

**Review of
Orange County
Purchasing Card Usage**

**Report by the
Office of County Comptroller**

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July 14, 2004

Richard T. Crotty, County Chairman
And
Board of County Commissioners

We have conducted a review of the use of Orange County purchasing cards. 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.

Responses to our Recommendations for Improvement were received from the Manager of the Purchasing and Contracts Division and are incorporated herein.

We appreciate the cooperation of the personnel of the Purchasing and Contracts Division as well as certain other divisions during the course of the audit.

Martha O. Haynie, CPA
County Comptroller

c: Ajit Lalchandani, County Administrator
Tom Weinberg, Deputy County Administrator
Warren Geltch, Director, Administrative Services
Johnny Richardson, Manager, Purchasing And Contracts Division

EXECUTIVE SUMMARY

Executive Summary

We have conducted a review of the use of Orange County purchasing cards. The objectives of our review were to determine whether internal controls over the issuance, use, and cancellation of purchasing cards were adequate; and, whether purchases were in compliance with the County's purchasing card policies and procedures. The period audited was January 1, 2003 through June 30, 2003. Based upon the work performed, the County complied with provisions of its purchasing card policies and procedures. Also, the system of internal controls over the issuance, use, and cancellation of purchasing cards was adequate.

Internal controls over the use of purchasing cards at the County division level were adequate to strong. We also commend the County for the positive "tone at the top" of management in the County divisions sampled. Division managers and other senior division personnel (Fiscal Coordinators, Program Managers, Division Representatives) were involved in the review process. In addition, the Purchasing and Contracts Division (PCD) and the Comptroller's Accounts Payable Section establish a strong positive tone during the initial training prior to the issuance of purchasing cards to cardholders. As a result, not many deviations from policies and procedures were noted by our review and no cases of inappropriate use of the cards that were not already detected in the normal course of operation came to our attention. During our review, we noted the following opportunities for improvement:

Merchant Category Codes used by the County are opened to all County cardholders. However, purchases of goods and services that are appropriate for some County divisions are not appropriate for other divisions.

The pass code to override purchases that are denied by the bank because of pre-established merchandise codes and/or limits was not always kept confidential from cardholders. Also, the pass code has never been changed.

The list of active authorized cardholders maintained by the PCD was not being reconciled periodically with the bank's list of cards issued. As a result, there were various discrepancies between both lists.

The following reports/logs were not being generated on a regular basis to help management monitor and improve the purchasing card program:

- Declined purchases report from the purchasing card vendor
- Reports on infractions, as well as, high and low transaction volume for cardholders and vendors from the information system
- Logs for expected credits and disputed items were not generally maintained.

The ratio of division representatives to cardholders for the three larger County divisions sampled varied between 1:53 and 1:96. Actual number of purchases

in these divisions was quite large, as many as 80 transactions in some months for certain cardholders. Good controls require a reasonable ratio of division representatives to cardholders to ensure that the division representatives are afforded enough time to adequately review monthly billing statements.

Neither the PCD nor the Comptroller's Accounts Payable Section had an up-to-date list of division representatives. Also, there were no division representative appointment forms on file at the PCD for four of the nine division representatives interviewed.

Thirty-one percent (18 of 59) of the monthly billing statements and support documentation tested were submitted to the Comptroller's Accounts Payable Section late. Eleven submissions were one to four days late, four submissions were five to nine days late, and three submissions were ten to fourteen days late.

Thirty-seven percent (22 of 60) of the monthly Purchasing Card Purchase Reports reviewed were not completed by the cardholders in a timely manner.

Three percent (24 of the 872) of the purchasing card transactions reviewed were supported by invoices that were dated 46 to 213 days prior to the date the purchases were charged to the purchasing cards.

Two of nine applicable cancellation requests tested were forwarded to the bank three and five days after the cancellation notices were received from the Divisions. Immediate cancellation of cards is necessary to prevent inappropriate charges.

Management concurred with all of the recommendations made in this report and corrective action is either completed, planned, or underway.

