate transactions and selected a random sample of 10 transactions

The audit period was April 1, 2020 through March 31, 2021.

Discussion Point	Opportunity for Improvement	Description	Page Reference
1	1.1	Align Credit Card Limits with the Bank of America system controls	12-13
1	1.2	Close cardholder accounts in a timely manner	13
2	2.1	Document P Card processing and audit procedures	14-15
2	2.2	Segregate the duties of ordering and receiving goods	15
2	2.3	Train cardholders on the appropriate security and use of P Cards	15-16
2	2.4	Evaluate the monthly statement approval process and update the Clerk's Purchasing Policy accordingly	16
2	2.5	Evaluate the pre-approval process for purchases	16-17

Discussion Points

Discussion Point 1: Cardholder Accounts

The ASD obtained Bank of America cardholder data from the Board of County Commissioner's Purchasing and Contracts Department. The cardholder data was reviewed to determine if credit limits complied with the Clerk's Purchasing Policy; employees had not been assigned duplicate cardholder accounts; account closures were done timely; and all cardholders used their P Card during the audit period.

The Bank of America Works Program has card control features that can limit the per transaction amount and the amount that can be spent per day. When properly implemented, these controls may reduce the Clerk's liability while also providing an efficient, cost-effective method of purchasing goods and services. These system credit limits were compared to the allowed credit limits stated in the Clerk's Purchasing Policy. This comparison identified an Opportunity for Improvement. See Opportunity for Improvement 1.1.

To verify that P Card accounts for terminated or transferred employees were de-activated in a timely manner, the ASD compared eFinance Plus payroll data to Bank of America account data. This review disclosed an Opportunity for Improvement. See Opportunity for Improvement 1.2.

Using data analytics software, the ASD reviewed the Bank of America data to identify if a cardholder had multiple accounts and if all cardholders used their P Card at least once during the audit period. No anomalies were identified.

1.1. Opportunity for Improvement: Align Credit Card Limits with the Bank of America Works Program controls

The Clerk's Purchasing Policy, with the effective date of April 6, 2016, states that cardholders "may purchase items on their p-card without prior approval of up to \$500 per item with a monthly limit of \$5,000 (up to \$1,000 per item for purchases made by IT)."

The ASD compared the maximum limits stipulated in the Clerk's Purchasing Policy to the cardholders' credit card limit within the Bank of America Works Program. Of the 11 employees assigned P Cards, seven (63%) cardholders had a Credit Card Limit of \$10,000 which exceeded the policy limit of \$5,000.

As for the per item limit, the Bank of America Works Program has a single transaction limit, it does not have a per item dollar limit.

Recommendation: The ASD recommends that management evaluate the Clerk's Purchasing Policy and determine appropriate credit limits for each cardholder. The limits set forth in the policy should be entered into the Bank of America Works Program.

To fully utilize the preventative system controls within the Bank of America Works Program, the ASD recommends that management align the credit card limits with the Bank of America Works Program system parameters of transaction and daily credit limits.

Management Response: Management agrees with the recommendation. The Purchasing Policy will be reviewed and updated by the Financial Services Director, Administrative Services Director, the Information Technology Director, and the Clerk of Court. We will align the policy

with best practices that will not inhibit work efficiencies but will better align with the recommendations of this audit.

Implementation Date: Updated Policy; within six months of the issued date of the audit. For the dollar amount limitations, as soon as possible in working with the County Procurement Department.

1.2. Opportunity for Improvement: Close cardholder accounts in a timely manner

During the audit period one staff member that was assigned a P Card, resigned their position with the Clerk's office. The ASD compared the former employee's termination date in the eFinance Plus Payroll system to the Card Delete Date in the Bank of America Works Program. The P Card account was closed 18 working days after the termination date.

Recommendation: Management should ensure that the P Card accounts are closed immediately upon a staff member's termination of employment.

Management Response: Management agrees with this recommendation. Administrative Services Director will have a list that will be checked each time an employee leaves our organization, and the termination of the PCard account will occur within 1 business day.

Implementation Date: At the issuance of this audit.

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 interviewed Financial Services Department staff and cardholders, traced transactions to eFinance Plus, and tested for the splitting of transactions. In addition, transactions were reviewed for potential duplications, weekend or holiday transactions, and compliance with the Clerk's Purchasing Policy.

To evaluate the overall process, the ASD interviewed key personnel in the Financial Services Department, the Administrative Services Department, and the Information Technology Department. Based on the staff's statements made during the interviews, two Opportunities for Improvement were identified. See Opportunities for Improvements 2.1 and 2.2.

To determine if transactions were split to circumvent the spending limits, the ASD identified possible duplicate purchases by vendor and purchase date using IDEA Data Analytics software. Based on the review of supporting documentation of invoices and purchase details, it was determined that there were no occurrences of transaction splitting.

The ASD randomly selected 75 transactions and the 10 highest dollar transactions, to review for compliance with the Clerk's Purchasing Policy. The supporting documentation was reviewed for business purpose and the randomly selected transactions were traced to eFinance Plus. All transactions appeared to be for a valid business purpose and were posted to an appropriate eFinance Plus account. The applicable statements were reviewed for proper approvals. See Opportunity for Improvements 2.3 and 2.4.

