

ADMINISTRATIVE

TO: Kelly Rogge, County Administrator

VIA: The Honorable Judge A. Givens, Jr.

FROM: Steven Rogge, CIA, Director of Audit Services

DATE: December 30, 2022

SUBJECT: Follow-Up Audit of the Purchasing Cards Audit

Hernando County Clerk of Circuit Court
Audit Services Department
Follow-Up Audit Report
of
Purchasing Cards Audit
December 30, 2022

In accordance with the Audit Services Department's audit schedule, the follow-up audit was conducted a follow-up audit of the Purchasing Cards Audit. Based on communications with key personnel, the audit team conducted an initial review of the report and identified areas for improvement. The audit team conducted a follow-up audit to the initial audit report to determine if the identified areas of concern had been addressed.

The purpose of the report is to identify management with internal control deficiencies, recommendations, control and internal control deficiencies identified. The audit report is not to be used for management's internal control purposes. It is not an official report of management.

Although the audit report identified the professional staff in the performance of the follow-up audit, the audit should not be construed to mean that management is responsible for the audit. The balance of the audit and employee duties is the responsibility of management. Audit personnel are not to be held responsible for the audit results. The audit report is not to be used for management's internal control purposes. It is not an official report of management.

The audit report and conclusions extended by the employees of the Hernando County Clerk of Circuit Court and Audit Services Department during the audit were strictly confidential.


If you have any questions, comments or need additional information related to the above, the attached report, please do not hesitate to contact Audit Services at (352) 343-6000 or for fax at (352) 343-6001.

ATTACHMENT: Purchasing Cards Follow-Up Audit Report

MANAGEMENT LETTER

TO: Jeffrey Rogers, County Administrator

VIA: The Honorable Douglas A. Chorvat, Jr.

FROM: Elizabeth Hogan, CIA, CFE, Director of Audit Services 

DATE: December 30, 2022

SUBJECT: Follow-Up Audit of the Purchasing Cards Audit

In accordance with the Audit Services Department's Audit Project Schedule, the internal audit team conducted a follow-up audit of the Purchasing Cards Audit. Based on communications with key personnel, the audit team produced the attached report for your review. A copy of this report has been forwarded to the Board of County Commission as an agenda "correspondence to note" item.

The purpose of this report is to furnish management with independent, objective analyses, recommendations, counsel, and information concerning the activities reviewed. The audit report is a tool to help management discern and implement specific improvements. It is not an appraisal or rating of management.

Although the internal audit team exercised due professional care in the performance of this follow-up audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected.

The courtesies and cooperation extended by the employees of the Hernando County Purchasing and Contracts Department during the audit were sincerely appreciated.

If you have any questions, concerns, or need additional information in regard to the above or the attached report, please do not hesitate to contact Audit Services at (352) 540-6235, or just stop by our offices in Room 300C.

ATTACHMENT: Purchasing Cards Follow-Up Audit Report

Copy: Toni Brady, Director, Office of Management & Budget/Chief Procurement Officer

Copy: Board of County Commissioners

Chairman John Allocco
Commissioner Jerry Campbell
Commissioner Steve Champion
Commissioner Brian Hawkins
Commissioner Elizabeth Narverud

Copy: Audit Services Planning & Priorities Committee

The Honorable Douglas A. Chorvat, Jr., Clerk of the Circuit Court and Comptroller
Joshua Stringfellow, CPA, Director of Financial Services
Jon Jouben, County Attorney
Jeffrey Rogers, County Administrator
Tobey Phillips, Deputy County Administrator
Toni Brady, Director, Office of Management & Budget/Chief Procurement Officer
Jeff Wolf, CPA, Senior Audit Manager, MSL P.A.
William Blend, CPA, CFE Shareholder, MSL P.A.

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Executive Summary

The Audit Services Department (ASD) conducted a follow-up audit of the Purchasing Cards Audit dated November 18, 2019. The purpose of this follow-up audit was to determine the status of the previous recommendations for improvement and management's corrective actions.

The purpose of the original Purchasing Cards Audit was to provide management with some level of assurance that the internal controls for the issuance and use of Purchasing Cards were adequate.

To assess the status of previous recommendations, the ASD interviewed management and staff members and reviewed Merchant Category Code documentation from the Bank of America Works system.

Of the five recommendations in the original audit report, ASD determined that three recommendations were implemented, and two recommendations were not implemented.

