

# AUDIT OF THE PURCHASING CARD PROGRAM

March 2017



**Karen E. Rushing**  
Clerk of the Circuit Court and County Comptroller  
Office of the Inspector General  
Sarasota County, Florida



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## AUDIT SERVICES

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**David Beirau, CFE, CIG, CIGA**

Director of Internal Audit and Inspector General

Lead Auditor

**William Bousman, CFE, CIGA**

Internal Auditor/Investigator

Please address inquiries regarding this report to David Beirau, by e-mail at [dbeirau@scgov.net](mailto:dbeirau@scgov.net) or by telephone at (941) 861-5280. This and other reports prepared by the Office of the Inspector General are available at [www.SarasotaClerk.com/inspector-general/inspector-general-audit-reports](http://www.SarasotaClerk.com/inspector-general/inspector-general-audit-reports).



## EXECUTIVE SUMMARY

As part of the Annual Audit Plan, the Clerk of Circuit Court and County Comptroller's *Internal Audit Department and Office of the Inspector General* conducted a continuous independent audit of the Purchasing Card Program (P-Card).

- Continuous audits have narrowly defined scopes, are conducted on a reoccurring basis to identify risks and test controls, and result in timely notification of gaps and weaknesses.
- The purchasing card application reflected a total of 314 active P-Cards as of June 2016, with a monthly credit limit totaling \$8,105,032.
- The auditor reviewed approximately 12,400 P-Card transactions with a total value of roughly \$3.3 million.
- Data analytic software was used to identify transactions that were characteristic of prohibitive purchases.
- The auditor sampled and reviewed, by exception, various types of P-Card purchases.
- The auditor reviewed the processes for assigning and deactivating P-Cards.
- The auditor reviewed the process for P-Card single transaction limit and credit limit increases or decreases.
- Previously, a P-Card audit was completed during August 2015 and the results of that audit identified thirteen (13) *Opportunities for Improvement* related to: duplicate invoices submitted for purchases, prohibited purchases, deactivation of P-Cards, non-compliance with Florida statute, lack of spend analysis reports, lack of Standard Operating Procedures, lack of a training program for Managers and Directors, retention of suspension notification forms, communication between Human Resources and the P-Card Administrator, changes to P-Card profiles, lack of justification for exceeding established thresholds, segregation of duties, and the P-Card Administrator's file system. One (1) of the thirteen (13) *Opportunities for Improvement* continues to be an issue. **See *Opportunities for Improvement* number 1.**

## OPPORTUNITIES FOR IMPROVEMENT

### ***Compliance***

- Identified seventeen (17) prohibited purchases, including capital assets, meals or entertainment, postage, telephone calls and service, computer software, and hotel expenses.
- Identified thirty (30) approving officials with responsibilities to review and approve monthly reconciliation packets for P-Cards that did complete the mandatory approver training.
- Identified ten (10) instances of non-compliance with the P-Card Manual regarding issuance of P-Cards.
- Identified three (3) instances of non-compliance with the P-Card Manual regarding timely notification and documentation of returned or suspended P-Cards.
- Identified two (2) instances of non-compliance with the Standard Operating Procedure for P-Card Deactivation regarding the timing of the suspensions and subsequent closure of the accounts.
- Identified three (3) instances where P-Card spend profiles did not revert back within the required seven days, including an undetected error that caused a P-Card to maintain the temporary increase in spend profile for approximately seven months.



