

**Summit County Executive Office
Department of Finance and Budget
Procurement Card Program
Audit Report**

PREPARED FOR:

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**Approved by Audit Committee:
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Background

GENERAL BACKGROUND

Section 301.29 of the Ohio revised Code (ORC) permits counties to use procurement cards and defines under what conditions they may be used. Chapter 198 of the Summit County Codified Ordinances grants authority of the use of Procurement Cards by employees of Summit County. The policies and definitions defined under Chapter 198 are incorporated in a policy and procedures document created by the Department of Finance and Budget. Chapters 198.02 through 198.04 defines aggregate spending limits on procurement cards, permissible goods and services which may be purchased using the cards, and procedures to be followed in the event a card is misused.

Summit County's Procurement Card Program is designed to allow County employees to make purchases in a manner that reduces paperwork and processing time. The program is an alternative to the traditional purchasing process and can significantly reduce the number of purchase orders and payments processed. It is designed primarily for the purchase of tangible materials, equipment, supplies, and approved services that cost less than \$3,000. Use of the card is meant to simplify and streamline the acquisition process and lower overall transaction costs. The program introduces an electronic invoicing payment process that will significantly streamline the way payments are made by the County.

All cardholders have limits that are defined by the Program Participant and County Program Administrator and are enforced at the point of purchase by Visa. Limitations are established for spending amounts per transaction, monthly spending limits and number of transactions that can be made per day. Several controls concerning classes of merchants are also placed upon the card. In addition, US Bank provides transactional reporting designed to detect irregularities in cardholder usage. Cardholders are also subject to routine and random audits by the County's Department of Internal Audit.

The Procurement Card Program is currently utilized by the following twenty departments/agencies:

- Prosecutor's Office,
- Child Support Enforcement Agency
- Sheriff's Office
- Fiscal Office
- Engineer's Office,
- Clerk of Courts,
- Common Pleas Court,
- Domestic Relations Court,
- Developmental Disabilities Board,
- Human Resource Commission,
- Summit County Law Library,
- Veterans Service Commission,
- Internal Audit Department,
- Executive's Office Purchasing Department,
- Executive's Office Division of Public Safety,
- Executive's Office Communications Department,
- Executive's Office Department of Community and Economic Development,
- Executive's Office Department of Job and Family Services,
- Executive's Office Physical Plants Department,
- Executive's Office Human Resource Department.

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Objectives and Methodology

AUDIT OBJECTIVES AND METHODOLOGY

The primary focus of this review was to provide the Summit County Executive's Office Department of Finance and Budget with reasonable assurance, based on the testing performed, on the adequacy of the system of management control currently in effect for the audit areas. Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. Management is responsible for establishing and maintaining effective controls that, in general, include the plan of organization, as well as methods, and procedures to ensure that goals are met. Specific audit objectives include evaluating the policies, procedures, and internal controls related to the Summit County Procurement Card Program.

We conducted this performance audit in accordance with generally accepted government 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Based on the results of our review, we prepared specific issues and recommendations for improvement that were discussed with management. These recommendations, as well as management's unaltered written response, can be found in the following sections of this report.

Disclaimer:

We recognize that the Internal Audit Department (IAD) is a participant in the Procurement Card Program, and therefore is unable to audit its own procurement card use and maintain objectivity. Based on this fact, IAD procurement card use is excluded from testing and review.

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Specific Objectives:

1. To review policies and procedures and ensure that they are reasonable and in accordance with the O.R.C. § 301.29 and Summit County Codified Ordinance Chapter 198.
2. To review the internal control structure of procurement card administration for reasonableness.
3. To review the reconciliation process for reasonableness and accuracy.

Scope:

An overview and evaluation of the existing policies, processes, procedures, contracts and internal control structure utilized by the department/agency from 1/1/09 through 12/31/10.

