

**Summit County Executive Office
Department of Finance and Budget
Procurement Card Program
Audit Report
For the Year Ended December 31, 2011**

PREPARED FOR:

**Russell M. Pry
Audit Committee**

**Approved by Audit Committee
December 19, 2011**

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Background
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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, 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.

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 1/1/09 through 12/31/10.

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 US Bank. Confirm all employees on both listings are active per Banner. Review permissions assigned to users in the US 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 US 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 US Bank system and use ACL to perform detailed testing.

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11. Obtain a listing of monthly payments made to US 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. Perform a detailed review of professional services.
13. Investigate discrepancies and summarize results. Make recommendations where appropriate.

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

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

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I. Policies & Procedures

The Summit County 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 Senior Administrator, it was noted that only minimal changes had been made to the policy and procedure manual since the 2010 Procurement Card Audit. Therefore, IAD performed the following procedures to verify that no material changes had been made to the policy and procedure manual or the Codified Ordinances and O.R.C. since IAD's previous review that would affect compliance.

The cardholder listing from the 2010 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 after the 2010 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 Summit County, Ohio Procurement Card Program Policy and Procedures manual, section III.C.

A listing of all current procurement card program participants was obtained and compared to the policy and procedure manual testing from the 2010 P-Card audit to verify that departmental policy and procedure manuals were tested. Furthermore, IAD noted that all errors identified during this testing had been corrective per the 2010 P-card audit report. Therefore, IAD passes on further testing of departmental policy and procedure manuals.

The Records Retention Schedules (FC-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 Senior Administrator of the Department of Finance and Budget and the Assistant Director of Administration 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 US Bank system was obtained and filtered for active cards. All active cardholders were reviewed to confirm that they were active employees per Banner (PEAMPL screen). The US Bank user ID listing was loaded into ACL and a listing of active user IDs that were assigned high level permissions was generated and reviewed for reasonableness.

A listing of cardholders who have program coordinator or program administrator privileges was generated in ACL from the cardholder listing and user ID listing. The listing was reviewed to verify that a proper segregation of duties existed. A listing of MCC codes generated from the US Bank system was obtained and reviewed to determine the reasonableness of eligible/ineligible transactions. The cardholder listing was loaded into ACL and a listing of cardholders and their limits was generated 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 transaction files were loaded into ACL and the following detailed testing was performed:

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- 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,
- 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 US Bank in 2011 was generated and a sample of 3 months was judgmentally selected for testing. The monthly US 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 transaction listing with MCC codes was loaded into ACL, filtered for professional services, and reviewed for reasonableness.

The following issues were noted:

General Recommendation:

IAD recommends that the Department of Finance and Budget implement procedures that address the cancelation of user IDs when an employee terminates employment. This will help to ensure that only active, authorized employees have access to the US Bank system.

1. Issue:

Upon review of a US Bank cardholder listing and a US Bank user ID listing, IAD noted one (1) out of sixty-five (65) active cards that belonged to a terminated employee.

Recommendation:

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

Action Taken Prior to the End of Fieldwork:

Upon review of a US Bank user ID listing, effective 11/29/11, it was confirmed that the terminated employee was not included in the listing.

Management Action Plan:

We terminated the 1 employee in the US Bank system immediately upon notice from IAD staff member that he was on this list. The P Card Coordinator for each department is supposed to notify us when an employee leaves employment and turn in their card to us. This was not done and the coordinator has been notified. We are in the future going to run a list of employees who have left

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Summit County employment on a monthly basis to see if any of our cardholders have left employment as a backup to not being notified by the coordinator. This will be incorporated into our P card policy.

2. Issue:

Upon detailed testing of procurement card transactions, IAD noted four of forty eight transactions (8.33%) that did not receive proper pre-approval as required by the *Summit County, Ohio Procurement Card Program Policy and Procedures* manual, section VI.D. Furthermore, IAD noted that all four transactions originated from a single department.

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. This will help to ensure that all cardholders are in compliance with the *Summit County, Ohio Procurement Card Program Policy and Procedures* manual.

Management Action Plan:

The department in question has been notified that we did not have proper approval on the p card logs. The department is sending pre-approval forms for all employees to come into compliance with our policy. We have received 4 out of 6 so far.

3. Issue:

Upon detailed testing of procurement card transactions per cardholder, IAD noted three instances where the daily spending threshold was exceeded. It is noted that the threshold was minimally exceeded. On 11/30/11, IAD was provided with a correspondence from US Bank stating that the spending thresholds for two of the three exceptions were not exceeded, based on timing differences; and that the third exception was due to the merchant forcing a charge through.

Recommendation:

IAD recommends that the Department of Finance and Budget contact US 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 U.S. Bank for all cardholders who participate in the County's procurement card program as attached. The county program administrator runs a monthly variance report which list denied transactions to ensure the cardholder limits are being monitored by U.S. Bank. Concerning the exceptions cited by the IAD, we have contacted U.S. Bank to seek clarification as to the rule methodology within their system that enforces these spending limits. We will update our policies as necessary to reflect U.S. Bank's definition of a "day" for monitoring these spending limits upon receipt of the necessary information.

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III. Reconciliation

The Summit County, Ohio Procurement Card Program Policy and Procedures manual was reviewed and interviews were conducted with the Senior Administrator and Assistant Director of Administration, to gain an understanding of the month-end reconciliation process. A sample of three US Bank statements was judgmentally selected for testing. One super card purchase and sixteen (16) regular purchases were then judgmentally selected from each bank statement and corresponding transaction logs were obtained for the following detailed testing to be performed:

- Amounts agreed to the transaction logs,
- Transactions did not include sales tax,
- Transactions were reasonable, properly recorded and approved,
- Existence of supporting documentation.

No issues were noted.