



## **INTERNAL AUDIT REPORT**

DATE: April 26, 2021

TO: Linda Gorton, Mayor

CC: Sally Hamilton, Chief Administrative Officer  
Glenn Brown, Deputy Chief Administrative Officer  
Aldona Valicenti, Chief Information Officer  
Erin Hensley, Commissioner of Finance & Administration  
Todd Slatin, Director of Purchasing  
Phyllis Cooper, Director of Accounting  
Susan Straub, Communications Director  
Urban County Council  
Internal Audit Board

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit  
Trey Wilburn, CFE, Internal Auditor

RE: Procurement Card Audit

### **Background**

The LFUCG Procurement Card (P-Card) program was established to streamline the acquisition processes by providing a low-cost, efficient vehicle for obtaining goods and services directly from vendors. The Division of Purchasing is responsible for developing P-Card policies and procedures, and for providing administrative support for the program. There are standard controls in place with P-Card programs which include single purchase limits, monthly purchasing limits, and blocking controls to keep certain merchant types from being charged on the P-Card. P-Card transactions that are



not stopped via blocking controls are allowed to be processed. Once processed, JPM Chase Bank transmits transactions electronically to LFUCG where the purchaser verifies the transaction is legitimate and another employee (typically the purchaser's supervisor or manager) approves the transaction for posting into the financial records.

There were 19,639 P-Card transactions from July 1, 2019 to June 30, 2020 totaling \$6,464,973.03. The average P-Card transaction was \$329.19.

### **Scope and Objectives**

The general control objectives for the audit were to provide reasonable assurance that:

- Controls for effective purchase card administration are in place
- Controls to reasonably prevent P-Card misuse and abuse are in place
- P-Card transactions are being approved in a timely manner, and card-issuer billing reports are being reconciled on both the departmental and Purchasing Division (Administrator) level
- Internal controls for card deactivation are sufficient
- Sales taxes are not being paid by LFUCG
- Single purchase limit of \$2,499 is being adhered to
- Controls exist to prevent split transactions that would circumvent the single purchase limit control
- P-Cards are not being underutilized

Audit results are based on observations, inquiries, transaction examinations, and the examination of other audit evidence and provide reasonable, but not absolute, assurance controls are in place and are effective. In addition, effective controls in place during an audit may subsequently become ineffective as a result of technology changes or reduced standards of performance on the part of management.

The period of our audit was July 1, 2019 to June 30, 2020.



## **Statement of Auditing Standards**

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

## **Audit Opinion**

In our opinion, the controls and procedures provided reasonable assurance that the general control objectives were being met. Opportunities to enhance controls are included in the Summary of Audit Findings.

## **Priority Rating Process**

To assist management in its evaluation, the findings have been assigned a qualitative assessment of the need for corrective action. Each item is assessed a high, moderate, or low priority as follows:

High - Represents a finding requiring immediate action by management to mitigate risks associated with the process being audited.

Moderate – Represents a finding requiring timely action by management to mitigate risks associated with the process being audited.

Low - Represents a finding for consideration by management for correction or implementation associated with the process being audited.



## SUMMARY OF AUDIT FINDINGS

### **Finding #1: Some Split Transactions Occurred to Circumvent Single Purchase Limit**

**Priority Rating: High**

#### **Condition:**

Our testing identified twelve instances where split transactions resulted in the circumvention of the single purchase limit, three of which were for the purchase of face masks after COVID restrictions were put into place. The other nine exceptions occurred prior to the COVID restrictions and included two repeat offenders. The Procurement Card Program Manual specifically states that, "Purchases are not to be split to avoid the procurement card's monthly or single purchase limit".

#### **Effect:**

Split purchases are a violation of the Procurement Card Program procedures. Transactions greater than \$2,499 should be conducted through the purchase order process.

#### **Recommendation:**

The Division of Purchasing should issue a memorandum to all P-Card users stating that split purchases circumventing the single purchase limit are a violation of P-Card procedures, and continued violations may lead to suspension of the P-Card.

