



# **Internal Audit Committee of Brevard County, Florida**

## **Internal Audit Review of**

### **Purchasing Card**

**Prepared By:  
Internal Auditors of Brevard County  
June 1, 2004**

# Table of Contents

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Transmittal Letter .....	1
Background .....	2
Objectives and Approach .....	3-4
Issues and Recommended Actions .....	5-10

June 1, 2004

The Audit Committee of  
Brevard County, Florida  
Viera, Florida 32940-6699

Pursuant to the approved 2003/2004 internal audit plan, we hereby submit our internal audit report covering purchasing card. The internal audit of purchasing card focused on cardholder approval, reconciliation of purchases, appropriate usage, and other policy compliance issues. Therefore, we did not review the invoice approval and disbursement process or vendor screening. These areas have been addressed in a separate audit of Accounts Payable. We will be presenting this report to the Audit Committee at the next scheduled meeting on July 14, 2004.

Our report is organized in the following sections:

<b>Background</b>	This provides an overview of purchasing card.
<b>Objectives and Approach</b>	The internal audit objectives and focus are expanded upon in this section as well as a review of the various phases of our approach.
<b>Issues and Recommended Action</b>	This section gives a description of the issues and recommended actions. Management's response has been incorporated into this section as well.

The follow-up process for the issues identified in this report will consist of County Management following up with responsible personnel and reporting to the audit committee on a quarterly basis using the approved format.

We would like to thank all those involved in assisting the Internal Auditors in connection with our review of purchasing card.

Respectfully Submitted,

***INTERNAL AUDITORS***

# **Background**

# Background

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## Overview

For purposes of this internal audit we segregated the purchasing card management process into the following areas:

### ***Cardholder Setup and Maintenance***

The purchasing card issuance and maintenance function is the responsibility of County Finance and the department/agency where the cardholder is assigned. The County department/agency requests the purchasing cards by submitting a Purchasing Card Information Maintenance Form, which includes a monthly spending limit and a variance request from the standard single transaction spending limit of \$750, if deemed appropriate. Upon receiving the request, County Finance reviews the form to ensure that the form is properly filled out and that the appropriate authorization is given. County Finance submits the request to Bank of America for fulfillment, and files the original form. Account changes are also processed from the department/agency through County Finance using the same form. Card issuance is completed centrally by County Finance, and employees are required to sign an Agreement to Accept the VISA Purchasing Card as an act of receipt. Those forms are also kept on file at County Finance. When an account is closed, all forms on file for that account are collected and attached to the "Delete Account" maintenance form, and are kept on file in County Finance.

### ***Monthly Reconciliation***

The Cardholder or Department/Agency Representative is required to track all purchases using the Monthly Reconciliation Form. Individual cardholder statements are mailed monthly to the department/agency, and the cardholder and department/agency representative complete the reconciliation process and forward all forms and receipts to County Finance. A consolidated statement of all accounts is mailed to County Finance monthly, who then prepares a reconciliation of all statements. They verify that a Monthly Reconciliation Form has been prepared for each account (except Clerk of the Court employees), the forms have all the proper documentation and have been properly approved. The Clerk of the Court reimburses the County for all its charges and has its own internal control process outside the scope of this audit. Once reconciled, the consolidated statement is forwarded to the Purchasing Card Administrator for approval, along with a copy of the reconciliation. The Monthly Reconciliation Forms are kept on file in accordance with County record retention policies.

### ***General Monitoring of Program***

It is the Department/Agency Director or representative's responsibility to review each Purchasing Card expenditure to ensure the goods or services were necessary, in accordance with applicable County policies and Administrative Orders and for official use. The County Finance office considers the Approving Official's signature on the Monthly Reconciliation Form as proper approval of expenditures, however they also review for prohibited or restrictive uses justification letters and travel requests, if applicable.

## Statistical Data

Approximate number of cards issued since inception	760
Number of employees with open accounts	543
Approximate number of transactions per year	25,000
Average dollar volume of purchasing card transaction per year	\$2.45 million
Average dollar amount per transaction	\$98

## **Objectives and Approach**

# Objectives and Approach

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## Objectives

Objectives of the internal audit review of Purchasing Card include the following:

<input type="checkbox"/> Determine if purchasing cards are issued and used in accordance with Brevard County Policies.
<input type="checkbox"/> Determine if purchasing cards are used for authorized expenditures.
<input type="checkbox"/> Determine if controls relating to purchasing card are adequate and provide for appropriate reconciliations.
<input type="checkbox"/> Determine if records and documentation for purchasing card expenditures are sufficient to establish an audit trail for all transactions involving disbursements.
<input type="checkbox"/> Review controls over purchasing card expenditures including procedures and documents that assure the data used to generate disbursements are adequate.
<input type="checkbox"/> Determine that purchasing cards are issued to active, non-fictitious employees.