The three recommendations that were implemented pertained to the following Opportunities for Improvement:

- Segregate the duties of P Card account set-up; receipt of new P Cards; and distribution of P Cards
- Review requirements for P Card Statement verification, approval, and submission with Cardholders and management
- Utilize Merchant Category Code (MCC) control feature in Bank of America Works system

The two recommendations that were not implemented pertained to the following Opportunities for Improvement:

- Management review of P Card account data for accuracy
- Provide an annual report of inactive P Cards to Department Directors in accordance with Purchasing Cards Policy 050H

ASD commends management for the full implementation of recommended improvements, and we encourage management to fully implement all recommendations.

Audit Comment No.	Audit Services Recommendation	Management Responses	Implementation Status		
			Implemented	Partially Implemented	Not Implemented
1.1	To verify the accuracy of Cardholder data, the ASD recommends that Purchasing and Contracts management periodically review Bank of America reports for new P Card accounts and/or modifications to existing cardholder data	Purchasing and Contracts Department Staff and Management support audit report recommendation(s). Action: Purchasing Management shall obtain P-card reports on a quarterly basis from Bank of America. If the County P-card Administrator has access to obtain report data, the P-card Administrator will run/print such P-card reports for procurement management review. Based upon management review, management will evaluate for action as required and as identified. The quarterly reports shall begin on October 1, 2019 and a separate file will be created and housed with current P-card account folders. Purchasing may share such reports and data with the Clerk's Office – Finance (as needed/as available). Electronic copy filed in File No. 19-P00177/JSW			✓
1.2	Segregate the duties of P Card account set-up; receipt of new P Cards; and distribution of P Cards	Purchasing and Contracts Department Management have identified: <ul style="list-style-type: none"> • One (1) employee procurement staff position as P-Card Administrator to enter request(s) for new P-cards or changes as requested by and received from County Departments • One (1) employee procurement staff position to issue new P-cards • One (1) management position (Chief Procurement Officer (CPO) to review and approve requests for new P-cards related to: P-card increase, new employee and employee transfer and termination of card holder rights (but not limited to). Management will also seek support from the department regarding a request to increase spend limit(s), transfers etc., and attach it to the department request (Form 28 Entitled: P Card Application-Termination Form) located on County EICE.	✓		
1.3	In accordance with Purchasing Cards Policy 500H and to limit unnecessary exposure to fraudulent transactions, Purchasing and Contracts personnel should provide an annual report of inactive P Cards to Department Directors	Purchasing Department Management has identified October 1, of each year thereafter to distribute this annual report of "Inactive" P-card accounts during the month of October to Department directors for review and require written reply from the Department Director or designee to close or keep such P-card account active. This will require written replay by the Department Director to the Purchasing Card Administrator. A file of such annual list and department response will be created and kept with other P-card accounts in the Purchasing and Contracts Department and electronic copy in the File No. 19-P00177/JSW.			✓

Audit Comment No.	Audit Services Recommendation	Management Responses	Implementation Status		
			Implemented	Partially Implemented	Not Implemented
2.1	The ASD recommends that management communicate to all Cardholders the importance of compliance with the County Purchasing Card Procedure No. 050H regarding the timely approval and submission of monthly statements. If a Cardholder is continuously non-compliant, management should consider revoking the Cardholders account. The Purchasing Card Procedure clearly states, "Noncompliance may mean denial of future use."	<p>Purchasing and Contracts Department P-Card Administrator and/or Senior Procurement Management will communicate the importance of County-wide Department monthly statement reporting procedure during the following orientation training sessions and/or other County-wide communications:</p> <ul style="list-style-type: none"> • New P-card orientation training and/or • Through e-mail announcements and notifications to County-wide Departments <p>Such training and County-wide communications will advise County Department staff of the potential results for non-compliance regarding monthly P-card statement processing and reporting for review and approval.</p>	✓		
2.2	Purchasing and Contracts management should consider utilizing the MCC control feature in the Bank of America Works system	<p>According to the Bank of America Program Manager, the County has access to the Standard MCC Groupings in Works and the County will implement custom MCC Group Access controls based upon County financial availability and need. This standard MCC Grouping Access allows the P-card Administrator to check and see which MCC groupings we restricted in the Works program currently located in the "Spend Control Profiles Section". The County profiles that are currently block/restricted: Cash access. To create custom MCC Groups with the Bank of America, Bank of America has provided a list of its staff within its servicing department for such customization as warranted by the County. It is unknown, at this time, if a cost would be involved or incurred to perform custom MCC Group Access for the County by Bank of America. Purchasing Management will review on an annual basis the County spend control profiles and seek assistance as needed from the Bank of America Project Manager or designee. Within the Hernando County Contracts Policy and Procedures Manual, Section 050H (or as revised "or" current edition), the policy clearly states what is determined an Unauthorized Purchase. In addition, the Clerk's Office – Finance staff reviews P-card purchase reconciliations and alerts Purchasing's Senior staff if they (Finance) suspect unauthorized purchase activity from their review.</p>	✓		