## BACKGROUND AND OBJECTIVES

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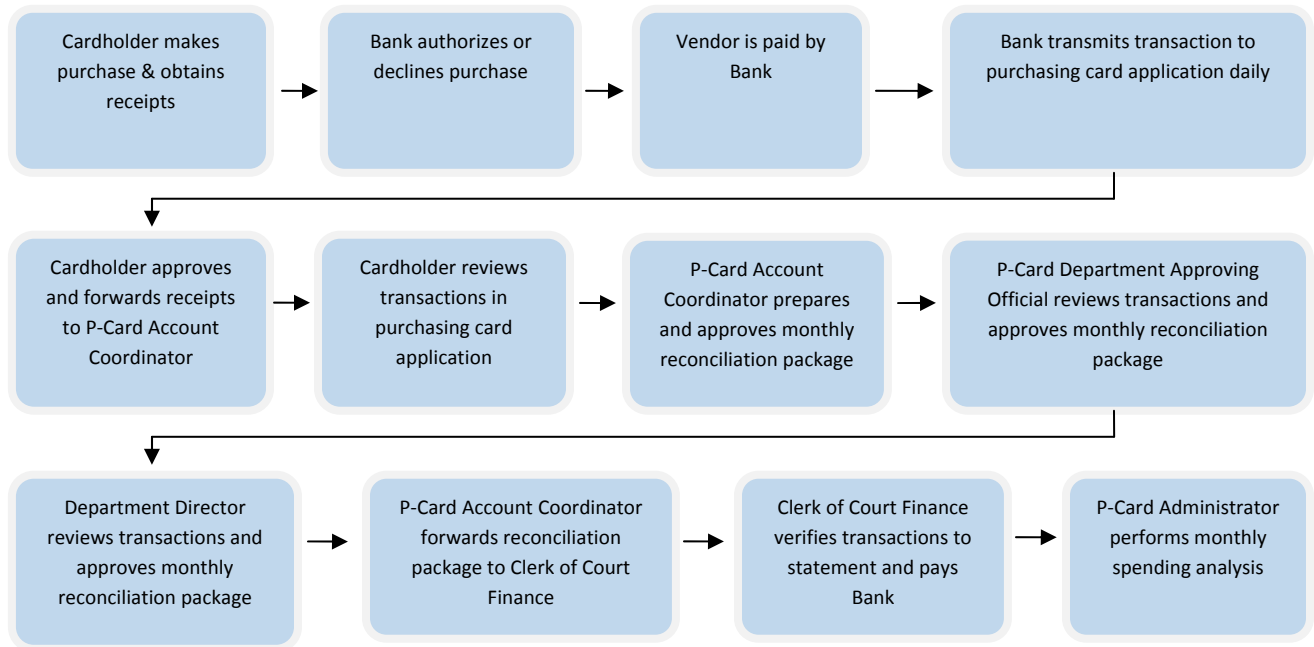
The Clerk of the Circuit Court and County Comptroller's *Internal Audit Department and Office of the Inspector General* has completed an audit of the purchasing card program. The scope of a continuous audit is very narrow and is performed on a recurring basis. A continuous audit provides for regular testing of controls, identifies risks, and results in timely notification of gaps and weaknesses to allow for managements' follow-up and remediation.

The audit was planned and conducted in conformance with the *International Standards for the Professional Practice of Internal 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The purpose of the audit was to review internal controls and test compliance with applicable ordinances and policies and procedures related to purchasing cards.

### ***Background***

A Purchasing Card (P-Card) is a payment mechanism for small purchases of \$5,000 or less that require a minimum of one quote and are awarded without competition. The Procurement Official is responsible for establishment of organizational policies governing the use of P-Cards and the administration of the County's Purchasing Card Program. A P-Card Manual has been established by the Procurement Official in order to explain and facilitate an understanding of the policies, procedures, roles and responsibilities related to the Purchasing Card Program. All purchases made on P-Cards are subject to the policies and procedures contained in County Ordinance Nos. 2014-095 and 2016-019, Article VI, Chapter 2 (the Procurement Code). Ordinance No. 2014-095 was passed and duly adopted by the Board of County Commissioners of Sarasota County (BCC) on November 18, 2014. Ordinance No. 2016-19 repealed Ordinance No. 2014-095 and was passed and duly adopted by the BCC on March 22, 2016, with an effective date of April 15, 2016.

## Purchasing Card Process



P-Cards are assigned to authorized employees after a P-Card Department approving official makes a request and the P-Card Administrator approves the request. P-Cards are generally set with a single transaction limit of \$5,000 and a monthly transaction limit of \$25,000; however limits do vary based on activity and need of each department. A limited number of P-Cards with single transaction limits above \$20,000 have been assigned for use during emergencies. As of June 2016, there were a total of 314 active P-Cards assigned to County employees with a monthly transaction limit of \$8,105,032. Of the 314 P-Cards assigned to County employees, the County utilizes the following transaction limits:

Number of P-Cards	Single Transaction Limit
32	Suspended to Credit Limit of \$1
1	\$1,000
1	\$2,000
34	\$3,000
224	\$5,000
15	\$10,000
1	\$15,000
1	\$19,999.99
3	\$25,000
1	\$50,000
1	\$75,000

Number of P-Cards	Monthly Transaction Limit
32	Suspended to Credit Limit of \$1
3	\$5,000
8	\$10,000
38	\$20,000
208	\$25,000
17	\$50,000
7	\$100,000
1	\$500,000

Between the post dates of October 1, 2015 and April 30, 2016 (audit period) there were a total of 12,394 purchasing card transactions totaling \$3.34 million.

