

AUDIT OF THE PURCHASING CARD PROGRAM

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EXECUTIVE SUMMARY

As part of the Annual Audit Plan, the Clerk of Circuit Court and County Comptroller's Internal Audit Department and Office of the Inspector General conducted a continuous independent audit of the Purchasing Card Program (P-Card). The purpose of the audit was to review internal controls and test compliance with applicable laws, ordinances, and policies and procedures related to purchasing cards.

The audit found that P-Card Policies and Procedures are not consistently being followed throughout the County in regards to:

- Issuance of P-Cards,
- Prohibited purchases,
- Annual approver training,
- Notification of employment change for individuals issued P-Cards,
- Monitoring of aggregate P-Card spending reports, and
- P-Card Administration.

Non-compliance with P-Card Policies and Procedures results in a higher risk of inappropriate transactions and authorized spend limits. Additionally, the lack of an appropriate back up for the P-Card Administrator function could expose the County to compliance risks and decreased productivity if the P-Card Administrator was to abruptly leave the organization.



BACKGROUND AND OBJECTIVES

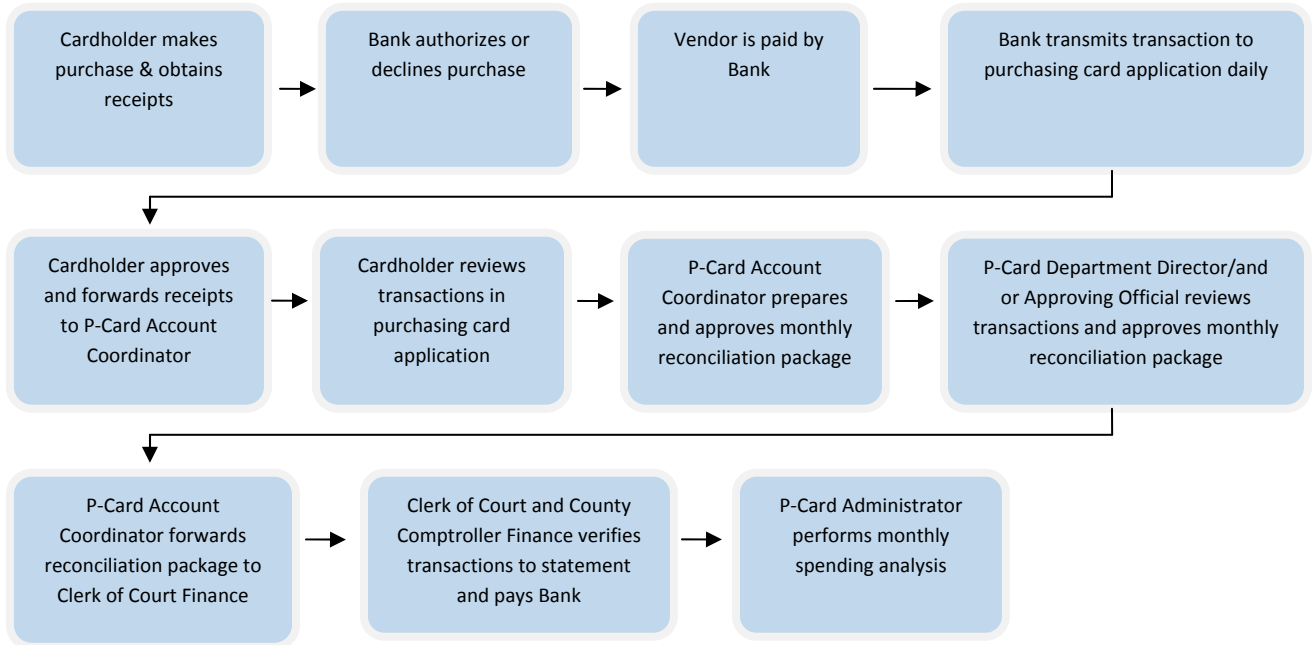
The Clerk of the Circuit Court and County Comptroller's *Internal Audit Department and Office of the Inspector General* has completed an audit of the purchasing card program. The scope of a continuous audit is very narrow and is performed on a recurring basis. A continuous audit provides for regular testing of controls, identifies risks, and results in timely notification of gaps and weaknesses to allow for managements' follow-up and remediation.