ACTION PLAN

Review of Purchasing Card Usage
Action Plan

NO.	RECOMMENDATIONS	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS	
		CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED
1.	We commend the County for establishing and maintaining a sound system of internal controls over the use of purchasing cards.					
2.	We recommend the County includes the ability to tailor MCCs to meet the needs of individual divisions in the purchasing card services contract.	✓			✓	
3.	We recommend the PCD ensures that the pass code to override declined purchases is not revealed to cardholders. In addition, the pass code should be periodically changed.	✓			✓	
4.	We recommend the PCD periodically performs a reconciliation of the County's list of active authorized cardholders with the list maintained by the bank.	✓			✓	
5.	We recommend the following:					
A)	The County ensures the purchasing card vendor provides a declined purchases report to the Comptroller's Accounts Payable Section on a monthly basis. Such reports should also be distributed to the Purchasing Card Administrator and the County's division managers for their review.	✓			✓	
B)	The PCD requests the Comptroller's Accounts Payable Section to generate monthly reports from the infospa system for vendors with high dollar sales as well as cardholders with minimal or no purchases.	✓			✓	
C)	Division representatives prepare monthly logs of expected credits and disputed items for follow-up purposes and management's review.	✓				✓
6.	We recommend consideration be given to appointing more than one division representative in the larger divisions to ensure adequate time is available for the monthly statement review.	✓				✓
7.	We recommend the PCD obtains division representative appointment forms for all division representatives and	✓			✓	

Review of Purchasing Card Usage
Action Plan

NO.	RECOMMENDATIONS	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS	
		CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED
	prepares an updated list of the division representatives. Copies should be sent to the Comptroller's Accounts Payable Section for their use in verifying division representatives' signatures.					
8.	We recommend the County ensures cardholders comply with written procedures and submit the monthly billing statements and supporting documents to the Comptroller's Accounts Payable Section by the twenty-fifth day of each month.	✓			✓	
9.	We recommend cardholders record purchases on PCPRs immediately after purchases are made.	✓			✓	
10.	We recommend the County ensures that supporting invoices are dated not more than 45 days prior to the date charged on the billing statement.	✓				✓
11.	We recommend the PCD performs the following:					
A)	Develops a terminated cardholder list to include the names of the cardholders, the dates the cards were terminated, and reasons for termination; and,	✓			✓	
B)	Verifies new card requests against the list of terminated cards to guard against issuing new cards to individuals whose prior cards were terminated because of improper use.	✓			✓	
12.	We recommend County divisions properly complete termination forms and the PCD promptly acknowledges and acts upon them when received.	✓			✓	

INTRODUCTION

Background

Orange County started a purchasing card pilot program during fiscal year 2000 based upon the State of Florida's purchasing card agreement with the Bank of America. The pilot program, involving the use of a limited number of purchasing cards, was tested and modified during a period of six months. After the program was determined to be successful, it was gradually expanded to include all County divisions.

A Purchasing Card Program Administrator (Program Administrator) was appointed in the Purchasing and Contracts Division (PCD) to administer and oversee the program. Specific responsibilities of the Program Administrator include the following:

- Coordinate and maintain internal controls including program policy and procedures
- Act as a liaison between departments, vendors, the Comptroller's Accounts Payable Section of the Comptroller's Office, and staff of the participating bank
- Coordinate the issuance and cancellation of purchasing cards
- Pursue supplier discount opportunities
- Provide initial and ongoing training on usage, reporting, and monitoring to cardholders and managers (in conjunction with the Comptroller's Accounts Payables Section's Procurement Card Administrator)
- Participate in resolving disputes, billing issues, and program reviews.

Single transaction limits with the bank were established at \$1,000 with total purchases capped at \$25,000 per billing cycle. Each cardholder is required to sign a cardholder agreement and acknowledgement receipt specifying the purchase limits and other conditions for use of the card including disciplinary measures and personal liability if inappropriately used. A review process was established to ensure that monthly Purchasing Card Purchase Reports (PCPR) and billing statements were reviewed and approved by division representatives, who are appointed by each division manager. Division managers are also responsible



for oversight of the program at the division level, authorization of new cards, and the termination of cards.

