HIGHLANDS COUNTY BOARD OF COUNTY COMMISSIONERS

P-CARD CONTINUOUS AUDIT REPORT NO. C01-FY 11/12

SEPTEMBER 9, 2013

Prepared by:

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Highlands County Clerk of Courts

Compliance and Internal Audit Division
Purpose and Standards

The Compliance and Internal Audit Division identified the purchasing card (P-Card) process as a component of the continuous audit cycle. Continuous audits provide regular testing of controls and risks and result in timely notification of gaps and weaknesses to allow immediate follow-up and remediation. The scopes of these audits are very narrow and are performed on an ongoing basis (by quarters). Any exceptions (i.e. findings) are reviewed and discussed with management to ensure necessary remediation.

The audit was conducted in accordance with applicable standards as published in the *International Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors. We believe the audit provides a reasonable basis for the noted conclusions.

This audit was authorized, initiated, approved and released under the direction of the Highlands County Clerk of Courts, Robert W. Germaine. We would like to thank the General Services/Purchasing Department (GS/PD), various County Departments, the Clerk’s Payable/Receivables Department and the Information Technology Department for their cooperation throughout this audit.

Background

The Highlands County Board of County Commissioners (BOCC) utilizes P-Cards issued by Bank of America. P-Cards are administered by the GS/PD and are used to improve efficiency by permitting the purchase of low dollar unrestricted goods and services from vendors that accept VISA. The use of P-Cards is outlined in Section 6 of the BOCC Purchasing Manual. P-Cards are assigned to BOCC employees upon request of the Department Director, and are generally set with a single purchase limit of $749.00 and a 30-day limit of $10,000.00. There are a limited number of P-Cards with higher limits for emergency situations.
The County incurred $1,122,624.58 in P-Card purchases for fiscal year 2011-2012. The following three graphs display purchase by monthly total charges, departments with the top 75% of total purchases, and the vendors that accounted for 28% of County purchases. The first bar graph displays total monthly charges throughout the year.
The next graph details those departments/activities with approximately seventy-five (75) percent of the total P-Card activity for the 2011-2012 fiscal year. The graph depicts eight (8) departments/activities accounting for approximately seventy five (75) percent or $814,088 of P-Card activity for the 2011-2012 fiscal year. The remaining twenty five (25) percent (approximate) or $308,537 of purchases was incurred by twenty five (25) departments/activities.
During fiscal year 2011-2012, the County made purchases from 868 vendors. P-Card charges for the top 28% of activity occurred from ten (10) vendors or 1.15% of the total vendor population. The total purchases made by the County from the top ten (10) vendors were $316,905.33. It should be noted that these amounts occurred through numerous transactions throughout the fiscal year and from various different departments.
Scope and Methodology

The scope of the continuous audit includes the testing of several key controls identified during the documentation of the P-Card process. Beginning in quarter three of FY 10-11 testing of vendors with approximately twenty-five (25) to thirty (30) percent of total purchases was performed to evaluate potential risks related to volume of transaction activity. The current period reviewed included a random sample of transaction activity for the fiscal year of 2011-2012 (October through September). P-Cards were sequenced and a random number formula was used to select P-Card statements and back-up documentation for testing. This methodology ensures an independent and objective review of transaction activity. The key controls noted below were tested during this audit.

- **P-Card Restrictions:**

  Bank of America P-Cards are equipped with built-in spending controls; including individual spending authority, defined spending limits, and vendor categories. BOCC P-Cards may be used for any purchase related to County business, within the established limit. The following restrictions are standard on all BOCC P-Cards: (C.01.01)
  - $749.00 per transaction limit.
  - MCC codes for unapproved vendors.

- **Monthly review process:**

  If the P-Card is compromised and fraudulent charges are made, the employee must complete a “Cardholder Statement of Disputed Item”. If the issue is not resolved immediately, the employee will list the issue on their monthly “Cardholder’s Monthly Purchase Card Purchase Report” and the P-Card Administrator will add the issue to the monthly discrepancy report until the issue is resolved (C.01.02).

  Each month, Department Directors perform the following (C.01.03):
  - Reviews charges and supporting documentation.
  - Signs “Cardholders Monthly P-Card Purchasing Report” acknowledging review and approval of charges.
  - Forwards the “Cardholders Monthly P-Card Purchasing Report” and supporting documentation to the GS/PD for review.

  Each month, the GS/PD P-Card Administrator performs the following (C.01.04):
  - Reviews the “Cardholders Monthly P-Card Purchasing Reports” and supporting documentation for completeness and accuracy.
  - Corresponds with the departments in instances where additional information or clarification is needed.
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- Maintains a monthly list of discrepancies and performs follow-up.
- Forwards supporting documentation to the Clerk’s Payables/Receivables Department for review, payment, and posting of expenditures.

Each month, Clerk’s Payables/Receivables Department performs the following (C.01.05):
- Reviews the “Cardholders Monthly P-Card Purchasing Reports” and supporting documentation for completeness and accuracy.
- Corresponds with the P-Card holder and copies P-Card Administrator in instances where additional information or clarification is needed.
- Completes and posts the necessary journal entry.
- Prior to February 2009 statement, verifies funds available on the JE submitted by P-Card Administrator and forwards JE to Accounting for posting.
- After February 2009 statement, P-Card charges entered into the P-Card System are interfaced into the Finance’s Batch Accounts Payable. The amount is balanced, released and posted. Vouchers are printed to post charges to the General Ledger. All backup is maintained in P-Card binders.

