



County Controller

Stephen J. Barron, Jr., CFE

Audit Manager

Frank S. Kedl, CIA

Solicitor

Timothy P. Brennan, Esq.

County Executive

John A. Brown

County Council

John Cusick, President
Glenn A. Geissinger, Vice-President
Mathew M. Benol
Matthew H. Dietz
Margaret Ferraro
Kenneth M. Kraft
Hayden Phillips
Seth Vaughn
Robert F. Werner

Audit Report

**PROCUREMENT
CARD PROGRAM**

Fifteen Months ended
March 31, 2017

**Office of the Controller
County of Northampton
Pennsylvania**



STEPHEN J. BARRON, JR., CFE

CONTROLLER OF NORTHAMPTON COUNTY

NORTHAMPTON COUNTY COURTHOUSE
669 WASHINGTON STREET
EASTON, PENNSYLVANIA 18042

FRANK S. KEDL, CIA
Audit Manager

TIMOTHY P. BRENNAN, ESQ.
Solicitor

PHONE (610) 829-6615
FAX (610) 559-3137

September 29, 2017

Members of the Northampton County Council
John A. Brown, County Executive
County of Northampton, Pennsylvania

We have completed an audit of the County's Procurement Card Program for the fifteen months ended March 31, 2017.

The Executive Summary on page 1 summarizes the audit results, while the Audit Results section provides a detailed explanation.

We acknowledge the cooperation and assistance we received from the Procurement Division, the Human Resources Department, the Fiscal Affairs accountant assigned to the Procurement Card Program, as well as all of the cardholders and supervisors we contacted during the course of the audit. Their help was essential to the performance of this audit.

Our report was discussed with management at our exit conference on September 15, 2017. Management's response is included in the Audit Results section of the report.

Very truly yours,

Stephen J. Barron, Jr., CFE
County Controller

Paul L. Albert, CIA
Lead Auditor

Table of Contents

	<u>PAGE</u>
EXECUTIVE SUMMARY	1
INTRODUCTION	2
PURPOSE AND SCOPE.....	4
METHODOLOGY	4
AUDIT RESULTS	6
<i><u>Section A – Compliance</u></i>	
1. Review of Procurement Card Purchases	6
<i><u>Section B – Internal Controls</u></i>	
1. Supervisory Approval in WORKS	8
2. Purchase of Gift Cards	10
<i><u>Section C – Policy and Procedure Manuals</u></i>	
1. Updating Procurement Card Manual	11
2. Review of County Staff Travel and Staff Training Policies	13
<i><u>Section D – Economy and Efficiency</u></i>	
1. Review Levels of Fiscal Limits	15
<i><u>Status of WORKS Implementation</u></i>	17

EXECUTIVE SUMMARY

The Procurement Card Program (P-Card Program) continues to be an efficient, cost-effective method of paying for purchases without the need for petty cash, small purchase orders or accounts payable checks. There was significant improvement in the utilization of WORKS technology as documentation is now uploaded and filed electronically in WORKS, eliminating the need to circulate paper documents. Supervisor approval is also entered directly into WORKS.

A continued area of concern are the number of transactions that do not comply with County regulations but still receive supervisory approval. It is either a lack of knowledge of County policies, or supervisors not adequately performing their duties. Additionally, with the implementation of online approval, better monitoring is necessary to verify that all transactions are approved. Solutions could include additional training or adjustments to the workflow process in WORKS.

Finally, reviewing and updating the P-Card Manual, and the County's Travel and Staff Training Policies and Procedures, would provide better direction to employees. Part of that updating should include a review of the County's Fiscal Limits for making purchases. Increasing those limits would decrease the number of times that multiple quotes are necessary, thus saving time and making the process more efficient. Lastly, increasing the meal reimbursement rates to levels established by the U.S. General Services Administration would fairly compensate employees for meals when they are required to travel on County business.

INTRODUCTION

General Information

The County's P-Card Program began in April 2002 and currently has 123 cardholders. The Procurement Division administers the program with the assistance of a Fiscal Affairs accountant assigned to the program. See page 3 of this report for a comparison of activity over the last four fiscal years.

The WORKS Platform through the Bank of America Merrill Lynch handles the administrative duties associated with the VISA card. WORKS is a web-based application that automates, streamlines and integrates the existing card maintenance, payment authorization and reconciliation process. Procurement trained all cardholders and supervisors on the use of WORKS. WORKS allows purchases to be coded online for ONESolution (formerly called IFAS), it allows electronic documentation for purchases to be uploaded and stored in WORKS, and allows supervisors to electronically approve the p-card transactions in WORKS.