## Approach

Our audit approach consisted of three phases:

### Understanding and Documentation of the Process (Phase 1)

During phase 1, we interviewed the Assistant County Finance Director, Central Services Office Director, Purchasing Card Administrator and other personnel in County Finance to discuss the scope and objectives of the audit work and obtain preliminary data. We reviewed Florida Statutes, administrative orders, County policies and other resources related to purchasing card.

# Objectives and Approach - continued

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## **Detailed Testing (Phase 2)**

We conducted the following procedures to meet our audit objectives outlined above:

### *Individual Purchasing Card usage and reconciliation:*

- Test of purchasing card issuance approval and receipt by employee.
- Test purchasing card activity for duplicate vendors and split transactions.
- Test for backordered and prohibited/restricted purchases.
- Test for Monthly Reconciliation Form and proper documentation of expenditures.
- Test for payment of sales tax.
- Test for Quote Logs usage on purchases over \$250 where applicable.
- Test for proper authorization of expenditures.
- Test compliance with regulations and laws.
- Review and test County Finance consolidated reconciliation process.

### *Purchasing Card management:*

- Review of forms utilized.
- Test new cardholder setup.
- Test for authorized and valid cardholders.
- Review the procedures for lost/stolen cards.
- Test cardholder activity for unusual transactions.
- Test compliance with cardholder limits.
- Test compliance with regulations and laws.
- Review organizational structure.

## **Reporting (Phase 3)**

At the conclusion of our audit, we documented our understanding of the process surrounding purchasing card management based on our interviews at the County and summarized our findings related to that function. We conducted an exit conference with the Supervisor of Account Payable, Central Services Office Director, and Purchasing Card Administrator. We prepared our report and related findings and provided copies to appropriate County Personnel. We have incorporated management's responses into our report.

**Issues, Recommended Actions  
and Management Response**

<b><i>Issue #1</i></b>	<b><i>Maintenance of Cardholders</i></b>
	<p>We reviewed the County’s process surrounding setup and maintenance of new cardholders and the overall monitoring of purchasing card activity and noted the following:</p> <p><b><i>Cardholder Identification</i></b>  County Finance assigns an internal identification number to each cardholder that is a combination of the cardholder’s card account number and their employee number, and is unique to each cardholder and card account. There are eleven cardholders who have been assigned incorrect internal identification numbers, due to incorrect assignment of employee numbers.</p> <p><b><i>Unused Card Accounts</i></b>  There are twenty-one active purchasing card accounts that have not been used in 12 months or more.</p> <p><b><i>Inactive Employees with Active Accounts</i></b>  We identified two open card accounts for employees that are no longer employed with the County.</p> <p><b><i>Spending Limits</i></b>  The Department/Agency Director, or designee, can request a variance from the monthly spending limit for each cardholder account, which is controlled by the Purchasing Card Administrator (a representative of County Finance). Although spending and usage parameters are established with the bank for each account, during our testing we noted that three cardholders had exceeded their monthly spending limit.</p> <p><b><i>General Policy Compliance</i></b>  The policy requires that billing statements are submitted to County Finance within five days. However, we were unable to determine if this policy was followed because fifteen out of fifty individual account billing statements sampled were not date stamped when received by the Department.</p> <p>Twenty-two out of fifty individual account billing statements and the related monthly reconciliation and backup were not provided to County Finance within five days of receipt, as required by AO-41, Section III.D.5 (c). For the fifteen that were not date stamped by the receiving department/agency, we used the dated Monthly Reconciliation Form to determine compliance with County policies.</p>

