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CLARK COUNTY
WASHINGTON

AUDITOR
GREG KIMSEY

MEMORANDUM

Date: June 24, 2015

To: David Madore, Chair, Board of County Councilors
Tom Mielke, Board of County Councilors
Jeanne Stewart, Board of County Councilors
Mark McCauley, County Manager

From: Larry Stafford, Performance Auditor, Audit Services

Subject: Follow up of Report #13-03:
Audit of Clark County's Purchasing Card Program

The purpose of this memo is to provide the status of actions taken by General Services in response to our performance audit of the County's Purchasing Card (p-card) Program, issued July 29, 2013.

The initial audit determined the p-card program was built upon several best practices, was being used appropriately, and achieving its objectives. However, gaps existed in County policy and program oversight could be improved. In addition, significant opportunities existed to expand the use of the program, increasing the efficiencies and savings it provides across the County.

To address these issues the report recommended updating policies and procedures, strengthening controls and monitoring, and expanding use of the program. The full text of the recommendations, management's response, and notes on the follow up work can be found in the *Status of Recommendations* attached to this memo. The original audit report should be referenced for all other information.

Summary of Results

General Services has addressed the major issues raised in the report. The Program Administrator worked with other County departments to understand their business needs and made adjustments in policy to increase the utility of the program. For example, hotels and lodging are now allowable transactions on a p-card. Other changes aligned the p-card policy with the existing procurement policy.

Many of the changes made by General Services have facilitated increased use of p-cards. Since the audit was released in 2013, there has been significant growth in the number of p-card transactions and the total dollar value of those transactions. The number of p-cards issued has more than doubled as well, growing from 12 to 29. At the same time, the number of transactions above the single transaction limit of \$2,500 has declined. This indicates far fewer exceptions to County policy are being granted.

Improvements have been made to the internal controls over the program as well. Commodity based MCC groups are setup with individual transaction limits on the US Bank online portal. These limits reduce the risk associated with purchases at these types of vendors. In addition, all transactions outside the United States have been blocked. This is important as p-card accounts have been compromised with attempted fraudulent transactions made overseas.

Lastly, the Administrator worked with Application Services to create a management report based on the data inside the County's Financial Management System. The Administrator intends to use this on a quarterly basis to monitor program activity.

Opportunities Remain

As noted in the original audit report, continued growth in the use of p-cards will require increased use of analysis to effectively monitor the program. The current manual methods will need to be automated and should include examination for split transactions, duplicate transactions, and prohibited transactions.

Although the total transaction value exceeded \$770,000 in 2014, significant opportunities to expand the program remain. The initial audit report identified \$3.59 million in purchase order transactions which were eligible for purchase on a p-card and noted other emerging uses for p-cards. Some of these uses may require departments who demonstrate a clear business need to have their normal transaction limit increased.

We wish to thank General Services Director Bob Stevens and Program Administrator Mike Westerman for their cooperation and assistance in completion of this follow-up.

This follow-up memo and the original audit report are both available on the Auditor's web page at <http://www.clark.wa.gov/auditor/audit/audreports.html>.

If you have any questions, please feel free to contact me in the Auditor's Office, at extension 4795.

cc: *Electronic copies unless otherwise noted*
Bob Stevens, General Services Director
Mike Westerman, Program Administrator
Greg Kimsey, Clark County Auditor
Mark Gassaway, Finance Director
Mary Keltz, PIO
File

Status of Recommendations: Report #13-03 Audit of Clark County's Purchasing Card Program