Program Benefits and Controls

The P-Card Program provides an efficient and cost effective method to pay for goods and/or services and reduces the use of petty cash and low dollar purchase orders. It is important to note that the p-card is only a method of payment; cardholders must comply with the Procurement Card Manual and also County policies and procedures. Important procurement policies and procedures include providing adequate documentation of purchases, using the proper selection methods based on the total dollar value of the purchase price, and supervisory approval of the purchase.

As opposed to a traditional credit card, a p-card offers controls that are not normally possible.

- Single Purchase Limit – This is the maximum dollar amount assigned to a cardholder on a per purchase basis. The single purchase limit assigned to cardholders is \$500 unless the cardholder's supervisor requests a larger amount.
- Billing Cycle Limit – This is the dollar limit of purchases available during the billing cycle which ends on the 5th and 19th of each month. The cardholder's supervisor also establishes these limits which range from \$250 to \$35,000, depending on the needs of the cardholder.
- Merchant Category Code (MCC) – This is a method to control where spending is allowed. All VISA merchants are assigned an industry-specific code. The Procurement Division created different strategies such as Automotive, Office Supplies, Construction/Contracting, Travel Services, etc. that consist of similar codes. The cardholder's supervisor determines which strategies each cardholder should have.

The County established their program with more stringent controls than most other organizations. Instead of designating the MCC's that cannot be used, the County chose to allow supervisors the authority to designate the MCC's that each cardholder may use.

Training

All cardholders attend a mandatory training session and sign a Cardholder Agreement form before receiving their p-card. At this time, cardholders receive a VISA Cardholder Agreement and a copy of the Procurement Card Manual.

Procurement Card Activity

The table below illustrates the change in p-card activity over the last four fiscal years. The three-year decline in open cards and total purchases changed abruptly in 2016 with significant increases. The comparison is detailed below:

Procurement Card Purchases by Twelve-Month Period

<i>12-Months Ended</i>	<i>Open Cards</i>	<i>/----- Purchases -----/</i>			
		<i>Total Number</i>	<i>Change</i>	<i>Total Amount</i>	<i>Change</i>
6/30/2013	146	4,916		\$1,093,531	
6/30/2014	129	4,382	-11%	\$913,902	-16%
6/30/2015	108	3,782	-14%	\$797,560	-13%
12/31/2016	123	5,076	34%	\$1,096,730	37%

A closer analysis of purchases comparing calendar years 2015 and 2016 highlights the three divisions that had the largest increase in the dollar amount of purchases. Those divisions are:

<i>Division</i>	<i>2015 Purchases</i>	<i>2016 Purchases</i>	<i>Change</i>
Jail	\$157,076	\$221,981	\$64,905
Operations & Maintenance	\$100,200	\$147,642	\$47,442
Gracedale Operations & Maintenance	\$90,191	\$123,300	\$33,109
	\$347,467	\$492,923	\$145,456

PURPOSE AND SCOPE

The audit was performed in compliance with Section 7.7 of the Procurement Card Manual that states that the Controller shall conduct periodic audits of Procurement Card use. Specifically, the purpose of the audit was to:

- Determine the adequacy of controls over the processing of p-card transactions.
- Determine compliance with County regulations.
- Determine the economy and efficiency of the program.
- Evaluate the progress of fully automating the p-card workflow process.
- Determine if corrective action was taken on findings reported in the June 30, 2015 Procurement Card Program audit.

The scope of the audit covered the operations of the program for the fifteen months ending March 31, 2017.

Our tests did not include an examination of the Bank of America computer system used to administer the P-Card Program. We did review the SSAE 16 Report prepared for Bank of America's Works Platform Controls for the period ended September 30, 2016 by PricewaterhouseCoopers LLP; there were no relevant exceptions noted. We accepted all reports as accurate.

METHODOLOGY

Our methodology included:

- Reviewing the Procurement Card Manual for significant areas pertinent to the audit.
- Documenting the process for key p-card functions.
- Reviewing the County's Travel and Staff Training policies and procedures as they relate to the audit.
- Interviewing key personnel involved with the P-Card Program.
- Analyzing the population of transactions for different attributes and testing a sample of transactions.
- Reviewing the results of the annual p-card inventory taken by Procurement.
- Researching the Fiscal Limits of other Third Class Counties.
- Reviewing transactions in WORKS for documentation and supervisory approval.

Our review included an assessment of internal controls in the audited areas. Any significant findings related to internal controls are included in the Audit Results section of the report.

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.

