

# Audit of Procurement Card Process

## **Division of Inspector General**

**Gary J. Cooney, Clerk of the Circuit & Comptroller**  
**Audit Report**

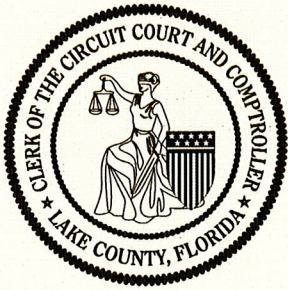
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**Report No. 168**  
**August 30, 2019**





**Division of Inspector General**

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August 30, 2019

Board of County Commissioners

We conducted a review of the procurement card (PCard) process specifically for the purchase of auto parts and small tools during calendar year 2018. There are several strong controls in place that are functioning as designed; however, there are some instances of control-design weakness and noncompliance with control requirements.

We appreciate the cooperation and assistance provided by the staff of the Office of Procurement Services, Fleet Management, Facilities Maintenance, and Parks and Trails during the course of this review.

Respectfully submitted,

Terri Freeman  
Inspector General

cc: Gary J. Cooney, Clerk of the Circuit Court & Comptroller  
Denise Bell, Chief Deputy Clerk  
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# Scope and Methodology

As scheduled in the Clerk's Annual Inspector General Audit Plan, an audit was conducted to assess and test controls related to the purchase of auto parts and small tools using procurement cards (PCards) during calendar year 2018 (CY 2018).

Purchasing Card Procedures, which are referenced as LC-52, were reviewed and discussions were held with staff and management to gain an understanding of the controls in place during 2018 and changes to LC-52 during 2019.

Tests were conducted on transactions in departments with the largest number of auto parts and small tools purchases, which were Fleet Management, Facilities Maintenance, and Parks and Trails. Tests included reviewing financial records, verifying authorizations, and tracing a sample of transactions through inventory records.

## Overall Conclusion

### Control Issues

In Fleet Management, there are no current standard operating procedures, there is noncompliance with control requirements, and there are segregation of duties issues.

### Opportunities for Improvement

Although there are well-designed controls in LC-52, opportunities for improvement are identified in this report.

### Management Identified Control Issues

In November 2018, prior to the start of this audit, Fleet Management made a significant improvement to its inventory process. Audit testing confirmed the new control is operating as designed.

The PCard supporting documentation for Parks and Trails and Facilities Maintenance is highly organized and detailed. There were no testing exceptions identified during the audit of Parks and Trails. There was a key control weakness identified and remediated by Facilities Maintenance management during the first part of 2018, prior to the start of this audit. Audit testing confirmed the new control is operating as designed.

## Background

Lake County uses PCards to streamline purchases and payments of simple, nonrecurring, low-cost goods and services. Appointed cardholders have direct authority to make authorized business purchases for the Board of County Commissioners. LC-52 describes proper PCard use, spending limits, reconciliation, and cardholder and supervisor responsibilities.

Parks and Trails maintains more than 40 parks, conservation lands, boat ramps, and trails throughout Lake County. Facilities Maintenance coordinates the general and preventative maintenance of County owned and operated facilities. Fleet Management repairs and maintains County vehicles and heavy equipment.

# Control Issues

## 1. Standard Operating Procedures

### Roles and Responsibilities

Current roles and responsibilities regarding inventory, work orders, and administration of the RTA inventory application are not defined and published in standard operating procedures in the Fleet Management department. This has resulted in staff frustration and control issues, which are identified in the observations below.

#### **The Office of Fleet Management's Action Plan:**

**All current Standard Operating Procedures are being reviewed and updated as necessary. These revisions will ensure clearly defined roles and responsibilities pertaining to purchasing, inventory control, work orders, and the administration of the RTA system.**

**Target Completion Date: October 1, 2019**

## 2. Non-Compliance with Controls

### A. PCard Policy and Procedures

When Fleet Management needs to return an auto part, employees do not always conduct returns in compliance with Purchasing Card Procedures (LC-52). LC-52 states, "If you return an item to the vendor for credit or obtain a credit for any reason, instruct the vendor to issue the credit against your PCard account." During CY 2018, employees allowed merchants to net credits against other purchases or asked another employee to return a purchase using that employee's PCard. Circumventing the return process poses a risk of transactions that are hard to trace, inaccurate inventory, and misappropriation of County property.