Individual billing statements, after reconciliation by the cardholders and review by division representatives, are sent to the Comptroller's Office for further processing as follows:

- The Comptroller's Accounts Payable Section conducts a further review of the purchases, posts the expenditures to the general ledger accounts, and prepares the payment for the summarized (master) bill from the bank
- The pay request and the summarized bill are then reviewed by the Comptroller's Finance and Accounting Department before the Comptroller's Treasury Section wires payment to the bank.

As of June 30, 2003, there were 514 issued purchasing cards. Total purchases for the last three fiscal years were as follows:

FISCAL YEAR	PURCHASES (Millions)
2001	\$ 3.8
2002	11.4
2003	13.1

**Scope, Objectives,
and Methodology**

The audit scope consisted of a review of the use of Orange County's purchasing cards. 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, use, and cancellation of purchasing cards were adequate; and,
- B) To determine whether purchases made with purchasing cards were in compliance with the County's purchasing card policies and procedures.

To determine whether internal controls were adequate, we reviewed the County's purchasing card policies and procedures, reviewed and evaluated the purchasing card training program, and interviewed administrative staff, as appropriate, from the PCD and the Comptroller's Accounts Payable Section. We also interviewed division managers, division representatives, and cardholders from a sample of nine County divisions, tested transactions, and reviewed and tested the card issuance, use, and cancellation processes.

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

- Monthly PCPRs were prepared by cardholders and reconciled to the billing statements
- Purchases had adequate supporting documents
- Purchases served a valid public purpose
- Items purchased were not on the prohibited list
- Sales taxes were excluded from the amounts paid
- Purchases were in compliance with the single, daily, and monthly cycle transaction limits
- Purchases were not split to circumvent the single purchase limits
- Payments were not duplicated
- Reconciled billing statements were reviewed and approved by management
- Billing statements and support documents were forwarded to the Comptroller's Accounts Payable Section in a timely manner.

We also selected samples of cards issued and cancelled during the audit period and tested them for compliance with written procedures.

Overall Evaluation

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

RECOMMENDATIONS FOR IMPROVEMENT

1. We Commend the County for Establishing and Maintaining a Sound System of Internal Controls Over the Use of Purchasing Cards

Our review of internal controls over the use of purchasing cards for a sample of eight County divisions and one County department resulted in an overall evaluation of adequate to strong internal controls. These divisions and department accounted for 62 percent (317 of 514) of the open cards as of June 30, 2003. More specifically, our evaluation of the internal controls at the divisions and department reviewed revealed the following:

- One division had a very strong system of internal controls
- Three divisions had strong internal controls
- Three divisions had internal controls that were adequate
- Two divisions had internal controls that were adequate except for minor weaknesses.

Internal control systems are developed by and are the responsibility of management. In developing a system of internal controls, management should consider both the costs and benefits of the controls. In a program, such as the purchasing card program, the system must provide strong review and detective controls to compensate for the elimination of preventive controls, such as the pre-authorization of purchases. The purchasing card policy and procedures allow cardholders to make single purchases of up to \$1,000 with an accumulation limit of up to \$25,000 per billing cycle without pre-authorization of the individual transactions.

A system of internal controls is considered adequate when a set of controls exists that will reduce the likelihood of misappropriation of assets and errors in the recording of transactions. With respect to the County, such controls provided reasonable assurance that the expenditures of County funds are properly authorized, serve a public purpose, and all transactions are properly recorded.

RECOMMENDATIONS FOR IMPROVEMENT



No cases of inappropriate use of purchasing cards that were not already detected were noted

We also would like to commend the County for the positive “tone at the top” of management in the County divisions sampled. Division managers and other senior division personnel (Fiscal Coordinators, Program Managers, Division Representatives) were involved in the review process. In addition, the PCD and the Comptroller’s Accounts Payable Section establish a strong positive tone during the initial training prior to the issuance of purchasing cards to the cardholders. As a result, not many deviations from policies and procedures were noted by our review and no cases of inappropriate use of the cards that were not already detected in the normal course of operation came to our attention.

We Commend the County for establishing and maintaining a sound system of internal controls over the use of purchasing cards.

