



County Controller

Stephen J. Barron, Jr., CFE

Audit Manager

Frank S. Kedl, CIA

Solicitor

Timothy P. Brennan, Esq.

County Executive

John Stoffa

County Council

John Cusick, President

Margaret Ferraro, Vice-President

Thomas H. Dietrich

J. Michael Dowd

Ron Angle

Bruce A. Gilbert

Lamont G. McClure, Esq.

Ann McHale

Barbara Thierry

Audit Report

**PROCUREMENT
CARD PROGRAM**

As of June 30, 2011

**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) 559-3186
FAX (610) 559-3137

December 22, 2011

Members of the Northampton County Council
John Stoffa, County Executive
County of Northampton, Pennsylvania

We have completed an audit of the County's Procurement Card Program as of June 30, 2011.

The Executive Summary on page 1 summarizes the audit results and identifies opportunities for improvement, while the Audit Results section provides a detailed explanation. We also performed follow-up to the audit recommendations made in the June 30, 2010 Procurement Card Program audit.

We acknowledge the cooperation and assistance we received from the Procurement Division, the Fiscal Affairs Accountant responsible for payment of the procurement card invoice, as well as all of the cardholders we contacted. Their help was essential to the performance of this audit.

Our report was discussed with management at our exit conference on December 21, 2011. Management's response is included in the Audit Results section of the report.

Very truly yours,

Stephen J. Barron, Jr., CFE
County Controller

Stacy Silfies
Staff Auditor

Table of Contents

	<u>PAGE</u>
EXECUTIVE SUMMARY - OPPORTUNITIES FOR IMPROVEMENT	1
INTRODUCTION	2
PURPOSE AND SCOPE	4
METHODOLOGY	4
AUDIT RESULTS	5
<i><u>Section A – Current Findings</u></i>	5
1. Splitting Purchases	5
2. High Dollar Purchases	6
3. Promotional Gift Cards	7
<i><u>Section B – Status of Prior Year Audit Findings – Issued October 27, 2010</u></i>	8

EXECUTIVE SUMMARY - OPPORTUNITIES FOR IMPROVEMENT

The majority of procurement card transactions we tested complied with County policy. However, the following items were noted.

- Splitting purchases to circumvent the single purchase dollar limit set by the cardholder's supervisor. (Section A-1, Page 5)
- Not obtaining three (3) phone quotes for purchases greater than \$1,000. (Section A-2, Page 6)
- Lack of internal controls over gift cards received when purchasing promotional items. (Section A-3, Page 7)

INTRODUCTION

General Information

The County's Procurement Card Program began in April 2002 with a select number of employees and has grown to the current 140 open cards.

FIA Card Service N.A. through the Bank of America took over the administrative duties associated with the VISA card on February 23, 2007. The County's Procurement Division manages the program internally and is the intermediary between FIA Card Service N.A. and the cardholders.

Program Benefits and Controls

The Procurement 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 \$15,000; a cardholder at Gracedale has a limit of \$20,000, one in Procurement has a limit of \$25,000 and three at Gracedale have a limit of \$35,000.
- 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 are assigned to each cardholder.

The County set up 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 Procurement Card Program training session and sign the Cardholder Agreement form before receiving their Procurement Card. At this time, cardholders receive a VISA Cardholder Agreement and a copy of the Procurement Card Manual.

Procurement Card Activity

As the table below shows, there was a 16% decrease in the number of purchases from 6/30/2010 to 6/30/2011, and an 18% decrease in the dollar amount of those purchases.

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>
<i>6/30/2009</i>	142	5,470	-15%	\$1,225,639	-16%
<i>6/30/2010</i>	140	5,292	-3%	\$1,230,225	.4%
<i>6/30/2011</i>	140	4,461	-16%	\$1,011,823	-18%

PURPOSE AND SCOPE

This audit was performed to comply with Section 7.7 of the Procurement Card Manual that states, "The Controller shall conduct periodic audits of Procurement Card Use". Specifically, our purpose was to:

- Determine if controls over the processing of p-card transactions are adequate.
- Determine compliance with procurement card policies and procedures.
- Follow up on the status of prior year audit findings.