Acknowledgement

Fieldwork was performed by: Vicky Sizemore, Internal Auditor *VS*

This report was reviewed and authorized by Douglas A. Chorvat, Jr., Clerk of Circuit Court and Comptroller.

D. Chorvat Jr.

Douglas A. Chorvat, Jr.

12/30/2022

Date

BACKGROUND INFORMATION

To provide an efficient, cost-effective process to purchase small dollar goods and/or services the County established a Purchasing Card (P Card) program. The P Card program was initially established on April 14, 1998, when the County utilized the State of Florida's contract with Bank of America.

OBJECTIVE

The purpose of this follow-up audit of the Purchasing Card Audit was to assess the status of previous recommendations for improvement.

The purpose of the original audit was to provide management with some level of assurance that the internal controls for the issuance and use of Purchasing Cards were adequate.

SCOPE

To determine the current status of the previous recommendations, ASD interviewed management and staff members to assess the actual actions taken by management to implement operational improvements.

Opportunity for Improvement	Description	Page Reference
1.1	Management review of P Card account data for accuracy.	10-11
1.2	Segregate the duties of P Card account set-up; receipt of new P Cards; and distribution of P Cards.	11-12
1.3	Provide an annual report of inactive P Cards to Department Directors in accordance with Purchasing Cards Policy 050H.	12
2.1	Review requirements for P Card Statement verification, approval, and submission with Cardholders and management.	13-14
2.2	Utilize Merchant Category Code (MCC) control feature in Bank of America Works system.	14-15

Discussion Points
Status of Recommendations

This section reports the follow-up actions taken by management regarding the Opportunities for Improvement reported in the Purchasing Cards Audit dated November 18, 2019. The audit comments and recommendations contained herein are those of the original audit, followed by the current status of the Opportunity for Improvement.

Discussion Point 1: Cardholder Accounts

The ASD reviewed the processes in place for establishing new accounts, modifying existing accounts, and closing accounts. In addition, the Bank of America data was reviewed for duplicate Cardholder accounts.

For the set-up of new P Card accounts, Department Directors are responsible for determining if staff members responsibilities necessitate the need for a P Card. Department Directors or designated representatives submit a completed Purchasing Card Application/ Acceptance/ Termination Form to the Purchasing and Contracts Department to request new accounts, modify existing accounts, or terminate an account.

The review of the new P Card account set-up process disclosed three Opportunities for Improvement.

1.1. Opportunity for Improvement: Management review of P Card account data for accuracy.

The approving department director indicates the monthly credit limit and the single purchase limit on the Application/Acceptance/Termination Form.

Using data analytics software, the ASD team identified twelve new P Card accounts established during the audit period. These Cardholder accounts were reviewed to ensure the account was properly approved and set-up in Bank of America's Works program.

This review disclosed that unauthorized Cardholder limits were input into the Bank of America System. Four of the twelve new accounts reviewed (33%) were granted higher limits than approved. In addition, one of the twelve new accounts had a higher limit without proper supporting documentation and approval.

Recommendation: To verify the accuracy of Cardholder data, the ASD recommends that Purchasing and Contracts management periodically review Bank of America reports for new P Card accounts and/or modifications to existing cardholder data.

Management Response:

Purchasing and Contracts Department Staff and Management, support audit report recommendation(s).

Action: Purchasing Management shall obtain P-card **reports on a quarterly** basis from Bank of America. If the County P-card Administrator has access to obtain report data, the P-card Administrator will run / print such P-card reports for procurement management review. Based upon management review, management will evaluate for action as required and as identified. The quarterly reports shall begin on **October 1, 2019** and a separate file will be created and housed with current P-card account

folders. Purchasing may share such reports and data with the Clerk's Office - Finance (as needed / as available). **Electronic copy filed in File No. 19-P00177/JSW.**

Status: Not Implemented

The review determined that the Purchasing and Contracts Department does not review Bank of America P Card reports for accuracy on a quarterly basis.