The purchasing card application is a web-based application. The County utilizes the application to order new P-Cards, modify single transaction limits and credit limits, review and report information from P-Card transactions, suspend or revoke P-Cards, and electronically approve transactions by cardholders.

Cardholders making purchases must adhere to the cardholder responsibilities listed in Chapter 2 of the P-Card Manual. They are required to utilize the County’s tax exempt status, collect itemized receipts for each purchase, record the account number or project to be charged, and review and approve charges in the purchasing card application at least monthly. During the monthly review process the Cardholder signs the billing statement, within the reconciliation packet, to acknowledge the transactions purchased on the Cardholder’s P-Card.

The P-Card Account Coordinator reconciles purchases made on P-Cards for their specified group of Cardholders. The P-Card Account Coordinator reviews monthly statements with Cardholders, verifies account codes for each transaction, matches receipts to monthly statements, and compiles a reconciled packet to the Department approving official and Department Director for review and approval. The reconciliation packet contains a statement of acknowledgement that states “I certify that I am authorized to approve this expenditure and that the funds are being spent for a public purpose, in conformance with County Purchasing procedures and vendor contracts, and without overspending the applicable account or fund of the County budget.” This statement is signed, at a minimum, by the Department Head or Representative, and additionally may be signed by the Department approving official and the P-Card Account Coordinator.

The Finance Department receives the reconciliation packet and performs the final verification of receipts and charges, prior to payment to the bank. If questioned items are identified at this stage, they are flagged in the purchasing card application and the Cardholder, P-Card Account Coordinator, Department approving official, and the P-Card Administrator are responsible for resolution.

## ***Objectives, Scope and Methodology***

The objectives of this audit were to determine if internal controls are operating effectively related to the Sarasota County Purchasing Card Program and if purchases made on County purchasing cards are in compliance with applicable ordinances, policies, and procedures.

To meet the objectives of the audit, the procedures performed included, but were not limited to, the following:

- Obtained an understanding of the Sarasota County P-Card Manual, County Ordinance Nos. 2014-095 and 2016-019, and the Procurement Manual.
- Performed a walkthrough of the P-Card Administrators functions.
- Performed inquiries of county personnel.
- Reviewed and tested documentation relating to policies and procedures, split transactions, prohibited purchases, deactivation of P-Cards, standard operating procedures, P-Card training, issuance of P-Cards, closure of P-Cards, document retention, and financial disclosures.
- Evaluated the internal controls related to the P-Card process, such as policies and procedures, issuance of P-Cards, deactivation of P-Cards, P-Card training, and Financial Disclosure.
- Identified opportunities for improvement.



## OPPORTUNITIES FOR IMPROVEMENT AND MANAGEMENT RESPONSES

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The audit disclosed certain policies, procedures, and/or practices that could be improved. The audit was neither designed nor intended to be a detailed study of every relevant system, procedure, or transaction. As a result of the audit, observations and recommendations identified below are related to *Standards*:

- (Standard 2110) Communicating risk and control information to appropriate areas of the organization, and
- (Standard 2130.A1) The effectiveness of controls related to operations and programs, and compliance with policies and procedures.

The **Opportunities for Improvement** presented in this report may not be all-inclusive of areas where improvement may be needed. There were six (6) *Opportunities for Improvement* identified as a result of the audit:

1. **Purchases Prohibited on a P-Card**
2. **Non-Compliance with P-Card Manual regarding approver training**
3. **Non-Compliance with P-Card Manual regarding the issuance of P-Cards**
4. **Timely Notification and Documentation of Returned or Suspended P-Cards**
5. **Non-Compliance with Standard Operating Procedure for P-Card Deactivation**
6. **Non-Compliance with P-Card Manual regarding Temporary Card Profile Modification**



## 1. Purchases Prohibited on a P-Card

### Observation

The P-Card Manual (section 5.11) outlines the products and services that cannot be purchased on a P-Card. The auditor identified five types of prohibited purchases that were made on P-Cards: (1) capital assets, (2) postage (except for designated mailroom personnel), (3) telephone calls and service, (4) computers, computer hardware, or computer software (except for designated Enterprise Information Technology [EIT] personnel), and (5) hotel expenses. To ensure efficiency and centralization, these types of purchases are prohibited.

#### *Capital Asset*

The Capital Asset Policy defines Capital Assets as real or personal property that have a value equal to or greater than the capitalization threshold for their respective asset class and have an estimated initial useful life of greater than one year. If a capital asset is purchased on a P-Card, the Cardholder is required to request a credit from the vendor, initiate a purchase order, and treat the purchase as an after-the-fact procurement.