2. Merchant Category Codes Should Be Tailored to Meet the Needs of Individual Divisions

MCCs should be tailored to the functions of the divisions

A Merchant Category Code (MCC) is a universal code assigned to a vendor to identify the kinds of goods and services that are sold by the vendor. The Orange County purchasing cards are set up to accept and reject certain MCCs for purchases. If an employee needs goods or services with an unauthorized MCC, the PCD arranges to open the code to all cardholders. As such, each MCC is opened to all County cardholders. However, purchases of goods and services that are appropriate for one division may not be appropriate for another. For example, if the Youth and Family Services Department needs access to MCC 7996 - Amusement Parks, Carnivals, etc. so that tickets can be purchased for the children from Great Oaks Village, this code would be opened for all cardholders. While this is appropriate for Great Oaks Village, it may not be appropriate for Fleet Management as they are not likely to need these types of goods and services. Tailoring the MCCs to relate to the function of each division, and thus meet their individual needs, would allow another level of control over what cardholders are allowed to purchase.

We Recommend the County includes the ability to tailor MCCs to meet the needs of individual divisions in the purchasing card services contract.

Management's Response:

Concur. We are working with the card company, Bank of America, on this capability. Note, however, that the Procurement Committee has evaluated proposals for a new card company and the Board will shortlist the proposals on June 15, 2004. The award of a new contract for purchasing card service is expected not later than the first week of August 2004.

3. The Pass Code to Override Declined Purchases Should Remain Confidential

Pass codes should remain confidential

The pass code to override purchases that are denied by the bank because of pre-established merchandise codes and/or limits is provided to the bank by the PCD while the cardholder is on the phone through a three-way connection. By doing this, the cardholder becomes aware of the pass code to override declined purchases and could use this code to subsequently make inappropriate purchases. Further, the pass code has never been changed. Good controls require that the pass code is only known by authorized individuals, remains confidential at all times, and is periodically changed.

We Recommend the PCD ensures that the pass code to override declined purchases is not revealed to cardholders. In addition, the pass code should be periodically changed.

Management's Response:

Concur. However, Bank of America indicates that this can only be accomplished by shutting down the system for an indeterminate time period and providing new cards to all current cardholders. This level of disruption is not acceptable. However, in the interim, we have taken steps to ensure that the corporate account number is safeguarded. The practice cited in the audit has been discontinued and the

account number is only revealed to bank officials with a specific need to know.

4. The County's List of Active Cardholders Should Be Reconciled Periodically With the Bank's List of Cards Issued.

The list of active authorized cardholders maintained by the PCD is not periodically reconciled with the bank's list of cards issued. Our reconciliation of the lists as of June 30, 2003 showed discrepancies as follows:

- Eleven cards were shown as opened on the PCD's list but were not shown on the bank's list
- Eleven cards were shown as opened on the PCD's list but were shown as opened and subsequently cancelled by the bank
- One card was listed twice by the PCD
- Twenty-seven cards were shown as opened on the bank's list but were not shown on the PCD's list.

Reconciliation of the County's open account list with the bank's list should be performed periodically. This would ensure that the status of each account remains current on the list and only authorized cardholders have access to cards.

We Recommend the PCD periodically performs a reconciliation of the County's list of active authorized cardholders with the list maintained by the bank.

Management's Response:

Concur. We have implemented a policy to reconcile the active cardholder list with the bank on a quarterly basis.

5. Monthly Reports Should Be Generated From the Bank, the Infospan System, and Internally at the Division Level for Management Review

During our review of the purchasing card reporting system, we noted the following:

