1st District – Janet Nguyen 2nd District – John M.W. Moorlach 3rd District – Todd Spitzer 4th District – Shawn Nelson, Chairman 5th District – Patricia C. Bates, Vice Chair

OC Board of Supervisors

Internal Audit Department

ORANGE COUNTY

6th Largest County in the USA

PURCHASING CARD AUDIT USING COMPUTER-ASSISTED AUDIT TECHNIQUES (CAATS):

COUNTY EXECUTIVE OFFICE / COUNTY PROCUREMENT OFFICE

(Cited as a Best Practice by the Institute of Internal Auditors)

For the Year Ended: December 31, 2013

Purchasing Cards: We analyzed 310 purchasing card accounts with 22,754 transactions for the year ended December 31, 2013, totaling $7.3 million in the areas of card management, merchant management, transaction analysis, and segregation of duties.

Our CAAT routines generated exceptions that required further research by the County Procurement Office (CPO) and County departments to determine if they were valid exceptions that could indicate non-compliance with Purchasing Card policy. **The CPO researched the reported exceptions and satisfactorily resolved the exceptions by confirming the propriety of the transactions with County departments, except for two (2) instances where the cardholders appear to have circumvented the single purchase limit of $5,000.** We identified **two (2) Control Findings** that require further action by the CPO to address: (1) the two instances where the single purchase limit was exceeded and (2) to finalize the Purchasing Card policies and procedures that are currently in draft form.

AUDIT NO: 1350-A
REPORT DATE: JUNE 30, 2014

Director: Dr. Peter Hughes, MBA, CPA, CIA
Senior Audit Manager: Michael Goodwin, CPA, CIA
IT Audit Manager: Wilson Crider, CPA, CISA*

(*Certified Information System Auditor)

RISK BASED AUDITING
GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010, 2013

Member of AICPA

American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management

2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays

2008 Association of Local Government Auditors' Bronze Website Award

2005 Institute of Internal Auditors' Award to IAD for Recognition of Commitment to Professional Excellence, Quality, and Outreach

ORANGE COUNTY BOARD OF SUPERVISORS'
OC Internal Audit Department

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010, 2013

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

Dr. Peter Hughes	**Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE, CFF, CGMA**
Director	Certified Compliance & Ethics Professional (CCEP)
	Certified Information Technology Professional (CITP)
	Certified Internal Auditor (CIA)
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OC Internal Audit Department, visit our website: www.ocgov.com/audit

OC Fraud Hotline (714) 834-3608

Transmittal Letter

Audit No. 1350-A   **June 30, 2014**

TO: Michael B. Giancola, County Executive Officer
Rob Richardson, County Procurement Officer

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: Purchasing Card Audit Using
Computer-Assisted Audit Techniques (CAATs):
County Executive Office/County Procurement
Office

We have completed an audit of Purchasing Cards Using Computer-Assisted Audit Techniques (CAATS) for the year ended December 31, 2013. We performed this audit in accordance with our *FY 2013-14 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors. The final report is attached for your information.

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). Our **First Follow-Up Audit** will begin at six months from the official release of the report. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our **Second Follow-Up Audit** will begin at six months from the release of the first Follow-Up Audit report, by which time **all** audit recommendations are expected to be addressed and implemented. At the request of the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for discussion.

We have attached a **Follow-up Audit Report Form**. Your agency should complete this template as our audit recommendations are implemented. When we perform our first Follow-Up Audit six months from the date of this report, we will need to obtain the completed document to facilitate our review.

Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit issues released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

As always, the Internal Audit Department is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendations. Additionally, we will request your department complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

ATTACHMENTS

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 4.

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Purchasing Card Audit
Using Computer-Assisted Audit Techniques (CAATS):
County Executive Office/County Procurement Office
Audit No. 1350-A

For the Year Ended:
December 31, 2013

OC Internal Auditor's Report

Audit No. 1350-A   **June 30, 2014**

TO: Michael B. Giancola, County Executive Officer
               Rob Richardson, County Procurement Officer

FROM: Dr. Peter Hughes, CPA, Director
               Internal Audit Department

SUBJECT: Purchasing Card Audit Using Computer-Assisted Audit
               Techniques (CAATs): County Executive Office/County
               Procurement Office

Audit Highlight

We analyzed 310 open purchase card accounts with 22,754 transactions for the year ended December 31, 2013, amounting to about $7.3 million in the areas of card management, merchant management, transaction analysis, and segregation of duties.