#### **Director of Purchasing Response:**

The Division of Purchasing has issued a memorandum to all P-Card users stating that split purchases circumventing the single purchase limit are a violation of P-Card procedures, and continued violations may lead to suspension of the P-Card.

#### **Commissioner of Finance & Administration Response:**

The Commissioner of Finance concurs with the response from Purchasing.



**Finding #2: Some P-Card Transactions Not Approved in a Timely Manner**  
**Priority Rating: Moderate**

**Condition:**

CAO Policy #56 regarding P-Cards states, “All charges must be approved within two business days after being posted in PeopleSoft.....Cardholders who have more than two unexplainable delinquent reconciliations in a month will be suspended from P-Card activity for thirty days”. We examined a random sample of 50 P-Card transactions, and noted that 23 of the 50 transactions tested (46%) were not approved within the required two business days. The average number of business days to complete the approval process was 2.65 days for tested transactions occurring before COVID restrictions, and 4.75 days for tested transactions occurring after COVID restrictions, with a range from 0 to 14 days. Most of the transactions in our sample occurred prior to the COVID restrictions.

We were also informed by Accounts Payable personnel in the Division of Accounting that it is not unusual to have P-Card transactions that cannot be posted to the General Ledger at month-end because they have not been reconciled. Accounts Payable personnel provided us a report that identified 227 P-Card transactions totaling \$64,463.72 with Billing Dates ranging from March 3, 2021 through March 30, 2021 that had not been reconciled as of the morning of April 1, 2021. The Billing Date is the date when the P-Card transaction is available for Accounts Payable to create related vouchers in PeopleSoft once the transaction is reconciled. Division of Purchasing personnel informed us that P-Card transactions should be available for P-Card Users and Approvers to reconcile on either the Billing Date or the following day. CAO Policy #56 states, “Timely reconciliation and approval of Procurement Card (P-Card) transactions is critical to maintaining accurate account and budget information. The issuing bank debits LFUCG’s account automatically once per month and any un-reconciled/approved transactions will result in inaccurate account/budget balances”.

The Division of Purchasing currently sends out a blanket email to all P-Card Users and Approvers at the end of each month stating that all remaining P-Card transactions have been loaded to the reconcile statement, and noting how many reconciliations are still open. This serves as a monthly reminder to P-Card Users and Approvers to reconcile P-Card transactions before month-end closing. However, there is currently no automated message (such as email) issued to P-Card Users or Approvers notifying them when a P-Card transaction is Staged and ready to be reconciled. Therefore, it is possible for P-Card Users to allow a transaction to exceed the current two-day approval



requirement if they do not remember to manually check for Staged P-Card transactions, such as when charges to a P-Card are delayed pending shipment of goods. In addition, small Divisions that have only one P-Card User and one P-Card Approver may inadvertently violate the current CAO Policy requirement to approve all charges within two business days if either the P-Card User or Approver are out of the office for vacation, illness, etc.

**Effect:**

If P-Card transactions are not reconciled by month-end, this will result in inaccurate account/budget balances.

**Recommendation:**

The Division of Purchasing should remind P-Card Users and Approvers of the current CAO Policy #56 requirement to approve transactions within two business days after they are posted in PeopleSoft. The Division of Purchasing should research the possibility of creating an automatic notification to Users and Approvers whenever a P-Card transaction has been Staged in PeopleSoft in order to increase the likelihood they will promptly reconcile it. The Division of Purchasing should also consider having a query developed that will specifically identify those Departments or Divisions where late reconciliations tend to occur most often and when reconciliations are not completed by month-end so that repeat offenders can be admonished and, if necessary, have their P-Cards suspended for violation of CAO Policy #56 and Purchasing Policies.

As noted above, CAO Policy #56 currently requires that all P-Card transactions be approved within two business days; however, there are some circumstances where this requirement may be difficult to consistently achieve. Senior management may want to consider amending the Policy to change the approval requirement from two business days to perhaps four business days during the transaction month in order to provide a more manageable response time for small Divisions and unusual circumstances.