AUDIT RESULTS

Section A – Compliance

1. Review of Procurement Card Purchases

OBSERVATION

One hundred twenty-five p-card transactions that occurred during the period of January 1, 2016 through March 31, 2017 were reviewed for various compliance and internal control attributes. While the majority of transactions were properly purchased, documented, approved, and processed, a number of findings were noted.

- An authorized supervisor did not approve 13 of the 49 transactions tested in WORKS. Conversely, an authorized signer approved all of the transactions on p-card logs before full automation. See page 8 of the report for more information.
- Cardholders paid sales tax totaling \$173.79 on 11 of the 125 transactions tested and there was no evidence that the cardholders tried to recoup it. The County is tax-exempt and the words “Tax Exempt” along with the County’s tax-exempt number are printed on the front of the p-card.
- On five different occasions, cardholders purchased gift cards without prior approval from Procurement. See page 9 of the report for more information.
- One cardholder paid a 24% tip on a meal. The County’s Travel Policy states that the “maximum reimbursement for meals includes not more than 18% tips and taxes”.
- There were two purchases that were likely split from one larger purchase because it exceeded the cardholder’s single transaction limit. Section 4.3 of the Procurement Card Manual prohibits splitting purchases.
- A cardholder purchased room service, which is a non-reimbursable expense according to the County’s Travel Policy.

RECOMMENDATION

The primary responsibility for reviewing p-card purchases and their supporting documentation rests with supervisors who sign-off and approve transactions in WORKS. They and the cardholders must be aware of appropriate County policies and procedures, and p-card regulations. Additionally, Procurement

should log into WORKS and verify that documentation and supervisor approval are present, something that takes just seconds after logging into WORKS. In addition, Procurement should randomly select transactions and review documentation in WORKS to verify compliance with policies and procedures. With documentation now contained in WORKS, it is very easy to open documentation and review it. Issues of non-compliance should be reviewed with the cardholder and supervisor, and persistent patterns of non-compliance or abuse should be addressed through disciplinary action.

MANAGEMENT RESPONSE

Catherine Allen, Director of Administration

The Administration finds it peculiar this “annual” audit period was changed to fifteen months rather than the usual twelve.

The travel policy will be updated.

Training with updated manual will be completed with all supervisors to address any non-compliance issues.

AUDITOR’S COMMENT

The initial audit period was to be January 1, 2016 through December 31, 2016. When the auditor learned from the P-Card Administrator that the processes in WORKS became fully automated on February 20, 2017, it was decided to expand the audit period to March 31, 2017 so that the progress of the WORKS automation could be reviewed in the audit.

Section B – Internal Controls

1. Supervisory Approval in WORKS

OBSERVATION

Supervisory review and approval of p-card transactions is one of the most important controls over p-card use. The approval process in WORKS is not complicated but it is a lot different than it was. Previously, the cardholder printed the p-card log and signed it, before physically presenting it along with the receipts to the individual authorized to approve the transactions. Now the authorized signer must log into WORKS, review the uploaded documentation, and then approve the purchase. There is no requirement though that the documentation be opened and reviewed before approval. Fiscal Affairs maintains the list of authorized signers for both accounts payable transactions and p-card transactions. A cardholder who is an authorized signer should not approve his or her own purchases.

We found a number of exceptions involving approvals through WORKS. Some of those areas are:

- When Procurement established the workflow in WORKS for one of the Human Service divisions, it did not designate a supervisor who was authorized to approve the purchases. Therefore, a supervisor does not receive notification when purchases are made resulting in seven transactions tested not being approved.

- Four other offices had transactions either not approved in WORKS or approved by someone who is not on Fiscal Affairs' list of authorized signers.

RECOMMENDATION

Procurement should regularly monitor supervisory approval of transactions in WORKS. That's the only way they'll know if transactions are being properly approved. Training should be provided for those supervisors who request it or appear to have a difficult time complying. Changes in supervisors or authorized signers should be communicated to Procurement because that could necessitate a change to the workflow in WORKS. Division supervisors should ensure that the authorized signers list in Fiscal Affairs is kept current, even for supervisors who may only approve p-card transactions.

MANAGEMENT RESPONSE

Catherine Allen, Director of Administration

Before the end of the billing cycle, Procurement runs a report to identify transactions awaiting approval and contacts either by phone or by email those persons with pending sign offs. Administration agrees with the recommendation that Procurement be notified when changes in supervisors or approved signers are made to ensure the workflow in WORKS is current.

2. Purchase of Gift Cards

OBSERVATION

Section 8.3.1 of the P-card Manual states that the purchase of gift cards is allowable with advance approval from Procurement. Our testing indicates that while some offices did obtain advance approval for a limited number of cards, Human Resources purchased a large number of gift cards at the end of 2016 without prior approval. Besides not having approval, a major concern with gift cards is that they are liquid assets like cash, and adequate controls are necessary over their custody and distribution.