The scope of the audit covered the operations of the program for the year ending June 30, 2011.

Our tests did not include an examination of the Bank of America/VIM computer systems used to administer the Procurement Card Program. We accepted all reports used as accurate.

METHODOLOGY

Our methodology consisted of testing p-card transactions and reviewing the status of the prior year's audit findings. Some of the methods used included:

- Review of the Procurement Card Manual.
- Interviewing personnel as necessary to learn more about various processes.
- Identifying applicable policies, procedures, laws and regulations.
- Testing transactions for compliance with internal controls and regulations.
- Analyzing p-card activity to minimize risk for the County.

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 – Current Findings

1. Splitting Purchases

OBSERVATION

Fourteen out of 23 transactions selected were identified as a possible split purchase. The fourteen transactions were from the Civil Division (1), District Attorney's Office (6), Building Operations & Maintenance (2), Domestic Relations (1), Sheriff (1), 911 (1), and Prison (2). This is a violation of Section 8.8.2 of the Procurement Card Manual prohibiting the practice of splitting purchases, i.e. dividing one large purchase into smaller ones.

A cardholder's single purchase limit is set by the cardholder's supervisor based upon the cardholder's needs and what's necessary for their position. By splitting a purchase, they are circumventing their supervisor's authority and violating P-Card policies.

Section 8.7.2 Revocation of Procurement Card of the Procurement manual states the Procurement Card privileges may be revoked for the cardholder's failure to comply with the County's policies and procedures for the use of the Procurement Card. The cardholder will be given one warning of misuse. After the **second** misuse, card privileges will be revoked and the card will be canceled

RECOMMENDATION

The cardholder's supervisor should assess whether the cardholder's limit should be raised or if a one-time exception for the purchase should be granted. The supervisor should contact Procurement to put that change into effect.

The Procurement office needs to enforce Section 8.7.2 of the Procurement manual and revoke and cancel the P-Cards of those cardholders that have misused their card. The Deputy Purchasing Manager reviews a summary of the P-Card purchases made for a billing period and reviews any purchases that stand out as a violation. Though violation notices are sent to the cardholders, P-Cards are not revoked after the second misuse.

MANAGEMENT RESPONSE - Kathryn Anderson, Purchasing Manager

See Exhibit A – Management Response

2. High Dollar Purchases

OBSERVATION

Testing of 12 purchases greater than \$1,000 identified four instances where documented phone quotes were not attached to the cardholder's receipt. The purchases were made by these departments: Corrections (2), Gracedale (1), and Operations and Maintenance-Custodial (1). All purchases were for multiples of the same item with a per-unit cost of less than \$1,000.

Section 5.8 of the Procurement Card Manual states purchases greater than \$1,000 require multiple quotes. Purchases between \$1,001 and \$6,000 require a minimum of three phone quotes. These policies are intended to ensure products or services are obtained at the lowest cost to taxpayers.

RECOMMENDATION

Procurement should provide the cardholders with a detailed explanation of the requirements associated with purchases exceeding \$1,000. Cardholders that repeatedly violate these requirements should have their single purchase credit limit reduced to \$1,000 so that they will not have the capability of making purchases over \$1,000, or revoke their card as stated in Section 8.7.2.

MANAGEMENT RESPONSE - Kathryn Anderson, Purchasing Manager

See Exhibit A – Management Response

3. Promotional Gift Cards

OBSERVATION

An employee from the Corrections Department received two \$40 promotional gift cards from Walmart for purchases made on the P-Card. The employee was unable to provide receipts to prove that the money was spent on county purchases.

The county currently has no policies in place on how to address gift cards received by county employees for promotions on county purchases. Without policies there is no guidance on how promotional gift cards should be used to ensure they are spent to benefit the county.

RECOMMENDATION

The county should address promotional gift cards in the policies and procedures.