The audit was planned and conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The purpose of the audit was to review internal controls and test compliance with applicable ordinances and policies and procedures related to purchasing cards.

Background

A Purchasing Card (P-Card) is a payment mechanism for small purchases of \$5,000 or less that require a minimum of one quote and are awarded without competition. The Procurement Official is responsible for establishment of organizational policies governing the use of P-Cards and the administration of the County's P-Card Program. A P-Card Manual has been established by the Procurement Official in order to explain and facilitate an understanding of the policies, procedures, roles and responsibilities related to the P-Card Program. All purchases made on P-Cards are subject to the policies and procedures contained in County Ordinance No. 2016-019, Article VI, Chapter 2 (the Procurement Code). Ordinance No. 2016-19 was passed and duly adopted by the BCC on March 22, 2016, with an effective date of April 15, 2016.

Purchasing Card Process



P-Cards are assigned to authorized employees after a P-Card Department approving official makes a request and the P-Card Administrator approves the request. P-Cards are generally set with a single transaction limit of \$5,000 and a monthly transaction limit of \$25,000; however limits do vary based on activity and need of each department. As of October 24, 2017, there were a total of 327 active P-Cards assigned to County employees with monthly transaction limits totaling \$8,335,034. Of the 327 P-Cards assigned to County employees, the County utilizes the following transaction limits:

Number of P-Cards	Single Transaction Limit
34	Suspended to Credit Limit of \$1*
1	\$1,000
1	\$2,000
27	\$3,000
245	\$5,000
12	\$10,00
1	\$15,000
1	\$19,999.99
3	\$25,000
1	\$50,000
1	\$75,000

* P-Cards may be suspended when one of the following circumstances occurs: (1) the P-Card is to be cancelled, (2) the P-Cardholder is disciplined, or (3) the P-Card is used infrequently and the suspension is lifted when purchases need to be made.

Number of P-Cards	Monthly Transaction Limit
34	Suspended to Credit Limit of \$1*
3	\$5,000
5	\$10,000
31	\$20,000
232	\$25,000
15	\$50,000
6	\$100,000
1	\$500,000

* P-Cards may be suspended when one of the following circumstances occurs: (1) the P-Card is to be cancelled, (2) the P-Cardholder is disciplined, or (3) the P-Card is used infrequently and the suspension is lifted when purchases need to be made.

Between the post dates of October 1, 2016 and September 30, 2017 (audit period) there were a total of 23,826 purchasing card transactions totaling \$6.82 million.

The purchasing card application is a web-based application. The County utilizes the application to order new P-Cards, modify single transaction limits and credit limits, review and report information from P-Card transactions, suspend or revoke P-Cards, and electronically approve transactions by cardholders.

Cardholders making purchases must adhere to the cardholder responsibilities listed in chapter 2 of the P-Card Manual. They are required to utilize the County’s tax exempt status, collect itemized receipts for each purchase, record the account number or project to be charged, and review and approve charges in the purchasing card application at least monthly. During the monthly review process the Cardholder signs the billing statement, within the reconciliation packet, to acknowledge the transactions purchased on the Cardholder’s P-Card.

The P-Card Account Coordinator reconciles purchases made on P-Cards for their specified group of Cardholders. The P-Card Account Coordinator reviews monthly statements with Cardholders, verifies account codes for each transaction, matches receipts to monthly statements, and compiles a reconciled packet to the Department approving official and Department Director for review and approval. The reconciliation packet contains a statement of acknowledgement that states “I certify that I am authorized to approve this expenditure and that the funds are being spent for a public purpose, in conformance with County Purchasing procedures and vendor contracts, and without overspending the applicable account or fund of the County budget.” This statement is signed, at a minimum, by the Department Head or Representative, and additionally may be signed by the Department approving official and the P-Card Account Coordinator.

The Finance Department receives the reconciliation packet and performs the final verification of receipts and charges, prior to payment to the bank. If questioned items are identified at this

stage, they are flagged in the purchasing card application and the Cardholder, P-Card Account Coordinator, Department approving official, and the P-Card Administrator are responsible for resolution.

Objectives, Scope and Methodology

The objectives of this audit were to determine if internal controls are operating effectively related to the Sarasota County Purchasing Card Program and if purchases made on County purchasing cards are in compliance with applicable ordinances, policies, and procedures.