**Director of Purchasing Response:**

The Division of Purchasing has issued a memorandum to all P-Card users reminding them of the importance of timely transaction reconciliation. CAO Policy #56 has already been revised to change the reconciliation requirement from two business days to four business days and the Division of Purchasing has already setup automatic notifications in PeopleSoft so P-Card users and approvers will know when verification or approval actions are required. In addition, the Division of Purchasing will work with Division of Enterprise Solutions (DES) to develop queries to identify where late



reconciliations occur most often so necessary actions can be taken with repeat offenders.

**Commissioner of Finance & Administration Response:**

The Commissioner of Finance concurs with the response from Purchasing.

**Chief Administrative Officer Response:**

CAO Policy #56 has been revised to allow four business days to complete the reconciliation process. The Policy also states that every effort shall be made to reconcile charges during the transaction month.

**Finding #3: Some P-Card Monthly Reconciliations Are Not Being Performed or Properly Documented by Cardholders**

**Priority Rating: Moderate**

**Condition:**

The Procurement Card Program Manual states that “Monthly reconciliations should be consistently performed using the statement from the bank, the Procard Transaction Log, and the hard copies of receipts users are required to retain for each month’s activity. Cardholders should checkmark the line items, initial, and date the bank statement to demonstrate that the reconciliation has been completed”.

We randomly selected 15 P-Card users to test for compliance with the monthly reconciliation procedures required by the P-Card Manual. We noted that six of the 15 P-Card users tested had not completed Transaction Logs, seven of the 15 P-Card users tested had not checked off transactions on the bank statement, and ten of the 15 P-Card users tested had not dated and initialed the bank statement to demonstrate that the reconciliation had been completed.

**Effect:**

The absence of P-Card reconciliation documentation indicates that the required monthly reconciliations are either incomplete or are not being performed. This is a violation of Procurement Card Program procedures and increases the risk that unauthorized charges to P-Cards may go undetected.

**Recommendation:**

The Division of Purchasing should issue a memorandum to all P-Card Users instructing them that reconciliations should be consistently performed and documented as





instructed in the Procurement Card Program Manual, and that continued failure to do so may result in the suspension of the P-Card.

**Director of Purchasing Response:**

The Division of Purchasing has issued a memorandum to all P-Card Users instructing them that reconciliations should be consistently performed and documented as instructed in the Procurement Card Program Manual, and that continued failure to do so may result in the suspension of the P-Card.

**Commissioner of Finance & Administration Response:**

The Commissioner of Finance concurs with the response from Purchasing.

**Finding #4: Merchant Control Code Restrictions Should be Reviewed**  
**Priority Rating: Moderate**

**Condition:**

We reviewed the Merchant Control Codes (MCC) used to prevent approval of P-Card transactions for certain industry types. We noticed purchases for categories identified as Medium Risk Industries were mostly unrestricted. We also noted that purchases under MCC Code 8699-Member Organizations and 8641-Civic/Social/Fraternal Organizations were totally unrestricted, and that LEXGARAGE purchases under MCC Code 5995-Pet Stores Food & Supply were unrestricted. According to the Procurement Card Program Manual, memberships are a restricted commodity, and the purchase of Pet Store Supplies should only be allowed for Fire Canine and Parks Equestrian Units.

**Effect:**

There are some inconsistencies between current MCC restrictions and the Procurement Card Program Manual, which may indicate some restrictions have been unnecessarily relaxed over time.

**Recommendation:**

The Division of Purchasing should review MCC restrictions currently in place to determine if they are acceptable, or if some MCC restrictions should be reapplied to prevent inappropriate transactions.





**Director of Purchasing Response:**

The Division of Purchasing is reviewing MCC restrictions currently in place to determine if they need to be modified.

**Commissioner of Finance & Administration Response:**

The Commissioner of Finance concurs with the response from Purchasing.