Of the 748 purchases that totaled \$1,000 or more within the audit period, a random sample of 50 was selected and supporting documentation was reviewed for each sampled transaction. Of the 50 potential capital asset purchases reviewed, two (2) of the sampled purchases met the requirements of a capital asset, as per the Sarasota County Asset Policy, and thus would not be an allowable purchase.

#### *Postage, excluding allowed mailroom personnel*

There were a total of 15 purchases, made by cardholders other than mailroom personnel, that were classified as postage and freight within the audit period. Supporting documentation was reviewed for each purchase and found that two (2) purchases were for shipping and handling fees for the purchase of a video, seven (7) purchases were for third party delivery fees that were pre approved by the P-Card Administrator, which are allowable. However, six (6) purchases were made for postage by employees other than mailroom personnel, which is prohibited by section 5.11 of the P-Card Manual.

#### *Telephone calls and service*

There were a total of 17 purchases, made by cardholders other than EIT personnel, which appeared to be purchases for cellular phones or accessories within the audit period. Supporting documentation was reviewed for each purchase and six (6) of the purchases were for monthly mobile telephone service, which is prohibited by section 5.11 of the P-Card Manual.

*Computers, computer hardware, and computer software, except for approval by an EIT official*

There were a total of 20 purchases, made by cardholders other than EIT personnel, which appeared to be purchases for computers, computer hardware, or computer software within the audit period. Supporting documentation was reviewed and two (2) of the purchases were for computer software, without the approval of an EIT official, which is prohibited by section 5.11 of the P-Card Manual.

*Hotel expenses*

There was one (1) purchase for a hotel expense made by a cardholder within the audit period. Purchases for hotel expenses on a P-Card are prohibited by section 5.11 of the P-Card Manual.

**Recommendation**

To ensure that prohibited purchases are not made on P-Cards, ongoing training for Account Coordinators and approving Directors is recommended. Continuous training would provide additional assurance that prohibited purchases are detected and rectified.

**Management Response**

All transactions identified in the audit were not flagged so the P-Card Administrator was unaware of the prohibited purchases. Upon receipt of the audit findings, a letter was sent to the Department Director responsible for each case on January 13, 2017. The Procurement Department will obtain a written letter of explanation from the Department Director and each case will be reviewed for corrective action. Department Directors will be contacted for explanation by January 20, 2017.

Approver training will be enhanced and focus on prohibited purchases.

Utilizing the new P-Card audit software should recognize prohibited transactions not identified by the Clerk's Finance Department and will provide additional assurance that prohibited purchases are detected and rectified. Visa IntelliLink Compliance Management is a state-of-the-art, web-based solution that is intended to provide protection and control via sophisticated monitoring techniques. It converts transaction data into information that program managers can use to minimize and deter misuse and abuse.

Benefits include:

- Misuse and abuse detection
- Program and regulatory compliance
- Analytics and investigative reporting
- Questionable spend and risk reduction

New approver training and audit software will be in full implementation by February 28, 2017.

## **2. Non-Compliance with P-Card Manual regarding approver training**

### **Observation**

The P-Card Manual (section 2.3) defines the classification of a P-Card Department approving official and their responsibilities. Included in their responsibilities is the requirement to complete mandatory P-Card training for approving officials, and to review and approve monthly reconciliation packets for their specified group of Cardholders. Additionally, section 2.4 defines the responsibilities for a Department Director, which includes the review and approval of monthly reconciliation packets for the Cardholders within their department. The auditor obtained a list of all approving officials, and a list of each individual that completed the P-Card training course for approving officials. This training was offered between September 2015 and November 2015, from the Training Registration and Activity Center (TRAC) application.

A total of seventy-five (75) individuals were identified that are responsible for review and approval of monthly reconciliation packets for P-Card transactions. Upon review of the individuals that had completed the training, the auditor determined that thirty (30) of the seventy-five (75) individuals, had not completed the mandatory P-Card training for approving officials.

### **Recommendation**

To ensure compliance with the P-Card Manual, a quality assurance process should be implemented to confirm all required individuals receive the mandatory P-Card training.

### **Management Response**

A process is necessary to keep track of all p-card approvers to ensure that those individuals complete the mandatory training and have a payment authorization form on file giving them signature authority.