We identified **two (2) Control Findings** that require further action by the CPO to address the two instances where cardholders exceeded the single purchase limit, and to finalize the Purchasing Card policies and procedures that are in draft form.

OBJECTIVES

In accordance with our *FY 2013-2014 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors, the Internal Audit Department conducted an audit of purchasing cards. We performed a variety of audit tests of purchasing card accounts and transaction activity utilizing Computer-Assisted Audit Techniques (known by the acronym CAATs). This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors. Our objectives were to analyze purchasing card data, employee data and vendor payments in the following areas:

1. **Card Management:** Reviewed purchasing card account and employee data to identify:
   - Purchasing cards not matching employee's payroll name
   - Purchasing cards assigned to employees not in "Active" status
   - Purchasing cards with no activity for one year
   - Multiple purchasing cards assigned to employees
   - Purchasing cards with single purchase limits or credit limits exceeding policy amounts

2. **Merchant Management:** Reviewed purchasing card accounts to identify:
   - Purchasing card activity involving restricted Merchant categories

3. **Transaction Analysis:** Reviewed purchasing card activity to identify:
   - Transactions exceeding single purchase limits
   - Transactions exceeding credit limits
   - Transactions split to circumvent purchasing card limits
   - Duplicate purchasing card transactions
   - Duplicate transactions with accounts payable

4. **Segregation of Duties:** Reviewed purchasing card transactions to identify:
   - Segregation of duties conflicts between purchasing Cardholders and Approving Officials

RESULTS

■ **Objective #1 – Card Management:**
We reviewed all **310 open purchasing card accounts** with employee Human Resources records and US Bank data as of December 31, 2013, for unmatched accounts; non-active employee cardholders; no card activity for a twelve month period; multiple card issuances to cardholders; accounts exceeding established single purchase limits; and accounts exceeding established credit limits.

Based on an analysis by Internal Audit and the County Procurement Office, all exceptions noted were satisfactorily researched, resolved and found to comply with Purchasing Card policy. **We have no findings or recommendations in the area of purchasing card management.**

■ **Objective #2 – Merchant Management:**
We reviewed **22,754 purchasing card transactions totaling $7,308,894** for the year ended December 31, 2013, to identify transactions with prohibited merchant categories. The purchasing card policy identifies the card's restricted uses and prohibited merchant categories. Our review found several exceptions that contained key words of blocked categories.

Based on an analysis by Internal Audit and the County Procurement Office, all exceptions noted were satisfactorily researched, resolved and found to comply with Purchasing Card policy. **We have no findings or recommendations in the area of merchant management.**

■ **Objective #3 – Transaction Analysis:**
We reviewed **22,754 purchasing card transactions totaling $7,308,894** for the year ended December 31, 2013, to identify transactions exceeding the single purchase limit; transactions exceeding the monthly credit limit; splitting of transactions to bypass daily purchase limits; and duplicate transactions.

Based on an analysis by Internal Audit and the County Procurement Office, the exceptions noted were satisfactorily researched, resolved and found to comply with Purchasing Card policy, with the exception of two (2) instances that Internal Audit and the County Procurement Office were unable to resolve concerning transactions if combined exceeded the single purchase limit of $5,000, which is referred to as "splitting" of transactions. We identified **one (1) Control Finding** regarding transactions potentially not in compliance with Purchasing Card policy.

■ **Objective #4 – Segregation of Duties:**
We reviewed all purchasing card transactions having the same account name and final approver name to identify improper segregation of duties. **We have no findings or recommendations in the area of segregation of duties.**

Purchasing Card Policies and Procedures
We conducted a similar audit of purchasing cards using CAATs for the calendar year 2012 (Audit No. 1239). In that audit, we identified where the County Procurement Office should research certain areas concerning their administration of purchasing cards, and to update the purchasing card policy as necessary.

