



Performance Audit

Management and Use of the County's Procurement Card

Durham County Internal Audit Department

June 2009

EXECUTIVE SUMMARY

June 19, 2009



Durham County
Internal Audit Department
(919) 560-0042

Why We Did This Audit

The Audit Oversight Committee approved this audit in the fiscal year 2009 audit plan to ensure that procurement card controls are effective. Management raised concerns as a result of procurement card irregularities in a neighboring county. Durham County's procurement card program began in 1999 and was audited that year but has not been audited since while the program has grown significantly. The Committee authorized this audit because of the increased financial risks resulting from the program's growth and the lack of a recent independent audit.

What Is Recommended

The recommendations identify improvements for management to increase internal controls for county-issued procurement cards. During the audit, the County implemented procedures to address risks related to insufficient documentation and one user reimbursed the county for expenditures that were not clearly related to County business.

We recommend that the Department of Finance and County Management:

- Require card holders to use the monthly log sheet to fully explain the business purpose of the expenditure and attach any additional supporting documentation as needed.
- Provide guidance that clearly communicates the types of card expenditures that are inappropriate.
- Make greater use of data mining techniques to identify card use trends.
- Re-establish a control to ensure that card accounts are canceled when the employee retires or terminates employment in order to ensure that only authorized employees have access to cards.

For more information regarding this report, please contact Richard Edwards at 919.560.0042 or rcedwards@durhamcountync.gov.

Performance Audit:

Management and Use of the County's Procurement Card

What we found

The financial exposure to the account has grown to about \$944.4K, a 15.7 percent increase over 2007 expenditures that amounted to about \$816.6K. The average purchase amount for transactions reviewed during the audit was \$148.77. While audit results did not reveal instances of fraud or intentional abuse, areas were identified in which management controls could be strengthened and potentially facilitate savings.

Specifically, I found:

- Purchase documentation was not always sufficient to determine the business purpose of expenditures.
- Business purposes of some well documented expenditure were unclear.
- Several best practices were not included in the program. The excluded best practices are:
 - Clearly delineating unallowable and non-reimbursable items,
 - Conducting reviews on a regular basis to ensure internal control mechanisms are adequate,
 - Establishing a control to ensure that card accounts are canceled when the employee retires or leaves the agency, and
 - Data mining techniques.

Management has indicated a willingness to implement the recommendations and made several program improvements during the audit. Management has also indicated commitment to include established best practices in its regular management control regiment.

Management Response to Audit Recommendations

Summary of Management Responses

Recommendation 1

Require card users to use the monthly log sheet to fully explain the business purpose of the purchase.

Proposed Action: Update the log sheet to require more detailed explanations of business purpose of the purchases.

Action Implementation timeframe: To be implemented by July 1, 2009.

Responsible Person: Pamela Gales, Card Program Administrator.

Recommendation 2

Provide guidance that clearly communicates the types of card expenditures that are inappropriate.

Proposed Action: Update the Procurement Card Policies and Procedures Manual to be more specific and clear about the types of purchases that are not allowed and are non-reimbursable such as the purchase of meals for departmental holiday functions which are not allowed; however, meals for business purposes at departmental meetings are allowed. Will set up a mandatory training session to re-train current procurement card holders and approving authorities on updated information and continue providing detailed training to all new card holders.

Action Implementation timeframe: To be implemented by July 1, 2009.

Responsible Person: Pamela Gales, Card Program Administration, Kimerly Mann, AP Supervisor.

Recommendation 3

Make greater use of data mining techniques to identify card use trends.

Proposed Action: Consult with Bank of America about using the Works system to do data mining.

Action Implementation timeframe: To be implemented as soon as Bank of America provides the program administrator with information that they have the capability to provide data mining through their reporting system, but other methods of data mining will be researched if more information is needed that cannot be provided by Bank of America.

