

Audit of Procurement Card Process

Division of Inspector General **Gary J. Cooney, Clerk of the Circuit Court & Comptroller** **Audit Report**

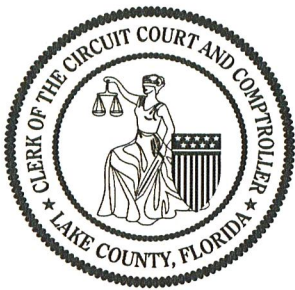
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Division of Inspector General

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November 4, 2020

Board of County Commissioners

The review of the procurement card process that was identified in the 2020 audit plan is complete.

Overall, the controls in place are well-designed and functioning as intended. There are some instances of control-design weakness and noncompliance with control requirements. Opportunities for improvement are included in this report.

We appreciate the cooperation and assistance provided by the Office of Procurement Services contacted during the course of our audit.

Respectfully submitted,

Terri W. Freeman
Inspector General

cc: Gary J. Cooney, Clerk of the Circuit Court & Comptroller
Denise Bell, Chief Deputy Clerk
Jeff Cole, County Manager
Jennifer Barker, Executive Director – Administrative Services
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email fwa@lakecountyclerk.org

Scope and Objective

The objective of the audit of the procurement card (p-card) process was to assess the design of controls to determine if they are sufficient to mitigate risks related to the use of p-cards and to test the controls to determine if they are functioning as designed.

To meet the audit objective, discussions were held with management and staff and tests were conducted on a sample of p-card transactions to validate compliance with the controls defined in County Procedure, Purchasing Card Procedures (LC-52).

Overall Conclusion

The controls in place are largely well-designed and functioning as intended.

The following controls are functioning well based on testing results:

- No conflict of interests were identified between cardholders and vendors.
- 100% of the transactions in the sample tested were for allowable expenses.
- 100% of the transactions in the sample tested for single purchases over \$1,000.00 were properly authorized.
- Less than 1% of the transactions in the sample tested were missing a receipt and there were no instances of more than one missing receipt for the same cardholder.

Opportunities for improvement are included in this report.

Background

Lake County employees use p-cards to purchase simple, nonrecurring, low-cost goods or services. Cardholders have direct authority to make authorized business purchases for the Board of County Commissioners within defined limits. P-card transactions are processed in the Bank of America Works application.

The standard operating procedure, LC-52, is intended to safeguard County funds and improve accountability. It defines allowable and prohibited p-card use, the responsibility of cardholders and supervisors, reconciliation procedures, and documentation requirements.

Opportunities for Improvement

1. Continuous Monitoring Process

There is no process in place for an independent party to monitor for fraudulent activity related to easily resalable items. Losses from fraud could accumulate to significant amounts over time.

Agreed Upon Action Plan: The Office of Procurement Services will implement an ongoing monitoring process to detect p-card fraud. The monitoring process will be started by the Inspector General Division and transferred to Procurement after it has been in process for one year.

Target Completion Date: September 30, 2021

2. P-cards of Terminated or Transferred Employees

The current supervisor exit checklist does not include a requirement to collect p-cards and to notify the Office of Procurement Service of terminations or transfers within the County. Also, there is no requirement for a supervisor to assess whether a cardholder still needs a p-card when transferred to a new position. If the p-card of a terminated or transferred employee is not immediately deactivated, unauthorized transactions could occur.

Agreed Upon Action Plan: At the request of the Office of Procurement Services, the supervisor exit checklist has been updated to reflect the collection of p-cards upon employee termination and the assessment of an employee's need for a p-card by his or her supervisor upon transfer.

Target Completion Date: Completed

3. Transactions Are Not Reviewed in Works

Eighty-nine percent of transactions by one employee and seventy-six percent of transactions by another employee were only approved by the cardholder in the Works application. The Works automated approval system is supposed to be configured to require two additional individuals to review and sign off on each transaction. If transactions are not reviewed by a person independent from the cardholder, collusion could occur and the theft of assets could be concealed.

Agreed Upon Action Plan: Management reviewed the Works application and found inconsistent group code assignments. If the group code is unassigned or is inconsistently assigned, the system could automatically approve the transactions, which bypasses the approval flow. Management will conduct a group code review to confirm the assignment groups and validate that each member within the approval flow receives notification of pending approvals.

Target Completion Date: November 15, 2020

4. Procurement Policy and Process

A. Resolution of Flagged Transactions in Works

Twenty percent of transactions flagged with issues in the Works application were not resolved within five business days as required in LC-52. If policy requirements are not enforced, there is a risk that other requirements will be devalued.

B. Return of Merchandise to Vendor

LC-52 does not reflect current operations. Through discussion with management, returns occurring up to 45 days after purchase is considered acceptable. According to LC-52, "the cardholder should return item(s) to the vendor within ten (10) business days for replacement or credit." There is a risk that unenforced policy requirements could devalue other requirements.

C. Final Approvals of Monthly Statements

Final approvals for 5% of department monthly statements were provided by people who initiated some of the transactions in the statement. If transactions are not reviewed by a person independent from cardholders and their supervisors, collusion could occur and the theft of assets could be concealed.

Final approvals for 2% of department monthly statements were provided by a subordinate of a cardholder who initiated some of the transactions in the statement. A subordinate may not feel comfortable identifying the mistakes or intentional misconduct of their supervisor.

Agreed Upon Action Plan:

Management will revise LC-52 to clarify the following:

- The period of time acceptable to management for cardholders to resolve flagged transactions.
- The process of returning goods and services, including the period of time acceptable to initiate a return.
- The process to ensure the monthly statements are signed by the cardholder even if he or she is out of the office and that the final approver is not a cardholder or a subordinate of a cardholder that made purchases during the period.

Target Completion Date: November 30, 2020