The following were the major audit steps performed:

OBJECTIVE 1 – TO REVIEW POLICIES AND PROCEDURES AND ENSURE THAT THEY ARE REASONABLE AND IN ACCORDANCE WITH THE O.R.C. AND CODIFIED ORDINANCES.

1. Obtain and review the current policies and procedures to ensure they are reasonable and in accordance with both the Codified Ordinance and O.R.C.
2. Make recommendations where appropriate.

OBJECTIVE 2 – TO REVIEW THE INTERNAL CONTROL STRUCTURE OF PROCUREMENT CARD ADMINISTRATION FOR REASONABLENESS.

5. Meet with the appropriate personnel to obtain an understanding of the control environment.
6. Document the existing control procedures in narratives and/or flowcharts if written procedures do not exist. Obtain appropriate signatures from management on the narratives and/or flowcharts to indicate management's acceptance of the auditor's understanding of the process under review.
7. Obtain a listing of all cardholders from the purchasing department and compare them to the listing from US Bank. Additionally, confirm all employees are active per Banner.
8. Obtain a current merchant category code (MCC) listing from US Bank showing eligible and ineligible transactions and review for reasonableness.
9. Obtain a listing of spending limits for all approved cardholders and review for reasonableness.
10. Obtain a listing of expenditures (broken down by account code, purchase order number, etc.). Choose a sample for testing by using a sampling technique (e.g. high dollar or judgmental).
11. Perform detailed testing to verify the following:
 - Sales tax was exempted from all purchases
 - Purchases were made by approved cardholders only
 - There was adequate supporting documentation (receipts, order forms, etc.)
 - The purchase was made within defined limits (e.g., MCC, daily transaction amount, etc.)
 - The purchase was reasonable
 - The transaction was properly recorded
 - The transaction was approved by Management
 - There was a proper segregation of duties
12. Perform a detailed review of the reasonableness of professional services transactions.
13. Review the process for card deactivation upon employee separation or removal from the program.
14. Investigate discrepancies.

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15. Make recommendations where appropriate.

OBJECTIVE 3 – TO REVIEW THE RECONCILIATION PROCESS FOR REASONABLENESS AND ACCURACY.

16. Meet with the appropriate personnel to gain an understanding of the control environment.
17. Select a sample of month end reconciliations and review for accuracy.
18. Investigate discrepancies.
19. Make recommendations where appropriate.

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Detailed Comments

I. Policies & Procedures Review:

Interviews were conducted with the Director of Finance and Budget, Executive Assistant 2, and Accountant 2 to gain an understanding of the procurement card program, processes, and control environment

The following manuals were obtained and reviewed to gain an understanding of the County procurement card policies and procedures as well as to review the documentation for completeness and compliance with applicable laws and regulations:

- Summit County, Ohio Procurement Card Program Policy and Procedures
- Procurement Card Procedures – Coordinators
- Procurement Card Procedures – Cardholders
- US Bank Access Online User Guide

Summit County Codified Ordinances Chapter 198 “Procurement Card” and O.R.C. § 301.29 “Use of Procurement Cars” were obtained and reviewed to gain an understanding of procurement card laws and regulations as well as to determine compliance of County policies and procedures with the above laws and regulations.

A listing of procurement cardholders was obtained from the Executive Assistant 2 and filtered to include only active cardholders. Testing was performed for all active cardholders, excluding IAD, to ensure that each cardholder had a signed County Procurement Card Program Cardholder Acknowledgement form and Cardholder Application form on file.

Departments utilizing procurement cards were determined from a listing of active cardholders. Policies and procedures for these departments, excluding IAD, were obtained and reviewed to determine compliance with County policy and procedures.

Procurement card analysis documentation and Summit County Council legislation was obtained and reviewed to confirm the Department of Finance and Budget's evaluation of the procurement card program had been presented to Council.

The following issues were noted:

1. Issue

Upon discussion with the Executive Assistant 2 and Director of Finance and Budget, IAD noted that the policy and procedure manual has not been updated to reflect recent legislation allowing inter-agency purchases.