- A) The purchasing card vendor does not provide a list of declined purchases to the County on a regular basis. The State contract, through which the County procures its purchasing card services, requires the bank to provide the County with both valid and rejected data transaction activity and statistics. According to the Comptroller's Accounts Payable Section, these reports are received intermittently. The PCD stated that they do not receive the reports at all. The declined purchases reports could be useful in providing information on new MCCs that are needed, as well as cardholders' attempts to make inappropriate purchases, if any. The Program Administrator as well as division managers should review such reports.
- B) Reports on infractions, as well as high and low transaction volume for cardholders and vendors could be used by management to monitor and help improve the purchasing card program. The infraction reports would provide them with information on non-compliance issues. The high and low use reports could provide information on vendors from whom discounts could be negotiated, as well as, individual cardholders who do not need purchasing cards. Good administrative controls include the provision of reports to keep management informed of the success or failure of operating programs.
- C) All but one of the division representatives do not maintain a log for expected credits and disputed items. This log would be helpful to track outstanding credits and disputed items until they are resolved. A log to show date originated, description of item, amount, action taken to resolve issue, and date

resolved is vital to maintaining good controls and prompt resolution of outstanding credits and disputed items. This is a proactive control to help ensure nothing is inadvertently forgotten.

Without these reports, management may not be in a position to make needed changes or ensure that outstanding items are resolved in a timely manner. In the case of the infractions report, management could deal with potential problems before they occur.

We Recommend the following:

- A) The County ensures the purchasing card vendor provides a declined purchases report to the Comptroller's Accounts Payable Section on a monthly basis. Such reports should also be distributed to the Purchasing Card Administrator and the County's division managers for their review.
- B) The PCD requests the Comptroller's Accounts Payable Section to generate monthly reports from the infospa system for vendors with high dollar sales as well as cardholders with minimal or no purchases.
- C) Division representatives prepare monthly logs of expected credits and disputed items for follow-up purposes and management's review.

Management's Response:

- A) Concur. This report is currently provided on a monthly basis.
- B) Concur. We will request the report be forwarded to us.
- C) Concur. This requirement is being implemented.

6. Consideration Should Be Given to Appointing More Than One Division Representative in the Larger Divisions

Additional division representatives should be considered for the larger divisions

The overall ratio of division representatives to cardholders for the nine divisions reviewed in our sample was one division representative to every thirty-two cardholders (1:32). For the three larger divisions in the sample, the ratios were 1:96, 1:54, and 1:53. In addition, the actual number of purchases on each cardholder statement to be reviewed in some divisions was quite large. For example, it was not uncommon for cardholders in one division to have as many as 80 purchases in a given month. Although, during our interviews, the division representatives stated that they were comfortable with the time they have to review statements, a further review should be conducted to determine whether these larger divisions should have more than one division representative.

Good controls require a reasonable ratio of division representatives to cardholders to ensure that the division representatives are afforded enough time to adequately review monthly billing statements, PCPRs, and supporting documents. Given the time constraints in getting the reconciled and reviewed billing statements, PCPRs, and supporting documents to the Comptroller's Accounts Payable Section for further processing, it is possible that division representatives may be tempted not to conduct as thorough a review of the reports and documents as needed. As such, infractions may go undetected at the division level.

We Recommend consideration be given to appointing more than one division representative in the larger divisions to ensure adequate time is available for the monthly statement review.

Management's Response:

Concur. We have brought this proposal to the attention of the division representatives. They have been informed that they should review their purchasing program and decide if

they needed an additional representative to manage the workload.

7. Division Representative Appointment Forms Should Be Obtained, the Division Representative List Updated, and Copies Sent to the Comptroller's Accounts Payable Section

Appointment forms
should be completed
for all division
representatives

Our review of documentation for division representatives disclosed that neither the PCD nor the Comptroller's Accounts Payable Section had an up-to-date list of division representatives. In addition, there were no division representative appointment forms on file at the PCD for four of the nine division representatives interviewed. Also, the Comptroller's accounts payable specialists do not have specimen signatures of division representatives, as the divisions do not always send copies of the appointment forms to the Comptroller's Accounts Payable Section. The Comptroller's Accounts Payable Section verifies that all billing statements, PCPRs, and supporting documents are reviewed and approved by division representatives at the division level by ensuring the division representatives' signatures are on the billing statement. Standard operating practices require that purchasing card division representative appointment forms, which are signed by the division representatives and authorized by the division managers, are completed at the division level and sent to the PCD and the Comptroller's Accounts Payable Section. Without an updated division representative list supported with appointment forms, the Comptroller's Accounts Payable Section may not be able to verify that reports and documents were reviewed at the divisions by the appropriate persons.