MANAGEMENT RESPONSE - Kathryn Anderson, Purchasing Manager

See Exhibit A – Management Response

Section B – Status of Prior Year Audit Findings – Issued October 27, 2010

1. Authorization of Purchases

Background

We recommended that the Prison consider adding the unauthorized individual signing the P-Card log to the authorized signer list on record in Fiscal Affairs. P-Card logs should be compared to the authorized signer list on record in Fiscal Affairs to ensure proper authorization for purchases.

Management agreed with our recommendation

Status

The Prison added the employee to the authorized signer list on record in Fiscal Affairs. All purchases during the current testing period had proper authorized signatures.

Auditor's Comment

Corrective action was taken.

2. Documentation of Purchases

Background

We recommended that Gracedale consider cross training another employee as a backup Account Clerk to ensure that the P-Card credit logs are forwarded to the Fiscal Affairs Accountant in the proper time frame as stated in the manual.

Management agreed with our recommendation.

Status

Per a conversation with the Account Clerk at Gracedale, the Accountant has been crossed trained as the backup for the Account Clerk. All of Gracedale's P-Card credit logs were available at the time of testing.

Auditor's Comment

Corrective action was taken.

3. Splitting Purchases

This finding occurred again in this audit period, see page 5 of this report. Additional follow-up will be performed with next year's procurement card audit.

4. High Dollar Purchases

This finding occurred again in this audit period, see page 6 of this report.
Additional follow-up will be performed with next year's procurement card audit.

EXHIBIT A - Management Response

Submitted by Kathryn L. Anderson

The Procurement Card Program was originally implemented to provide an efficient and cost effective method to replace the small dollar purchase orders in the amount of \$500.00 or less. Procurement is pleased to see that the recent audit of the County's Purchasing Card program (P-Card) once again indicates that the program is operating efficiently, effectively, and in accordance with good business practices. We are also pleased to see that purchase cards were used only to make authorized and appropriate acquisitions of goods and services, adequate controls are in place, and no instance of fraud were noted. We continue to fine-tune this program to ensure that it continues to work efficiently and effectively and with proper controls. We appreciate the recommendations made by this audit to continue to minimize potential risks.

Procurement has begun the "roll out" of the WORKS™ information management resource to all divisions which allows for online transaction reconciliation by cardholders and electronic supervisor approval. This platform will automate, and streamline the reconciliation process by combining state-of-the-art control, real-time visibility and business practice integration.

Splitting Purchases

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

It is our belief that the split purchases occurred because the approving manager did not adequately review and/or question these purchases for compliance with existing purchase card policies and procedures. To eliminate the possibility of split purchases, P-Card holders and managers are made aware during training that the program administrator has the ability to increase the single purchase limit to accommodate higher value purchases as long as there is prior written approval. This practice ensures that P-Card holders are not forced to violate the County policy and circumvent the established internal controls. Procurement will continue to stress this, as well as, the option of utilizing the issuance of a Purchase Order depending on the total value and nature of the items being purchased.

Procurement will continue to monitor the transactions and request an explanation from the cardholder and supervisor when a perceived instance of non-conformance occurs. If the transaction is found to be questionable, procurement will request an explanation of the transaction before determining if a warning corrective action notification must be issued. With the implementation of the WORKS™ Platform, after the second occurrence, we will have the capability to immediately suspend for a specified time and then easily re-activate cards. Previously, this was a task which was time consuming, difficult, tedious, and rarely occurred.

EXHIBIT A - Management Response

High Dollar Purchases

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

The Fiscal Limit Guidelines are published as part of the Procurement Manual and must be complied with both for P Card Purchases and when Purchase Orders are requested. Previously, at the suggestion of the Controller's office, Procurement implemented use of the P-Card purchases >\$1000.00 form as a mechanism to ensure compliance by end users for documenting purchases. With the implementation of WORKS™, we have added a visual prompt to direct attention of the cardholder's that proof of documentation is required.

Procurement is open to the consideration that repeat offenders limits be reduced to \$1000.00 in order to eliminate the need for multiple quotes but request to hold off until WORKS™ is fully utilized by all divisions.

Promotional Gift Cards

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

We recommend the County Administration with input from the Solicitor's office and Controller should be requested to develop a county-wide policy regarding rebates, promotional gift cards and other cash back offers received in conjunction with County operations.