



Special Review of P-Card Options

Division of Inspector General **Neil Kelly, Clerk of the Circuit and County Courts** **Audit Report**

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Board of County Commissioners

We have conducted a Special Review of the Purchasing Card (P-Card) Options at the request of County management. Our review includes a review of specific issues and of the process in general.

We appreciate the cooperation and assistance provided by the Procurement Section and also other local county and governmental entities contacted during the course of our review.

Respectfully submitted,

Bob Melton

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Inspector General

cc: Honorable Neil Kelly, Clerk of Circuit & County Courts
David Heath, County Manager
Steve Koontz, Fiscal and Administrative Services Department Director

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INTRODUCTION

Scope and Methodology

We conducted a Special Review of the Purchasing Card (P-Card) Options at the request of County management. Our objectives were:

1. To determine whether a more efficient, manageable process could be put in place.
2. To determine methods by which the rebate could be increased.

To accomplish the objectives of our review, we conducted interviews of staff, other counties' staff, and representatives from the P-Card Issuing Bank (Bank); requested a spend analysis from the Bank; reviewed various records; and performed audit tests and other procedures. Our Special Review included such tests of records and other procedures as we considered necessary in the circumstances.

This Special Review is done to accomplish the above objectives. As such, this review did not encompass normal audit procedures. Data has been obtained from management and various external sources and, while believed to be accurate, has not been subject to audit procedures to verify accuracy.

Overall Conclusion

We conclude that opportunities exist to establish a more efficient, manageable process and increase the rebate through specific use of the P-Card.

Background

The Lake County Procurement Services Section "strives for simplification and automation of procurement processes." A key objective stated in the FY 2013-14 Budget is to "appropriately increase P-Card use and associated rebate revenue." As part of that objective, a focus has been placed on payment of invoices following specified parameters. A P-Card is assigned to an individual who then uses the card for payment of invoices rather than purchase of goods or services. This process is restricted to payment of individual invoices that have a value below \$20,000 unless the payment is processed by a contracting officer in the Procurement Services section. This limit has been set because Procurement Services does not want staff employees in external departments who pay invoices to be required to file a financial disclosure. Under Section 112.3145(1)(a)(3), Florida Statutes, an employee is required to make a public disclosure of financial interests if a purchase exceeds \$20,000.

In addition to payment of invoices by an individual cardholder, the County also implemented an ePayables process. This process allows for payments to be made electronically using system software associated with the P-Card rather than a physical P-Card. Vendors were enrolled in the ePayables program. The vendor invoices are then paid electronically, with the standard rebate on the payments accruing to the County. Initially, 40 vendors were enrolled in the ePayables process. The number of vendors enrolled then declined to about 24 and finally to one, according to management. As a result of the loss of enrolled vendors, the ePayables process is no longer in effect.

We contacted other counties during the course of the Special Review. Card payment programs in use in other counties are listed below. As discussed in the paragraphs above, some of these programs are in use or have been used by Lake County:

- A P-Card is issued to employees who frequently purchase goods and services or travel. The card is issued in the employee's name. The employee is the only person authorized to use the card. The card has a set single transaction limit for one transaction.
- A Procurement Department card is issued to a Procurement employee and used to process payments for another department's or division's proper bid or contract.
- A Term Account is issued for a specific vendor or specific goods or services, such as an account for library materials. A department requests the card and designates an employee as the purchaser, the only one authorized to use the account.
- A Declining Balance Account is issued for a maximum amount, purpose and time period, as in online ordering of uniforms by employees, for example. A department requests the card and designates an employee as purchaser to be the only one authorized to use the account.
- A Departmental Card is issued to a department which has more than one individual that purchases specific goods or services. The department designates a separate individual as the Departmental Card Monitor to secure and monitor the account.
- A Card in Hand program is issued to Finance employees and used to process payments through a vendor's web portal, making payment by credit card. The card is restricted to one or two users. Reconciliation is performed by another area of Finance. This program is for vendors that are not enrolled in an ePayables program.
- An ePayables program where vendor invoices are paid by virtual credit card rather than by check. After Finance enters the invoices in the financial system, a file with the payment information is transferred to the P-Card Issuing Bank. The Bank then emails a secure link with payment information to the vendor to enter into their credit card terminal.