Responsible Person: Pamela Gales, Card Program Administrator and Jacqueline Boyce, Procurement Manager

Recommendation 4

Re-establish a control to ensure that card accounts are canceled when the employee retires or terminates employment.

Proposed Action: Program Administrator will get with the HR department and re-establish a method to receive a monthly report of personnel leaving Durham County as another control to ensure that accounts are canceled.

Action Implementation timeframe: To be implemented by July 1, 2009.

Responsible Person: Pamela Gales, Card Program Administrator



COUNTY OF DURHAM

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AUDIT COMMITTEE

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June 19, 2009

Michael M. Ruffin, County Manager:

The Procurement Card audit was conducted as part of our fiscal year 2009 Audit Plan which was approved by the Audit Oversight Committee. The audit objectives were to determine if the program is designed in accordance with acceptable best practices, if controls are in place to assure compliance with card policy, and if card purchases are business related.

Audit results did not identify intentional abuse of the card but several best practices were not used which created the need for better expenditure documentation and clarification. This report recommends enhancements to current controls that will reduce these risks associated with procurement card use.

I recommend the inclusion of generally accepted best practices into program policy and operational procedures. These best practices and recommendations include establishing clear delineation of unallowable and non-reimbursable items in credit card policies, providing appropriate documentation to facilitate review, using data mining techniques to identify purchase trends, and re-establishing cooperation with the Human Resources Department to obtain employment information for use to ensure that only authorized County employees have access to cards. Adoption of these best practice recommendations will strengthen program controls.

The Finance Department expressed a willingness to implement the report recommendations. Card administrators began making improvements to the program while audit fieldwork was ongoing. Several instructions were issued addressing documentation requirements.

The Audit Oversight Committee has reviewed the draft report and this final version includes any revisions resulting from the review process. I appreciate the courtesy and cooperation of Finance Department staff in completing this audit.

Richard Edwards
Audit Director

Management and use of the County's Procurement Card

Table of Contents

Introduction..... 1
 Background..... 1
 Audit Objectives..... 1
 Scope and Methodology..... 2
Findings and Analysis..... 3
 Opportunities Exist to Enhance Controls..... 3
 Closer adherence to best practices will enhance controls..... 3
 Further guidance needed to define appropriate card use..... 5
Recommendations..... 6

Appendices

Appendix 1 Audit Response..... 7

Exhibits

Exhibit 1 Best Practices for Government Procurement Card Programs..... 4
Exhibit 2 Summary Of Inadequately Documented Transactions..... 5

Introduction

This audit of the Procurement Card was conducted pursuant to the September 12, 2005 Audit Department Charter which establishes the Audit Oversight Committee and the Audit Department and outlines the internal auditor's primary duties. The Audit Committee authorized this audit in July 2008.

A performance audit is an engagement that provides assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.¹

Background

The County's purchase card program consists of Visa purchasing cards issued in the names of authorized County employees. The cards are used like regular credit cards for authorized County purchases. The Purchasing Division of the County's Finance Department administers the procurement card program. The purpose of the program is to streamline purchases for small items, saving both time and expenses associated with creating and administering purchase orders. Throughout federal, state, and municipal governments, purchase cards are considered best practice for purchasing small dollar items.

The County began its purchase card program with a pilot of six departments in November 1998. Currently, 24 departments and 143 employees use the procurement card for small purchases. In calendar year 2008, card usage grew to \$944.4K, an increase of about 15.7 percent over the \$816.6K of purchases in 2007. The average purchase amount for the cases reviewed during the audit was \$148.77.

Audit Objectives

This Procurement Card program audit was conducted to determine if:

- 1) The program was designed and operates in accordance with industry best practices,
- 2) Current monitoring processes are sufficient to reasonably assure that card usage complies with applicable policy and purchasing laws, and
- 3) Purchases are clearly business related.

Specific questions to be answered were:

- Is the program designed in accordance with acceptable best practices?
- Are controls in place to monitor card usage to assure compliance with card policy?
- Are card purchases business related and does documentation support the business purpose of the purchase card transaction?

