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Audit Report

**PROCUREMENT
CARD PROGRAM**

As of June 30, 2014

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



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March 23, 2015

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, 2014.

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, 2013 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.

Management's response is included in the Audit Results section of the report.

Very truly yours,

Stephen J. Barron, Jr., CFE
County Controller

Brandon Dunstane
Staff Auditor

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EXECUTIVE SUMMARY

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.

Procurement could further enhance the efficiency of the review process by taking a proactive approach to common cardholders' mistakes, working with other departments to utilize additional internal systems for easier tracking of cardholders, and verifying the use of the Works system's built-in review functions.

INTRODUCTION

General Information

The County's Procurement Card Program began in April 2002 and currently has 129 cardholders. During the twelve months ended June 30, 2014, there were 4,382 transactions totaling \$913,902. 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 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.

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, 2013 Procurement Card Program.

The scope of the audit covered the operations of the program for the year ending June 30, 2014.

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 6/30/13 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 – Policies and Procedures

1. Ongoing Training and Clarification

OBSERVATION

Thirty-five p-card transactions that occurred during the period of July 1, 2013 thru June 30, 2014 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.

- One transaction was only supported by the quote received before the actual purchase which does not prove an actual purchase or receipt.
- One transaction lacked the itemized detail that is required by Section 8.3.6.1 of the Procurement Card Manual.
- Two transactions were erroneous charges made by a vendor that lacked a Missing Receipt Form or a narrative explaining the situation.
- One transaction, which exceeded \$1,000.00, did not include the required minimum three phone quotes. The original purchase was pushed over this threshold by the inclusion of shipping charges. Per Section 5.8 of the Procurement Card Manual the quote requirement is based upon the “total expenditure in any one sale.”

RECOMMENDATION

Procurement should continue to monitor p-card purchases and follow up with cardholders regarding possible violations. Procurement should issue clarification and training materials to the cardholders on a regular basis to ensure future compliance. Taking a proactive approach in informing all cardholders and managers of common mistakes and clarifying the rules would reduce the number of minor infractions before they occur.

MANAGEMENT RESPONSE

Catherine Allen, Deputy Director of Administration

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. It should be noted that the backup for review for the transactions isn't provided to Procurement until months after the expenditure occurred which often complicates the process. Supervisors are the first line of review for their

employee's expenditures and should question expenditures and be held accountable for what they are approving. The PCard policy manual is available on the County Intranet for use at any time. 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.

Section B – Internal Controls

1. Notification of Terminated Employees

OBSERVATION

The current list of active cards from the Works system was compared with the active employee list as of November 25, 2014 and it was found that two terminated employees still had active cards. Neither card had any activity after their termination date. In both cases, Procurement was not notified when they left employment with the County.

In the course of the audit, Procurement was given access to a Termination Report from IFAS and a Personnel Action Report created by Human Resources. While this is an improvement over the previous method, automating the filtration of those lists to just cardholders would greatly increase the efficiency of the process.

RECOMMENDATION

Procurement should continue utilizing the reports now available regarding employee terminations and coordinate with Human Resources to develop a more efficient means of tracking which employees are cardholders.

MANAGEMENT RESPONSE

Catherine Allen, Deputy Director of Administration

Procurement takes exception to using the report identified in the audit as an acceptable means of identify employee terminations. The report is a master listing of all employee terminations in the HR module of IFAS regardless of whether or not they had a P-Card. The report is very cumbersome to review in regards to the fact that it is not in any specific order and does not make reference to the P-card as this was not the intent of the report. We would expect all supervisors to be accountable for their employees and to comply with the Human Resources policy of providing the required Exit Checklist for all employees separating from County employment. Identified on this checklist is acknowledgment that all ***P-Cards were returned to Purchasing with request to delete the employee from the program.*** . We would request that Human

Resources notify Procurement when this is noted on the Exit Checklist to confirm we have been notified. We will still require Human Resources to identify those instances where employees transfer between departments within the County as we are not aware of any reports that reflect inter-departmental transfers. Procurement would like to request the Controller's Office assistance by running the "retirement" report through the ACL computer program to find the differences.

2. Online Approval of Purchases by Supervisors

OBSERVATION

Per section 7.3 of the Procurement Card Manual, the cardholder's supervisor is required to review the cardholder's transactions online.

All 4,382 transactions in the period were reviewed for a supervisor's approval in the Works system and it was found that only 34% of the transactions were approved.

Currently it is only verified that an authorized signer's approval is on the physical log during review. The online approval is not reviewed.

RECOMMENDATION

Procurement should utilize reports from the Works system to monitor the online approval of purchases and follow up with supervisors regarding the use of Works system. As necessary, Procurement should provide additional training to ensure that the supervisors are utilizing the system the way that it is intended.

MANAGEMENT RESPONSE

Catherine Allen, Deputy Director of Administration

The P-Card Administrator will review the sign off history in the WORKS system to ensure all are utilizing the online approval opportunity and providing the system generated P-Card log of transactions. She will offer additional training to those currently not utilizing the system correctly.