Recommendation

IAD recommends that the Department of Finance and Budget update their procurement card policy and procedure manual to indicate that inter-agency purchases are allowable. This will help to eliminate possible confusion and to ensure that the procurement card program operates in compliance with County policy.

Action Taken Prior to the End of Field Work

The Executive Assistant 2 provided IAD with an updated policy and procedure manual which removes inter-agency purchases from the listing of prohibited expenditures.

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2. Issue

Upon review of departmental procurement card policy and procedures, IAD noted one department whose policy and procedure conflicted with the Summit County, Ohio Procurement Card Policy and Procedure manual. IAD recognizes that the department is not currently following the conflicting policy and that the Department of Finance and Budget is making the department adhere to the County policy. However, the discrepancy may cause confusion in the future as to which policy is being followed.

Recommendation

IAD recommends that the Department of Finance and Budget require the department to revise its policy and procedure so that it conforms with County policy. This will help to reduce possible confusion and ensure compliance with County procurement card policy.

Action Taken Prior to the End of Field Work

The Executive Assistant 2 provided IAD with an updated copy of the department's policy which is now in compliance with County policy.

II. Internal Control Review:

The Summit County, Ohio Procurement Card Program Policy and Procedures manual, as well as responses to questionnaires, were obtained and reviewed to gain an understanding of procurement card processes and controls. IAD then met with the Executive Assistant 2 and the Director of Finance and Budget to determine the current status of the procurement card control environment. Various e-mails between the Executive Assistant 2 and US Bank discussing various limits and controls over procurement cards were provided to IAD. The 2009 County of Summit, Ohio Management Letter from Rea & Associates, Inc. was also obtained and reviewed by IAD to gain an understanding of any procurement card issues identified during the County's external audit.

A listing of procurement card expenditures for all departments, excluding IAD, was generated for the period of 7/16/10 to 12/15/10 utilizing WebFOCUS. IAD then randomly selected a sample of five out of forty seven transactions greater than or equal to \$3,000 (the forty seven transactions represented 55.5% of the population by dollar amount) and thirty out of one thousand five hundred and ninety six transactions less than \$3,000 for a total sample of thirty five transactions. Monthly Transaction Logs for these transactions were then obtained from the Fiscal Office Accounting Office and were reviewed for proper approval, supporting documentation, and to verify that sales tax had not been paid.

The following reports were then provided to IAD by the Executive Assistant 2:

- Cardholder account listing
- US Bank user ID listing
- Listing of blocked merchant category codes
- Detailed transaction listing
- Transactions including merchant category codes
- Listing of transaction approvals

Testing was performed in ACL to verify that both US Bank user IDs and cardholder accounts were only assigned to active employees and that IDs and accounts were set up correctly with respect to system privileges, daily transaction limits, daily dollar transaction limits, and single transaction dollar limits.

ACL was utilized to test that procurement card transactions (regular and super card) did not exceed daily transaction limits, daily dollar limits, and single transaction limits. Transactions were also tested to verify

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that payment was not made to a merchant with a category code that had been blocked. A listing of transactions for professional services was also generated and reviewed for reasonableness.

IAD met with the Executive Assistant 2 to gain an understanding of the approval process utilized by participating departments. Transaction approvals were loaded into ACL and tested to verify final approval of transactions. Testing was also performed to verify that only users with the authority to approve transactions had given final approval.

The listing of blocked merchant category codes and corresponding updates to the listing were reviewed for reasonableness. A listing of declined transactions was obtained to verify that procurement card transactions to vendors belonging to blocked merchant category codes had been declined.

The following issues were noted:

3. Issue:

Upon review of cardholder transaction logs, IAD noted that four of thirty five transactions reviewed (11.43%) did not have supervisor approval prior to the transaction date. In addition, two of thirty five transactions (5.71%) did not contain supporting documentation with an itemized description of purchases, as required per the Summit County, Ohio Procurement Card Program Policy and Procedures manual, section VI.A.