<b>Issue #1</b>	<b><i>Maintenance of Cardholders, continued</i></b>
	<p data-bbox="516 216 849 247"><b><i>Recommended Action</i></b></p> <p data-bbox="516 289 1399 342">Routine procedures to be performed should include but not be limited to the following:</p> <p data-bbox="516 373 797 405"><b><i>Cardholder Identification</i></b> Periodic review of cardholder identification numbers for errors.</p> <p data-bbox="516 464 769 495"><b><i>Unused Card Accounts</i></b> Periodic review for cards issued but unused or used infrequently. Determine if these cards are necessary by following up with the department/agency.</p> <p data-bbox="516 583 964 615"><b><i>Inactive Employees with Active Accounts</i></b> As a “fail safe” measure, annually verify no active accounts exist for inactive employees. Enhance the procedures around employee termination to ensure that purchasing cards are collected and account closed. This could include an automated notification from Human Resources to County Finance of an employee termination.</p> <p data-bbox="516 793 695 825"><b><i>Spending Limits</i></b> Continue to monitor for compliance with spending limitations on use of the cards. Continue to follow up with Bank of America on exceptions. The policy should also outline the override authorities and cap them at specific limits.</p> <p data-bbox="516 940 816 972"><b><i>General Policy Compliance</i></b> Review the policy for reasonableness to determine if five days is adequate for department reconciliation. During the end-of-year workshop, review the policies around date stamping.</p>
	<p data-bbox="516 1098 870 1129"><b><i>Management Response</i></b></p>
<p data-bbox="358 1161 492 1192"><b>Response</b></p>	<p data-bbox="516 1171 1399 1255">Quarterly review of cardholder identification numbers and unused card accounts will be completed. Department Directors or their designee will be notified of any unused accounts within their department.</p> <p data-bbox="516 1287 1399 1413">Human Resources has written a report in SAP that will allow County Finance to see all employee terminations for a selected period. County Finance will follow-up with the department’s active accounts existing for inactive employees to cancel their cards.</p> <p data-bbox="516 1444 1399 1623">Review and revisions of Administrative Order AO-41 will be completed to define card limit override authorities and thresholds for override authority. Revision will also specify cardholder responsibility to insure date stamping of Individual Billing Statements with the date of receipt and will amend the requirement to forward statements to the Finance Department within 5 working days to 10 working days to allow sufficient time for reconciliation by the cardholders and departments.</p>
<p data-bbox="318 1686 492 1717"><b>Time Frame</b></p>	<p data-bbox="516 1686 662 1717">July 31, 2004</p>
<p data-bbox="220 1780 492 1812"><b>Person Responsible</b></p>	<p data-bbox="516 1780 1003 1843">Steve Stultz, Central Services Office Director Mark Peterson, Purchase Card Administrator</p>

<b>Issue #2</b>	<b>Segregation of Duties</b>
	<p>County Finance is responsible for the following with respect to the purchasing card:</p> <ul style="list-style-type: none"> <li>• Request new card account setup and account changes with the bank.</li> <li>• Receive the physical card.</li> <li>• Increase cardholder spending limits.</li> <li>• Reconcile the consolidated statement (received from the card issuer) against the individual cardholder statements and monthly reconciliation forms.</li> <li>• Remit the payment to the bank.</li> </ul> <p>Purchasing is responsible for the following:</p> <ul style="list-style-type: none"> <li>• County policy AO-41 states that Purchasing is responsible for monitoring and reporting apparent abuses of purchasing card policies and administrative orders. Based on our observation, the monitoring occurs in County Finance.</li> </ul> <p>The issuance, remittance and reconciliation of the purchasing card in one centralized group increases the inherent risk in maintaining appropriate controls and segregation of duties. We noted that the Finance department has segregated the duties between the department personnel thus minimizing the risk.</p> <p>However, we noted that there was not a formal monitoring process in place in the Purchasing department. If the County chooses to continue to maintain the current organization structure, further enhancements should be made to the controls as noted below.</p> <p><b>Recommended Action</b></p> <p>In order to enhance the controls and ensure proper segregation and monitoring the County should review/enhance the current process for the following:</p> <ul style="list-style-type: none"> <li>• Ensure that specific procedures related to the issuance, remittance and reconciliation are well documented and there are appropriate sign off and documentation flow within the Finance department. Documented procedures are critical in the event of change in employee personnel.</li> <li>• A formal monitoring program should be developed. This should include documented monthly procedures (i.e. reports generated, types of transactions to be reviewed, attributes to be reviewed, frequency of review, who is responsible for review reconciliation of all new card issuances).</li> </ul>
<b>Management Response</b>	
<b>Response</b>	<p>Documented procedures relating to the issuance, remittance and reconciliation of Purchase Cards have been established.</p> <p>We will revise AO-41 to assign responsibility for purchase card monitoring to finance. It will also include a revision that the County Manager be notified of any suspected abuses. A standard written procedure will be established to document the monitoring process.</p>
<b>Time Frame</b>	September 30, 2004
<b>Person Responsible</b>	Steve Stultz, Central Services Office Director Mark Peterson, Purchase Card Administrator

