



FULTON COUNTY

**FULTON COUNTY, GEORGIA
OFFICE OF INTERNAL AUDIT
PURCHASING CARD AUDIT REPORT
September 1, 2015**

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INTRODUCTION

A Purchasing Card (P-Card) enables government agencies and organizations to streamline the procurement process and improve overall efficiency. The Purchasing Card was implemented in Fulton County to provide a means for User Departments to procure goods and services under \$2,500.00 in an efficient and timely manner. P-cards provide an alternative to traditional procurement methods and offer a number of benefits, including:

- Reducing time and effort for requisitions,
- Greater flexibility in selecting vendors,
- Simplifying the procurement process, and
- Expediting receipt of purchases.

Organizations typically use Purchasing Cards to target low value goods and services, as it offers a mechanism to do these transactions at a significantly lower cost than traditional methods. P-Cards are meant to supplement, not replace or circumvent established purchasing methods.

BACKGROUND

The Purchasing Card program in Fulton County was implemented in 1998 and is currently a VISA product managed by Bank of America, administered by the County. It is the first outcome of a redesign project initiated to develop a procurement process that is simpler, more efficient, and better serves the customer. The County's Purchasing Department is charged with overall administration of the P-card program; however, departments and cardholders are also accountable for ensuring effective program management. Today there are 104 cardholders and 40 approving officials. Currently, the County averages over 10,000 P-Card transactions per year with one staff person who is responsible for managing the entire program. The County spends approximately \$4.5M dollars annually on the Purchasing Card securing goods and services for the County.

County employees are assigned purchasing cards based upon departmental requests and specific job functions relevant to procurement. Based upon job parameters, the Purchasing Card Program Coordinator establishes what is known as a "cardholder profile". This profile restricts use of the card for certain types of procurements and defines monthly spending limits.

The primary benefits of the P-Card for departmental users are:

- Accepted by any supplier who accepts Visa;
- Faster purchase and receipt of goods;
- Reduction in transaction costs associated with processing purchase orders;

- Increased information about purchasing transactions, tracking of expenses;
- Improved supplier relations;
- Ability to take advantage of supplier discounts; and
- Ability to redirect purchasing staff to more value added activities.

OBJECTIVE

The primary focus of this audit is to provide reasonable assurance on the adequacy of the system of management controls in effect over the Purchasing Card Program. Management is responsible for establishing and maintaining effective controls which include maintaining appropriate policies and procedures, monitoring program performance, and ensuring compliance with program requirements.

SCOPE

The audit report period for this audit is January 1, 2014 through December 31, 2014.

METHODOLOGY

We conducted this audit in accordance with Generally Accepted Government Auditing Standards. To accomplish our objectives, we:

- Reviewed the Purchasing Department's internal controls as they currently exist;
- Reviewed the United States General Accounting Office's Audit guide pertaining to auditing and investigating internal controls of Government Purchase Card Programs prepared by the Government Accountability Office;
- Interviewed and performed walkthroughs with key personnel to gain an understanding of controls and how risks are mitigated in the Purchasing Card environment;
- Interviewed departmental purchasing card holders as needed;
- Identified and reviewed the Purchasing Card written policies and procedures, applicable laws, codes, plans and regulations;
- Reviewed the Purchasing Card files, records and data;
- Reviewed associated files, records and data from the Finance Department;
- Conducted interviews with management and staff from the Finance and Purchasing Departments; and
- Reviewed and analyzed vendor invoices, payment processing and authorizations required to issue payments.

Generally Accepted Government Auditing Standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives

FINDINGS AND RECOMMENDATIONS

Finding 1 – Volume of Cardholders Assigned to Purchasing Card Program Coordinator

The span of control should be effective, but manageable. The span of control in a government purchase card program refers to the extent of review responsibilities placed on a single Purchasing Card Program Coordinator for the purchase card transactions of one or more cardholders. The Department of Purchasing currently has one Purchasing Card Program Coordinator. The Fulton County Purchasing Card Program Coordinator has the primary responsibility to track and monitor expenditures of approximately 104 P-Card holders spreading over 40 County departments on a monthly basis. During the reconciliation window, the Purchasing Card Program Coordinator has a total of 12 days to ensure the accuracy and legitimacy of all county-wide P-Card purchases. The Purchasing Card Program Coordinator responsibilities include:

- Serving as the primary point of contact with the provider bank (Bank of America);
- Requesting cards, cancelling cards, setting profiles, creating electronic templates, providing policies and procedures training and providing reports;
- Monitoring all cardholder and user department purchasing card activity;
- Conducting audits of cardholder and user department activity; and
- Reviewing user department/cardholder reconciliation reports and electronic entries for accuracy regarding timely submittal, invoices/receipts, proper and valid fund accounting information, valid vendor listing and related correspondence for approval forward to Finance-Accounts Payable for payment processing.

These duties require an extraordinary amount of detail and excessive follow-up with departments. Staffing limitations and budgetary constraints have prohibited the Purchasing Department from employing more than one Purchasing Card Program Coordinator. Detailed below is the number of P-Card transactions that the single Purchasing Card Program Coordinator is responsible for managing as well as information pertaining to the number of purchase orders:

**DEPARTMENT OF PURCHASING
YEARLY PROCUREMENT TOTALS**

Procurement Measure	Actual 2009	Actual 2014
Number of P-Card Transactions	8,588	10,030
Dollar Value of P-Card Transactions	\$3,166,153.64	\$4,320,527.97
Number of Purchase Orders less than \$2,500 Issued	5,099	2,014
Dollar Value of Purchase Orders less than \$2,500	\$3,645,967.19	\$2,013,049.40

Because the P-Card provides a more efficient way to procure smaller value items and costs less than cutting a purchase order, P-Card transactions have increased while the number of purchase orders have decreased. Due to the number of cardholders and the number and complexity of purchase card transactions reviewed each billing cycle, employing only one Purchasing Card Program Coordinator could result in internal controls over purchases and payments not being properly maintained thereby lessening the effectiveness of the program.

Recommendation

We recommend management analyze and access the number of cardholders assigned to the Purchasing Card Program Coordinator. In conducting the assessment, management should take into consideration factors such as the volume of transactions normally processed and indications that cardholders or approving officials are not complying with the directive. We recommend increasing staffing levels for the P-Card Program to ensure more effective monitoring, verification and tracking of the County's annual \$4.5M in annual P-Card purchases. Proper monitoring will help to reduce the likelihood of unauthorized transactions and increase compliance with the established P-Card regulations.

Finding 2 – Lack of Refresher Training

Periodic refresher training should be required for cardholders and approving officials to maintain their knowledge and awareness of control activities; this minimizes mistakes and streamlines procurement processes. Currently, only the initial training provided prior to receiving a purchasing card is required. Refresher training is scheduled at the discretion of the cardholder, Department Head and/or Purchasing Card Program Coordinator, if deemed necessary. Consequently, failure to require periodic refresher training could result in increased mistakes and cardholders becoming unfamiliar with the rules and regulations governing the use of the purchasing card.

Recommendation

We recommend that all cardholders and approving officials be required to engage in refresher training, at a minimum, every two (2) years as part of their continuing authorization to hold a purchasing card. This training can be developed to be completed on-line for maximum efficiency and flexibility. Renewal cards should be held by Purchasing before issuance to cardholders until the refresher training has been completed. Furthermore, the Purchasing Department should develop a tracking system to ensure all participants complete refresher training as suggested.

Finding 3 – Past Due Invoices Submitted for Payment

Best practices indicate invoices received for payment should be paid within 30 to 45 days of receipt in order to remain in good standing with vendors and payees. During our audit investigation, we noted some invoices were submitted two to nine months after the initial due date and receipt of goods and services. Failure to submit invoices timely to department P-Card holders appears to be the cause of many of these instances. Consequently, invoices are not paid in a timely manner and as such don't accurately reflect the correct account period for which the charges were incurred.

Recommendation

In order to ensure timely vendor payment, we recommend all invoices eligible for P-Card payment be submitted to the departmental P-Card cardholder immediately upon receipt. Departments should implement policies and procedures that require employees to submit such invoices within 3 days of receipt to the P-Card holder. The Purchasing Department should review each invoice to determine if they were submitted timely for payment and consider corrective action when out of compliance.