Procurement will propose to Clerk Finance a revision to the Payment Authorization Form that would include the following language after the check box for Purchasing Cards:

*Mandatory P-Card Approver Training required and an additional copy of form must be forwarded to the Procurement Office, Attention: Purchasing Card Administrator.*

The P-Card Administrator will compile an initial database by requesting a list of current approvers from all P-Card Account Coordinators and Directors. The P-Card Administrator will maintain a database of approvers thereafter.

The 2018 Performance Evaluation form will include P-Card Approver Training under section 4 Required Training Completed as a quality assurance process.

Mandatory training was available in 2015. Online approver training will be available by February 28, 2017. The initial database will be created by March 31, 2017.

### **3. Non-Compliance with P-Card Manual regarding the issuance of P-Cards**

#### **Observation**

The P-Card Manual (section 3.4) states that the "Cardholders must pick up P-Cards in person from the P-Card Administrator at 1660 Ringling Boulevard. Cardholders must sign a Sarasota County Cardholder Agreement form before receiving a P-Card." The auditor obtained a list of 26 P-Cards issued within the audit period. Supporting documentation was obtained and reviewed for the entire population of the 26 P-Cards issued during the audit period.

The auditor observed the following:

- Five (5) cardholders did not have a documented Cardholder Agreement form on file,
- Four (4) cardholders did not sign a Cardholder Agreement form before receiving their P-Cards,
- One (1) P-Card was released to the Account Coordinator responsible for reconciling the transactions of the cardholder, and
- One (1) cardholder did not have any documentation on file necessary for the issuance of their P-Card.

#### **Recommendation**

To ensure compliance with P-Card Manual (section 3.4) make certain that every P-Card issued, is released only to the individual whose name is listed on the P-Card and that all required applications, cardholder agreements, and training is complete and documented prior to the issuance of a P-Card.

#### **Management Response**

The P-Card Administrator reviewed all non-compliance P-Card issuance observed and determined the following:

- One (1) P-Card was released to the Account Coordinator responsible for reconciling the transactions of the cardholder – The program has a form specifically for card issuance to someone on behalf of the cardholder due to logistics/working hours that should have been used.
- One (1) cardholder did not have any documentation on file necessary for the issuance of their P-Card. – This was for the hotel card program not the P-Card program. The need was a rush and the card was overnighted. The file has all required documentation now.

The P-Card Administrator will ensure that the correct form is used for card issuance and that all cardholder files contain the required documents. New cardholders will only receive their P-Cards if their P-Card agreement is received prior to, or at the time of training.

A revision was made to Chapter 3, Section 3.4 of the P-Card Manual to allow a Cardholder to make other arrangements with the P-Card Administrator if they are unable to pick up their P-Card due to logistics and/or work hours.

A contingency provision for emergency/urgent issuance of a P-Card was added to Chapter 3, Section 3.2 of the P-Card Manual and is ready for review/signature by the County Administrator.

Effective 11/29/16, P-Cards are only released to new cardholders if their P-Card agreement is received prior to, or at the time of training.

The revised P-Card Manual was approved by the County Administrator on January 24, 2017.

#### **4. Timely Notification and Documentation of Returned or Suspended P-Cards**

##### **Observation**

The P-Card Manual (section 10.1) requires the Department Director to immediately notify Human Resources of any changes in status of employment, regarding employees that have been issued a P-Card. Human Resources then notifies the P-Card Administrator. Changes in status of employment include resignation, termination, suspension and any other status changes outlined in the Personnel Policies that extend past five (5) business days. An Acknowledgement of Returned or Suspended Purchasing Card form must be completed by the Department Director or Designee and returned to the P-Card Administrator. The P-Card Administrator will deactivate or suspend the P-Card within 24 hours of notification of status change.

In order to ensure timely notification of Human Resources and the P-Card Administrator and timely deactivation of P-Cards by the P-Card Administrator, the auditor performed two separate tests. The first test was to match, by last name, all terminated employees during the audit period to the entire list of Cardholders within the application and verify that management immediately notifies the P-Card Administrator of any employment status changes of Cardholders. The second test was to obtain a list of all deactivated P-Cards during the audit period and review each corresponding Acknowledgement of Returned or Suspended Purchasing Card form to verify that the P-Card was deactivated or suspended within 24 hours of notification of transfer or termination.

A total of nine (9) employees that had been issued a P-Card were terminated during the audit period. The auditor reviewed the nine (9) P-Cards in order to ensure timely notification by management and timely deactivation of the P-Cards. During review, it was noted that one (1) of the Acknowledgement of Returned or Suspended Purchasing Card forms inspected, indicated that the P-Card Administrator was not notified by management for approximately seven (7) weeks after the Cardholder's employment with the County was terminated. During this period, the P-Card remained in possession of the department manager.

