AUDIT DEPARTMENT

Audit Report

Finance Department
Purchasing Card Program

January 2013

Angela M. Darragh, CPA, CISA, CFE
Audit Director

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Angela M. Darragh, CPA, CFE, CISA, Director

January 28, 2013

Mr. Don Burnette
Clark County Manager
500 South Grand Central Parkway, 6th Floor
Las Vegas, Nevada 89106

Dear Mr. Burnette:

We recently conducted an audit of the Purchasing Card Program for the period July 1, 2010, to November 29, 2012.

The objectives of the audit are to determine whether controls over purchase card purchases provide reasonable assurance that: 1) assets are safeguarded against abuse or error; 2) transactions are appropriate, complete, and properly recorded in a timely manner; and 3) transactions are in accordance with appropriate laws, rules, and regulations.

Overall, we found that controls over the purchase card purchases are effective to provide reasonable assurance that purchase card transactions are appropriate, properly recorded, and safeguarded against abuse. Transactions appear to be in accordance with established policy and procedures. However, additional language should be added to the current policy and procedures manual to provide clarity on receipt documentation, gift card uses, and compliance with related policies.

A draft report was provided to the Director of Budget and Financial Planning for comment and her response is included. We appreciate the cooperation and assistance provided by the Budget Office as well as the Departments of Family Services, Parks and Recreation, and Real Property Mangament staff.

Sincerely,

/s/ Angela M. Darragh

Angela M. Darragh, CPA
Audit Director

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BACKGROUND

Clark County utilizes a Purchasing Card Program (P-Card) in which County employees are issued credit cards for use in purchasing business related goods from a limited number of merchants. The P-Card Program is outlined in the Purchasing Card Program Policies and Procedures Manual.

The P-Card Program was established to simplify the County's purchasing procedures by providing an efficient, cost-effective method for buying low-dollar, routine items.

The County's P-Card Program is administered by the Department of Budget and Financial Planning. The P-Card Program Administrator oversees the administration of the P-Card program and is the primary contact for communication with the card issuing financial institution, American Express.

An employee in each department, designated by the Department Head, is responsible for reviewing transactions of individual cardholders to ensure the transactions are legitimate business expenses and are classified appropriately. This position also coordinates bill payment and matches receipts to the American Express cardholder transaction report. The Comptroller's Office makes the monthly payment to American Express and maintains the receipts of P-Card transactions.

The cardholder transaction report must be signed by a manager that has signature authority as filed with the Comptroller's office.

American Express provides access to the Strategic Account Management (SAM) site that is used by the County to review, monitor, and provide reports for cardholder and merchant activity.

As of July 2, 2012, the County has 131 outstanding P-Cards with varying spending limits. During fiscal year 2012, there were approximately 473 P-Card purchases totaling $418,508 compared to 132 transactions totaling $127,916 for fiscal year 2011.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit are to determine whether controls over P-Card purchases provide reasonable assurance that:

- Assets are safeguarded against abuse or error.

- Transactions are appropriate, complete, and properly recorded in a timely manner.
- Transactions are in accordance with appropriate laws, rules, and regulations.

This audit reviewed procedures in place during the period of July 1, 2010, to November 29, 2012. To meet our objectives, we conducted interviews with the Purchase Card Administrator, Department Liaisons from Parks, Family Services and Real Property Management, Comptroller's Accounts Payable Office, and Informational Technology Personnel. We reviewed a random sample of 144 transactions to determine if controls are working as intended. We also reviewed transactions for compliance with County travel policy and non-travel related refreshment and meal purchases.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

RESULTS IN BRIEF

Overall, we found that controls over the P-Card purchases are effective to provide reasonable assurance that P-Card transactions are appropriate, properly recorded, and safeguarded against abuse. Transactions appear to be made in accordance with established policy and procedures. However, additional language should be added to the current policy and procedures manual to provide clarity on receipt documentation, gift card uses, and compliance with related policies.

DETAILED RESULTS

P-Card Receipts Need a Stated Purpose and Description of Purchase

According to P-Card policy, the department liaison is responsible for reviewing transactions of individual cardholders to make sure the transactions are legitimate business expenses. However, we found that the description of the purchase was not always clear on the receipt, making it difficult to ensure the purchase was appropriate. Additionally, many of the P-Card transactions are for the purchase of food, with no indication as to when the event took place, number of attendees, or the name of the event. An event name or stated

purpose of the food purchase written on the receipt would assist the department liaison in their review.

Recommendation

We recommend that the Program Administrator add the following requirements to the policy and procedures to assist cardholders in adequately documenting the nature of the transaction:

- Perishable items for a luncheon, meeting, or program: list the purpose or name of the meeting, the date, and name of attendees.
- General items purchased: provide a specific description and purpose of items purchased such as "supplies for project XYZ" or "backpack for George Smith."
- Repairs: list what was repaired.
- Conferences or training: list person(s) attending conference or training, dates of training, and training or conference name.
- Rentals: list description of the item(s) being rented and purpose.