Finding #1. P-Card Program is Being Utilized as Intended and Generally Achieving its Objectives			
Recommendation	Response	Auditor Notes	Status
No recommendations made	N/A	N/A	N/A
Finding #2. P-Card Use Generally Complies With County Policy, However The Policy Is Incomplete and Does Not Address Exceptions			
Recommendation	Response	Auditor Notes	Status
<p>1. We recommend the Program Administrator work with the Director of General Services and the BOCC to update existing policies and procedures including:</p> <ul style="list-style-type: none"> • The aggregate billing limit and reconciliation variables in Policy P-300 • New policies for inclusion in P-300 regarding policy exceptions covering: <ul style="list-style-type: none"> - Authority / scope of authority - Requirements for requesting, granting (based on real business needs), and tracking exceptions 	<ul style="list-style-type: none"> • Updated the P-Card policy to align spending limits with the County Quote Policy and added hotels to the authorized use. 	<p>The policy has been updated, signed, and is available on the intranet. The Program Administrator has significantly reduced the number of exceptions granted to exceed single transaction limit (~9% in 2012 vs 0% in 2014). This reduces the risk associated with this and the need for formal controls around the practice.</p>	Generally Addressed
Finding #3. Program Controls and Monitoring Can be Improved			
Recommendation	Response	Auditor Notes	Status
<p>1. We recommend the Program Administrator strengthen controls and monitoring. This could include:</p> <ul style="list-style-type: none"> • Building a model for each department requesting a p-card including: <ul style="list-style-type: none"> - Business need for p-card - Creation of custom MCC group - Establish department exceptions based on business need • Using available US Bank reports and/or creating reports to monitor the program for: <ul style="list-style-type: none"> - MCC codes / prohibited purchases: <ul style="list-style-type: none"> • Working with Application Services to identify necessary data and setup queries to retrieve it from FMS • Searching merchant name and detail field for key words - Split / duplicate transactions - Limits - Tracking exceptions: <ul style="list-style-type: none"> • Compare to other reports to verify those granted and identify transactions needing further investigation • Working with Financial Services to create sampling guidelines for auditing of department documentation packets 	<ul style="list-style-type: none"> • Commodity base MCC codes are setup on the US Bank site and are assigned to accounts as needed. Conservative single limits are individually assigned to the additional MCC code. • Working with Information Technology, a P-Card query has been developed to extract transaction data by date, commodity, card holder and Merchant. • All Foreign transactions have been blocked by US Bank for Clark County P-Card accounts. • Include the County Internal Auditors in any communication on P-Card and/or Card Holder issues. 	<p>The Program Administrator demonstrated the MCC code changes in the online portal for US Bank. He also provided a copy of the new query report, which I compared against data in FMS. Individual transactions reconciled, however totals being reported for each cardholder did not equal the sum of individual transactions shown on the report. I notified the Administrator of the discrepancies and suggested the report might have an error in how it totals the transactions. He worked with Application Services to fix the error and the entire report now reconciles to FMS data.</p>	Generally Addressed

Status of Recommendations: Report #13-03 Audit of Clark County's Purchasing Card Program

Finding #4. Opportunities Exist to Increase the Use of Existing P-Cards and to Expand the P-Card Program			
Recommendation	Response	Auditor Notes	Status
<p>1. We recommend the Program Administrator work to expand the use of existing p-cards and the p-card program. This could include:</p> <ul style="list-style-type: none"> • Developing recommended targets for utilization rate of p-card program • Proactively approaching departments with large number of eligible purchases being completed by PO • Working with the Director of General Services and the BOCC to implement policy mandating use of p-cards for transactions under a certain dollar amount. • Creating required annual refresher training (best practice) to: <ul style="list-style-type: none"> - Review policies and procedures, changes, etc. - Hold round tables for departments to discuss and share experiences, uses, and give feedback - Teach departments how to identify p-card eligible purchases currently being done by PO • Working with Application Services and related departments to: <ul style="list-style-type: none"> - Improve communication of p-card data between FMS and other software, such as Public Work's FASTER system - Develop easier methods to allocate costs • Working with Financial Services to explore using p-cards to: <ul style="list-style-type: none"> - Pay invoices in Accounts Payable - Pay for services 	<ul style="list-style-type: none"> • P-Card accounts have been expanded to a current level of 29 • Updated the P-Card policy to align spending limits with the County Quote Policy and added hotels to the authorized use. • Currently working with the Auditor and IT on an enhanced card holder interface. This will allow greater flexibility to add backup approvers, a simpler user interface (web base) and user friendly approval process. • Purchasing will continue to expand the usage and card holders as demand increases. 	<p>The number of pcards issued, transaction volume, and total value of transactions have all increased from 2012 to today. However, 2013 saw an overall decline in both the number of transactions and the total dollar value of pcard transactions vs 2012. This appears primarily related to fewer purchases of tires and IT discontinuing their use of pcards to procure PCs. Purchases in other areas, such as vehicle parts and machinery equipment vendors, have increased over the past two years. The net result is an overall increase in utilization of the program.</p>	<p>Generally Addressed</p>