



**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**

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Audit Report

**PROCUREMENT  
CARD PROGRAM**

As of June 30, 2013

**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**

April 25, 2014

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 as of June 30, 2013.

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, 2012 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 April 25, 2014. Management's response is included in the Audit Results section of the report.

Very truly yours,

Stephen J. Barron, Jr., CFE  
County Controller

Stacy L. Duke  
Staff Auditor

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## **EXECUTIVE SUMMARY**

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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 we found that several policies and procedures should be updated with further clarification to help assist cardholders with handling specific transactions.

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## INTRODUCTION

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### **General Information**

The County's Procurement Card Program began in April 2002 and currently has 146 cardholders. The program is administered by the Procurement Division with the assistance of a Fiscal Affairs accountant assigned to the program.

WORKS Platform through the Bank of America handles the administrative duties associated with the VISA card. WORKS is a web-based solution that automates, streamlines and integrates the existing card maintenance, payment authorization and reconciliation process. As of November of 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 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 and the dollar amount of p-card purchases from the year ended 6/30/2012 to the year ended 6/30/2013. The number of open p-cards slightly increased.

**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>6/30/2010</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%
<b>6/30/2013</b>	146	4,916	9%	\$1,093,531	12%

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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 run economically and efficiently.
- Determine if corrective action was taken on findings reported in the 6/30/12 p-card audit.

The scope of the audit covered the operations of the program for the year ending June 30, 2013.

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.

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## **METHODOLOGY**

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Our methodology included:

- Reviewing of the status of recommendations resulting from the 6/30/12 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.
- 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 – Policies and Procedures**

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

##### OBSERVATION

Thirty five p-card transactions that occurred during the period of July 1, 2012 thru June 30, 2013 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.

- Two purchases did not provide adequate documentation. Both purchases included a customer's copy of the credit card receipt but did not have a description of what was purchased. One of the two purchases attached a hand written receipt with their customer copy that included a general description of what was purchased but didn't include the business's name or corresponding item and costs. This appears to be a violation of Section 8.3.6.1 of the Procurement Policies and Procedure Manual. However, the manual does not state how a cardholder should handle backup documentation when an itemized receipt cannot be obtained.
- There was one purchase greater than \$1,000 that wasn't supported by three phone quotes. There was a discrepancy between the Procurement Division and the cardholder as to whether phone quotes were required because the purchase was for multiple items. Section 5.8 of the Procurement Policies and Procedures Manual does not specify if purchases over \$1,000 consisting of multiple items require 3 phone quotes.

##### RECOMMENDATION

Procurement should update their Policies and Procedures Manual to clarify these sections of the manual.

MANAGEMENT RESPONSE-

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

Procurement has updated the Procurement Card Manual to eliminate ambiguities in the narrative to ensure full compliance by all cardholders. The following descriptions have been added to the manual to clarify on the sections listed above:

- Section 8.3.6.1 – In those instances where an itemized receipt cannot be obtained, cardholders are required to fill out the “Missing Receipt Form” identifying the source of the purchase and identifying all items purchased.
- Section 5.8 - Quote requirements when the total expenditure in any one sale transaction regardless of the number of individual items purchased during this transaction is:

\$1 to \$1,000 - One phone quote

\$1,001 to \$6,000 – Minimum three (3) phone quotes

\$6,001 to \$10,000 – Minimum three (3) letter quotes

\$10,001 to \$24,999 – Minimum three (3) Request for Quote forms