The amounts of rebates earned by Lake County on card use in previous years are:

Year Earned	Amount of Rebate
2013	\$67,893
2012	\$36,188
2011	\$29,594
2010	\$89,863
2009	\$93,822

2008	\$19,323
2007	\$12,323
2006	\$10,883

The P-Card Issuing Bank stated that Visa has a “zero liability policy” which protects the county from liability for any unauthorized purchases or withdrawals from the account when Visa is notified promptly.

OPPORTUNITIES FOR IMPROVEMENT

Our review disclosed certain policies, procedures and practices that could be improved. Our review was neither designed nor intended to be a detailed study of every relevant system, procedure or transaction. Accordingly, the Opportunities for Improvement presented in this report may not be all-inclusive of areas where improvement may be needed.

Current Payment Process

P-Cards are issued to individual employees who frequently purchase goods and services or travel. In addition, the County has used the P-Card as payment for invoices under certain programs. These programs are: 1) Departmental Cards and 2) ePayables. Each of these programs earns rebates for the use of the card as payment. According to management, the rebate rate being earned is 1.30% of card payments.

Under the Departmental Cards program, two County departments use a P-Card as payment for select vendors. The card is assigned to an employee to pay for specific goods and services. When the P-Card is used as payment, selected vendor invoices are scanned and emailed by the department cardholder to the Procurement Services division. Procurement Services then reviews the invoices and determines the transaction limit and the total purchasing limit needed for the P-Card. The limits are then set on the P-Card through the procurement card system (i.e., Works application). Procurement Services/Clerk's Finance Department then notifies the cardholder to pay for the reviewed invoices. Once the invoices are paid, the cardholder notifies Procurement Services of the payment. The P-Card limits are then lowered by Procurement Services. This process must be repeated each month that invoices are paid. Due to the time required for the process, the two County departments are the only ones that use a P-Card as payment for some invoices.

Under the ePayables program, vendor invoices are paid using the system software associated with the P-Card rather than physical use of the P-Card itself. Vendors meeting certain criteria are approached by either the County's P-Card and/or P-Card Issuing Bank personnel for enrollment in the program. After County Finance enters the invoices in the financial system, a file with the payment information is transferred to the Bank. The Bank then emails a secure link with payment information to the vendor for them to enter into their credit card terminal. However, at the time of this review, the program was no longer being used by the County.

A Review of Alternatives

- A. At our request and with our assistance, the P-Card Issuing Bank (Bank) conducted an analysis of Lake County's vendors. Based on experience with enrollment in ePayables programs, the Bank determined that the possible annual rebate could range from \$181,314 to \$254,112, as shown in the table below. The Bank's rebate amounts include an assumption that Lake County joins the Hillsborough County Consortium, which earns a 1.51% rebate. However, using Lake County's current rebate rate of 1.3%, the possible rebate could range from \$156,097 to \$218,771. The rebate could potentially be increased further for a potential total rebate between \$301,787 and \$423,339 if an additional 50% of vendors accepting card payments were paid by P-Card. This amount is more than three times the amount received by the County when the system was used in the past. The highest rebate of \$93,822 was earned in 2009. The potential increase in the amount appears to occur as the result of more vendors now being agreeable to use the system, and more favorable terms to the County from the bank.

The Bank stated that vendors who accept cards in any form (ePayables, P-Cards, etc.) currently include the merchant fee in their business model. As a result, the vendors should accept payment by card. To convert vendors from payment by check to an ePayables program, the Bank uses a multiphase enrollment campaign. The Bank first enrolls the vendors that are known to accept ePayables and then works to enroll the vendors it has a relationship with that accept P-Cards. The Bank then works with the group that accepts credit cards but does not have a business relationship with the Bank. Drawing from past experience, the Bank has determined rates of enrollment, conservatively and aggressively, for each vendor group. These rates are shown in the table below.