The scope of the audit included a review of purchasing card transactions that were made between the post dates of October 1, 2016 and September 30, 2017.

To meet the objectives of the audit, the procedures performed included, but were not limited to, the following:

- Obtained an understanding of the Sarasota County P-Card Manual, County Ordinance No. 2016-019, and the Procurement Manual.
- Performed a walkthrough of the P-Card Administrators' functions.
- Performed inquiries of county personnel.
- Reviewed and tested documentation relating to sales tax exemption, split transactions, prohibited purchases, deactivation of P-Cards, P-Card training, issuance of P-Cards, P-Card Suspension and Document Retention, Financial Disclosure, and Spend Analysis.
- Evaluated the internal controls related to the P-Card process, such as policies and procedures, issuance of P-Cards, deactivation of P-Cards, P-Card training, and Financial Disclosure.
- Identified opportunities for improvement.



OPPORTUNITIES FOR IMPROVEMENT AND MANAGEMENT RESPONSES

The audit disclosed certain policies, procedures, and/or practices that could be improved. The audit was neither designed nor intended to be a detailed study of every relevant system, procedure, or transaction. As a result of the audit, observations and recommendations identified below are related to *Standards*:

- (Standard 2110) Communicating risk and control information to appropriate areas of the organization, and
- (Standard 2130.A1) The effectiveness of controls related to operations and programs, and compliance with policies and procedures.

The **Opportunities for Improvement** presented in this report may not be all-inclusive of areas where improvement may be needed. There were 10 *Opportunities for Improvement* identified as a result of the audit:

1. **Issuance of an Emergency P-Card**
2. **Compliance with Purchasing Limits**
3. **Purchases by non P-Cardholder**
4. **Purchases Prohibited on a P-Card**
5. **Application Review process**
6. **Annual P-Card Approver Training**
7. **Timely Notification of Changes in Status of Employment for P-Cardholders**
8. **Sales Tax Paid on P-Cards**
9. **Continuity of the P-Card Administration function**
10. **Monitoring county-wide aggregate and individual spending reports**

1. Issuance of an Emergency P-Card

Observation

The P-Card Manual, chapter 5.1, states that the "P-Card may be used only by the County employee whose name is embossed on the card. The loaning of P-Cards for use by others is prohibited and is considered a violation of policy".

The auditor identified a P-Card that has been issued to the P-Card Administrator for emergency activations. The name on the P-Card is "SCG EOC ACTIVATION" and the P-Card remains suspended when the County is not under a declared state of emergency. This P-Card was created to be used by procurement staff at the Emergency Operations Center when activated during a state of emergency.

The P-Card manual does not speak to procedures in the event of an emergency. There is an inherent risk with a P-Card being issued and open in case of an emergency, however, emergency procedures may drive a policy with greater risk.

Recommendation

Recommend modifying P-Card Manual to include procedures for emergencies. Procedures should include:

- Issuance of emergency p-card
- Monitoring card activity during times outside of an emergency.
- Proper control of physical possession of card at all times.

Management Response

The emergency procedures in the p-card manual have been modified in Chapter 6.10. Waiting for signature approval by the County Administrator.

The expected date of implementation is July 20, 2018.

2. Compliance with Purchasing Limits

Observation

The P-Card Manual, chapter 4.1, states that "the purchasing card program cannot be used to split transactions to circumvent county purchasing laws/ordinances". Splitting a transaction is when a cardholder allows a merchant to take a higher dollar transaction and process it across multiple transactions on the same day or on multiple days to avoid an established single transaction limit.

The auditor utilized data analytics software to identify individual transactions that were purchased on the same P-Card, to the same vendor, within a specified period of time. The transactions were then grouped together and the total purchase amount was calculated for each instance. If the calculated total exceeded the single transaction limit, supporting documentation was obtained and reviewed for further analysis.

In total, the auditor identified 71 instances where multiple transactions exceeded the single transaction limit of the P-Cardholder. Upon review of supporting documentation, it was determined that three instances (4.2%), made by two different cardholders, occurred over 9 transactions, circumventing established single transaction spend limits.

Recommendation

To ensure compliance with the P-Card Manual, management should enhance training materials in order to reinforce that splitting transactions to circumvent established spend limits is not allowed and could result in the revocation of P-Card privileges.

