

**Follow-up  
of the  
Review of Orange County  
Purchasing Card Usage**

**Report by the  
Office of County Comptroller**

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**Report No. 377  
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November 8, 2006

Richard T. Crotty, County Mayor  
and  
Board of County Commissioners

We have conducted a follow-up of the review of Orange County Purchasing Card Usage (Report No. 350). Our original audit included the period of January 1, 2003 through June 30, 2003. Testing of the status of the previous Recommendations for Improvement was performed for the period October 1, 2005 through December 31, 2005. Our follow-up audit was conducted in accordance with generally accepted government auditing standards and included such tests as we considered necessary in the circumstances.

The accompanying Follow-Up to Previous Recommendations for Improvement presents a summary of the previous conditions and the previous recommendations. Following the recommendations is a summary of the current status as determined in this review.

We appreciate the cooperation of the personnel of the Purchasing and Contracts Division 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

**IMPLEMENTATION STATUS OF  
PREVIOUS RECOMMENDATIONS  
FOR IMPROVEMENT**

**FOLLOW-UP OF THE REVIEW OF ORANGE COUNTY PURCHASING CARD USAGE  
STATUS OF PREVIOUS RECOMMENDATIONS FOR IMPROVEMENT**

NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS			
		IMPLEMENTED	PARTIALLY IMPLEMENTED	NOT IMPLEMENTED	NOT APPLICABLE
1.	We recommend the County includes the ability to tailor MCCs to meet the needs of individual divisions in the purchasing card services contract.	✓			
2.	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.		✓		
3.	We recommend the PCD periodically performs a reconciliation of the County's list of active authorized cardholders with the list maintained by the bank.		✓		
4.	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 infospan 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.		✓		

**FOLLOW-UP OF THE REVIEW OF ORANGE COUNTY PURCHASING CARD USAGE  
STATUS OF PREVIOUS RECOMMENDATIONS FOR IMPROVEMENT**

NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS			
		IMPLEMENTED	PARTIALLY IMPLEMENTED	NOT IMPLEMENTED	NOT APPLICABLE
5.	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.	✓			
6.	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.	✓			
7.	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.	✓			
8.	We recommend cardholders record purchases on PCPRs immediately after purchases are made.		✓		
9.	We recommend the County ensures that supporting invoices are dated not more than 45 days prior to the date charged on the billing statement.	✓			
10.	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,	✓			

**FOLLOW-UP OF THE REVIEW OF ORANGE COUNTY PURCHASING CARD USAGE  
STATUS OF PREVIOUS RECOMMENDATIONS FOR IMPROVEMENT**

<b>NO.</b>	<b>PREVIOUS RECOMMENDATION</b>	<b>IMPLEMENTATION STATUS</b>			
		<b>IMPLEMENTED</b>	<b>PARTIALLY IMPLEMENTED</b>	<b>NOT IMPLEMENTED</b>	<b>NOT APPLICABLE</b>
10. 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.	✓			
11.	We recommend County divisions properly complete termination forms and the PCD promptly acknowledges and acts upon them when received.	✓			

# INTRODUCTION



### Scope and Methodology

The audit scope was limited to an examination of the status of the previous recommendations for improvement from the Review of Orange County Purchasing Card Usage. Testing of the status of the previous recommendations was performed for the audit period October 1, 2005 through December 31, 2005.

To determine if the prior audit recommendations had been implemented, partially implemented, or not implemented, the following audit methodology was used:

We conducted interviews with personnel from the Purchasing and Contracts Division (PCD), Accounts Payable Division, purchasing card provider, and various County Divisions.

We reviewed and analyzed relevant background information and documentation, operating information and processes, policies and procedures, and contract documents.

We obtained a list of cardholders from both the Purchasing Card Administrator and the purchasing card provider. We reconciled the lists to verify whether the County has a complete and accurate list of its active cardholders.

We judgmentally selected a sample of 30 statements from our audit period (10 from each month of our audit period) and reviewed for the following:

- Whether the division representatives that approved the selected statements were on the list of division representatives received from the Purchasing Card Administrator; and,
- Whether the signatures on the selected statements matched the signatures on the division representative forms maintained by the Accounts Payable section.

