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Audit Report

**PROCUREMENT  
CARD PROGRAM**

As of June 30, 2012

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



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December 17, 2012

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

We have completed an audit of County's Procurement Card Program as of June 30, 2012.

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, 2011 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 December 13, 2012. 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 - OPPORTUNITIES FOR IMPROVEMENT**

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The Procurement 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. Overall the program is working as intended although there are areas where improvements could be made.

The following is a summary of the content of the enclosed report. See report references noted below for full detail.

### ***Section A – Compliance***

1. Findings such as inadequate documentation for a purchase, not obtaining phone quotes for purchases greater than \$1,000 and purchasing items that are prohibited by procurement card (p-card) regulations would be lessened with continuous training for employees involved with the P-Card Program, more timely reviews of p-card documentation and revoking p-card privileges for repeat offenders. (Section A-1, pg. 5)
2. Initiating an annual physical inventory of p-cards with departments/divisions and following-up with the results will help to find cards that are lost or stolen especially for those cardholders who have a need for a p-card but never use it. (Section A-2, pg. 7)
3. Purchases paid by p-card are subject to the same County requirements as those that are paid by check. Monitoring p-card purchases to determine if any vendors received more than \$25,000 a year would allow Procurement to verify compliance with Section 13.16 of the Administrative Code. (Section A-3, pg. 8)

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### ***Section B – Internal Controls***

1. Receiving an electronic notification from Human Resources when an employee retires or terminates employment with the County would allow Procurement to cancel p-cards as soon as the personnel change takes place. (Section B-1, pg. 9)

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### ***Section C – Policies and Procedures***

1. As changes are made within the P-Card Program, the Procurement Card Manual should be updated to reflect those changes and also areas that need additional clarification. Any significant updates should also be communicated to those that they affect. (Section C-1, pg. 10)

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## INTRODUCTION

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### **General Information**

The County's Procurement Card Program began in April 2002 and currently has 140 cardholders, although 30 of those cardholders have never used their p-card. The program is administered by the Procurement Division with the assistance of a Fiscal Affairs accountant assigned to the program.

FIA Card Service N.A. through the Bank of America handles the administrative duties associated with the VISA card. In October 2011 Bank of America introduced WORKS, a web-based solution that automates, streamlines and integrates the existing card maintenance, payment authorization and reconciliation process. Procurement is currently training cardholders, supervisors and account clerks on the use of WORKS. When fully implemented WORKS will generate the semi-monthly p-card logs, allow purchases to be coded for ONESolution (formerly called IFAS), and allow 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 5<sup>th</sup> and 19<sup>th</sup> 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**

As shown in the table below, there was a slight increase in the number of purchases but a slight decrease in the dollar amount of p-card purchases from the year ended 6/30/2011 to the year ended 6/30/2012. The number of open p-cards stayed the same.

**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>
<b>6/30/2009</b>	142	5,470	-15%	\$1,225,639	-16%
<b>6/30/2010</b>	140	5,292	-3%	\$1,230,225	1%
<b>6/30/2011</b>	140	4,461	-16%	\$1,011,823	-18%
<b>6/30/2012</b>	140	4,492	1%	\$976,633	-4%

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## PURPOSE AND SCOPE

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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 being run economically and efficiently.
- Determine if corrective action was taken on findings reported in the 6/30/11 p-card audit.

The scope of the audit covered the operations of the program for the year ending June 30, 2012.

Our tests did not include an examination of the Bank of America computer system used to administer the P-Card Program. We accepted all reports as accurate.

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## METHODOLOGY

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Our methodology included:

- Reviewing of the status of recommendations resulting from the 6/30/11 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 attributes.
- Verifying that p-card accounts for terminated employees were closed.
- Determining if an annual inventory of p-cards was performed.
- Determining if contracts exist for vendors receiving more than \$25,000 in purchases during the twelve-month period.

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.

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## AUDIT RESULTS

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### Section A - Compliance

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#### 1. Reviewing Procurement Card Purchases

##### OBSERVATION

Fifty p-card transactions that occurred during the period July 1, 2011 thru June 30, 2012 were reviewed for various compliance and internal control attributes. While the vast majority of transactions were properly purchased, documented, approved, and processed, some findings were noted. Listed below are the results of the test:

- All of the purchases were made by the cardholder.
- All p-card logs were signed by an authorized supervisor.
- No purchases were split to avoid the single transaction limit.
- One purchase was not supported by adequate documentation. The handwritten credit card receipt did not have the name of the business or a description of what was purchased.
- A cardholder purchased gift cards which is a violation of Section 8.3.1 of the Procurement Card Manual. While the intended use of the gift cards appears proper, they should not have been paid for with a p-card.
- There were two purchases greater than \$1,000, that were not supported by three phone quotes. This is a violation of Section 5.4 of the Procurement Policies and Procedures Manual which states that a minimum of three phone quotes is necessary for purchases between \$1,001 and \$6,000. Documentation of the phone quotes is required to be submitted along with the receipts and p-card log.