¹ Comptroller General of the United States, *Government Auditing Standards*, Washington D.C: U.S. Governmental Accountability Office, 2007, p.17

Scope and Methodology

This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that I plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. I believe the evidence obtained provides a reasonable basis for the findings and conclusions based upon the audit objectives. I conducted the fieldwork from Jan 28, 2009 to March 20, 2009.

Audit methods included:

- Reviewing Durham County procurement card policies and procedures, the State of North Carolina procurement manual, and Association of Government Accountants procurement card best practices to determine if Durham's controls are comparable to industry best practices and if policies and procedures comply with state procurement policies.
- Reviewing procurement card transactions for compliance with policies established for program operation.
- Discussing control processes with the card program administrator to gain an understanding of the program.
- Discussing purchasing control processes with several department heads to obtain an understanding of the types of purchases they consider reasonable and appropriate.

My analysis covered six randomly selected months of transactions from 2006 through December 2008. The analysis methodology was not designed to project the number or amount of inappropriate transactions. Analysis results demonstrate the need for additional enhancement of control processes.

Findings and Analysis

Opportunities Exist To Enhance Controls

Opportunities exist to strengthen current program controls by bringing the program more into alignment with best practices. Four common best practices were not being used resulting in expenditures that were not fully documented or for which the business purpose was unclear. Review of 2,619 purchase transactions revealed that 109 of them were not sufficiently documented or the business purpose was unclear. These expenditures amounted to about 4 percent or \$15,533 of the \$389,619 spent. Inclusion of all best practices may have prevented the above occurrences, by strengthening program controls.

To strengthen controls, and potentially decrease County expenditures, I recommend the following;

- Require sufficient documentation to clearly explain the business purpose of the purchase transaction,
- Establish guidance, identifying as necessary, allowable purchases to assure that only those with a clear business purpose are authorized and approved,
- Use data mining techniques as an information gathering and monitoring tool, and
- Re-establish a control to ensure that card accounts are canceled when the employee retires or terminates employment.

Closer Adherence to Best Practices Will Enhance Controls

Durham County's procurement card program is modeled on government and private entity best practices, however, four best practices are not included in the operating and management procedures. While the audit did not identify negative results of not using two of the best practices, I recommend the use of all best practices to strengthen program controls. Program administrators agree and are planning to include them in administrative procedures.

Lack of adherence to two best practices resulted in 109 situations in which documentation was insufficient or the business purpose was not clear. Those two excluded best practices were (1) establish clear delineation of unallowable and non-reimbursable items in credit card policies and (2) conduct internal charge card program reviews on a regular basis to ensure internal control mechanisms are adequate. The circumstances surrounding these conditions are discussed separately below.

The lack of data mining and the current process for determining ineligible card uses based upon employment status did not surface as causes for negative conditions during the audit. However, adherence to these best practices would strengthen controls. Data mining analysis techniques may result in savings through identifying purchasing efficiencies or it could identify irregularities that may signal inappropriate card use.

Exhibit 1 identifies procurement card best practices and how Durham County's program compares to those best practices.

Exhibit 1
Best Practices for Government Procurement Card Programs

Best Practices	Does County Policy Include Provision?	
	Yes	No
Establish written policies and procedures.	√	
Identify key management officials and their responsibilities for the charge card program. Establish a process for formal appointment of cardholders and approving officials.	√	
Establish comprehensive guidelines that clearly delineate and segregate duties.	√	
Establish clear delineation of unallowable and non-reimbursable items in credit card policies.		√
Perform periodic reviews of spending and transaction limits to ensure appropriateness.	√	
Conduct internal charge card program reviews on a regular basis to ensure internal control mechanisms are adequate.		√
Adherence to procurement laws and regulations.	√	
Institute mandatory training on purchase card policies.	√	
Establishing a control to ensure that card accounts are canceled when the employee retires or leaves the agency.		√
Establish administrative or disciplinary actions for care misuse and/or account delinquency.	√	
Require monthly transaction reconciliation by verifying accuracy against cardholder records.	√	
Prompt review of cardholder's transactions by approving official.	√	
Implement electronic funds transfer as the standard method of payment.	√	
Implement measures to detect and prevent misuse and fraud, such as: <ul style="list-style-type: none"> • Data mining • Blocking card use for high risk merchant category codes 	√	√