We judgmentally selected a sample of 21 cardholders from the five divisions with the highest volume of purchasing card transactions during our audit period. We reviewed the

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## INTRODUCTION



statements from our audit period for each of the selected cardholders to verify the following:

- Whether the statements and supporting documentation were forwarded to Accounts Payable by the twenty-fifth day of each month; and,
- Whether invoices over 45 days old were not being paid with purchasing cards and, if so, whether proper action was taken.

We obtained a list of cancelled purchasing cards from both the Purchasing Card Administrator and the purchasing card provider. We also obtained a report of terminated employees from the Payroll Department. We verified whether the purchasing card provider was notified to cancel purchasing cards for the applicable terminated employees. We verified whether the Purchasing Card Administrator added the terminated cardholders to the County's list of cancelled purchasing cards.

**FOLLOW-UP TO PREVIOUS  
RECOMMENDATIONS FOR  
IMPROVEMENT**



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

During the prior review it was noted each Merchant Category Code (MCC) utilized by the County is opened to all purchasing cardholders. However, purchases of goods and services that are appropriate for one division may not be appropriate for another (i.e., amusement parks). 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.

**Status:**

Implemented. The County has executed a contract with a new purchasing card provider. This contract includes a provision allowing the County to tailor MCCs to meet the needs of individual divisions. However, the County is not utilizing this function and has only blocked six high risk MCCs for all purchasing cardholders.

**We Recommend** the County utilizes the ability to tailor MCCs to meet the needs of individual divisions.

**Management's Response:**

Concur. We do have the ability to do this within the contract. The contract allows us to tailor MCC, we have blocked the high risk MCC's and future actions will be dictated on an as needed basis.

**2. The Pass Code to Override Declined Purchases Should Remain Confidential**

The prior review found that the pass code to override purchases that are denied by the bank is provided to the

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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.

**Status:**

Partially Implemented. The pass code to override declined purchases is no longer revealed to cardholders. The cardholder is either placed on hold or called back when it is necessary to call the purchasing card provider to override a declined purchase. However, since the change to the new purchasing card provider in October 2004, none of the three applicable PCD employees have changed their pass code.

**We Again Recommend** that PCD employees periodically change their pass codes to override declined purchases.

**Management's Response:**

Concur. The call in pass code to JPMChase will be changed at the beginning of each fiscal year.

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

During the prior review, we found that 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 various discrepancies.

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

**Status:**

Partially Implemented. We were informed that the PCD periodically performs a reconciliation of the County's list of active authorized cardholders with the list maintained by the purchasing card provider. However, the PCD does not retain evidence of the reconciliations performed. We reconstructed the most current reconciliation performed by the PCD in March 2006 and noted the following discrepancies:

- The County's list of active authorized cardholders contained seven employees that were not on the purchasing card provider's list of active cardholders (five of which were canceled by the purchasing card provider between June 2005 and November 2005). These were correctly removed from the purchasing card provider's list and should have been removed from the County's list.
- The purchasing card provider's list of active cardholders contained five cardholders that were not on the County's list of active authorized cardholders (four of which were opened in February 2005 and one opened in November 2005). These cardholders should have been included on the County's list.

**We Recommend** the PCD improves their reconciliation process to ensure the County's list contains a complete and accurate record of the active authorized cardholders. We further recommend the PCD retains evidence of the reconciliations performed.

**Management's Response:**

Concur. This is done quarterly.



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

During our prior 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.
- B) Reports on high and low transaction volume for cardholders and vendors could be used by management to monitor and help improve the purchasing card program.
- C) All but one of the division representatives did not maintain a log for expected credits and disputed items.

**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 infospan 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.

**Status:**

- A) Implemented. The declined purchase report is available to the PCD online through the PaymentNet



System. The PCD periodically generates the report and calls division representatives to discuss the declined transactions for the employees within their division.

- B) Partially Implemented. The reports for vendors with high dollar sales as well as cardholders with minimal or no purchases are available to the PCD online through the PaymentNet System. We found that the PCD has been obtaining and reviewing the report of cardholders with minimal or no purchases. However, the PCD was not utilizing the report of vendors with high dollar sales.

**We Again Recommend** the PCD generates reports from PaymentNet for vendors with high dollar sales.

**Management's Response:**

Concur. This is done quarterly.