The auditor obtained a list of seventeen (17) P-Cards that were suspended during the audit period. During review of the corresponding documentation, the auditor noted that one (1) Acknowledgement of Returned or Suspended Purchasing Card form was not documented within the Cardholder's file and documentation did not exist for the Cardholder.

## **Recommendation**

To ensure compliance with P-Card Manual (section 10.1) communicate to management their responsibilities to:

- Notify Human Resources immediately whenever an employee's status of employment changes that extends past five (5) business days,
- Complete an *Acknowledgement of Returned or Suspended Purchasing Card* form and provide it to the P-Card Administrator upon an employee's separation, and
- Maintain appropriate required documentation of returned or suspended P-Cards.

## **Management Response**

The online P-Card approver training does include review of the P-Card Manual with concentration on the Section 10.1.

When the P-Card Administrator is notified, they will ensure that the appropriate paperwork is completed and filed for returned and suspended purchasing cards.

Upon receipt of the audit findings, a letter was sent to the Department Director responsible for each case on January 13, 2017. The Procurement Department will obtain a written letter of explanation from the Department Director and each case will be reviewed for corrective action. Department Directors will be contacted for explanation by January 20, 2017.

Mandatory training was available in 2015. Online approver training will be available by February 28, 2017.



## **5. Non-Compliance with Standard Operating Procedure for P-Card Deactivation**

### **Observation**

The Standard Operating Procedure for P-Card Deactivation requires that the P-Card be suspended. After one full billing cycle is complete, the P-Card Administrator verifies within the purchasing card application that there are no outstanding transactions and then deletes the suspended P-Card and the user account.

During the audit period, the auditor identified a total of nine (9) P-Card holding employees that were terminated. During review of the corresponding documentation, the auditor noted that two (2) P-Cards were suspended and then closed within the same billing cycle.

### **Recommendation**

To ensure all approved purchases are processed and do not interfere with department operations, compliance with the Standard Operating Procedure for P-Card Deactivation should be complied with.

### **Management Response**

P-Card Administrator will ensure that P-Cards are deactivated in compliance with the Standard Operating Procedures.

## **6. Non-Compliance with P-Card Manual regarding Temporary Card Profile Modification**

### **Observation**

The P-Card Manual (section 4.5) allows a P-Card Department approving official to request an increase or decrease of the Single Transaction Limit (STL) and/or monthly Credit Limit (CL) or to temporarily lift a blocked purchase for a subordinate Cardholder. The request must be submitted to the P-Card Administrator for approval and implementation. After the P-Card Administrator approves and implements the temporary increase in STL and/or CL, the cardholder's spend profile will be returned to the original spend profile within seven (7) days.

A total of seven (7) approved change request forms were identified during the audit period. The auditor obtained a Card Profile Audit Log report from the purchasing card application, which documents the individual that made the spend profile change, and the date and time that the spend profile was changed. Upon review of the Card Profile Audit Log, the auditor determined that three (3) of the spend profile modifications did not revert back to their original cardholder limits within seven days, as required by the P-Card Manual. Two (2) of the modified spend profiles reverted back in eight (8) days and twenty-eight (28) days. The third spend profile was modified twice during the same month, which is acceptable. However, due to the timing of the second modification, the spend profile did not revert back to the original cardholder limits. This error went undetected and resulted in the P-Cardholder having an increased STL for approximately seven months.

### **Recommendation**

To ensure compliance with the P-Card Manual (section 4.5) implement an additional monitoring safeguard within the Standard Operating Procedures for Temporary P-Card Limit Change. The additional safeguard should include a routine weekly review of any cardholder's spend profiles within the purchasing card application for individuals that recently had their spend profiles temporarily modified. Additionally, spend profiles should be set to automatically revert back within seven days, as required by the P-Card Manual.

### **Management Response**

A revision was made to Chapter 4, Section 4.5 of the Purchasing Card Manual, changing the seven day period to "approved period" for profile limits to return to the original spend profile.

A monthly review of cardholders that had their spend profiles temporarily modified will be conducted to ensure that spend profiles revert back within the approved period, as required by the P-Card Manual.

The P-Card Administrator will conduct a monthly review of cardholders that had their spend profiles temporarily modified to ensure compliance with the P-Card Manual beginning February 15, 2017.

The revised P-Card Manual was approved by the County Administrator on January 24, 2017.

