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CLERK OF THE CIRCUIT COURT AND COMPTROLLER OF MANATEE COUNTY

Internal Audit Department

Audit Report

Financial Management Department Purchasing Card Program Audit

As of September 4, 2015

May 16, 2016

Audit No. 21510200

MANATEE COUNTY CLERK OF THE CIRCUIT COURT
INTERNAL AUDIT DEPARTMENT

FINANCIAL MANAGEMENT DEPARTMENT
PURCHASING CARD PROGRAM AUDIT

A U D I T R E P O R T

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A U D I T R E P O R T

The Internal Audit Department conducted an audit of the Financial Management Department's Purchasing Card Program for the period October 5, 2013, through September 4, 2015. The audit was performed in accordance with *Generally Accepted Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States, and the *International Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors.

BACKGROUND:

The Purchasing Card Program, administered by the Purchasing Division of the Financial Management Department, has been in operation since 2001. The program is designed to improve efficiency in the processing of small dollar purchases. Purchasing card transactions are governed by the Manatee County Purchasing Administrative Standards & Procedures, as well as the Purchasing Card Program procedures. Purchasing cards are to be used only for authorized County purchases that serve a public purpose, and each cardholder is required to attend mandatory training on the rules of the program. In addition, all transactions are reviewed and approved by the cardholder's designated approver, as well as the Clerk of the Circuit Court's Finance Department.

Currently, there are 366 active purchasing cards with a total credit limit of \$3,085,000. In addition to County employees, cardholders include employees of the Supervisor of Elections Office, Metropolitan Planning Organization, Public Defender's Office, State Attorney's Office, and Court Administration. Users are typically set up with a \$750 single purchase limit and a \$5,000 transaction cycle (one month) limit; however, higher limits can and have been authorized. Merchant code blocks are utilized to ensure purchasing cards can only be used as authorized. During the two-year period reviewed, 382 cardholders made approximately 32,300 transactions totaling almost \$5.8 million.

PURPOSE/OBJECTIVES:

The audit objectives included the following:

- Determining whether controls are adequate to ensure purchasing cards are being used as authorized.
- Verifying that purchasing card transactions are in compliance with the Purchasing Division Administrative Standards & Procedures and Purchasing Card Program procedures.
- Verifying the Purchasing Card Program is being administered effectively and efficiently and in compliance with the Purchasing Division Administrative Standards & Procedures and Purchasing Card program procedures.

- Verifying that County department purchases made with purchasing cards are in compliance with competitive pricing and documentation requirements included in the Purchasing Division Administrative Standards & Procedures.

SCOPE:

The scope of the audit consisted of reviewing purchasing card transactions, financial controls, and related policies and procedures for the period October 5, 2013, through September 4, 2015.

METHODOLOGY:

Internal control evaluations and tests of compliance were accomplished through discussions with management and staff, as well as substantive testing of individual controls. Risk analysis was used to establish the priorities of the audit objectives.

IRREGULARITIES, ABUSE, OR ILLEGAL ACTS:

No indications of irregularities, abuse, or illegal acts were discovered during the audit of the Purchasing Card Program for the period ending September 4, 2015.

TEST OF COMPLIANCE:

Internal Audit tested compliance with the Purchasing Division’s Administrative Standards & Procedures and Purchasing Card Program procedures. Tests performed were limited to the specific areas included in the Purpose/Objectives section of this report and appeared to provide sufficient evidence to support an opinion on compliance and internal controls for the areas tested. The results of these tests are included in this audit report.

STATEMENT ON INTERNAL CONTROL STRUCTURE:

In planning and performing the audit of the Purchasing Card Program for the period ending September 4, 2015, the internal control structure was considered in order to determine the auditing procedures for the purpose of this report. Internal control weaknesses involve matters relating to deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report on data consistent with management’s intentions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions. In addition, because of the inherent limitations in any internal control structure, deficiencies in the design or operation of the internal control structure may exist and not be detected. In this report, we did not note any matters involving significant internal control weaknesses.