- C) Partially Implemented. In February 2006, the PCD revised the Purchasing Card Procedures to require division representatives to prepare monthly logs of expected credits and disputed items for follow-up purposes and management's review. The change in procedure was not communicated to the division representatives until March 2006. As a result of the timing of implementing this recommendation, we were unable to determine whether division representatives are complying with this procedure.

**We Recommend** the PCD ensures Division representatives prepare monthly logs of expected credits and disputed items for follow-up purposes and management's review.

**Management's Response:**

Concur: This will be done monthly by email to all division representatives.





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

We previously noted that 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. 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.

**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.

**Status:**

Implemented. We reviewed two of the previous five divisions with a high number of cardholders and found that although the divisions only utilized one representative, division management had considered whether to add more positions.

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

Our prior 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.

**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.

**Status:**

Implemented. We reviewed a sample of 30 billing statements and noted that all 30 were signed by a representative. We also noted that both the PCD and Accounts Payable Section retained copies of the Division Representative Appointment Forms for their use in verifying division representatives' signatures. All of the signatures reviewed were contained on the copies maintained in the PCD and Account Payable Section.

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

Our prior 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.

**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.



**Status:**

Implemented. All billing statements and supporting documents for all 21 cardholders reviewed were submitted to the Comptroller's Accounts Payable Section by the monthly deadline.

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

During the previous review, we noted thirty-seven percent (22 of 60) of the monthly Purchasing Card Purchase Reports (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.

**Status:**

Partially Implemented. When the County transitioned to the new purchasing card provider, the Purchasing Card procedures were revised making the PCPR optional. The PCPR was considered unnecessary as cardholders were given the ability to view card activity online through the PaymentNet System. However, the online activity only shows amounts actually posted to the cardholders' accounts. The PCPR is a useful tool for identifying transactions that are not posted or are posted for the wrong amount. Since the commencement of this follow-up review, the Purchasing Card procedures were revised to once again require the use of the PCPR. As a result of the timing of implementing this recommendation, we were unable to determine whether cardholders are complying with this procedure.



**We Recommend** the PCD ensures cardholders record purchases on PCPRs immediately after purchases are made.

**Management's Response:**

Concur. This report was added back into the Procurement/Travel Card Procedures and it is mandatory.

**9. 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.

**Status:**

Implemented. We selected a sample of 21 cardholders and reviewed their activity during the audit period. Of the 1,713 transactions reviewed, all but 11 (or less than 1%) were supported by invoices dated not more than 45 days prior to the date charged on the billing statement.

**10. 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.

**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.

**Status:**

- A) Implemented. The PCD has developed a terminated cardholder list that includes the names of the cardholders, the dates the cards were terminated, and reasons for termination.
- B) Implemented. The list of terminated purchasing cards maintained by the PCD contains the reason for the card termination. As such, the PCD has a mechanism for verifying 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.



**11. 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.

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

**Status:**

Implemented. We obtained and reviewed the purchasing card termination forms for all 15 cardholders whose employment had terminated during our audit period. We found all 15 to be materially complete. We also found that the cards were cancelled timely upon receipt of the completed form by the PCD.

However, when verifying the status of the card with the purchasing card provider, we found that access to online card activity through PaymentNet was not disabled for 13 of the 15 cardholders noted above. This issue is significant for non-cardholders (users) that are granted access to view card activity for all cardholders assigned to their hierarchy. This includes division representatives that have responsibility for reviewing cardholder statements as well as other administrative support staff that assist cardholders with assigning accounting lines to their purchases. The Purchasing Card Administrator informed us that there currently is no process in place to notify the PCD of users whose employment with the County has been terminated.

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**We Recommend** the PCD implements a procedure to receive notification when non-cardholders with access to account data through the PaymentNet System leave the County's employment. We further recommend that the PCD ensure access to PaymentNet is disabled for cardholders as well as non-cardholders that leave the County's employment.

**Management's Response:**

Concur. When a termination form is received from a cardholder or division representative, that cardholder is immediately canceled from JPMChase (PaymentNet).

A termination list is also received from Accounts Payable and from Human Resources. Both lists are checked against PaymentNet.