Audit Summary/Conclusion

The audit noted three (3) exceptions. Overall, the P-Card program appears to be functioning as intended. Key controls implemented and performed by Department Directors, the GS/PD, and the Clerk’s Payables/Receivables Department are adequate and provide reasonable assurance of compliance with P-Card Policies and Procedures in the Purchasing Manual.

Exception/Recommendation 1: Sales Tax Charged

Sales tax was charged in October 2011 and April 2012. Details of the charges are noted below.

- October - Sales tax of $5.25 for a $74.97 electronics purchase.
- April - Sales tax of $67.78 for a $684.13 hotel stay.

BOCC Administration and management are encouraged to evaluate current processes and controls and make improvements where applicable. BOCC P-Card users should provide vendors with a copy of the BOCC Consumer's Certificate of Exemption prior to making a purchase. Directors/Management is encouraged to carefully review all P-Card purchases and request tax credits when taxes are mistakenly charged and paid.
Management Response

Management partially concurs with the above Exception and has taken action to make improvements to the process and controls ensuring certain exempt taxes are not paid or charged on purchases. In April of 2012 Indiana State Sales tax of $43.14 and City Room Tax of $24.64 were paid on a six day hotel stay at the Hampton Inn in Greenfield, IN. The employee provided the hotel attendant with a copy of the County’s Florida Certificate of Exemption. The hotel attendant declined to accept the exemption stating that they did not accept out of state exemptions. Not all states do accept another state’s certificate of exemption, each state has their own rules. Through further investigation the State of Indiana does accept out of state exemption for certain taxes such as the state sales tax. However, the state of Indiana does not accept tax exemption on city or county room tax. Staff has applied to the Indiana Department of Revenue for a refund of the exempt taxes that were paid.

Process Improvement Control:
Staff has initiated a nationwide survey for identification of states that accept and honor tax exempt status for out of state entities. This information will be communicated and distributed to employees for the purposes of utilizing the county’s exempt status when purchasing goods and services out of state.

Exception/Recommendation 2: Insufficient Supporting Documentation

Four (4) purchases were identified that did not have sufficient supporting documentation. The item(s) purchased could not be identified due to insufficient supporting documentation. Amounts and vendors are detailed below.

- October - Purchase using a PayPal Account for $30.00
- January - Purchase using a PayPal Account for $51.04
- April - Purchase from Google for $444.44
- May - Purchase from BP Oil for $40.00

Purchases via PayPal and Google require setting up an account and depositing funds into the account or linking a credit card (i.e. P-Card) to the account to make purchases. This action circumvents controls associated with the P-Card process and adds a third party to the transaction. Since the monthly P-Card statement will reflect PayPal or Google as the vendor, there is no way to determine whether the purchase is a legitimate County business related purchase.

BOCC Administration and Management are encouraged to evaluate the current processes and controls and implement improvements where applicable. Management and P-Card users are encouraged to review all purchase documentation to ensure that adequate
information is present. P-Card users should request an itemized sales receipt immediately upon purchase if none is provided. It may also be beneficial to evaluate the use of e-commerce vendors (whose functionality permits sending money/making payments online - "third party payment vendor") which impair the controls currently in place.

**Management Response:**

Management concurs with the above Exception and has taken action to implement improvements to process and controls when it is necessary to procure goods and services through third party payment vendors.

**Process Improvement Control:**
Management has instructed staff to avoid the use of third party payment vendors when permitted. In addition, management has given specific instructions to P-Card users on acceptable purchase documentation when the use of a third party payment vendor is necessary for the procurement of goods and service for County business.

**Exception/Recommendation 3: Split Transactions**

During April 2012 purchases were made that circumvented the established purchasing limitations.

**April**

- Two purchases for $375.90 (combined $751.80) were made for the same item and shipped on the same day.

The BOCC Purchasing Manual has established a single transaction limit of $749.00. Section 2.4 (Conditions for Use) reads: *The total of a single purchase to be paid for using the card may be comprised of multiple items but cannot exceed the authorized single invoice limitation. Purchases will be denied if any preset limits are exceeded. Payments for purchases are not to be split in order to stay within the single purchase limit.*

Purchases should not be split in order to circumvent established purchasing limitations. Purchases which exceed the P-Card purchasing limit should go through the proper purchasing process as outlined in the BOCC Purchasing Manual.

**Management Response:**

Management concurs with the above Exception and has taken action to implement improvements to process and controls to ensure adherence to the purchasing policies and the process to follow when purchases exceed a P-Card users purchasing limit.
The above referenced transaction was for the acquisition of multiple pieces of Fire equipment. The items were ordered and shipped with payment to be made upon delivery of items. The cost of shipping exceeded the initial estimated amount and resulted in the total invoice amount of $751.80, exceeding the P-Card users limit by $2.80.
AUDIT REPORT APPROVAL

Highlands County Board of County Commissioners

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Issuance Date: September 9, 2013

Approved for Issuance
By:

[Signature]
Robert W. Germaine
Highlands County Clerk of Courts
and Auditor to the Board

Sept 9, 2013
Date