Procurement receives the p-card logs and supporting documentation after all the receipts are received by the Fiscal Affairs accountant. Procurement then reviews the documentation for possible violations to p-card policies. During the audit it was noted that there was a lag of approximately 3-4 months from when the documentation was received in Procurement until it was reviewed. This time lag delays the time until possible violations are found and makes it more difficult for cardholders to respond to questions from Procurement.

##### RECOMMENDATION

Procurement should continue to monitor p-card purchases and follow-up with cardholders about possible violations to policy but should do so on a regular basis. That will make the review process easier for both Procurement and the cardholders.

Supervisors, account clerks and cardholders would also benefit from refresher training on their roles and responsibilities. The program has been in effect for 10 years and during that time there has been turnover in supervisors and account clerks. Cardholders were trained but may get complacent when using the card. Establishing e-mail groups and periodically sending training reminders would be a time-efficient method of offering continual training to employees. That along with monitoring purchases, enforcing compliance and revoking p-card privileges for repeat offenders will improve the operation of the program.

#### MANAGEMENT RESPONSE

##### **Kathryn L. Anderson, C.P.M., Purchasing Manager**

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. Supplemental training for both Cardholders and Supervisors is ongoing pending the full implementation of the WORKS™ platform by divisions. Initial training is provided for all new cardholders to the program, and refresher training is required for any existing cardholder when new cards are issued with new expiration dates.

## 2. Conducting Annual Inventory of Procurement Cards

### OBSERVATION

The Procurement Division never requested that departments conduct a physical inventory of p-cards assigned to their employees. Management in Procurement did not appear to be aware of this requirement.

Section 7.4 of the Procurement Card Manual lists the responsibilities of the Procurement Card Administrator or His Designee. Two of those requirements are:

- Annually request that Departments conduct a physical inventory of all Cards in the program, and
- Verify Inventory results.

### RECOMMENDATION

Procurement should comply with this requirement by annually requesting that each department/division conduct a physical inventory of p-cards. When the inventory results are received by Procurement, they should review them and perform follow-up on any discrepancies.

### CORRECTIVE ACTION TAKEN

When management in Procurement was made aware of this requirement, they immediately sent forms to departments/divisions requesting that they inventory p-cards assigned to their employees.

### MANAGEMENT RESPONSE

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

We concur. The Division/Department Inventory forms provided were returned to Procurement and verified for accuracy. The forms are on file in the Procurement Office. Next scheduled inventory is October, 2013.

### **3. Monitoring Vendors Receiving More than \$25,000**

#### OBSERVATION

During the twelve-month period under audit, there were three vendors that received more than \$25,000 in p-card purchases. One of those vendors is covered under a U.S. Communities contract (The Home Depot) and a bid is currently being developed for the goods provided by another of those companies (Certified Chemical Co.). However, Procurement was not aware that the third vendor received purchases totaling \$43,000 (Mitchell Office Solutions). Mitchell Office Solutions was used by 16 different cardholders for service to fax machines, typewrites and printers not covered by the County's maintenance agreement. They also sell toner cartridges to County offices. The County does not have a contract with Mitchell Office Solutions.

Section 13.16 of the Administrative Code requires that written contracts exist for all purchases of goods and services exceeding \$25,000.

#### RECOMMENDATION

Procurement should monitor the amount of payments made to vendors by p-card and should take appropriate action if vendors receive more than \$25,000 a year. Some vendors are used by multiple offices and offer an array of goods and services so it's not always possible to have a bid or request for proposal (RFP) that capture \$25,000 of those goods or services.

#### CORRECTIVE ACTION TAKEN

When Procurement was made aware of the total payments made to Mitchell Office Solutions, they began contacting the largest users of the office machine company to learn the types of goods and services purchased, in hopes of being able to prepare a bid or RFP.

#### MANAGEMENT RESPONSE

##### **Kathryn L. Anderson, C.P.M., Purchasing Manager**

Procurement has contacted all P-Card holders who utilized Mitchell's Office Solutions since January 1, 2012 in an effort to determine the practicality of bidding the varied items and services purchased from Mitchells. Procurement will share the results of this evaluation along with the intended course of action with the Controller's office upon conclusion of this review.