To review for compliance with the pre-approval process required by the Clerk's Purchasing Policy, IDEA Data Analytics software was used to identify transactions that were \$500 or greater for non-IT department personnel and \$1,000 or greater for IT personnel. A total of 48 transactions met this criteria. Each invoice was reviewed to determine the per item amount because the Purchasing Policy requires pre-approval for items that exceed the per-item limits. Of the 48 transactions, 22 transactions required pre-approval. See Opportunity for Improvement 2.5.

Transactions that appeared to be duplicates were identified using IDEA Data Analytics software. Of the transactions that appeared to be duplicates, a random sample of 10 transactions was selected for review. The ASD obtained the supporting documentation for each transaction and determined that all transactions appeared to have a valid business purpose.

Using IDEA Data Analytics purchases made on a weekend or holiday were identified. The supporting documentation was obtained for all transactions. The documentation was reviewed to confirm if the transaction occurred during a weekend or on a holiday. Based on the supporting documentation, all transactions appeared to be for a valid business purpose.

2.1. Opportunity for Improvement: Document P Card processing and audit procedures

Currently the Financial Services Department does not have documented Standard Operating Procedures for the processing and audit of P Card transactions.

Recommendation: To assist in the continuity of operations as changes in personnel occur, the ASD recommends that management establish Standard Operating Procedures for the review and processing of P Card statements. Standard Operating Procedures provide guidance and are a valuable training tool.

Management Response: Management agrees with the recommendation. The Purchasing Policy will be reviewed and updated by the Financial Services Director, Administrative Services Director, the Information Technology Director, and the Clerk of Court. We will align the policy with best practices that will not inhibit work efficiencies but will better align with the recommendations of this audit.

Implementation Date: Within six months of the issuance of this audit.

2.2. Opportunity for Improvement: Segregate the duties of ordering and receiving goods

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

Orders placed with vendors by the Purchasing/Property Control Clerk, Director of Information Technology, and the Director of Administrative Services were received by them without an independent verification by another staff member.

Recommendation: The ASD recommends that management have another staff member verify the receipt of goods ordered by the cardholder.

Management Response: Management agrees with this recommendation. In the area of Information Technology, this has already begun to be formalized and implemented with the creation of a new position for monitoring inventory. That position does not order goods but always receives the goods. In Administrative Services, the Inventory/Purchasing Clerk is retiring in November of 2022, and we will start attempting to resolve this issue before that time.

Implementation Date: See above Management response.

2.3. Opportunity for Improvement: Train cardholders on the appropriate security and use of P Cards

The ASD's review of cardholder transactions disclosed two instances in which staff members made purchases with P Cards that were not assigned to them.

According to the GFOA, the Purchasing Card Program should include the implementation of a training program and a procedures manual that also addresses fraud prevention.²

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

² <https://www.gfoa.org/materials/purchasing-cards>

Recommendation: The ASD recommends that management provide periodic training to cardholders to ensure that they fully understand that their P Cards should not be provided to other staff members to make purchases.

In addition, management should evaluate the current assignments of P cards to ensure departments have the appropriate number of cardholders.

Management Response: Management agrees with this recommendation and will work to establish in the revamping of the Purchasing Policy.

Implementation Date: Within six months of the issuance of this audit.

2.4. Opportunity for Improvement: Evaluate the monthly statement approval process and update the Clerk's Purchasing Policy accordingly

The Clerk's Purchasing Policy states that "... documentation supporting each purchase should be attached to the monthly p-card invoice and submitted to the Clerk of approval." Based on this statement, it appears that all P Card statements should be approved by the Clerk.

The ASD's review of cardholder transactions disclosed that Directors were submitting their monthly P Card statements to the Clerk for approval. However, supervisors and other staff members assigned a P Card were not submitting their monthly statement to the Clerk.

Recommendation: The ASD recommends that management evaluate the current Clerk's Purchasing Policy approval process to ensure that it is effective and efficient.

Management Response: Management agrees with this recommendation, and it will be considered and reviewed in the Purchasing Policy.

Implementation Date: Within six months of the issuance of this audit report.

2.5. Opportunity for Improvement: Evaluate the pre-approval process

The Clerk's Purchasing Policy states that "... all authorized employees may purchase items on their p-card without prior approval of up to \$500 per item with a monthly limit of \$5,000 (up to \$1,000 per item for purchases made by IT)." The policy then goes on to state that "Purchases in excess of the above defined limits must be pre-approved by the Clerk (or the appropriate director in the absence of the Clerk) using a Purchasing Requisition Form (PRF) (commonly referred to as a "non-stock")."

The ASD's review of cardholder transactions disclosed that 15 of 18 (83%) of transactions initiated by non-IT staff and 6 of 7 (86%) transactions initiated by IT staff that exceeded the per item limit specified in the Clerk's Purchasing Policy were not pre-approved.

Recommendation: The ASD recommends that management align cardholder credit limits with the controls within the Bank of America Works Program. In addition, management should periodically provide training to all cardholders to ensure that they are aware of the requirements set forth in the Clerk's Purchasing Policy.

Management Response: Management agrees with the recommendation. The Purchasing Policy will be reviewed and updated by the Financial Services Director, Administrative Services Director, the Information Technology Director, and the Clerk of Court. We will align the policy with best practices that will not inhibit work efficiencies but will better align with the recommendations of this audit.

Implementation Date: Within six months of issuance of this audit.