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Audit Report

**PROCUREMENT
CARD PROGRAM**

Twelve Months ended
June 30, 2015

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



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January 20, 2016

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 twelve months ended June 30, 2015.

The Executive Summary on page 1 summarizes the audit results, while the Audit Results section provides a detailed explanation. We also performed follow-up to the audit recommendations made in the June 30, 2014 Procurement Card Program audit.

We acknowledge the cooperation and assistance we received from the Procurement Division, 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 January 14, 2016. 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

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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.

However, the program could be made even more efficient by taking advantage of all the functions within WORKS. WORKS is the web-based program through the Bank of America Merrill Lynch that handles the administrative duties associated with the VISA p-card. P-card logs should be printed directly through WORKS, coding of transactions should be done through WORKS before the end of the billing period and transactions should be approved by supervisors directly through WORKS. In addition management should consider the function within WORKS of scanning documentation and uploading that information into WORKS rather than sending paper documents from the user division to Fiscal Affairs, to Procurement and back to Fiscal Affairs.

Finally, supervisors need to do a better job of reviewing documentation before approving the p-card logs. Transactions that don't have adequate documentation or don't comply with the p-card regulations should be flagged and questioned before the p-card log is approved.

INTRODUCTION

General Information

The County's P-Card Program began in April 2002 and currently has 108 cardholders. The program is administered by the Procurement Division 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. As of November 2013 Procurement has trained all cardholders, supervisors and account clerks on the use of WORKS. WORKS generates the semi-monthly p-card logs, allows purchases to be coded for ONESolution (formerly called IFAS), and allows supervisors to approve the p-card logs electronically.

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's important to note that the p-card is only a method of payment; cardholders must comply with the Procurement Card Manual and also the Procurement Policies and Procedures Manual. 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, Travel Services, Construction/Contracting, 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, including the decrease in the number of purchases and the dollar amount of p-card purchases over the last two fiscal years. The number of open p-cards also decreased.

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>
6/30/2012	140	4,492		\$976,633	
6/30/2013	146	4,916	9%	\$1,093,531	12%
6/30/2014	129	4,382	-11%	\$913,902	-16%
6/30/2015	108	3,782	-14%	\$797,560	-13%

A closer analysis of purchases comparing calendar years 2013 and 2014 highlighted the fact that the following three divisions had the largest decrease from 2013 to 2014. It was learned from representatives of those divisions that more goods were being purchased through contracts. Those payments are made through the Accounts Payable division because the contracts are encumbered.

<i>Division</i>	<i>2013 Purchases</i>	<i>2014 Purchases</i>	<i>Change</i>
Gracedale	\$414,753	\$299,921	\$-114,832
Operations & Maintenance	\$99,906	\$72,566	\$-27,340
Custodial	\$41,792	\$11,970	\$-29,822
	\$556,451	\$384,457	\$-171,994

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 if controls over the processing of p-card transactions are adequate.
- Determine if the program is in compliance with County regulations.
- Determine if the program is run economically and efficiently.
- Determine if corrective action was taken on findings reported in the June 30, 2014 Procurement Card Program.

The scope of the audit covered the operations of the program for the twelve months ending June 30, 2015.

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 by PricewaterhouseCoopers; there were no relevant exceptions noted. We accepted all reports as accurate.

METHODOLOGY

Our methodology included:

- Reviewing of the status of recommendations resulting from the 6/30/14 p-card audit.
- Reviewing the Procurement Card Manual for significant areas pertinent to the audit.
- Interviewing key personnel involved with the P-Card Program.
- Testing a sample of transactions for internal control and compliance.
- Verifying that p-card accounts for terminated employees were closed.
- Verifying the usage and ability to utilize the Works program in conjunction with p-card purchase approval.
- Investigating an alternative method of tracking terminated cardholders

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 – Economy and Efficiency

1. Utilization of Works System

OBSERVATION

The County's use of the Works system through the Bank of America Merrill Lynch provides opportunities to streamline the p-card process making it even more efficient and economical than it already is. Functions that are done manually could be done electronically through WORKS and documents could be scanned instead of having several people handle them. In order to fully implement the system it will take the support of management, the cooperation of users and supervisors, and monitoring and training by Procurement.