While our current audit found that the County Procurement Office evaluated its purchasing card policies and procedures, we noted the *Purchasing Card Policies & Procedures 2012 User Guide*, dated June 19, 2012, is still in draft form. It does not include policy for the recently implemented travel card, recent policy enhancements and disciplinary steps to be taken when there is non-compliance with the policy. We identified **one (1) Control Finding** for the County Procurement Office to update and finalize the purchasing and travel card policy and procedures. The County Procurement Office indicated that updating the policy and procedures is one of their priorities.

The following table summarizes our findings and recommendations for this audit. See *Attachment A* for a description of Report Item Classifications. See *Attachment B* for a detailed description of Purchasing Cards CAATs, results and recommendations.

Summary of Findings and Recommendations

Finding No.	Finding Classification (see Attachment A)	Finding	Recommendation	Management Response
1	**Control Finding**	Transactions Exceeding Single Purchase Limit – IAD and CPO identified two accounts where individual purchases made on the same day and with the same merchant (when combined) exceeded the single purchase limit of $5,000.	CPO should take measures in accordance with Purchasing Card policy to address the identified transactions and notification to cardholders.	Concur. The CPO will update policies and procedures to include steps for progressive discipline for violators, and will meet with the specific departments and cardholders where violations have occurred.
2	**Control Finding**	Policy and Procedures – The *Purchasing Card Policies & Procedures 2012 User Guide*, dated June 19, 2012, is still in draft form.	CPO should update and finalize the purchasing and travel card policy and procedures.	Concur. The CPO is in the process of updating and finalizing Purchasing Card policies and procedures.

BACKGROUND

Continuous auditing using CAATs is a change to the traditional audit approach. CAATs differ from our traditional audits in that CAATs can query **100%** of a data universe whereas the traditional audits typically test but a **sample** of transactions from the population. CAATs are automated queries applied to large amounts of electronic data searching for specified characteristics. We use a proprietary, best practice and industry recognized software product (ACL) to help us in this process.

Often there is additional research needed to validate exceptions that is only known at the department level. Internal Audit attempts to validate and resolve exceptions; however, most of the resulting exceptions are forwarded to the appropriate department for validation and/or resolution. Depending on the department's review, **the exceptions may or may not be a finding**. For the exceptions and findings noted in our audit, we forwarded the exceptions to the **County Procurement Office (CPO)** for further research, which involves contacting departments/agencies and/or clarifying existing Purchasing Card policies and procedures.

Because of limited resources in the CPO, we are issuing an audit report that details our exceptions found for Calendar Year 2013 instead of performing on-going monthly CAAT routines. We have also made arrangements with the CPO to provide them the CAAT routines so they can monitor purchasing cards as part of their administration of the program.

Note: Effective January 23, 2014, the CPO implemented a separate purchasing card program for all travel and food related purchases whereby certain purchases would not be allowable on standard purchasing cards. Our audit of calendar year 2013 purchasing cards included both travel and food related purchases since the new program was implemented after our audit period.

SCOPE

This report details the CAAT work we performed on the purchasing card data for the year ended December 31, 2013. Our analysis included a review of the following data:

1. **Card Management:** We compared all 310 open purchasing card accounts with employee Human Resources records.

2. **Merchant Management:** We reviewed 22,754 purchasing card transactions (100%) to identify Purchasing Cards without merchant restrictions and transactions involving prohibited merchant categories. The Purchasing Card policy identifies the following as prohibited merchant categories:

   "Air phone, direct marketing insurance services, overpayments, savings bonds, political organizations, religious organizations, court costs, alimony or child support, tax payments, government loan payments, automated referral service, goods or services from blocked vendors, alcoholic beverages, wire transfer or money orders, cash advances, foreign currency or travelers checks, security brokers/dealers, timeshares, betting, casino gaming chips, off-track betting, fines, bail or bond payments, and capital/fixed assets."