Source: Federal Government guides/audits of charge card programs and controls/best practices identified by Association of Government Accountants

Adequate Expenditure Documentation Will Enhance Controls

The Finance Department's Accounts Payable Division relies upon department heads to monitor procurement card activity. The program is designed for department heads to review transactions and determine if the purchase was appropriate. The Accounts Payable Division relies upon the department head's signature on the monthly purchase log for that determination. Although the department head signs the monthly purchase log, the files do not always include the necessary documentation or explanation to demonstrate that the purchase was business related. For 99 expenditures, program administrators did not have the necessary information to make an informed decision regarding the appropriateness of the expenditure.

For example, documentation for some food item purchases and travel expenditures did not adequately explain the business purpose of the expenditure. Although the monthly expenditure log and supporting documentation included a receipt, the business purpose could not be determined without fuller explanation and documentation. As such, the accounts payable representative, whose responsibility includes review of purchases to determine appropriateness, could not determine if the purchases were appropriate.

Although card administrators adhered to the best practice of regular reviews, the reviews did not assure that control mechanisms were adequate. Department head approval was in effect inappropriately substituting for adequate documentation. Therefore, I recommend that the business purpose of the transaction be clearly stated on the receipt or the transaction log. If necessary, additional documentation such as an agenda supporting the meeting or event should be required in order for the accounts payable review and reconciliation control function to obtain a clear understanding of the business purpose of the expenditure. Requiring adequate documentation makes the review process more useful as a control. Program administrators agree and have made plans to require adequate documentation for more effective review.

Further Guidance Needed To Define Appropriate Card Use

Sufficiently documented purchases were made whose business purpose was unclear. The audit identified 10 of 2619 transactions in which this situation occurred. These purchases included such items as holiday meals and decorations. Department heads that authorized and approved such purchases said they understood them to be acceptable uses of the procurement card.

Department heads that made such purchases said the occasions for food was used to recognize staff contributions and in one instance, a substitute for employee bonuses. Other department heads said they did not use their cards in such a manner and said they were not sure if such purchases were appropriate. They also said they would not use their cards for such purposes without clear guidelines allowing such usage and stated that additional card usage guidance is needed.

Adherence to the best practice for establishing clear delineation of unallowable and non-reimbursable items in credit card policies may have prevented these occurrences and I recommend that management establish and communicate to each department clear guidelines specifying how the card can be used.

Exhibit 2 summarizes the incidences of transactions identified during the audit that either (1) did not have appropriate documentation or (2) did not adequately explain the business purpose of the purchase transaction.

EXHIBIT 2 Summary of inadequately documented transactions

	No. of transactions	% of transactions	Amount	% of Amount
Insufficient documentation	99	3.78	\$14,134	3.63
Unclear business purpose	10	.38	\$1,399	.36
Total	109	4.1	\$15,533	3.99
Total transactions	2,619		\$389,619	

Source: Auditor's analysis of transaction records.

Recommendations

The following recommendations identify improvements to enhance current program controls.