We Recommend The PCD obtains division representative appointment forms for all division representatives and prepares an updated list of the division representatives. Copies should be sent to the Comptroller's Accounts Payable Section for their use in verifying division representatives' signatures.

Management's Response:

Concur. We are confirming/updating the division representative list on a quarterly basis.

8. Monthly Billing Statements and Supporting Documents Should Be Submitted to the Comptroller's Accounts Payable Section as Required

Our review of a sample of monthly purchasing card billing statements and supporting documents submitted to the Comptroller's Accounts Payable Section revealed that 31 percent (18 of 59) of the statements and support were submitted late. Further analysis showed eleven submissions were one to four days late; four submissions were five to nine days late; and, three submissions were ten to fourteen days late. Section II (E) (3.7) of the County purchasing card procedures requires the submission of the reconciled billing statements, and supporting documents to the Comptroller's Accounts Payable Section by the twenty-fifth day of each month.

We Recommend the County ensures cardholders comply with written procedures and submit the monthly billing statements and supporting documents to the Comptroller's Accounts Payable Section by the twenty-fifth day of each month.

Management's Response:

Concur. Action will be taken against habitually delinquent cardholders.

9. Cardholders Should Comply With Standard Operating Practices and Record Purchases on PCPRs Immediately After Purchases Are Made

Thirty-seven percent (22 of 60) of the monthly PCPRs reviewed were not completed by the cardholders in a timely

manner. Operating procedures require the recording of purchases on the PCPR immediately after purchases are made. Without an accurate and up-to-date PCPR, the cardholder may not be able to easily locate billing errors.

We Recommend cardholders record purchases on PCPRs immediately after purchases are made.

Management's Response:

Concur. This requirement is emphasized during training and through other communications with cardholders.

10. Applicable Purchases Should Be Supported With Invoices Dated Within the Designated Period

We noted that three percent (24 of the 872) of the purchasing card transactions reviewed were supported by invoices that were dated 46 to 213 days prior to the date the purchases were charged to the cards. Standard operating procedures require that supporting invoices be dated at the most 45 days prior to the date the charge is put through to the card. Using purchasing cards to pay stale invoices requires reviewers to spend additional time to research and make sure that the County has not already paid for these purchases in prior billing cycles.

We Recommend the County ensures that supporting invoices are dated not more than 45 days prior to the date charged on the billing statement.

Management's Response:

Concur. This requirement is emphasized during training and through other communications with cardholders.

11. A Terminated Cardholder's List Should Be Developed and Compared to New Card Requests

The PCD does not maintain a terminated cardholders list. A paper file is maintained for all paperwork relating to terminated cards. However, this file is not maintained in any particular order. In addition, The PCD does not consult the paper file to verify that new card requests are not being made by prior cardholders, and if so, the reason for prior card cancellations. Maintaining such a list could help the PCD ensure new cardholders had not had a card revoked for inappropriate use under a different County department. Without consulting a termination file, new cards could be issued to individuals whose prior cards may have been terminated because of inappropriate use. An easily accessible termination list makes this process efficient.

We Recommend the PCD performs the following:

- A) Develops a terminated cardholder list to include the names of the cardholders, the dates the cards were terminated, and reasons for termination; and,
- B) Verifies new card requests against the list of terminated cards to guard against issuing new cards to individuals whose prior cards were terminated because of improper use.

Management's Response:

Concur. We have implemented the recommendations in paragraphs A) and B).

12. Termination Forms Should Be Properly Completed and Acted Upon Promptly

Our review of terminated accounts revealed the following:

- The termination date was not provided by the terminating division in two of the ten cancellations reviewed; and,

- Two of the nine applicable cancellation requests were not forwarded to the bank in a timely manner. These requests were made three and five days after the PCD received the cancellation notices from the Division.

Prompt cancellation of cards is necessary to prevent inappropriate charges. To achieve this, the termination forms should be properly completed by the divisions and promptly acted upon by the PCD.

We Recommend County divisions properly complete termination forms and the PCD promptly acknowledges and acts upon them when received.

Management's Response:

Concur. We have implemented procedures to require timely submission of termination forms for all cardholder terminations.