3. **Transaction Analysis:** We reviewed 22,754 purchasing card transactions to identify: transactions exceeding single purchase limit, transactions exceeding credit limit, transactions potentially split to circumvent purchasing card limits, duplicate purchasing card transactions, and duplicate transactions to paid accounts payable invoices.

4. **Segregation of Duties:** We reviewed purchasing card transactions to identify segregation of duties conflicts between cardholders and final approvers of purchasing card transactions.

Acknowledgment

We appreciate the courtesy extended to us by the County Executive Office and County Procurement Office personnel during our audit. If we can be of further assistance, please contact me directly at 834-5475 or Michael Goodwin, Senior Audit Manager, at 834-6066.

Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

    Members, Board of Supervisors
    Members, Audit Oversight Committee
    Frank Kim, Chief Financial Officer
    Mark Denny, Chief Operating Officer
    Melva Gipson, Policy and Asset Manager, County Procurement Office
    Nina Badalamenti, Cal-Card Program Administrator, County Procurement Office
    Victoria Ross, Director, Central Accounting Operations, Auditor-Controller
    Paul Villanueva, Senior Manager, A-C/Claims and Disbursing
    Foreperson, Grand Jury
    Susan Novak, Clerk of the Board of Supervisors
    Macias Gini & O'Connell LLP, County External Auditor

Finding 1 – Transactions Exceeding Single Purchase Limit of $5,000 (Control Finding)

We reviewed purchasing card activity to identify: transactions exceeding single purchase/credit limits, transactions potentially split to circumvent purchase card limits, duplicate transactions, and duplicate transactions with accounts payable invoices.

In testing for potential splitting of purchases by either individual cardholders or departments with multiple cards, we analyzed all purchasing card transactions with the same account number or department, transaction date, and merchant name totaling greater than $5,000, which is the authorized limit for single purchases. We noted that the draft *Purchasing Card Policies & Procedures 2012 User Guide* does not includes steps for progressive discipline for deliberate violations of Purchasing Card policy. (See Finding No. 2 below)

Our CAAT analysis identified nine (9) instances where transactions were potentially split to circumvent the single purchase limit. The County Procurement Office researched the reported exceptions. For individual cardholders, seven (7) exceptions were satisfactorily resolved by confirming they were not split purchases. **Two (2) exceptions were found where the single purchase transaction limit appears to have been circumvented** through several individual purchases to the same vendor on the same day.

Recommendation No. 1:
CPO should take measures in accordance with Purchasing Card policy to further research and address the identified exceptions involving single transaction limits, and make appropriate notification to Cardholders and their Approving Officials based on the outcome.

County Executive Office/County Procurement Office Management Response:
Concur. The County Procurement Office will update the Cal Card Policies and Procedures to include steps for progressive discipline for Cardholders and Approvers who deliberately violate Cal Card policies.

The County Procurement Office will address both split transaction violations detected in this audit by meeting with each agency to explain why the transactions were deemed a violation, and educating the Cardholder by identifying the method in which the transaction should have been procured. We will also send a memo to each department outlining the violation and future disciplinary action if the violation reoccurs. Cardholder and Approver accounts will be terminated upon the second violation. The County Procurement Office anticipates meeting with both agencies before July 1, 2014.

Finding 2 – Purchasing Card Policies and Procedures in Draft Form (Control Finding)

We noted the *Purchasing Card Policies & Procedures 2012 User Guide*, dated June 19, 2012, is still in draft form. It does not include policy for the recently implemented travel card or the policy enhancements recommended for analysis in our prior audit. The County Procurement Office should update and finalize the purchasing and travel card policy and procedures. In addition, there is a pilot program implemented in a few County departments where the purchasing card process was more automated. The policy and procedure manual should also include any updates concerning the implementation of the pilot project if they are moving forward with that initiative.

Finally, the draft policy section 3.4 – <u>Restricted Uses</u> should clearly communicate consequences for non-compliance with the policy. For example, if individuals are found to be in non-compliance by splitting purchases to avoid single purchase limits, the policy should state what progressive disciplinary steps will be taken. The County Procurement Office will be using CAATs to monitor purchase and travel cards on a go-forward basis, and therefore should have clearly defined policy for consequences resulting from non-compliance with the policy.