Updated Management Response:

The P-card Administrator will run / print such P-card reports for procurement management review. Based upon management review, management will evaluate for action as required and as identified on a quarterly basis. The quarterly reports shall begin on December 31, 2022, and a separate file will be created and housed with current P-card account folders. Procurement may share such reports and data with the Clerk's Office - Finance (as needed / as available).

Implementation Date: 12/31/2022

1.2. Opportunity for Improvement: Segregate the duties of P Card account set-up; receipt of new P Cards; and distribution of P Cards.

According to the American Institute of Certified Public Accountants (AICPA), "Segregation of Duties (SOD) is a basic building block of sustainable risk management and internal controls for a business. The principle of SOD is based on shared responsibilities of a key process that disperses the critical functions of that process to more than one person or department. Without this separation of key processes, fraud and error risks are far less manageable."¹

The Senior Buyer in Purchasing and Contracts received new account set-up requests, processed the new account, and received the P Card from Bank of America. In addition, the Senior Buyer received notification to close accounts and was responsible for destroying returned P Cards.

Recommendation: Purchasing and Contracts management should consider realigning job responsibilities such that one individual is not responsible for the set-up of new accounts and the receipt of the new or returned P Cards.

Management Response:

Purchasing and Contracts Department Staff and Management, support audit report recommendation(s).

Action: Purchasing and Contracts Department Management have identified:

- One (1) employee procurement staff position as P-Card Administrator to **enter** request(s) for new P-cards or changes as requested by and received from County Departments,
- One (1) employee procurement staff position to **issue** new P-cards and,
- One (1) management position (Chief Procurement Officer (CPO)) to **review and approve** requests for new P-cards related to: P-card increase, new employee and employee transfer and termination of card holder rights (but not limited to).

¹ <https://www.aicpa.org/interestareas/informationtechnology/resources/value-strategy-through-segregation-of-duties.html>

Management will also seek support from the department regarding a request to increase spend limit(s), transfers etc., and attach it to the department request (Form 28 Entitled: Pcard Application-Termination Form) located on County EICE.

Status: Implemented

1.3. Opportunity for Improvement: Provide an annual report of inactive P Cards to Department Directors in accordance with Purchasing Cards Policy 050H.

Purchasing Cards Policy 050H states that "Purchasing and Contracts will provide an annual report to Department Directors indicating cardholders who have not used their Purchasing Card for the previous twelve-month period. Department Directors will be required to furnish to Purchasing and Contracts justification for continued card activation or the card will be cancelled within thirty (30) calendar days."

Interviews with Purchasing and Contracts Department personnel disclosed that an annual report of inactive P Cards has not been distributed to Department Directors.

Recommendation: In accordance with Purchasing Cards Policy 050H and to limit unnecessary exposure to fraudulent transactions, Purchasing and Contracts personnel should provide an annual report of inactive P Cards to Department Directors.

Management Response:

Purchasing and Contracts Department Staff and Management, support audit report recommendation(s).

Action: Purchasing Department Management has identified **October 1**, of each year thereafter to distribute this **annual report** of "Inactive" P-card accounts during the month of October to Department Directors for review and require written reply from the Department Director or designee to close or keep such P-card account active. This will require written reply by the Department Director to the Purchasing Card Administrator. A file of such annual list and department response will be created and kept with other P-card accounts in the Purchasing and Contracts Department and **electronic copy in the File No. 19-P00177/JSW.**

Status: Not Implemented

Communications with the Purchasing and Contracts Department determined that an annual report of "inactive" P Card accounts is not provided to department directors for review.

Updated Management Response:

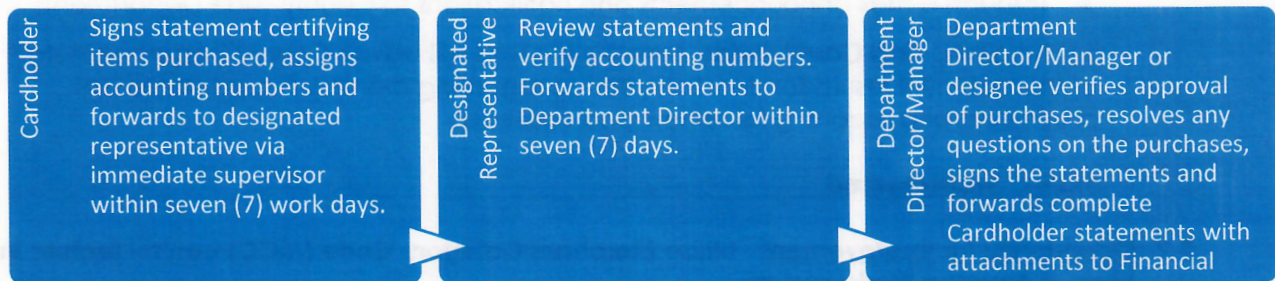
During the month of September of each year the P-card Administrator will distribute the report to all departments. The departments will have 10 days to request that the card be left open. If no response is received the cards will be closed.

