

Summit County Executive Office
Department of Finance and Budget
Procurement Card Program
Audit Report
For the Nine Months Ended September 30, 2012

Prepared For:

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Approved by Audit Committee
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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, U.S. 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-one departments/agencies:

- Prosecutor's Office,
- Child Support Enforcement Agency,
- Sheriff's Office,
- Fiscal Office,
- County Council,
- 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 Department of Administrative Services,
- Executive's Office Human Resource Department.

Source: Summit County, Ohio Procurement Card Program Policy and Procedures

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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 1/1/12 through 9/30/12.

The following were the major audit steps performed:

OBJECTIVE 1 – TO REVIEW POLICIES AND PROCEDURES AND ENSURE 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. Perform testing to verify that each procurement cardholder has a signed County Procurement Card Program Cardholder Acknowledgement form and a Cardholder Application form on file.
3. Meet with the appropriate personnel to obtain an understanding of the current department processes and procedures. Compare those existing processes to the policies and procedures manual for consistency, noting all exceptions. Verify that all departments have departmental procedures on file.
4. Obtain the department's Record Retention Schedule (RC-2) and review for completeness with regard to procurement card documents.
5. Investigate discrepancies and summarize results. Make recommendations where appropriate.

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

6. List personnel to be interviewed, the respective interview dates and documentation obtained to gain an understanding of the specific functions and duties for the area of responsibility of the interviewee. (i.e., Mission Statements, Department Procedures, etc.). Document the interview utilizing the questionnaire.
7. Obtain and review a listing of cardholders and a listing of user IDs from U.S. Bank. Confirm all employees on both listings are active per Banner. Review permissions assigned to users in the U.S. Bank system to ensure that permissions are reasonable. Compare the listing of cardholders to the listing of user IDs with coordinator privileges to ensure that duties are appropriately segregated (e.g., there are no cardholders with coordinator capabilities).
8. Obtain a current MCC code listing from U.S. Bank showing eligible and ineligible transactions. Review for reasonableness.
9. Obtain a listing of spending limits for all approved cardholders. Review to ensure spending limits are reasonable and in compliance with those established in the policies and procedures.
10. Obtain a listing of transactions from the U.S. Bank system and use ACL to perform detailed testing.
11. Obtain a listing of monthly payments made to U.S. Bank (broken down by account code, purchase order number, etc.). Choose a sample for testing and indicate the sampling technique used. For each payment selected, obtain the corresponding monthly bank statement and perform detailed testing.
12. Investigate discrepancies and summarize results. Make recommendations where appropriate.

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

13. Meet with the appropriate personnel to gain an understanding of the control environment.
14. Select a sample of month end reconciliations and review for accuracy.
15. Investigate discrepancies and summarize results. Make recommendations where appropriate.

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Detailed Comments

I. Policies & Procedures

The *Summit County, Ohio Procurement Card Program Policy and Procedures*, revised and effective 2/28/11, and the Pre-Authorization Signature form was obtained from the County intranet site to gain an understanding of the policies and procedures currently in place and the form used to establish blanket approval authorization. Upon discussions with the Program Administrator, it was noted that only minimal changes had been made to the policy and procedure manual since the 2011 Procurement Card Audit. Therefore, IAD performed the following procedures to verify that no material changes had been made to the policy and procedure manual, Codified Ordinances, or O.R.C. since IAD's previous review.

The cardholder listing from the 2011 P-Card audit was compared to a current listing of cardholders in order to create a complete listing to include any new cardholders that joined the procurement card program since the 2011 audit. IAD then tested to verify that all new cardholders had a cardholder application and a policy and procedure sign-off on file in accordance with the Procurement Card Program Policy and Procedures manual, section III.C.

A listing of all of the current departments that participate in the procurement card program was obtained and compared to the policy and procedure manual testing from the 2011 P-Card audit to verify that all new departments participating in the program submitted their P-Card policy and procedure manual for review in accordance with the Procurement Card Program Policy and Procedures manual, section III.A.

The Records Retention Schedules (RC-2) for the Department of Finance and Budget and the Fiscal Office were obtained and reviewed for completeness with regard to procurement card documents.

No issues were noted.

II. Internal Controls

Interviews were conducted with the Procurement Card Program Administrator of the Department of Finance and Budget and the Support Services Administrator of the Fiscal Office Accounting Department to gain an understanding of the procurement card program, processes, and control environment.

A cardholder and user ID listing generated from the U.S. Bank system was obtained and filtered for active cards. All active cardholders were reviewed to confirm that they were active employees per Banner. The U.S. Bank user ID listing was filtered for users with high level permissions and reviewed for reasonableness.

A listing of cardholders who have program coordinator or program administrator privileges was generated from the cardholder listing and user ID listing, and reviewed to verify that a proper segregation of duties existed. A listing of MCC codes generated from the U.S. Bank system was obtained and reviewed to determine the reasonableness of eligible/ineligible transactions. The cardholder listing was filtered to determine the cardholder's limits and reviewed for reasonableness and compliance.

The Declined Transaction listing was obtained and reviewed for any declined transactions to confirm that transaction limit controls are functioning properly. To further test transaction limit controls, the following detailed testing was performed:

- The number of transactions per day did not exceed established limits,
- The total amount per transaction did not exceed established limits,
- The total amount per day did not exceed established limits,

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- Transactions with blocked MCC codes were declined,
- Users who gave final approval for each transaction are authorized to approve transactions.