MANAGEMENT TEAM AND MANAGEMENT ACTION PLAN:

A Management Action Plan has been provided for each Area for Improvement identified. Management Action Plans are corrective actions with implementation dates developed in cooperation with the management team of the Financial Management Department and the Internal Audit Department. The management team included Jan Brewer, Director; Melissa Wendel, Purchasing Official; Sharon Granberg and Kenneth Rickard, Purchasing Card Administrators.

MANAGEMENT SUMMARY:

The Purchasing Card Program was created to provide an efficient method of securing small dollar purchases of goods and services by reducing the use of petty cash and Direct Expenditure Voucher (DEV) forms. The program is directed by a Purchasing Card Administrator whose responsibilities include, but are not limited to, issuing and cancelling the purchasing cards, providing training, and performing ongoing program review. The program utilizes numerous proxy reconcilers and approvers within the various County departments and divisions who are responsible for maintaining documentation and approving transactions for the cardholders. In addition, the Finance Department of the Clerk of the Circuit Court's Office performs a pre-audit function of all purchasing card transactions and processes the monthly payments to the bank.

Overall, our audit found the Purchasing Card Program to be operating efficiently and in compliance with the established policies and procedures; however, we did identify the following areas where improvements could be made:

- Transactions were identified where it appears the cardholder, and in some cases multiple cardholders, split a single purchase into two or more transactions in order to circumvent the purchasing card single transaction dollar limit. The Management Team through its Management Action Plan will notify the department management and individual cardholders of the split transaction violations identified in the audit for the purpose of oversight. Additionally, management is in the process of purchasing software which will enhance the Purchasing Card Administrator's ability to monitor purchases.
(See Area for Improvement #1 on page 5.)
- Departments were not always in compliance with relevant purchasing standards and procedures. Documentation of price quotations was not always obtained by departments, as required in the Purchasing Administrative Standards & Procedures. In addition, supporting documentation was not always submitted timely to the Clerk's Finance Department for payment processing, and current certificates of insurance were not always obtained from vendors, as required in the Purchasing Card Program Procedures. The Management Team through its Management Action Plan will reemphasize, through upcoming training, the importance of submitting paperwork timely, as well as the specific documentation requirements related to price quotes and certificates of insurance.
(See Area for Improvement #2 on page 5.)

MANAGEMENT SUMMARY: (continued)

- Purchasing Cards were not always deactivated timely when cardholders separated from employment with Manatee County. The Management Team through its Management Action Plan will reemphasize through training with department management and proxy reconcilers the importance of immediately notifying the Purchasing Card Administrator when an employee leaves employment with the County. As an additional control, the Purchasing Card Administrator is now receiving a list of all terminated employees from the Human Resources Department at the end of each month.
(See Area for Improvement #3 on page 6.)

Other minor audit findings, not included in this report, have been communicated to management or corrected during the audit. We would like to thank the Financial Management Department management and Purchasing Division staff for the cooperation and courtesy afforded to our auditors throughout the audit. We appreciate the efforts and timeliness in addressing the issues raised during the audit and seeking solutions to these matters.

AUDIT REPORT AUTHORIZATION:

This audit report has been reviewed and authorized by:



Lori Stephens, CPA, CFE
Director of Internal Audit



Angelina "Angel" Colonnese
Clerk of the Circuit Court & Comptroller

AREA FOR IMPROVEMENT #1 Split Transactions

Purchasing Card Procedures stipulate that single purchases are not to be artificially split into two or more transactions either by one or more cardholders so as to avoid or circumvent the single transaction or cardholder limits. Cardholders are to request a temporary increase if they need to make a purchase that would exceed their limits. Internal Audit used data analytics software (ACL) to examine all transactions (32,358) made during the audit period to identify possible split purchases within a 3 day window. We noted the following:

- 96 transactions totaling \$66,269 were identified where it appears the purchase was split into two or more transactions by a single cardholder to avoid the cardholder’s single transaction limit. 28 of these transactions had already been identified and addressed by the Purchasing Card Administrator through her card monitoring procedures.
- 29 transactions totaling \$21,398 were identified where it appears that multiple cardholders from the same department split a single purchase into two or more transactions to avoid the single transaction limit of a particular purchasing card.