Finding 4 – Lack of Established Tracking System/Inadequate Monitoring

In order to successfully monitor compliance of P-Card transactions and established P-Card policies and procedures, all violations or issues pertaining to non-compliance should be monitored, audited and tracked. The Fulton County P-Card manual states:

“The Purchasing Card Program Coordinator is responsible for monitoring all cardholder and user department purchasing card activity.”

During the course of our audit, we reviewed corrective action files and noted only one card suspension for failing to timely submit reconciliation documents although we found other

instances of non-compliance. Failure to adequately monitor and track non-compliance issues and violations limits the Purchasing Card Program Coordinator's ability to determine if repeat violations have occurred and P-Card privileges revoked. Inadequate staffing deterred the Purchasing Card Program Coordinator from being able to develop an effective tracking system or mechanism that would allow for consistent monitoring of repeat violators. As such, the potential rises for increased repeat violations and non-compliance without the appropriate corrective action being administered. Prompt disciplinary action can be an useful tool to reduce persistent non-compliance to policies and procedures by cardholders. When corrective and disciplinary actions are taken and documented, management can readily identify repeat violators and determine the appropriate steps to take to alleviate potentially significant problems before they escalate.

Recommendation

We recommend the Purchasing Card Program Coordinator develop a tracking system for all cardholders that monitors and tracks violations and issues of non-compliance. A report should be generated and provided to the Purchasing Card Director and the respective Department Head for issuance of corrective action prior to card revocation.

Finding 5 – Split Invoice Payments

An invoice is a bill detailing services rendered or products purchased and their overall cost. As a legal document, an invoice can be used as evidence of an incurred debt. Fulton County's P-Card Manual states:

“Cardholders shall never split charges in order to avoid exceeding the single purchase transaction limit.”

Following a review of P-Card reconciliation packages submitted by county departments, we noted numerous instances of split charges. Departmental cardholders failed to adhere to the P-Card manual pertaining to the guidelines on split charges. Attempts to split charges circumvent the County's procurement process for transactions totaling over \$2,499.99 and do not afford fair competition among other vendors who may be qualified to compete for goods and services.

Recommendation

We recommend county departments review their procurement requirements in advance to consolidate purchases for similar goods and services and submit a requisition for procurement. This will allow for fair competitive competition thereby ensuring Fulton County is receiving the best possible price. Additionally, we recommend the Purchasing Department scrutinize the

detail of invoices submitted for P-Card payments for similar goods and services to determine if there is an apparent pattern of split invoices. Evidence of split invoices should be monitored and corrective action issued where the same types of goods/services are purchased from the same and/or like vendors on different days within the same billing cycle. The Purchasing Department should ensure that departments are in compliance with the guidelines outlined in the P-Card manual and if any exceptions are made, sufficient documentation should be provided to support such exceptions.

Finding 6 – Exceeded Monthly Hospitality Approved Amounts

Fulton County requires departments to submit monthly hospitality expenses for pre-approval during the budget process each year. Departments are expected to adhere to the approved amount and should seek additional prior approval if the amount exceeds the initial approved expenditure amount. Additional approval documentation should be attached to the monthly P-Card reconciliation packages. While reviewing P-Card reconciliation packages, we noted cases where hospitality expenditures exceeded the initial approved amount and lacked further approval for the increased cost incurred. Departmental cardholders did not include additional approval documentation for hospitality expenses that exceeded the initial approved amount. Failure to gain the additional approval for excess spending of hospitality pre-approved expenses could lead to a budget shortfall in the department's budget.

Recommendation

We recommend departments follow all established guidelines in seeking approval for hospitality expenses and obtain additional approval when monthly hospitality expenditures exceed the projected pre-approved amount. We further recommend the Purchasing Card Program Coordinator verify that monthly hospitality expenditures do not exceed the monthly pre-approved amount. If the expenditure is in excess, the Purchasing Card Program Coordinator should review the document for additional approval and if it is not present require submission.

Finding 7 – Signature Stamp on Documents versus Original Signature

Best practices indicate that original signatures help to ensure knowledge of, authorization and validity of a document. The Fulton County P-Card manual states that:

“The Department Head of the respective department is responsible for approving the monthly reconciliation reports which are submitted by the Purchasing Card Liaison and the P-Card Holder.