Implementation Date: 9/1/2023

Discussion Point 2: P Card Transactions and Monthly Review & Approval Process

Bank of America automatically drafts payment for the monthly P Card transactions. Therefore, it is incumbent upon the Cardholders to review their monthly statement timely to ensure all charges incurred were valid.

According to the Purchasing Card Procedure No. 050H the monthly timeline for review, approval, and submission of the P Card statements is as follows:



During the initial audit, the ASD tested 50 random transactions for compliance with County policy; reviewed a sample of transactions that appeared to be duplicates; reviewed a sample of transactions that were made on weekends or holidays. In addition to the testing and review of transactions, the ASD inquired if the County utilizes the Merchant Category Code control feature within the Bank of America Works system.

The review determined that there were two Opportunities for Improvement.

2.1 **Opportunity for Improvement:** Review requirements for P Card Statement verification, approval, and submission with Cardholders and management

Review of the 50 transactions selected for testing disclosed the following lapses in compliance with the stated timeframes.

- Six (12%) of the statements were not approved by the Cardholder within seven work days
- Four (8%) of the statements were not submitted to Financial Services by the end of the statement month.
- One statement for March 2018 was approved and submitted to Financial Services in August 2018

Delays in the review and approval process negatively impacts the timely identification of billing errors, inappropriate use, and the validity of financial information.

Recommendation: The ASD recommends that management communicate to all Cardholders the importance of compliance with the County Purchasing Card Procedure No. 050H regarding the timely approval and submission of monthly statements. If a Cardholder is continuously non-compliant, management should consider revoking the Cardholders account. The Purchasing Card Procedure clearly states, "Noncompliance may mean denial of future use."

Management Response:

Purchasing and Contracts Department Staff and Management, support audit report recommendation(s).

Action: Purchasing and Contacts Department P-Card Administrator and/or Senior Procurement Management will communicate the importance of County-wide Department monthly statement reporting procedure during the following orientation training sessions and/or other County-wide communications:

- New P-card orientation training and/or;
- Through e-mail announcements and notifications to County-wide Departments.

Such training and County-wide communications will advise County Department staff of the potential results for non-compliance regarding monthly P-card statement processing and reporting for review and approval.

Status: Implemented

2.2 Opportunity for Improvement: Utilize Merchant Category Code (MCC) control feature in Bank of America Works system.

According to the Government Finance Officers Association (GFOA), one of the best practices is to have "clear guidelines on the appropriate uses of purchasing cards, including approved and unapproved Merchant Category Codes." In addition, there should be "regular review of spending per vendor and merchant category codes".²

This control would allow the County to block the usage of P Cards based on the retail establishment type. However, the County has not activated this system control.

Recommendation: Purchasing and Contracts management should consider utilizing the MCC control feature in the Bank of America Works system.

Management Response:

Purchasing and Contracts Department Staff and Management, support audit report recommendation(s).

Action: According to the Bank of America Program Manager, the County has access to the Standard MCC Groupings in Works **and the County will implement custom MCC Group Access controls based upon County financial availability and need.**

This standard MCC Grouping Access allows the P-card Administrator to check and see which MCC groupings we restricted in the Works program currently located in the "Spend Control Profiles Section". The County profiles that are currently block/restricted: Cash access. To create custom MCC Groups with the Bank of America, Bank of America has provided a list of its staff within its servicing department for such customization as warranted by the County. It is unknown, at this time, if a cost would be involved or incurred to perform custom MCC Group Access for the County by Bank of America.

Purchasing Management **will review on an annual basis the County spend control profiles** and seek assistance as needed from the Bank of America Project Manager or designee.

² <https://www.gfoa.org/purchasing-card-programs>

Within the Hernando County Contracts Policy and Procedures Manual, Section 050H (or as revised "or" current edition), the policy clearly states what is determined an Unauthorized Purchase. In addition, the Clerk's Office – Finance staff reviews P-card purchase reconciliations and alerts Purchasing's Senior staff if they (Finance) suspect unauthorized purchase activity from their review.

Status: Implemented