Management Response

The Purchasing Card Administrator will enhance training materials to reinforce that splitting transactions to circumvent established spend limit is prohibited and could result in the revocation of P-Card privileges.

Upon receipt and review of the audit findings, a letter was sent to the Department Director responsible for each case on July 19, 2018. The Procurement Division will obtain a written letter of explanation from the Department Director and each case will be reviewed for corrective action. Department Directors will be contacted for explanation by August 1, 2018.

The expected date of implementation is July 19, 2018.

3. Purchases by non P-Cardholder

Observation

The P-Card Manual, chapter 5, provides guidelines on the usage of a P-Card. In chapter 5.1, it states that, “the P-Card may be used only by the County employee whose name is embossed on the card.” During audit testing, it was detected that three purchases were made via email by an employee who was not the employee to which the P-Card was issued.

Recommendation

To ensure compliance with the P-Card Manual, only the cardholder should be making purchases on their P-Card.

Management Response

Upon receipt and review of the audit findings, a letter was sent to the Department Director responsible for this case on July 19, 2018. The Procurement Division will obtain a written letter of explanation from the Department Director and each case will be reviewed for corrective action. The Department Director will be contacted for explanation by August 1, 2018.

The expected date of implementation is July 19, 2018.

4. Purchases Prohibited on a P-Card

Observation

The P-Card Manual, chapter 5.11, outlines the products and services that cannot be purchased on a P-Card. The auditor identified four types of prohibited purchases that were made on P-Cards:

- Telephone calls and service
- Computers, computer hardware, or computer software (except for designated Enterprise Information Technology [EIT] personnel)
- Hotel expenses

Telephone calls and service

There were a total of 25 purchases, made by cardholders other than EIT personnel, which appeared to be purchases for cellular phones or accessories within the audit period. Through review of supporting documentation, the auditor identified four purchases that were for telephone calls and/or service. Of these, three were for monthly mobile telephone service and one was for telephone and/or mobile data service. These purchases are prohibited by chapter 5.11 of the P-Card Manual.

Computers, computer hardware, and computer software, except for approval by an EIT official

There were a total of 328 purchases, made by cardholders other than EIT personnel, which appeared to be purchases for computers, computer hardware, or computer software within the audit period. Through review of supporting documentation, the auditor identified three purchases that were for computer software that lacked approval of an EIT official. These purchases are prohibited by chapter 5.11 of the P-Card Manual.

Hotel expenses

Purchases for hotel expenses on a P-Card are prohibited by chapter 5.11 of the P-Card Manual. However, under certain conditions an employee traveling for official County business may request a Hotel Expense Card. The traveler must first receive approval from their manager and director, and then complete a Hotel Expense Card Application. If approved, the cardholder must attend training with the P-Card Administrator and complete a Hotel Expense Card Agreement before a card is issued. The card is for one-time use only and must be returned to the P-Card Administrator immediately upon return of travel.

There were 21 purchases for hotel expenses made by cardholders within the audit period. Of these purchases:

- 20 were made on a Hotel Expense Card issued to employees through the Hotel Expense Card Program, and
- One was made on a P-Card in error and was subsequently reversed.

Of the 20 purchases made on a Hotel Expense Card one was for a hotel reservation, which is an allowable use of the Hotel Expense Card per the established policies and procedures. However, it was detected that the reservation was made with a Hotel Expense Card retained by the employee from a previous business trip.

Recommendation

To ensure that prohibited purchases are not made on P-Cards, ongoing training for Account Coordinators and approving Directors is recommended.

To ensure that appropriate control is maintained over the Hotel Expense Card Program, follow the established policies and procedures and monitor for timely return of Hotel Expense Cards.

Management Response

To ensure that prohibited purchases are not made on P-Cards, ongoing training for Account Coordinators and approving Directors will continue.

Upon receipt and review of the audit findings, a letter was sent to the Department Director responsible for each case on July 19, 2018. The Procurement Division will obtain a written letter of explanation from the Department Director and each case will be reviewed for corrective action. The Department Director will be contacted for explanation by August 1, 2018.

The hotel card was returned. If an instance occurs in the future that would require an exception, the hotel expense card policy will be evaluated.

The expected date of implementation is July 20, 2018.