#### **The Office of Fleet Management's Action Plan:**

**Employees will be directed to comply with Purchasing Card Procedures (LC-52) when dealing with any merchandise returns. Procedures will be updated to provide guidance regarding the appropriate manner for purchasing and returning merchandise.**

**Target Completion Date: October 1, 2019**

### B. Administration of the RTA Inventory Application

An employee who transferred from Fleet Management to another Lake County department on January 6, 2019, was still an alternate system administrator for the RTA inventory application as of July 8, 2019. A system administrator is a privileged account and has the ability to overwrite system settings including access controls that enforce segregation of duties. The risk in not removing an employee's access to systems promptly upon termination or transfer is the potential for fraud and misappropriation of County property.

**The Office of Fleet Management's Action Plan:**

Procedures will be updated to ensure when an employee separation or change of status occurs within the division, their credentials will be removed from the RTA system as both a system administrator and a user. Additionally, procedures will be implemented to ensure employee status changes are promptly communicated between the Human Resource Department, Office of Technology and the Division to ensure prompt deactivation of both technology and facility access.

**Target Completion Date: October 1, 2019**

**3. Segregation of Duties Issues**

**A. Reconciliation of the Works and RTA Applications**

There is no process in place for an independent party to validate that parts purchased with a PCard, which are recorded in the Works application, are entered into the Fleet RTA inventory application. The risks of not independently reconciling the systems are inaccurate and incomplete inventory records, as well as a greater chance risk of collusion and concealment of the misappropriation of County property.

**Office of Management and Budget's Action Plan:**

The Financial Analyst in the Office of Management & Budget assigned to provide fiscal support for the Office of Fleet Management will reconcile the RTA inventory application with the Works application on a monthly basis.

**Target Completion Date: October 1, 2019**

**B. Inventory and Work Order Responsibilities**

Some PCard holders in Fleet Management are responsible for purchasing parts, entering parts in the RTA inventory application, and applying parts to work orders in the RTA inventory application. Technicians are not required to formally validate that all parts they used for a job were completely and accurately documented on the related work order. Without adequate segregation of duties of inventory and work order validation responsibilities, there are risks of incorrect inventory and accounting records and misappropriation of County property.

**The Office of Fleet Management's Action Plan:**

Procedures will be updated to ensure adequate segregation of duties exists within fleet management with respect to purchasing, recording, inventorying and final disposition of all items purchased. Final disposition will also include a written technician verification that all purchased parts were utilized during the repair work. In addition, procedures will be implemented to ensure an independent financial analyst review is conducted to confirm all purchased parts correspond to work orders.

Finally, procedures will be modified to include a complete biannual parts inventory, as well as an abbreviated monthly sample inventory.

**Target Completion Date: October 1, 2019**

C. System Administrator for RTA Inventory Application

The current system administrators for the RTA Inventory Application are the Fleet Management Director and the Parts Supervisor, both of whom have PCards. The system administrator has the ability to perform all functions within the system, including overriding access controls set up to ensure proper segregation of duties. The risks of the system administrator having purchasing or inventory responsibilities are an increased probability of inaccurate inventory and accounting records and the misappropriation of County property.

**The Office of Fleet Management's Action Plan:**

**The Director of Fleet no longer has an issued PCard. Procedures will be modified to ensure that the RTA administrator has no PCard purchasing authority. In addition, the RTA System Administrator duties will be performed by two individuals - a fiscal analyst, and a member of the Technology Department, both of whom have no purchasing authority.**

**Target Completion Date: October 1, 2019**

# Opportunities for Improvement

## 4. Procurement Policy and Process

The Purchasing Card Procedure (LC-52) was updated on March 11, 2019, at which time many improvements were made. However, discrepancies exist between the prior and current versions of the procedure regarding key controls, and a revision is needed to clarify a key control.