<b><i>Issue #3</i></b>	<b><i>Split Transactions</i></b>
	<p>Administrative Order AO-41, Section III C. 3 (b) provides that “a purchase may be made of multiple items; however, charges for purchases shall not be split to stay within the single purchase limit.”</p> <p>During the detailed testing portion of our audit, we noted two out of fifty reconciliations sampled included split transactions.</p> <p>Further review of the purchasing card activity for the period October 2002 through February 2004 showed forty-one potential split transactions, from which eight were selected for testing. Six out of the eight transactions were split into two or more charges which combined exceeded the cardholder’s authorized single purchase limit.</p> <p><b><i>Recommended Action</i></b></p> <p>We recommend the following:</p> <ul style="list-style-type: none"> <li>❑ The cardholders responsible for the split transactions identified above, and their respective supervisors, should be given written notification of the violation.</li> <li>❑ Institute a formal monitoring function that includes written notification of the violation to the cardholder and supervisor. For instances of continued purchasing card abuse, the County should consider revocation of the card and account closure.</li> </ul>
<b><i>Management Response</i></b>	
<b>Response</b>	<p>Administrative Order AO-41 will be revised to allow County Manager and/or Assistant County Managers to authorize a one time override on transactions that would exceed single transaction limit.</p> <p>Cardholders and their respective supervisors will be notified when potential splitting is apparent.</p>
<b>Time Frame</b>	July 31, 2004
<b>Person Responsible</b>	<p>Steve Stultz, Central Services Office Director  Mark Peterson, Purchase Card Administrator</p>

<b>Issue #4</b>	<b>Small Purchase Limitation</b>
	<p>Brevard County policy BCC-25 “Procurement” outlines the procedures, in accordance with Florida Statutes, requires a documented quote process for purchases over \$250. Small purchases of \$250 cumulative total or less have no mandatory quotation or bid requirements.</p> <p>For purchases which require a Purchase Order Quote Log, Administrative Order AO-41, Section III D.5 (c) requires Purchasing cardholders to submit the purchasing Quote Log with the Monthly Reconciliation Form to show compliance with this policy. Exceptions from documentation are purchases made with vendors already awarded under a competitive process.</p> <p>During our testing of 50 transactions, we noted eleven purchases over \$250 that did not include a Purchase Order Quote Log. Further testing verified the related vendors were not included on the master list of awarded vendors provided by the Purchasing Department.</p> <p><b>Recommended Action</b></p> <p>We recommend the following:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Re-educate department personnel and the reconciliation approvers on the importance of ensuring that purchase quotes are received and the log completed in accordance with County policies and administrative orders.</li> <li><input type="checkbox"/> Enhance the administrative order for cardholder and reviewer responsibilities related to this issue.</li> <li><input type="checkbox"/> Check off on the reconciliation for each item over \$250 that a quote log has been obtained.</li> </ul>
<b>Management Response</b>	
<b>Response</b>	Administrative Order AO-41 will be revised to define cardholder responsibilities to acquire and maintain quote logs for purchases > \$250 as required and will also require review of the quote log as a part of monthly statement reconciliation.
<b>Time Frame</b>	July 31, 2004
<b>Person Responsible</b>	Steve Stultz, Central Services Office Director Mark Peterson, Purchase Card Administrator

<b><i>Issue #5</i></b>	<b><i>Restrictive Usage Approval</i></b>
	<p>AO-41, Section III C.6 requires certain items to receive additional approval before being purchased utilizing the purchasing card. The restriction is also in place to ensure compliance with Florida Statute 287.057, in accordance with the State's information technology alliance initiatives.</p> <p>During our testing, we noted six out of fifty transactions tested included purchases for computer hardware or software that did not include the required approval from the Information Systems department.</p> <p><b><i>Recommended Action</i></b></p> <p>We recommend the following:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Re-educate department personnel and the reconciliation approvers on the importance of ensuring that prohibited and restrictive usage is monitored in accordance with County policies and administrative orders.</li> <li><input type="checkbox"/> Enhance the administrative order for cardholder and reviewer responsibilities related to this issue.</li> <li><input type="checkbox"/> Check off on the reconciliation that the activity has been reviewed for prohibited and/or restrictive usage as outlined in County administrative order.</li> </ul>
<b><i>Management Response</i></b>	
<b>Response</b>	Administrative Order AO-41 will be revised to define cardholder responsibilities to acquire and maintain documented approval for restricted purchases as required and will require review of the approvals as a part of monthly statement reconciliation.
<b>Time Frame</b>	July 31, 2004
<b>Person Responsible</b>	Steve Stultz, Central Service Office Director Mark Peterson, Purchase Card Administrator