Recommendation No. 2:

CPO should update and finalize the Purchasing Card policy and procedures to include travel, policy enhancements, and disciplinary steps to be taken in the event of non-compliance.

County Executive Office/County Procurement Office Management Response:

Concur. The County Procurement Office is in the process of updating the County's Cal Card Policies and Procedures to address the automated reconciliation process, Travel Card Program, policy enhancements, and disciplinary steps for non-compliant Cardholders and Approvers. Completion of the policy is a priority. Upon final internal evaluation of the policy, these policies and procedures will be reviewed with the Chief Financial Officer and Auditor-Controller in the next forty-five (45) days; a copy will also be provided to Internal Audit for additional review.

ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we will classify audit report items into three distinct categories:

▶ **Critical Control Weaknesses:**
Audit findings or a combination of Significant Control Weaknesses that represent serious exceptions to the audit objective(s), policy and/or business goals. Management is expected to address Critical Control Weaknesses brought to their attention immediately.

▶ **Significant Control Weaknesses:**
Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses require prompt corrective actions.

▶ **Control Findings:**
Audit findings concerning internal controls, compliance issues, or efficiency/effectiveness issues that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.

ATTACHMENT B: Description of Purchase Card CAATs, Results and Recommendations

Audit Objective	CAAT Routin	Description	Results	Final Resolution
CARD MANAGEMENT	1	**Unmatched Accounts:** P-Card Account name does not match corresponding payroll name.	Identified 3 accounts where P-Card account name did not match employee payroll name.	1. CPO researched the reported exceptions and found they were for active employees with minor name discrepancies. All exceptions were satisfactorily resolved.
	2	**Non-Active Employees:** P-Card holder is not an "Active" employee. Account name matches corresponding payroll name with EMPLMT_STAT_CD not equal to "Active."	Identified 6 accounts with employment status other than "Active."	2. CPO researched the reported exceptions. 5 exceptions were satisfactorily resolved by determining the active employee status with HRS. 1 exception was found valid and the P card account was deactivated.
	3	**No Card Activity:** P-Card account has no transactions or activity over a twelve month period.	Identified 27 accounts with no activity for twelve months.	3. CPO researched the reported exceptions. All exceptions were satisfactorily resolved by either confirming the accounts were used within the last twelve months, are needed to stay open and active, or account was closed.
	4	**Multiple P-Cards:** More than one P-Card account with the same last name (e.g. P-card and Travel P-Card)	Identified 18 individuals with mutliple open cards and determined additional cards were for travel expenses or split departments (e.g. PA/PG).	4. CPO researched the reported exceptions. All exceptions were satisfactorily resolved by confirming separate cards for dept. and travel purchases, and separate cards for separate depts. One cardholder changed agencies and the card was deactivated.
	5	**Accounts with Single Purchase Limit > $5,000:** Accounts where single purchase amount exceeded policy limit of $5,000.	No exceptions were identified.	5. None.
	6	**Accounts Exceeding Credit Limit of $15,000:** Accounts where credit limit exceeds policy amount of $15,000.	No exceptions were identified.	6. None.
MERCHANT MANAGEMENT	7	**Activity with Blocked Merchant Category Codes:** P-Card transactions from Transaction Detail report with blocked merchant category codes.	Identified 1 transaction where the Merchant Category Code matched a blocked key word.	7. CPO researched the reported exception. The exception was satisfactorily resolved by confirming it was for a legitimate County business purpose.
	8	**Activity with Blocked Merchant Category Code Description:** Transactions where Merchant Category Code Desc contains blocked key word.	Identified 28 transactions where the Merchant Category Code Description matched a blocked key word.	8. CPO researched the reported exceptions. The exceptions were satisfactorily resolved by confirming they were for legitimate County business purposes.
	9	**Activity with Blocked Merchant Names:** Transactions where Merchant Name field contains blocked key word.	Identified 20 transactions where Merchant Name matched a blocked key word.	9. CPO researched the reported exceptions. The exceptions were satisfactorily resolved by confirming they were for legitimate County business purposes.