### A. Review and Approval of PCard Purchases

The prior LC-52 stated, "No subordinate may review purchases for his/her supervisor," but the new version does not mention this requirement. When monitoring responsibilities are assigned to someone who is subordinate to a purchaser, there is a risk that the subordinate will not be comfortable identifying his/her supervisor's mistakes or inappropriate purchases.

The language in LC-52 should be revised to clarify that purchases are required to be approved by a PCard holder's supervisor, regardless of title.

#### **The Office of Procurement Service's Action Plan:**

**LC-52 will be revised to reflect that no subordinate may approve purchases for a Supervisor, Division Manager or Office/Department Director.**

**Target Completion Date: October 1, 2019**

### B. Purchasing Card Administrator Duties

The Purchasing Card Administrator (PCA) reviews all cardholders' purchases and supporting documentation to verify the cardholders followed LC-52 when submitting supporting documentation and signing off in the Bank of America – Works system. The PCA's review was omitted from the current LC-52. If the responsibility is not included LC-52, cardholders and supervisors may be unaware that an additional review is conducted. Employee knowledge of monitoring processes may deter PCard misuse.

LC-52 was not updated to state that the bank statement is provided directly to County Finance rather than to the PCA. According to the current LC-52, the PCA is issued a PCard and receives the comprehensive monthly PCard statement from Bank of America to provide to County Finance for payment. The prior procedure posed a risk that PCA's transactions could be altered before the statement was provided to Finance.

#### **The Office of Procurement Service's Action Plan:**

**LC-52 will be revised to reflect that the issuing bank will provide a comprehensive monthly statement to County Finance.**

**Additionally, the revised procedure will include additional tasks for the PCA including a monthly review of all transactions.**

**Target Completion Date: October 1, 2019**

## **5. PCard Monitoring Process**

Procurement Services monitors transactions on a monthly basis for threshold circumventions or irregular vendor purchasing. In order to monitor for purchasing trends on a larger scale, monitoring should cover a longer period of time (e.g. quarterly, yearly). If monitoring is limited to a monthly review, unintentional or intentional recurring errors may not be identified.

### **Procurement Department Action Plan:**

**LC-52 will be revised to reflect that the PCA will conduct quarterly trend reviews of all transactions**

**Target Completion Date: October 1, 2019**

# **Testing Exceptions**

## **Fleet Management Testing Exceptions**

A random sample of auto parts and small tools were tested during the audit. Two purchases marked as returns could not be traced to an invoice credit, inventory or a work order. Therefore, it is not possible to determine how the items were utilized or whether the items were properly accounted for.

Management's remediation of the control and compliance issues noted in this report will prevent issues such as these from recurring.

# **Management Identified Issues**

## **Fleet Management**

Until November 2018, auto parts and small tools purchased with a PCard were not entered into RTA inventory application if they were to be used for a specific job. If the item was not used for that specific job or returned to the merchant for a credit, the item was not put into inventory resulting in an unclear audit trail of what happened to the auto part or small tool. Management changed this process in November 2018 through the implementation of an undocumented requirement that all parts are entered into inventory. A random sample of auto parts and small tools after this date confirmed the revised process is working.

Management's development of standard operating procedures (see Control Issues 1) will complete the remediation of this issue.



## **Facilities Maintenance**

Facilities uses software to track work orders, but the department did not have a standardized way to document or categorize work. Therefore, the work orders during the first few months of 2018 were difficult to trace. If items are not traceable, the misappropriation of County property can be easily concealed.

This issue was successfully addressed by management during the first quarter of 2018 through the implementation of a standardized method for documenting work orders. Items purchased using this new method were tested during the audit and were traced to a work order without exception.