P-card holders and supervisors received training on some automated processes in Works however not all users are taking advantage of the functions, resulting in inefficiencies and non-compliance with the p-card manual. Those processes include:

- A feature in WORKS allows the p-card user, account clerk or supervisor to print a p-card log through the system at the end of each billing period. Instead, some users prepare the log manually which is less efficient. A review of p-card logs in May and June 2015 found that 69% of p-card logs are prepared through WORKS while 31% are prepared manually.
- ONESolution account codes should be entered directly into WORKS for each p-card transaction before the end of the billing period. If that's not done, the Fiscal Affairs Accountant must contact the p-card holders to request the codes. This delays the posting of p-card activity to ONESolution because WORKS and ONESolution are not interfaced. A review of an October 2015 billing period showed that account codes were entered directly into WORKS for 65% of the transactions; the remaining 35% had to be obtained by the Accountant at a later date.
- Section 7.3 of the P-Card Manual requires that a cardholder's supervisor review the cardholder's transactions online. This online approval is necessary if the County wants to continue to automate the p-card process through WORKS. Currently supervisors sign the p-card log before it's sent to the Fiscal Affairs Accountant with supporting documentation. A review of the 3,782 transactions in the audit period found that only 47% of the transactions were approved online. While this is not high compliance, it is an increase from the 34% in last year's audit.

RECOMMENDATION

The WORKS system holds a great deal of promise in making the entire p-card process more efficient. When it's fully functional account codes are entered directly into WORKS and are downloaded directly into a journal voucher for ONESource. P-card logs and supervisory approval are viewed online instead of sending the p-card logs to Fiscal Affairs, and documentation for purchases is scanned and uploaded into WORKS eliminating the need to send all of the paperwork to Fiscal Affairs.

Management needs to determine the extent to which they want to use WORKS. Cardholders and supervisors must then be trained on the processes, activity must be monitored for compliance, and follow-up must be taken with those that aren't complying.

MANAGEMENT RESPONSE

Kathryn L. Anderson, C.P.M – Purchasing Manager

We concur. Management is in full agreement with the recommendation.

Procurement recommends a detail review of the entire program be initiated including the online reporting feature to identify users who are not compliant. Usage reports of all active cardholders will be examined and non-users may be requested to relinquish their cards. This endeavor will help to streamline in the administration of the program. Efforts will be taken to re-educate users to the WORKS platform and the necessity for coding expenditures in a timely manner and utilizing the system generated reports. Failure to comply with the Works Program requirements may also result in the loss of the card. The module which allows scanning of receipts directly into the WORKS platform will be investigated for use including cost to implement and the compatibility with our current IT infrastructure.

Section B – Compliance

1. Review of Procurement Card Purchases

OBSERVATION

Thirty-five p-card transactions that occurred during the period of July 1, 2014 thru June 30, 2015 were reviewed for various compliance and internal control attributes. While the majority of transactions were properly purchased, documented, approved, and processed, some findings were noted.

- Two transactions for hotel stays were supported by only hotel confirmations. Hotel folios which are provided at checkout weren't present; a folio provides detail of the charges including if sales tax was charged.
- Two cardholders purchased computer software. The purchase of computer hardware and software is prohibited by Section 8.3.1 of the Procurement Card Manual.
- There was one split purchase because the cardholder's single purchase limit was not large enough to pay for the entire hotel stay. Split purchases are prohibited by Section 4.3 of the Procurement Card Manual.
- Sales tax was paid on two transactions and a refund of the sales tax wasn't pursued by the cardholders.
- Two cardholders purchased toner cartridges from vendors other than Independent Stationers, the office supply company under contract with the County. The toner would have cost less if purchased through Independent Stationers.
- Two fraudulent transactions appeared on a cardholder's p-card log during the same billing period. The County paid the bank for those transactions and the cardholder's division was charged for those transactions on the County's financial system. A refund was never sought from the bank and no one in the division noticed that the fraudulent transactions were charged to them.

RECOMMENDATION

The primary responsibility for reviewing p-card purchases and their supporting documentation rests with supervisors who sign-off and approve p-card logs. They must be aware of p-card regulations, when sales tax is charged and what constitutes adequate documentation. They need to address any shortcomings before the logs and documentation are sent to Fiscal Affairs. Additionally, when the logs and documentation are received in Procurement, they should be scanned for violations that are documented in Section 8.8 of the P-Card Manual. If any are found both the cardholder and supervisor should be notified. Patterns of non-compliance or abuse should be addressed through disciplinary action.

MANAGEMENT RESPONSE

Kathryn L. Anderson, C.P.M – Purchasing Manager

We concur. Management is in full agreement with the recommendation.

Supervisors must take ownership of their responsibility and held accountable for reviewing p-card purchases made by their employees. Procurement will continue to monitor p-card purchases and follow up with cardholders for an explanation when a perceived violation to the policy is identified.