The Purchasing Card Administrator monitors purchasing card usage, including possible split transactions using the available reports in the Bank of America WORKS system. While these reports are helpful and did identify some of the split transactions which had occurred, many of the ones identified were beyond the limitations of the WORKS pre-programmed reports, such as splits occurring over multiple days and by multiple cardholders.

Management Action Plan: The Purchasing Division will notify department management and individual cardholders of the split purchase violations found during the audit for the purpose of oversight. In addition, Purchasing management is in the process of obtaining software, known as Visa’s IntelliLink, to enhance purchasing card monitoring, which should improve detection of split transactions. Once implemented, the Purchasing Card Program procedures will be updated to include all monitoring procedures.

The estimated implementation date is April 30, 2017.

AREA FOR IMPROVEMENT #2 Purchasing Procedures

A random statistical sample of 131 purchasing card transactions made during the audit period was tested for compliance with the Purchasing Division Administrative Standards & Procedures and Purchasing Card Program procedures. The following exceptions were noted:

Manatee County Purchasing Administrative Standards & Procedures

- Price Quotes - Procedures require quotes to be obtained, or documentation of noncompetitive or sole source purchases be maintained, when a transaction is over \$300. We found 22 of the 131 (17%) transactions tested lacked adequate supporting documentation of competitive pricing.

Purchasing Card Program Procedures

- Timely Submission to Finance - Procedures require that supporting documentation for all purchases made during a billing cycle be submitted to the Clerk of Court’s Finance Department for processing by the 10th day of each month. Test work found that 13 of

the 131 (10%) transactions tested did not have the supporting paperwork submitted to Finance by the 10th of the month. In addition, 26 (20%) of the transactions tested were not submitted to Finance within a week of the charge posting to the cardholder's account, a goal set by the Purchasing Division.

- Vendor Certificates of Insurance - Procedures require a current Certificate of Insurance be obtained from vendors, and maintained in the supporting paperwork at the department level, for any purchases in which services will be performed on County property. Of the 131 transactions sampled for testing, 8 were for services performed on County property. These 8 transactions involved 6 different vendors. We found that none of the departments had collected or maintained Certificates of Insurance from vendors for any of these transactions. We did find current Certificates of Insurance on file with the Purchasing Division for 3 of the 6 vendors, which supported 4 of the 8 transactions identified. The remaining 4 transactions (50%) were not supported with Certificates of Insurance to ensure that the vendors were adequately insured at the time the services were provided.

Management Action Plan: The Purchasing Division will discuss key points of the purchasing procedures with department leaders and notify those whose departments had late documentation submissions to the Finance department. Re-training will be performed with all cardholders and proxy reconcilers to reemphasize the documentation and submission requirements contained in the purchasing procedures. In addition, the Purchasing Division has obtained the approval of the County Administrator to increase cardholders' single transaction limits, and the point at which price quotes are required, up to \$2,500. As departments complete the re-training, transactions falling below this threshold will no longer require price quotes.

The estimated implementation date is October 31, 2016.

AREA FOR IMPROVEMENT #3 Card Deactivations

When a cardholder terminates employment with Manatee County, it is the responsibility of the employee's department's Human Resources liaison or Proxy Reconciler to notify the Purchasing Card Administrator as soon as possible. This ensures that the purchasing card and account can be deactivated in the WORKS system and prevent any unauthorized use of the purchasing card. We tested all employees with a purchasing card who separated from employment with the County during the audit period. Of the 43 employees identified who had an active purchasing card at the time of separation, 14 were deactivated within 1 day or less of leaving; however, 29 (67%) cards were not deactivated timely, ranging from 3 to 286 days. We found the average number of days to deactivate purchasing cards and accounts was 58 days.

Management Action Plan: The Proxy Reconcilers will be reminded in upcoming training the importance of notifying the Purchasing Card Administrator immediately when a cardholder leaves employment. As an additional control, the Purchasing Card Administrator is now receiving a list of terminated employees at the end of each month from the Human Resources Department. This report is cross-referenced against the list of active cardholders to determine whether any cards need to be deactivated.

The estimated implementation date is October 31, 2016.