Description	Vendor Count	Amount	Conservative Enrollment	Aggressive Enrollment
Accept ePay with P-Card Bank	24	\$2,515,054	60%	80%
Accept P-Card with P-Card Bank	42	\$11,701,766	38%	50%
Accept Visa or MasterCard	105	\$22,414,143	27%	40%
Strategic	1	\$5,123,065	0%	0%
Small Suitable	517	\$2,815,736	0%	0%
Not Suitable	503	\$28,587,919	0%	0%
Total	1,192	\$73,157,683	\$12,007,522	\$16,828,583
Rebate @ 1.51%*			\$181,314	\$254,112
Rebate @ 1.30%**			\$156,097	\$218,771
Potential additional rebate @ 1.51% #				\$169,227
Potential additional rebate @ 1.30% ^				\$145,690

* Rebate rate of 1.51% is based on Lake County joining the Hillsborough County Consortium as recommended by the Bank.

** Rebate rate of 1.3% is the current Lake County rebate rate.

Potential additional 50% of vendors (not with P-Card Bank) accepting card payments, or 50 % of \$22,414,143 at the rebate rate of 1.51%.

^ Potential additional 50% of vendors (not with P-Card Bank) accepting card payments, or 50 % of \$22,414,143 at the rebate rate of 1.30%.

To increase efficiency and reduce the staff time needed to pay invoices by P-Card, the County should work with the P-Card Issuing Bank to enroll vendors in a re-started ePayables program. Under this program, the County sends an electronic file to the Bank containing the payment information for each invoice. The approved amount then becomes the credit limit on the payment. Each vendor is mapped to a designated card number. To receive the funds, the vendor enters the card number, expiration date, and exact amount in a merchant terminal. Once the funds are received, the approved card amount then returns to zero dollars. The card can also be set to return to zero within a specified number of days so that the payment is not undrawn for an indeterminate length of time. The County's internal controls remain unchanged as the approval process does not change. Except for sending the electronic file, the process is handled by the Bank.

An additional benefit to the County of this process is an extended float, or the time between payment to the vendor and when the funds are transferred from the County's account. Payments to the Bank are based on a billing cycle; they are not due at the time of payment to the vendors.

Representatives from the Bank stated that no fraud has been experienced in the ePayables program. If fraud were to occur, the Bank takes the fraud losses; the County bears no losses for any fraudulent transactions reported.

- B. A card option is to establish a Term Account in a selected department. A Term Account is issued for a specific vendor or specific goods or services, such as an account for library materials. The department requests the card and designates an employee as the purchaser. The employee is the only one authorized to use the account.
- C. A card option is to establish a Declining Balance Account. A Declining Balance Account is issued for a maximum amount, purpose and time period, as in online ordering of uniforms by employees, for example. A department requests the card and designates an employee as purchaser. The employee is the only one authorized to use the account.
- D. A card option is to establish a Departmental Card. A Departmental Card is issued to a department which has more than one individual that purchases specific goods or services. The department designates a separate individual as the Departmental Card Monitor to secure and monitor the account.
- E. A card option is to establish a Card in Hand program. A Card in Hand program is issued to Finance employees and used to process payments through a vendor's web portal, making payment by credit card. The card is restricted to one or two users. The reconciliation is performed by another area of Finance. This program is for vendors that are not enrolled in an ePayables program.

Recommended Approach

We conclude that opportunities exist to establish a more efficient, manageable process and increase the rebate through specific use of the P-Card. Based on analysis by the Bank, the County is not earning the maximum rebate available. The County should take additional actions to ensure the maximum rebate is being earned. As a result of our review, we recommend the following in which the rebate could be maximized in an efficient, manageable process.

We Recommend management:

- A. Re-establish the ePayables Program and work with the P-Card Issuing Bank to enroll vendors in the program.
- B. Consider joining the Hillsborough County Consortium for an increased rebate rate.
- C. Review the various card options and establish the ones in the best interest of the County.

Management Response

- A. The recommendation for re-establishing the ePayables Program is being considered.
- B. Concur.
- C. Concur – Other options are being considered.