

**Review of Orange County
Comptroller's Office
Purchasing Card Usage**

**Report by the
Office of County Comptroller**

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**Report No. 349
July 2004**

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July 16, 2004

Martha O. Haynie, Orange County Comptroller

We have conducted an audit of the use of purchasing cards by your Office. The period audited was January 1, 2003 through June 30, 2003. Our audit was conducted in accordance with generally accepted government auditing standards, and included such tests as we considered necessary in the circumstances. With respect to these standards, I am not independent of the Comptroller's purchasing card program.

Responses to our Recommendations for Improvement were received from the Chief Deputy Comptroller and are incorporated herein.

We appreciate the cooperation of the personnel of your Office during the course of the audit.

J. Carl Smith, CPA
Director of County Audit

c: Orange County Board of County Commissioners

EXECUTIVE SUMMARY

Executive Summary

We have conducted a review of the Orange County Comptroller's Office Purchasing Card Usage. The period audited was January 1, 2003 through June 30, 2003. The objectives of our review were to determine whether internal controls over the issuance and use of purchasing cards were adequate; and, whether purchases made with the use of purchasing cards were in compliance with the Comptroller's purchasing card policies and procedures. Based upon the work performed, the comptroller's Office complied with the provisions of its purchasing card policies and procedures. In our opinion, the system of internal controls over the issuance and use of the purchasing cards was adequate. During our review, we noted the following:

We commend the Comptroller's office for their overall strong controls. Although an additional internal control, pre-purchase stipulations for use of the purchasing cards and additional review requirements render the purchasing process less efficient than a traditional purchasing card program.

The program coordinator's responsibilities are inadequately segregated. These responsibilities include ordering and canceling purchasing cards; overriding merchant category codes, if required; reviewing billing statements, purchasing card purchase reports and supporting documents for purchases; preparing the bank payment documents (bank transfer and wire authorization forms); and recording (keying) the expenditures into the general ledger system.

The Chief Deputy Comptroller concurred with our recommendations and corrective actions are planned.

ACTION PLAN

Review of Orange County Comptroller's Office Purchasing Card Usage
Action Plan

NO.	RECOMMENDATIONS	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS	
		CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED
1.	We Commend the Comptroller's Office for their overall strong controls. We recommend the Comptroller's Office re-evaluates the pre-approval for small dollar purchases.	✓				✓
2.	We recommend the Comptroller's Office considers separating some of the duties currently assigned to the Program Coordinator. In the absence of such separation, a monthly list of all cardholders could be obtained directly from the bank and be reviewed by a position above the Program Coordinator to ensure only cards authorized by management have been issued.	✓				✓

INTRODUCTION

Background

The Comptroller's Office established its purchasing card program (program) in November 2000. Initially, 16 cards were obtained and 12 were subsequently issued to cardholders. The remaining four cards were cancelled before issuance.

A Purchasing Card Program Coordinator (Program Coordinator) was appointed in the Fiscal Section of the Comptroller's Office to oversee the program. Specific responsibilities of the Program Coordinator include the following:

- Act as a liaison between departments, vendors, and bank staff
- Maintain control of cards, issuance, and return of cards
- Provide training on usage, reporting, and monitoring to cardholders and managers.

Single transaction limits were established at \$5,000 with total purchases capped at \$25,000 per billing cycle. Each cardholder was required to sign a cardholder agreement and acknowledgement receipt specifying the purchase limits and other conditions for use of the card. A review process was established to ensure that monthly purchasing card purchase reports (PCPR) and billing statements were reviewed and approved by a department manager or above. Monthly payments of the master bill from the bank are prepared by the Program Coordinator.

Scope, Objectives, and Methodology

The audit scope included a review of the use of purchasing cards by the Comptroller's Office. The audit period was January 1, 2003 to June 30, 2003.

The objectives of our review were as follows:

- A) To determine whether internal controls over the issuance and use of purchasing cards were adequate; and,

- B) To determine whether purchases made with the use of purchasing cards were in compliance with the Comptroller's purchasing card policies and procedures.

To determine whether internal controls were adequate, we reviewed the Comptroller's purchasing and purchasing card policies and procedures, interviewed staff as appropriate, and performed a transaction review of the card issuance and use processes.

To determine compliance with the purchasing card policies and procedures, we selected a sample of purchases and ensured the following:

- Monthly purchasing card purchase reports were prepared by cardholders and reconciled to the billing statements
- Reconciled billing statements were reviewed and approved by management
- Purchases had adequate supporting documents
- Purchases served a valid public purpose
- Sales taxes were excluded from the amount paid
- Purchases were in compliance with the single, daily, and monthly cycle transaction limits.

Overall Evaluation

Based upon the work performed, the Comptroller's Office complied with the provisions of its purchasing card policies and procedures. In our opinion, the system of internal controls over the issuance and use of the purchasing cards was adequate. Recommended improvements are noted herein.