- *Approves the monthly Reconciliation Report(s) provided to her/him by the Purchasing Card Liaison/Cardholders as accurate with their signature or their designee's.*

As such, Department Heads are required to review and sign all P-Card reconciliation documents. Our audit of reconciliation documents revealed instances of signature stamps being used versus the original signature of approving officials. Departments did not obtain an original signature on all documents as it was not a requirement of the P-Card manual as it originally stands. Failure to have the original signatures of approving officials on reconciliation documents does not provide adequate assurance that the documents were in fact reviewed and authorized by the appropriate entity and/or Department Head. This causes a breakdown in internal control measures. Repeated non-adherence to established internal control policies such as inadequate supervisory reviews, if allowed to continue, will contribute to the erosion and weakening of the internal control system.

Recommendation

We recommend all P-Card reconciliation documents contain original signatures thereby increasing the likelihood that the documents were in fact reviewed by the approving authority. Additionally, we recommend that the P-Card manual be updated to reflect the requirement of original signatures on all documents.

Finding 8 – Lack of Itemized Receipts

Itemized receipts typically include the merchant or provider name, service received or item purchased, date of service and amount of expense. Itemized receipts help to serve as a mechanism of verification for items procured. Pursuant to the County's P-Card Manual,

"Cardholders shall retain copies of original itemized receipts and related documents. This documentation may be required for auditing purposes by the IRS, Fulton County Department of Purchasing and/or granting agencies."

During our audit, we noted instances where itemized receipts were not represented as a part of the reconciliation package. Departmental cardholders did not ensure or verify that receipts contained sufficient detail to identify items purchased. Failure by the Departments to obtain itemized receipts prohibits the County from being able to determine if a P-Card transaction is a legitimate business related transaction. This can lead to unverifiable purchases which could place the County at risk for P-Card abuse.

Recommendation

We recommend the P-Card Liaison and Administrator carefully review each receipt to ensure sufficient detail is evident on the receipts to demonstrate a clear business expense. In the event where this is not possible, we recommend the department contact the vendor prior to reconciliation submission and request they provide supporting documentation to verify the items purchased were in fact a business expense of the County.

Finding 9 – Incomplete Reconciliation Forms

Reconciliation forms help to ensure the agreed upon purchase prices are correct for goods and services and were charged accordingly. It is used to compare your initial invoice amount billed to the actual amount charged to your account. The P- Card Manual states:

“All department Purchasing Card Liaisons are responsible for ensuring that reconciliation reports and PRCC entries are properly completed for each of their respective cardholder’s purchases. All departments must submit completed and signed reconciliation report(s) to the Purchasing Card Coordinator by the last day of the month after the purchasing cycle ends. ”

During our audit, we noted occasions where the P-Card Checklist and reconciliation forms lacked the required approval signatures and sufficient details for exceptions notated on the P-Card Checklist. This was the result of cardholders’ failure to fully complete the P-Card Checklist and Reconciliation forms. Failure to provide comments or remarks pertaining to exceptions does not allow the Purchasing Card Program Coordinator to effectively track any potential outstanding items that may need attention during a later billing cycle. Additionally, failure to obtain all required approval signatures on both the P-Card Checklist and reconciliation forms violates the guidelines established for the P-Card Program.

Recommendation

We recommend departmental P-Card Liaisons ensure all required signatures are notated on all reconciliation documents. Additionally, if there are exceptions to the P-Card Checklist those notations should be provided in the comments section of the form, which would allow the Purchasing Card Program Coordinator to track any items that may require follow-up. Furthermore, we recommend the Purchasing Department add to the P-Card manual instructions that exceptions and/or explanations be outlined in the comments section of the P-Card Checklist. We also recommend that the Finance Department ensure that all financial

approval signatures are made on the reconciliation forms to indicate the document has been officially reviewed and approved by the appropriate authority.