5. Application Review Process

Observation

The Standard Operating Procedure (SOP) for the P-Card Application Process requires the P-Card applicant to complete and submit a *Request for New Purchasing Card Application* to the P-Card Administrator. The SOP requires that the P-Card Administrator review and approve, if applicable, the application if the requested single and monthly transaction limits do not exceed \$5,000 and \$25,000, respectively. The Procurement Official is required to review and approve, if applicable, applications where requested limits are higher.

Of the 45 new P-Cards issued during the audit period, a random sample of 20 was selected for testing. All required documentation to support the issuance of the P-Cards was reviewed. One application was identified where the requested transaction limits required a review and approval by the Procurement Official per the SOP; however, there was no indication that this occurred. The application was signed by the P-Card Administrator, indicating review and approval. It was observed that the application made no reference to review and approval by the Procurement Official when requested limits exceed the P-Card Administrators approval threshold.

Recommendation

To better ensure compliance with the SOP for the P-Card Application Process, the Purchasing Card Application Form should be modified to include an area for the Procurement Official approval, as applicable.

Management Response

The p-card application has been revised and includes a signature line for the Procurement Official to approve applications that exceed the \$5,000 single/\$25,000 monthly transaction limit. This change will be included in New Cardholder and P-Card Approver training.

The expected date of implementation is July 20, 2018.

6. Annual P-Card Approver Training

Observation

The P-Card Manual, chapters 2.3 and 2.4, define the classification and responsibilities of P-Card Department approving officials and Department Directors, respectively. Included in their responsibilities is the requirement to complete mandatory P-Card training for approving officials and annual refresher training thereafter. The auditor obtained a list of all approving officials, and a list of each individual that completed the P-Card training course for approving officials. The online training was offered throughout calendar year 2017 from the Training Registration and Activity Center (TRAC) application.

A total of 41 individuals were identified that are responsible for review and approval of monthly reconciliation packets for P-Card transactions. Upon review of the individuals that had completed the training, the auditor determined that seven of the 41 individuals, had not completed the mandatory annual P-Card training for approving officials.

Recommendation

To ensure compliance with the P-Card Manual, a quality assurance process should be implemented to monitor that the required annual refresher training is completed by all approving officials and department directors.

Management Response

The Purchasing Card Administrator will work with Human Resources/Training to develop a quality assurance process to monitor completion of annual refresher training for all approving officials and department directors with a set mandatory due date.

The expected date of implementation is January 1, 2019.

7. Timely Notification of Changes in Status of Employment for P-Cardholders

Observation

The P-Card Manual, chapter 10.1, requires the Department Director to immediately notify Human Resources of any changes in status of employment, regarding employees that have been issued a P-Card. Human Resources is then to notify the P-Card Administrator. Changes in status of employment include resignation, termination, suspension, and any other status changes outlined in the Personnel Policies that extend past five business days. An *Acknowledgement of Returned or Suspended Purchasing Card* form must be completed by the Department Director or Designee and returned to the P-Card Administrator. The P-Card Administrator will deactivate or suspend the P-Card within 24 hours of notification of status change.

In order to determine if notification processes and deactivation of P-Cards is occurring timely the auditor focused testing on terminated employees and performed two separate tests. The first test was to match, by last name, all terminated employees during the audit period to the entire list of Cardholders within the application and verify that management immediately notified the P-Card Administrator of the employment status change. The second test was to obtain a list of all deactivated P-Cards during the audit period and review each corresponding *Acknowledgement of Returned or Suspended Purchasing Card* form to verify that the P-Card was deactivated or suspended within 24 hours of notification of employee termination.

A total of 21 employees that had been issued a P-Card were terminated between the dates of October 1, 2016 and September 30, 2017. The auditor reviewed the 21 P-Cards in order to determine if notification by management and deactivation of the P-Cards occurred timely. During review, it was noted that three of the *Acknowledgement of Returned or Suspended Purchasing Card* forms indicated that the P-Card Administrator was not notified by the Department Director or Designee for approximately 7 to 10 weeks after the Cardholder's employment with the County was terminated. The auditor did not observe any transactions on these P-Cards after the employee's date of termination.

Recommendation

To ensure compliance with the P-Card Manual, chapter 10.1, the Procurement Official should reiterate to Department Directors their ongoing responsibility to immediately notify Human Resources when a cardholder's employment status changes that extend past five business days. Mandate that Department Directors comply with the requirement to complete an *Acknowledgement of Returned or Suspended Purchasing Card* form upon an employee's separation and provide the completed form to the P-Card Administrator.