RECOMMENDATIONS FOR IMPROVEMENT

1. Consideration Should Be Given to Modifying the Comptroller's Purchasing Card Policies and Procedures to Make Them More Efficient

Generally, a purchasing card may be used to acquire goods and services under a single transaction limit of \$5,000 (Two cardholders have been authorized to make purchases under a single transaction limit of \$10,000). However, pre-purchase stipulations for use of the cards and additional review requirements render the process less efficient than a traditional purchasing card program.

Pre-purchase requirements for using purchasing cards include the following:

- Purchases for amounts up to \$1,000 by cardholders below the assistant manager level require prior written approval by the assistant department head or above
- Purchases for amounts of \$1,001 to \$5,000 require the completion of purchase requisitions, and approval of the purchase requisition by the assistant department head or above
- Purchases/expenditures for dues and memberships, publications, aesthetic items, equipment or equipment rental, software, lease and lease purchases, and contracts require special authorization by either the Chief Deputy Comptroller or Comptroller prior to placing the order.

In addition to the pre-approval requirements noted above, the monthly billing statements are subjected to the following review and approval processes:

- The cardholders review their monthly bank billing statements and reconcile the statements to the purchasing card purchase reports (PCPR) and supporting documents

RECOMMENDATIONS FOR IMPROVEMENT



- The Department Managers review the reconciled statements and the supporting documents for all cardholders below their level
- The Assistant Comptrollers review and approve the statements for all cardholders in the departments reporting to them in addition to the review and approval of the Department Managers
- The Program Coordinator then conducts another comprehensive review of all of the billing statements, PCPRs and supporting documents.

It would be more efficient to utilize the purchasing card system without the pre-approval requirements, while still maintaining adequate control. As a benchmark, many traditional Purchasing Card Programs allow the cardholder to place orders directly with the vendor, without prior management approval or completion of a purchase requisition or purchase order, for a single purchase that does not exceed a specified limit. Purchases must be recorded on monthly PCPRs and have adequate support documents. The PCPR is reconciled to the bank billing statement by the cardholder. A designated representative or supervisor reviews monthly billing statements, PCPRs and support documents. Management level personnel usually conduct periodic checks.

The traditional goal for establishing a purchasing card program includes providing a more efficient procurement process, as well as reduction of operating costs for processing small dollar purchases. This is accomplished by giving greater authority to staff to procure goods and services for small dollar amounts without prior approval from management and the elimination of purchase requisitions and purchase orders. Thus, there is less time involved in executing a purchase, as well as fewer documents needed in the process.

We Commend the Comptroller's Office for their overall strong controls. We recommend the Comptroller's Office re-evaluates the pre-approval for small dollar purchases.

Management's Response:

Concur. We will take your suggestion into consideration. You mention three areas of concern regarding an inefficient pre-approval requirement. They are less than \$1,000 purchases, \$1,001 to \$5,000 purchases and special authorization item purchases. With only the less than \$1,000 purchases (referred to as "small dollar purchases") do you recommend relaxing the pre-approval requirement.

The less than \$1,000 purchases while seemingly small can be significant. Purchasing control and budget responsibility rest primarily with our department managers. They should be fully aware of all purchases contemplated by support staff since they are responsible for their budgets. The policy requires assistant department head or above signature approval. There are very few employees lower than assistant managers that have been given purchase cards. Much of this can occur quickly by e-mail and no purchase requisition is required. Therefore, any inefficiency should be minor. The major benefit to us with purchase cards is not in the paperwork, but rather the reduced time in getting the order to the company and being able to purchase more competitively over the Internet. We will propose a policy change allowing e-mail approval for these expenditures.

2. Some of the Responsibilities of the Program Coordinator Should Be Segregated or Compensating Controls Developed

The Program Coordinator's responsibilities appear to be inadequately segregated. These responsibilities include ordering and canceling purchasing cards; overriding merchant category codes, if required; reviewing billing statements, purchasing card purchase reports and supporting documents for purchases; preparing the bank payment documents (bank transfer and wire authorization forms); and recording (keying) the expense charges into the general ledger system. Adequate segregation of duties includes a separation of the authorization, payment, and recording functions. Without adequate segregation of

RECOMMENDATIONS FOR IMPROVEMENT



responsibilities, it may be possible for the Program Coordinator to obtain and utilize a purchasing card without timely detection by management.

We Recommend the Comptroller's Office considers separating some of the duties currently assigned to the Program Coordinator. In the absence of such separation, a monthly list of all cardholders could be obtained directly from the bank and be reviewed by a position above the Program Coordinator to ensure only cards authorized by management have been issued.

Management's Response:

Concur. You recommended a segregation of the authorization for card issuance at the bank, payment, and recording functions. As you know, we operate a very small staff for the Comptroller accounting. We will be obtaining a new card provider with our current RFP process. This will allow us to have much simpler control of card issuance while still maintaining card restrictions, such as MCC control at a lower level.

We will also begin a review and approval of both the payments and postings and the master billing statement by the Accounting/MSTU Supervisor.

These opportunities should place more individuals in the process and, therefore, gain better segregation of duties. Hopefully, this combination will meet your recommendations.