Finding 10 – Sales Tax Charges

Fulton County is exempt from being charged sales tax on items that are procured for official business purposes. The Fulton County P-Card states:

“Cardholders shall inform suppliers that they will be paying with the Purchasing Card (Visa) and state that Fulton County is exempt from all sales tax. Fulton County’s State tax-exempt identification number (58-6001729) is printed on all Purchasing Cards. Cardholders shall give suppliers this number. A hardcopy of the Tax Exempt form can be requested via the Fulton County Portal. This certificate can be presented in person or faxed to a supplier.”

During the course of our audit, we noted cases where sales tax was charged. Upon interviewing staff from departments, we discovered staff on occasion failed to provide vendors with the County’s tax exempt form, which resulted in sales tax being charged. Failure to notify vendors and provide them with the tax-exempt identification number subjects the County to charges that should not be incurred, which may or may not be recouped if not corrected within the same billing cycle.

Recommendation

We recommend departments verify all receipts and invoices to ensure sales tax is not charged and if charged in error, are corrected within the same billing cycle. The correction invoice and/or credit memo should be submitted with the department’s monthly P-Card reconciliation package. Additionally, the Purchasing Card Program Coordinator should review the reconciliation documents to determine if sales tax was charged and require departments to have those items corrected within the same billing cycle. Violations should be monitored and if consistent, corrective action should be taken.

Finding 11– Late Submission of Reconciliation Documents

The P-Card reconciliation documentation should be submitted to the Purchasing Card Program Coordinator by the first of the month following the close of the cycle. During our audit, we noted several occasions of late reconciliation submissions to the Purchasing Card Program Coordinator. Due to the lack of enforced consequences, the same departments continually submitted late reconciliation documents. Failure to timely submit reconciliation reports causes

delays in documentation review by the Purchasing Card Program Coordinator. Additionally, late submissions cause delays and/or partial payments being made to Bank of America for purchasing card expenditures. Continuous delays and/or partial payments threaten the county's Purchasing Card Programs viability, heavily increase the likelihood of cardholders having future purchases declined and could potentially cause Bank of America to discontinue the County's P-Card Program.

Recommendation

P-Card Liaisons should timely submit all P-Card reconciliation documents to allow for adequate review by the Purchasing Card Program Coordinator and to avoid delays or partial payments to the P-Card vendor and late reporting. The Purchasing Card Program Coordinator should monitor and track unexcused late submissions and issue corrective action accordingly.

Finding 12 – Exceeding Single Transaction Limit

Purchasing card guidelines indicate single transactions should not exceed \$2,499.99. According to the P-Card manual, cardholders who circumvent the procurement process by making split charges to avoid exceeding the single transaction limit or to avoid undergoing another method of procurement selection are subject to having their P-Card privileges suspended. Our audit revealed examples of single transactions that exceeded the defined single transaction limit. Although, the Purchasing Card Program Coordinator informed us during our audit that this was the result of a system glitch pertaining to the cardholders' profile, cardholders are aware that the single transaction limit is \$2,499.99 and as such should not have procured items over that amount in a single transaction. Failure to follow the established P-Card guidelines pertaining to single transaction limits can result in the county not receiving the best possible price for goods and services.

Recommendation

We recommend departments adhere to the single transaction limit and utilize another procurement measure in instances where the items required may exceed the single transaction limit. Additionally, we recommend that the Purchasing Card Program Coordinator reports occurrences of non-compliance and suspend P-Card privileges to the respective violator. Furthermore, we recommend that the P-Card Cardholder who is found to be in violation of this guideline be mandated to attend additional training.

Finding 13 – Unauthorized Purchase/Incorrect Object Code

The Fulton County P-Card Manual prohibits the purchase of computers, peripherals-monitors, DVD/CD drives, disk drives (internal and external) and laptops via the P-Card. These items must be procured through the Information Technology Department and require approval prior to procurement via Information Technology to ensure systems compatibility. During our audit, we noted a P-Card transaction for the purchase of an Apple IMac laptop computer, which was charged to object code 1462, Office Supplies. While object code 1462 is an allowable code for P-Card transactions, it is the incorrect object code to utilize for the purchase of a laptop computer and this type of equipment should not have been charged to the P-Card as it is considered an unauthorized purchase. This was a result of a direct violation by the cardholder to abide by the P-Card manual. Failure to adhere to established procedures for computer procurement increases the risk for further unauthorized purchases, which could lead to loss and cause problems for the County's information technology systems.