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ATTACHMENT B: Description of Purchase Card CAATs, Results and Recommendations (continued)

Audit Objective	CAAT Routin	Description	Results	Final Resolution
	10	**Activity with Blocked Allocation/Accounting Code:** Transactions where Allocation/Accounting Description field contains blocked key word.	Identified 36 transactions where Allocation/Accounting Code matched a blocked key word.	10. CPO researched the reported exceptions. The exceptions were satisfactorily resolved by confirming they were for legitimate County business purposes.
	11	**Activity with Blocked Item Description:** Transactions where Item Description field contains blocked key word.	Identified 15 transactions where Item Description matched a blocked key word.	11. CPO researched the reported exceptions. The exceptions were satisfactorily resolved by confirming they were for legitimate County business purposes.
TRANSACTION ANALYSIS	12	**Transactions Exceeding Account's Single_Purchase_Limit**	No exceptions were identified.	12. None.
	13	**Transactions Exceeding Monthly Credit_Limit:** Accounts where sum of transactions for the month > Credit_Limit (based on transaction date within calendar month).	Identified 9 instances where monthly transaction total exceeded credit limit.	13. CPO researched the reported exceptions. The exceptions were satisfactorily resolved by confirming the monthly limit was not exceeded with US Bank.
	14	**Split Transactions - Individual Cardholders:** Identify transactions with the same Account Number, Transaction Date, and Merchant Name totaling > $5,000.	Identified 9 instances where transactions were potentially split to circumvent the single purchase limit.	14. CPO researched the reported exceptions. 7 exceptions were satisfactorily resolved by confirming they were not split purchases. 2 exceptions were found valid where the single transaction limit was bypassed through several individual purchases. Control Finding #1
	15	**Split Transactions - Multiple Cardholders:** Identify transactions with the same managing Account Name, Transaction Date, and Merchant Name totaling > $5,000.	Identified 10 instances where transactions were potentially split to circumvent the single purchase limit.	15. CPO researched the reported exceptions. 8 exceptions were satisfactorily resolved by confirming they were not split purchases. 2 exceptions were found valid where the single transaction limit was bypassed through several individual purchases. (Same as #14) Control Finding #1
	16	**Duplicate Transactions:** Transactions with the same Merchant, Date, and Amount.	Identified 20 transactions which are potentially duplicate transactions.	16. CPO researched the reported exceptions. 18 exceptions were satisfactorily resolved by confirming they were not duplicate payments. 2 exceptions were found to be valid duplicate payments. Cardholders were refunded the amounts on the next statement.
	17	**Duplicate Transactions from Paid AP Invoices:** Compare card transactions to paid AP Invoices (CAPS+); match on Merchant name and Amount.	Identified 12 transactions as potential duplicate payments.	17. IAD researched the reported exceptions and determined they were not duplicate payments based on the check issuance dates.
SEGREGATION OF DUTIES	18	**Segregation of Duties:** Transaction from the Transaction Detail report with the same account name and final approver name.	No exceptions were identified.	18. None.
	19	**Segregation of Duties:** Transactions from the TransactionApprovalStatus report with the same account name and final approver name.	No exceptions were identified.	19. None.

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ATTACHMENT C: County Executive Office/County Procurement Office Management Responses

Memorandum

June 20, 2014

TO: Dr. Peter Hughes, Internal Audit Director

FROM: Rob Richardson, County Purchasing Agent/County Procurement Officer

SUBJECT: Response to Audit 1350: Internal Audit Report of Purchasing Card Audit
          Using Computer-Assisted Audit Techniques (CAATs)

We are pleased to provide the CEO/County Procurement Office response to the findings and recommendations contained in the Internal Audit Report of the Purchasing Card Audit Using Computer-Assisted Audit Techniques (CAATs). The CEO/County Procurement Office would like to extend its appreciation to the Internal Audit Department staff for the courtesies they offered during the audit and review phase. The support and review of IAD will further sharpen controls for this County-wide program. We look forward to ongoing collaboration to enable CPO use of CAAT software to conduct our own periodic reviews.