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## **Section B – Internal Controls**

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### **1. Notification of Terminated Employees**

#### **OBSERVATION**

The p-card of an employee who retired on July 26, 2012 remained open as of November 9, 2012. The card did not have any activity and was never used. Procurement was never notified by the employee's supervisor that the employee retired.

The current system relies on the cardholder's supervisor to notify Procurement when a cardholder terminates employment with the County or moves to a different department/division. Including an electronic notification from Human Resources should provide more timely and consistent results.

#### **RECOMMENDATION**

Procurement should work with Human Resources to develop a system of notifying Procurement when an employee's employment status changes. Including Procurement in the workflow of the anticipated electronic PAN (Personnel Action Notification) forms would allow Procurement to check it against their list of cardholders and make the necessary changes with the bank.

#### **MANAGEMENT RESPONSE**

##### **Patricia Ann Siemiontkowski, Director of Human Resources**

The Department of Human Resources, working with SunGard and IT, has developed an electronic On-Line PAN (Personnel Action Notification) form and is presently working on workflow for the PAN. Procurement has been added to workflow thereby assuring that they will receive notification of certain PAN actions (i.e., termination, resignation, retirement, transfer). Receipt of these PANs through workflow will assure that an employee's P-Card will be terminated on a timely basis.

Presently, there is no estimate for a go-live date for the electronic On-Line PAN.

##### **Kathryn L. Anderson, C.P.M., Purchasing Manager**

Notification of terminations, resignations and retirements is not available from the Human Resource Department at this time on an ongoing basis. Human Resources have agreed to include Procurement in the work flow of the on-line PAN form currently in development but with no known completion date.

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## **Section C – Policies and Procedures**

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### **1. Updating the Procurement Card Manual**

#### **OBSERVATION**

The Procurement Card Manual was not updated to reflect the use of the Transaction Information Request form and the Notice of Violation form, both used by the Deputy Purchasing Manager when investigating possible p-card violations. The Procurement Card Manual was also not updated to reflect the use of WORKS.

#### **RECOMMENDATION**

As the P-Card Program continues to evolve, the Procurement Card Manual should be updated to reflect current practices. All changes should be communicated to cardholders, supervisors and account clerks.

#### **MANAGEMENT RESPONSE**

##### **Kathryn L. Anderson, C.P.M., Purchasing Manager**

The Procurement Manual has been updated to include the Transaction Information Request form and the Notice of Violation form. A revised copy is available on the Intranet under the County Forms section. A definition of the Cardholders responsibility was added to address when utilizing promotional gift cards received based on purchases made at select vendors. A email communication will be sent to all cardholders, supervisors and account clerks notifying them of the changes and update to the manual.

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## **Section D – Status of Prior Year Audit Findings – Report as of June 30, 2011**

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### **1. Splitting Purchases**

#### **BACKGROUND**

We recommended that a cardholder's supervisor contact Procurement to have a cardholder's limit raised for a one-time purchase exceeding their single transaction limit. We also recommended that Procurement enforce the policy existing for split purchases and revoke the cardholder's card for misuse.

Management agreed with our recommendation and stated that once WORKS was fully functional, it would be easier to immediately suspend a card for a specified time and then easily reactivate the card.

#### **STATUS**

Quarterly the Controller's Office sends Procurement a list of possible split purchases which are researched by them. Possible violations are followed-up with the cardholder and their supervisor. Our testing did not disclose any split purchases.

#### **AUDITOR'S COMMENT**

The process of continuous monitoring for possible split transactions appears to be working. Corrective action was taken.

### **2. High Dollar Purchases**

This finding occurred again during this year's audit, see page 5 of the report. Procurement needs to continue monitoring this violation of the Procurement Card Manual and take action against repeat offenders. Additional follow-up will be performed with next year's p-card audit.

### **3. Promotional Gift Cards**

#### **BACKGROUND**

We recommended that Procurement prepare and include in their Procurement Card Manual a policy to address promotional gift cards received by cardholders based on purchases made at select vendors.

Management agreed with our recommendation and suggested that the County Administration develop a County-wide policy regarding rebates, promotional gift cards and other cash back offers received in conjunction with County operations.

STATUS

A County-wide policy was not developed addressing rebates, promotional gift cards or other cash back offers received from vendors.

AUDITOR'S COMMENT

The auditor suggested that Procurement address this area in their Procurement Card Manual rather than waiting for County Administration to develop County-wide policy. Additional follow-up will be performed with next year's p-card audit.