A Banner report of payments made to U.S. Bank in 2012 was generated and a sample of three (3) months was judgmentally selected for one hundred percent (100%) detail testing. An additional sample of three (3) months was judgmentally selected for detail testing of one hundred (100) transactions each, based on the allocation of procurement cards by department. Furthermore, monthly U.S. Bank statements corresponding to these payments were obtained to perform the following detailed testing:

- Sales tax was exempted from all purchases,
- There was appropriate supporting documentation (receipts, order forms, etc.),
- The purchase was reasonable,
- The purchase was properly recorded,
- Proper management approval was recorded on the transaction log and/or the employee has an approved blanket approval form on file.

The following issues were noted:

1. Issue:

Upon comparison of the U.S. Bank Cardholder User ID Listing to Banner, IAD noted four (4) of eighty (80) active user IDs that belonged to terminated employees.

Recommendation:

IAD recommends that the Department of Finance and Budget implement procedures to handle the retrieval and cancellation of procurement cards when an employee terminates employment. This will help to ensure that only active, authorized employees have access to procurement cards.

Partial Corrective Action Prior to the End of Fieldwork:

On 12/3/12, IAD received confirmation from U.S. Bank that a request has been submitted to delete the four (4) active user IDs, belonging the terminated employees.

Management Action Plan:

Of the four User ID's noted, two of the user ID's belonged to cardholders. The procurement cards of both employees were terminated upon the employee leaving the County. The two other User ID's, were for coordinators, who were not card holders. The four user ID's have been made inactive. DFB will continue to run the monthly report to review the list of terminated employees as backup to the coordinators not informing DFB that an employee has been terminated. DFB, going forward, will e-mail US Bank to inactivate the User ID upon notice of the termination of an employee and continue to terminate the cardholder card upon termination of employment.

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2. Issue:

Upon detailed testing of procurement card transactions, IAD noted twenty-five (25) of one thousand two hundred and twenty-seven (1,227) transactions (2%) that did not receive proper pre-approval as required by the Procurement Card Program Policies and Procedures manual.

Recommendation:

IAD recommends that the Department of Finance and Budget require that all department cardholders obtain proper pre-approval for transactions and record this pre-approval appropriately and that the Department of Finance and Budget require that all procurement card transactions to be included on the Transaction Log. This will help to ensure that all cardholders are in compliance with the Procurement Card Program Policy and Procedures manual.

Partial Corrective Action Prior to the End of Fieldwork:

On 11/30/12, cardholders relevant to the above-noted exceptions were notified that all transactions must be approved prior to a purchase being made. Additionally, a copy of the Cardholder Pre-approved Spending and Transaction Limit Form was attached to the notification.

Management Action Plan:

Under the County P Card Policy all department cardholders are to obtain proper pre-approval for all transactions per the County Procurement card policy and departmental coordinators are responsible for ensuring this occurs. We have notified the coordinators that had issues with pre-approval and reminded them of their responsibility to follow the County's policy. Additionally they were provided the Cardholder Pre-approved Spending and Transaction Limit Form. We've received completed forms from Common Pleas Court and Community and Economic Development, addressing 7 of the transactions.

3. Issue:

Upon detailed testing of procurement card transactions per cardholder, IAD noted four (4) instances where the daily spending threshold was exceeded. It is noted that the threshold was minimally exceeded.

Recommendation:

IAD recommends that the Department of Finance and Budget contact U.S. Bank to determine the cause of the above noted errors in an effort to eliminate similar occurrences in the future. This will help to ensure that proper controls are in place for spending thresholds.

Management Action Plan:

The County has established daily and monthly spending limits with US Bank for all cardholders who participate in the County's procurement card program. The county program coordinator runs a monthly variance report which lists denied transactions to ensure the cardholder limits are being monitored by US Bank. US Bank has not been able to convey a clear explanation for the instances where the daily spending thresholds were minimally exceeded under their surveillance reporting model. US Bank does not offer a clear definition of what constitutes a day. DFB will continue to monitor the established daily and monthly

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spending limits with US Bank for all cardholders and will continue to run a monthly variance report to ensure the limits are being reasonably followed by US Bank.

4. **Issue:**

Upon review of assigned permissions for user IDs, IAD noted two (2) of fourteen (14) instances where the user ID was able to set up new cardholder accounts. Per the Procurement Card Program policies and procedures, this duty is reserved for the County Program Administrator.

Recommendation:

IAD recommends that the Department of Finance and Budget monitor employee user ID permissions for the U.S. Bank procurement card program, and make changes accordingly. This will help to ensure that proper permissions are in place.

Action taken prior to the end of fieldwork:

The two (2) employees, noted above, were properly re-classified and permission was deemed appropriate for a program coordinator.

Management Action Plan:

The original intention in the setup of coordinators was to give them more responsibility in the maintenance of the cardholder(s) they are responsible for, DFB, however felt that the set up and maintenance should be uniform and more closely monitored. The program administrator and staff involved in the reconciliation of the p card program are the only employees now that have access to set up new accounts. In the transition process, two coordinators continued to have maintenance capability, but have since been re-classified. DFB will continue to monitor employee user ID permissions and make changes accordingly to ensure that proper permissions are in place.

III. Reconciliation

The Procurement Card Program Policy and Procedures manual was reviewed and interviews were conducted with the Program Administrator and Support Services Administrator, to gain an understanding of the month-end reconciliation process. A sample of six U.S. Bank statements was selected and tested to determine if the aggregate amount of the transactions agreed to the procurement card payment that was made in Banner.

No issues were noted.