1. **Transactions Exceeding Single Purchase Limit of $5,000 (Control Finding)**

   We reviewed Purchasing Card activity to identify: transactions exceeding single purchase/credit limits, transactions potentially split to circumvent purchase card limits, duplicate transactions, and duplicate transactions with accounts payable invoices.

   In testing for potential splitting of purchases by either individual cardholders or departments with multiple cards, we analyzed all purchasing card transactions with the same account number or department, transaction date, and merchant name totaling greater than $5,000, which is the authorized limit for single purchases. We noted that the draft *Purchasing Card Policies & Procedures 2012 User Guide* does not include steps for progressive discipline for deliberate violations of Purchasing Card policy. (See Finding No. 2 below)

   Our CAAT analysis identified nine (9) instances where transactions were potentially split to circumvent the single purchase limit. The County Procurement Office researched the reported exceptions. For individual cardholders, seven (7) exceptions were satisfactorily resolved by confirming they were not split purchases. **Two (2) exceptions were found to be valid where the single transaction limit**

ATTACHMENT C: County Executive Office/County Procurement Office Management Responses (continued)

was circumvented through several individual purchases to the same vendor on the same day. The same two cardholder accounts were identified in our analysis of departments with multiple cards. The cardholders were in Human Resource Services and the Social Services Agency.

Recommendations No. 1:

CPO should take measures in accordance to Purchasing Card policy to address the identified transactions and notification to cardholders and their Approving Officials.

County Executive Office/County Procurement Office Management Response:

Concur. The County Procurement Office will update the Cal Card Policies and Procedures to include steps for progressive discipline for Cardholders and Approvers who deliberately violate Cal Card policies.

The County Procurement Office will address both split transaction violations detected in this audit by meeting with each agency to explain why the transactions were deemed a violation, and educating the Cardholder by identifying the method in which the transaction should have been procured. We will also send a memo to each department outlining the violation and future disciplinary action if the violation reoccurs. Cardholder and Approver accounts will be terminated upon the second violation. The County Procurement Office anticipates meeting with both agencies before July 1, 2014.

2. **Purchasing Card Policies and Procedures in Draft Form (Control Finding)**

We noted the *Purchasing Card Policies & Procedures 2012 User Guide*, dated June 19, 2012, is still in draft form. It does not include policy for the recently implemented travel card or the policy enhancements recommended for analysis in our prior audit. The County Procurement Office should update and finalize the purchasing and travel card policy and procedures. In addition, there is a pilot program implemented in a few County departments where the purchasing card process was more automated. The policy and procedure manual should also include any updates concerning the implementation of the pilot project if they are moving forward with that initiative.

Finally, the draft policy section 3.4 – Restricted Uses should clearly communicate consequences for non-compliance with the policy. For example, if individuals are found to be in non-compliance by splitting purchases to avoid single purchase limits, the policy should state what progressive disciplinary steps will be taken. The County Procurement Office will be using CAATs to monitor purchase and travel cards on a go-forward basis, and therefore should have clearly defined policy for consequences resulting from non-compliance with the policy.

ATTACHMENT C: County Executive Office/County Procurement Office Management Responses (continued)

Recommendations No 2:

CPO should update and finalize the purchasing card policy and procedures to include travel, policy enhancements, and disciplinary steps to be taken in the event of non-compliance.

County Executive Office/County Procurement Office Management Response:

Concur. The County Procurement Office is in the process of updating the County's Cal Card Policies and Procedures to address the automated reconciliation process, Travel Card Program, policy enhancements, and disciplinary steps for non-compliant Cardholders and Approvers. Completion of the policy is a priority. Upon final internal evaluation of the policy, these policies and procedures will be reviewed with the Chief Financial Officer and Auditor-Controller in the next forty-five (45) days; a copy will also be provided to Internal Audit for additional review.

cc. Mike Giancola, County Executive Officer
Mark Denny, Chief Operating Officer
Frank Kim, Chief Financial Officer
Melva Gipson, Policy and Asset Manager
Nina Badalamenti, Cal Card Program Administrator

Purchasing Card Audit Using Computer-Assisted Audit Techniques (CAATs):
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