Recommendation:

IAD recommends that the Department of Finance and Budget review and revise current preapproval policies and procedures to ensure proper pre-approval is attained while not sacrificing the ease of use of the procurement card. Furthermore, IAD recommends that policies and procedures regarding supporting documentation be communicated to cardholders. This will help to ensure compliance with policies and procedures and will encourage departments to utilize procurement cards.

Action Taken Prior to the End of Field Work

The Executive Assistant 2 provided IAD with an updated policy and procedures manual and a Cardholder Pre-Approved Spending and Transaction Limit Form addressing the preapproval process. IAD noted that the preapproval process has been changed and that a blanket preapproval form signed by a supervisor is now in place which would remove the requirement of obtaining a supervisor's preapproval on the Monthly Transaction Log for every purchase made.

Management Action Plan:

The Policy and Procedure Manual has been updated with an effective date of 2/28/11, and along with the Cardholder Pre-Approved Spending and Transaction Limit Form has been distributed to all Coordinators. They were also updated on the intranet.

4. Issue:

Upon review of a listing of non-excluded MCC codes, IAD noted thirty three non-excluded MCC codes, seventeen of which were labeled as "High Risk" by US Bank, that did not appear reasonable.

Recommendation:

IAD recommends that the Department of Finance and Budget regularly review current non-excluded MCC codes and exclude high risk MCC codes that would not be utilized in the normal course of business. This will help to prevent unauthorized purchases and ensure that County funds are only spent for legitimate business purposes.

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Action Taken Prior to the End of Field Work

IAD obtained e-mails from the Department of Finance and Budget instructing US Bank to exclude unreasonable codes, including those in the "High Risk" category.

Management Action Plan:

The Department of Finance and Budget will review the MCC Codes annually to exclude any unreasonable codes that have been added in the US Bank system. The P Card Administrator will continue to check MCC Codes for reasonableness though out the year and exclude them as necessary.

5. Issue:

Upon review of a listing of procurement cardholders that have department coordinator permissions in the US Bank system, IAD noted one cardholder that had coordinator approval permissions. Per discussion with the Executive Assistant 2, this cardholder acts as a co-coordinator by reviewing and approving physical logs; however, this cardholder does not use their user ID for electronic approval.

Recommendation:

IAD recommends that the co-coordinator review and electronically approve transactions at a cardholder level and that the Executive Assistant 2 then give final approval within the US Bank system. This will help to refine and provide for efficiencies in the approval process while maintaining an appropriate segregation of duties.

Action Taken Prior to the End of Field Work

IAD was provided with an approval report, on which the co-coordinator had electronically approved transactions at a cardholder level and the Executive Assistant 2 had given final approval. This report confirmed the approval process has been changed for the current month.

Management Action Plan:

The physical plants co-coordinator will continue to electronically approve transactions at the cardholder level and the Executive Assistant 2/co- coordinator will continue to electronically approve transactions for final approval. This process started with the cycle ending 2/15/11.

III. Reconciliation Review:

The Summit County, Ohio Procurement Card Program Policy and Procedures manual was obtained and reviewed to gain an understanding of the month-end reconciliation process. An observation of the monthly reconciliation process was performed with the Executive Assistant 2 to gain a further understanding of the monthly reconciliation process. A flow chart was generated of the procurement card processes, including the monthly reconciliation process.

A Banner report of all procurement card bill payments made to US Bank from 1/1/09 through 5/31/10 was generated and a sample of two US Bank bills was judgmentally selected from the report. IAD traced and agreed the total transaction amount per each monthly transaction approval log to the total transaction amount per card on the corresponding US Bank Monthly statement. IAD then traced and agreed the total transaction amount for all logs to the balance on the corresponding US Bank Monthly statement. A random sample of fifty-six transactions from one statement and seventy-three transactions from the other statement, for a total sample of one hundred and twenty-nine transactions, was selected to test that sales tax was not paid and that supporting documentation was present.

No issues were noted.