Recommendation

We recommend departments follow all P-Card and Information Technology procedures to secure equipment as needed to avoid corrective action and possible suspension and/or revocation of P-Card privileges. Furthermore, we recommend the P-Card Liaison strictly scrutinize invoices and receipts to ensure unauthorized purchases are not being made and instances where they are, the appropriate corrective action should be immediately imposed.

AUDIT CONCERN(S)

Audit Concern 1 –Purchasing Card Audit Program Needs to be Strengthened

While P-cards offer numerous benefits such as simplification of the procurement process and expediting receipt of goods and services, they also carry inherent risks, including potential fraud and abuse, which can result in financial loss and negative publicity if not adequately controlled. Because of these risks, numerous guidelines and best practices have been published to help organizations manage an effective P-card program. Common guiding principles for a strong internal control environment include:

- Establishing agency specific procedures;
- Mitigating financial exposure by requiring cardholders to have a justification and business need to participate in the program;
- Ensuring sufficient oversight by the Approver;
- Conducting frequent audits of P-card activity; and

- Providing ongoing training for participants.

The County has incorporated some of these key controls, such as requiring Approving Officials to review reconciliation documents; however, this an area that needs defined audit parameters to strengthen controls and reduce risk. Realizing this was an area that needed attention, the Purchasing Director requested our assistance in making recommendations for this area and as such we have incorporated our recommendations below.

Recommendation

The Purchasing Department can improve the effectiveness of its monitoring by establishing a formal audit methodology and schedule that ensures all departments are audited at least once over an established audit cycle. Additionally, a formal methodology should be developed for selecting departments to audit. We recommend that the Purchasing Department clearly identify the specific items that will be audited on a monthly basis by the Purchasing Card Program Coordinator. These items for review should be aligned with the requirements in the P-Card Manual and should require dual review to include a review by the Purchasing Card Program Coordinator and a member of senior level management in the Purchasing Department. Dual review is one mechanism that can be used to increase internal controls and provide assurance that improper and/or abusive purchases are being prevented, or if occurring, being promptly detected with appropriate corrective action being issued. Results of monthly audits should be tracked in an effort to monitor departmental compliance or non-compliance and be used for grounds for card revocation when warranted.

CONCLUSION

While our audit did not identify an indication of fraudulent activity, we did note numerous cases of purchases that did not comply with purchasing policies, including split purchases.

Our findings included:

- Volume of Cardholders Assigned to Purchasing Card Program Coordinator;
- Lack of refresher training;
- Past due invoices submitted for payment;
- Lack of established tracking system/inadequate monitoring;
- Split invoice payments;
- Exceeded monthly hospitality approved amounts;
- Signature stamp versus original signature;
- Lack of itemized statements;

- Incomplete reconciliation forms;
- Sales tax charges;
- Late submission of reconciliation documents;
- Exceeded single transaction limit; and
- Unauthorized purchase/incorrect object code

Further we noted one audit concern that warrants a further review by the Purchasing Department, which would help to strengthen internal controls and reduce the potential of abuse. It is:

- Purchasing Card Audit Program needs to be strengthened.

Our audit found certain aspects of the P-Card Program were working well. For instance, our review of selected transactions found that with some exceptions, overall, purchases were made for appropriate business purposes, charged to the proper account, and cardholders complied with P-Card approvals and evidence requirements. However, improvements are needed to make the P-Card Program more effective and efficient. It is our opinion an additional P-Card staff member dedicated to assist with the P-Card Program could potentially help to eliminate many of the findings outlined in this report. Strengthening program oversight in the areas we identified will ultimately provide greater assurance to the County that the P-Card Program adequately mitigates financial and operational risk in a cost-effective manner.

Please provide a written response to this audit within 30 days. You may email your written response to the County Manager and Brigitte Bailey, Audit Coordinator in the Office of Internal Audit at Brigitte.Bailey@fultoncountyga.gov. We would like to thank management and staff for their timely cooperation and assistance during this audit. The distribution of this report is reserved for the executive management of Fulton County and the Board of Commissioners.