Human Resources purchased 365 gift cards totaling \$3,950 using Wellness Program money made available from Blue Cross, money that would have been lost at the end of 2016 if it were not spent. The cards valued at \$10 - \$15 were for Target, Starbucks, Panera Bread and Dunkin Donuts. A spreadsheet is maintained in Human Resources that lists each card, who took custody of them and how they were used. Many were given to employees who attended FMLA training or meetings for the new Employee Assistance Program (EAP) rollout. Others were given for the Blood Drive and Pilates classes; however, a substantial number had no description of what they were used for. Only a few entries listed the employee's name who received the card. As of August 1st, 39 cards remain undistributed totaling \$445.

The County does not have established policies and procedures for maintaining control over gift cards and they may be a taxable benefit to the employees that receive them.

RECOMMENDATION

The Administration should establish a policy regarding gift cards, preferably that their use is discouraged especially on a large scale. Consideration should be given to what the cards will be used for, how many will be purchased and whether there are tax implications to employees. If the administration wants to allow the use of gift cards, policies and procedures should be developed and distributed to maintain proper controls over them.

MANAGEMENT RESPONSE

Catherine Allen, Director of Administration

The P-Card manual was revised in 2016 to allow the P-Card purchase of gift cards with the approval of Procurement. The Administration will establish a policy and a tracking procedure that will be utilized and maintained.

Section C – Policy and Procedure Manuals

1. Updating Procurement Card Manual

OBSERVATION

The P-card Manual is a guide for processing p-card transactions from the issuance of cards through the approval of p-card purchases. It also defines County policy and the possible consequences if those policies and procedures aren't followed.

The p-card program evolved over the last few years as automation of the process progressed. Early in 2017, the final phase of automation was implemented. P-card logs are no longer necessary and documentation of purchases is no longer forwarded to Fiscal Affairs. Documentation is now scanned and uploaded into WORKS, and supervisory approval is done electronically into WORKS.

It is important that the P-card Manual reflects actual practices. The following areas should be addressed in the Manual.

- Update the Manual to reflect the current use of automation and to eliminate references to manual processes that are no longer performed. The Manual is the source that new and experienced cardholders/supervisors use for guidance and direction.
- A record retention policy is necessary to address documentation for purchases. Previously, Fiscal Affairs maintained the documentation with other invoices and check vouchers, and then stored it in Archives for seven years to comply with State regulations. However, with the scanned documentation being stored in WORKS, cardholders need guidance on whether to retain the physical documents and for how long. WORKS is not a County-owned or maintained system; and therefore, the County's Archives Officer should be consulted when developing a policy.
- As more cardholders use the p-card for travel related purchases, it would be beneficial to include a reference to the County's travel policy in the Manual. Cardholders and their supervisors should know policies such as the maximum allowance for meals, tipping on meals, the need for itemized receipts, policies for air travel and lodging, etc. Providing a link in the Manual will increase awareness of these policies.

RECOMMENDATION

Procurement should update their P-card Manual so that it reflects current policies and procedures, and is a complete guide for cardholders and their supervisors.

MANAGEMENT RESPONSE

Catherine Allen, Director of Administration

The manual has been updated to include the automation to the process using WORKS and will be posted to the Intranet. Administration will consider which polices need to be linked to the manual.

2. Review of County Staff Travel and Staff Training Policies

OBSERVATION

While reviewing p-card transactions for staff travel or training, we reviewed the County's Human Resources policies and policies pertaining to p-card usage. Several observations were noted regarding the content and completeness of the Human Resources policies.

- The County's Travel Policy was last updated in 2008 and meal reimbursement levels are well below the levels established by U.S. General Services Administration (GSA). For example, the County allows \$36 per day when traveling over 50 miles from the employee's regular worksite or home. The GSA levels for this area are \$59 per day. See the schedule below for a comparison of those daily allowances.