Management Response

Upon receipt and review of the audit findings, it was discovered that a letter was sent to the Department Director responsible for two of the three cases on April 26, 2017. The Department Director responded to both on May 1, 2017 explaining that the P-Card Account Coordinator and assigned Manager were reminded of the procedure for completing the Acknowledgement of Returned Purchasing Card Form, and both examples will be used as a briefing topic at the next staff meeting.

A letter was sent to the Department Director responsible for the third case on July 19, 2018. The Procurement Division will obtain a written letter of explanation from the Department Director and will be reviewed for corrective action. The Department Director will be contacted for explanation by August 1, 2018.

The Procurement Official will reiterate to Department Directors their ongoing responsibility to immediately notify Human Resources when a cardholder's employment status changes that extend past five business days. Mandate that Department Directors comply with the requirement to complete an *Acknowledgement of Returned or Suspended Purchasing Card* form upon an employee's separation and provide the completed form to the P-Card Administrator. The Purchasing Card Administrator will continue to reinforce this policy in P-Card Approver training.

The expected date of implementation is October 1, 2018.

8. Sales Tax Paid on P-Cards

Observation

The P-Card Manual, chapter 5.6, states that the county is exempt from paying any State of Florida sales and/or use tax. It is the responsibility of the cardholder to make the vendor aware that the transaction will be tax exempt prior to processing the sale. To assist the cardholder with this process, each P-Card has the sales tax exemption number printed on the face of the card.

The auditor identified a total of 274 individual transactions where sales tax was included in the purchase. Those transactions included 14 Departments, 114 cardholders, and payments totaling \$6,842.23 in sales tax paid.

Recommendation

To ensure compliance with the P-Card Manual, annual P-Card training should emphasize the responsibility that cardholders are required to notify vendors of their tax exempt status prior to processing a sale.

Management Response

New cardholder and annual refresher training will continue to emphasize the responsibility that cardholders are required to notify vendors of their tax-exempt status prior to processing a sale.

The Purchasing Card Administrator reviewed 274 transactions and determined that all tax was credited back to the county.

The actual date of implementation is July 18, 2018.

9. Continuity of the P-Card Administration function

Observation

The P-Card Administrator is responsible for administering and managing the internal flow and process of the P-Card Program. Responsibilities of this position include, but are not limited to:

- aligning of P-Card policies and procedures with program goals
- approving and issuing new P-Cards
- coordinating the of cancellation of P-Cards
- providing training
- monitoring aggregate and individual spending
- addressing necessary disciplinary actions
- serving as the System Administrator for the web-based P-Card software.

Currently, there are no other employees trained that could assume the role and responsibilities of the P-Card Administrator if needed. Without an appropriate back up, business processes could be compromised if the P-Card Administrator function is disrupted due to an extended absence or unanticipated vacancy of the position. Best practices would indicate that a backup plan be developed and put in place.

Recommendation

In order to ensure the continuity of P-Card Administrative functions, an appropriate back up for the P-Card Administrator should be identified and trained.

Management Response

The Procurement Division is currently restructuring and identified a position to become the backup for the Purchasing Card Administrator.

The expected date of implementation is October 1, 2018.

10. Monitoring county-wide aggregate and individual spending reports

Observation

The P-Card Manual, chapter 2.5, states that the P-Card Administrator is to review and analyze aggregate county-wide and individual monthly spending, and report findings to the Procurement Official. The P-Card Administrator compiles and maintains monthly reports which include:

- aggregate number of P-Card transactions,
- aggregate dollar spend totals,
- flagged transactions,
- year-to-date top ten highest dollar spend by cardholder,
- accounts opened,
- accounts closed,
- total active accounts, and
- cardholders that had their spend limits increased or decreased.

Upon review of the monthly reports for the audit period, the auditor could not determine if or when any issues were reported to the Procurement Official.

Recommendation

To ensure compliance with the P-Card Manual, the review of the monthly reports should be documented and the monthly reports should be stored on a secured shared drive.

Management Response

The review of the monthly reports will be documented, initialed by the Procurement Official, and stored on a secured shared drive.

The expected date of implementation is July 20, 2018.