1. **Require card users to use the monthly log sheet to fully explain the business purpose of the purchase.** The log sheets are used to record monthly transactions and along with attached receipts and the department head's signature indicates that the purchase was appropriate. The log becomes the official record of transactions maintained by the accounts payable division. The log sheet can be expanded if necessary to provide adequate explanation of the business purpose of the purchase. Also additional information as required can be attached to the log as necessary.
2. **Provide guidance that clearly communicates the types of card expenditures that are inappropriate.** This may require specific and clear delineation of unallowable and non-reimbursable items in credit card policies and additional training for both card users and approving authorities.
3. **Make greater use of data mining techniques to identify card use trends.** Identification of spending trends and patterns may provide information to generate savings or provide additional protection against fraud and abuse.
4. **Re-establish a control to ensure that card accounts are canceled when the employee retires or terminates employment.** The Department of Human Resource sources should be used to obtain current information regarding personnel changes.

Appendix 1

Audit Response – Finance Director



COUNTY OF DURHAM
FINANCE DEPARTMENT

April 23, 2009

Richard C. Edwards
Internal Auditor
Durham County
200 East Main Street
Durham, North Carolina 27707

Re: P-Card Audit

Dear Mr. Edwards:

Please find attached a copy of the Finance Departments Managements Response to the Audit Recommendations.

In addition, as the Department's Director, I would like to thank you for the professional manner in which the audit was conducted and the valuable information obtained. The concerns raised in the audit are valid and have been addressed in our response. I am sure that once your recommendations are implemented the County's P-Card program will better serve our users.

After you have had an opportunity to review our response please give me a call if an additional meeting is needed.

Sincerely,

George K. Quick
Finance Director

Cc Jacqueline Boyce
Pamela Gales

Management Review and Response to Audit Recommendations

Report Title: Management and Use of the County's Procurement Card

Recommendation Responses:

Recommendation 1

Require card users to use the monthly log sheet to fully explain the business purpose of the purchase. The log sheets are used to record monthly transactions and along with attached receipts and the department head signature indicates that the purchase was appropriate. The log becomes the official record of transactions maintained by the accounts payable division. A part of the log sheet can be expanded if necessary to provide adequate explanation of the business purpose of the purchase. Also additional information as required can be attached to the log as necessary.

Proposed Action: Update the log sheet to require more detailed explanations of business purpose of the purchases.

Action Implementation timeframe: To be implemented by July 1, 2009.

Comments: None

Responsible Person: Pamela Gales, Card Program Administrator.

Recommendation 2

Provide guidance that clearly communicates the types of card expenditures that are inappropriate. This may require specific and clear delineation of unallowable and non-reimbursable items in credit card policies and additional training for both card users and approving authorities.

Proposed Action: Update the Procurement Card Policies and Procedures Manual, to be more specific and clear about the types of purchases that are not allowed and are non-reimbursable items, such as the purchase of meals for departmental holiday functions which are not allowed; however, meals for business purposes at departmental meetings are allowed. Will set up a mandatory training session to re-train current procurement card holders and approving authorities on updated information and continue providing detailed training to all new card holders.

Action Implementation timeframe: To be implemented by July 1, 2009.

Comments: None

Responsible Person: Pamela Gales, Card Program Administration, Kimerly Mann, AP Supervisor.

Recommendation 3

Make greater use of data mining techniques to identify card use trends. Identification of spending trends and patterns may provide information to generate savings or provide additional protection against fraud and abuse.

Proposed Action: Consult with Bank of America about using the Works system to do data mining.

Action Implementation timeframe: To be implemented as soon as Bank of America provides the program administrator with information that they have the capability to provide data mining through their reporting system, but other methods of data mining will be researched if more information is needed that cannot be provided by Bank of America.

Comments: None

Responsible Person: Pamela Gales, Card Program Administrator and Jacqueline Boyce, Procurement Manager

Recommendation 4

Re-establish a control to ensure that card accounts are canceled when the employee retires or terminates employment. The Department of Human Resource sources should be used to obtain current information regarding personnel changes.

Proposed Action: Program Administrator will get with the HR department and re-establish a method to receive a monthly report of personnel leaving Durham County as another control to ensure that accounts are canceled.

Action Implementation timeframe: To be implemented by July 1,, 2009.

Comments: None

Responsible Person: Pamela Gales, Card Program Administrator