	<u>County</u>	<u>GSA</u>
Breakfast	\$ 7.00	\$ 13.00
Lunch	9.00	15.00
Dinner	20.00	26.00
Incidentals	0.00	5.00
Total	<u>\$36.00</u>	<u>\$ 59.00</u>

- The Travel Policy does not state that itemized receipts are necessary in order to receive meal reimbursement although it does say that "reimbursement for alcoholic beverages will not be made under any circumstances". One cannot determine what was purchased without itemized receipts.
- The mileage reimbursement section of the Travel Policy does not state that a valid driver's license within the United States and personal automobile insurance are required for mileage expenses to be reimbursed. Adding these conditions would be beneficial to the County if the employee was involved in an accident while on County business. Also, drivers should be aware of the extent of coverage (if any) provided by his or her automobile insurance company for travel that is business in nature.
- The Travel Policy does not list the following expenses associated with business travel that will not be reimbursed. Some of those include:
 - Additional costs for travel, lodging, meals or other travel expenses for spouses or other family members.
 - Laundry and dry cleaning.
 - Personal entertainment expenses including in-flight movies, headsets, health club facilities, social activities and other related incidental costs.
- The County's Staff Training Policy does not address the purchase of food and refreshments for in-house training programs or meetings. When purchases such as these were selected for testing, it was difficult to

determine if they were appropriate purchases because there was no written criteria to compare them to.

RECOMMENDATION

The Administration should periodically review and update their policies to keep them current and provide greater direction for employees and their supervisors. Policies involving reimbursement levels should be updated annually to remain consistent with federal/state guidelines.

MANAGEMENT RESPONSE

Catherine Allen, Director of Administration

Administration will update the travel policy to include the requirement for itemized receipts and other restrictions as it relates to travel expenses. When updating policies consideration to state and federal guidelines will be given,

An in-house training policy will be established to ensure refreshments for training during in-house sessions are addressed.

Section D – Economy and Efficiency

1. Review Levels of Fiscal Limits

OBSERVATION

The County has defined Fiscal Limits that detail the number and types of quotes necessary when making purchases by purchase requisition or p-card. These Fiscal Limits pertain to the total purchase price regardless of whether one or many items are purchased. The County’s Fiscal Limits are:

Total Amount of Purchase	Policy
\$1 to \$1,000	- One phone quote
\$1,001 to \$6,000	- Minimum of three (3) phone quotes
\$6,001 to \$10,000	- Minimum of three (3) letter quotes
\$10,001 to \$24,999	- Minimum of three (3) Request for Quote forms

Because the County’s Fiscal Limits have not changed for a number of decades despite increases in the Consumer Price Index and the fact that it takes time for County employees to research quotes before purchasing, internal audit researched the Fiscal Limits for other third class counties. The following information shows that there is a large disparity between the County’s Fiscal Limits and those of other counties. Most counties that are not Home Rule follow the County Code.

County	Policy
Erie	> \$12,500 requires at least 3 quotations
Lehigh	0 - \$4,000 solicitation is optional > \$4,000 requires 3 phone/written quotes > \$10,000 minimum of 4 written quotes from responsible vendors
Luzerne	0 - \$2,500 solicitation is optional > \$2,500 oral quotes are allowed > 10,000 quotes or bids will be solicited from at least 3 probable sources
County Code	0 - \$10,700 quotes not required > \$10,700 informal 3 quote requests > \$19,700 for bid requirements

RECOMMENDATION

The Administration should review their Fiscal Limits and consider increasing the levels in an attempt to balance the efficiency of making purchases with paying the lowest price. Any changes should be clearly communicated to employees, and documented in policy and procedure manuals.

MANAGEMENT RESPONSE

Catherine Allen, Director of Administration

Administration will review the Fiscal Limits and make changes as determined necessary.

After discussion with Procurement the following thresholds be implemented: Quoting requirements when the total expenditure in any one sale transaction, regardless of the number of individual items purchased and including any shipping costs during this transaction is:

- \$1 to \$5,000 – One quote, verbal or written
- \$5,001 to \$24,999 – Minimum three (3) written quotes. Written documentation must be attached to the transaction, and shall indicate which qualified vendor(s) were contacted, their responses, the date, and other pertinent information besides price, such as delivery, etc.

The manual will be updated as needed.

Status of WORKS Implementation

During 2016, Procurement trained cardholders and supervisors on the final phase of WORKS implementation which included the uploading of documentation supporting purchases into WORKS and the online approval of supervisors. February 20, 2017 was designated as the day that all users were required to implement those final steps of automation.

To test compliance with the automation, WORKS was reviewed to determine how many transactions were missing documentation, both during the audit period and then a few months later. The following results showed remarkable improvement:

	<i>2/20/17 – 3/31/17</i>	<i>5/16/17 – 6/15/17</i>
<i>Transactions missing documentation</i>	25	0

Another area reviewed was transactions that did not have supervisor approval in WORKS. The same periods were reviewed and although there was marked improvement, more work needs to be done with these to ensure supervisor approval occurs. Those results are shown below:

	<i>2/20/17 – 3/31/17</i>	<i>5/16/17 – 6/15/17</i>
<i>Percent of transactions with supervisor approval</i>	32%	71%