No Stated Policy for the Purchase of Gift Cards Using P-Cards

Currently, Social Services, District Court Truancy Diversion Unit, and Family Services use a P-Card to buy gift cards. We believe the use of the P-Card to purchase gift cards bypasses established County purchasing controls when used internally by the department. Further, gift cards represent a cash advance and increase the risk that funds could be misappropriated.

The actual purchase of the gift cards for Family Services is done on-line, but for Social Services and District Court, the gift cards are purchased in person by a cardholder. This increases the risk of P-Card abuse since additional gift cards could be purchased and kept for personal use. The mitigating control would be appropriate review of the purchase. The Program Administrator should ensure the appropriate review is performed by departments, including an accurate record of who was given each gift card. The current policy and procedure manual does not address the use of P-Cards to purchase gift cards.

In a review of 14 transactions, we found nine transactions in which we could not determine what was purchased with the gift cards, since no receipts were attached to the accounts payable file. Current policy states that original itemized documentation of purchases must be sent to the department liaison. The policy is not clear if the receipts should be for the purchase of the gift card or for items purchased with the gift card.

Recommendation

We recommend that the Program Administrator include additional language in the policy and procedures manual to address (1) if purchase cards can be use to buy gift cards and (2) if so, procedures that need to be followed to ensure adequate controls are in place to safeguard against abuse.

Travel Authorization Form Missing From Receipt

County travel policy requires that for any travel outside of Clark County, a travel request authorization form must be completed. During our detailed testing we found four of eight (50%) P-Card transactions for travel that did not have a completed travel request authorization attached to the receipt. P-Card use for travel expenditures could bypass established travel policy and thus weaken travel controls. Further, the current P-Card policy does not indicate that the cards can be used for travel.

Recommendation

We recommend that Program Administrator revise the purchase card policy to state whether P-Cards can be used for business travel. If so, the Program Administrator should communicate with all departments that compliance with the County Travel Policy is still required for P-Card transactions, and require that approved travel request authorization forms be submitted with the receipt.

Cardholders Making Multiple Merchant Trips

One of Clark County's benefits from the purchase card program is to maintain a cost-effective method for purchasing low dollar goods and/or services. During our detailed testing we found 25 transactions out of a sample of 144 (17.36%) in which the cardholder made two or more trips to the same merchant location at different times on the same day. The purchase card may be reducing processing costs but these savings could be offset by an increase in fuel costs and inefficient use of employee time as a result of multiple trips.

Recommendation

We recommend that the Program Administrator instruct all cardholders that multiple trips should be avoided whenever possible. Additionally, department liaisons and managers reviewing and signing the cardholder transaction reports should be reviewing receipts and making inquiries to the cardholder of the necessity of multiple trips. The Program Administrator should instruct all department liaisons and managers to look for and assist cardholders to reduce the number of trips.

Fiscal Directive Number 4 Non-Compliance

Fiscal Directive Number 4 states that prior approval from the County Manager's office is required for the purchase of any food and beverage. We found five out of 16 departments (31%) that did not have the required approval prior to the purchase of food items using the P-Card. Directive compliance is required; however, there is no independent process in place to verify department compliance.

Recommendation

We recommend that the Finance Director direct budget analysts to obtain copies of food purchase approval memos when food purchases are made using P-Cards.

APPENDICES

Appendix A: Management Response Letter

MEMORANDUM
DEPARTMENT OF FINANCE

GEORGE W. STEVENS
Chief Financial Officer

YOLANDA T. KING
Director of Budget & Financial Planning

TO: ANGELA DARRAGH, AUDIT DIRECTOR
PAUL McPHEE, PRINCIPAL AUDITOR

CC: ADLEEN STIDHUM, ACTING PURCHASING MANAGER
ADRIANE GARCIA, PURCHASING ANALYST II
DAMON HARRIS, SENIOR FINANCIAL ANALYST
JESSICA COLVIN, COMPTROLLER
TOM WILSON, MANAGER OF ACCOUNTING SERVICES
MELINDA ADKINS, OFFICE SERVICES MANAGER

FROM: YOLANDA T. KING, DIRECTOR OF BUDGET & FINANCIAL PLANNING

SUBJECT: PURCHASING CARD (P-CARD) AUDIT RESPONSE

DATE: JANUARY 22, 2013

In response to the findings and recommendations of the recent Purchasing Card Program audit, please note the corrective action responses by Finance management:

Audit Finding: P-Card Receipts Need a Stated Purpose and Description of Service

Management Response: The Purchasing Card Procedures along with the P-Card Liaison Procedures will be updated to adopt the audit recommendations with the exception of listing meeting attendee names associated with perishable food purchases. Requiring such level of detail wouldn't be practical given the unknown names of attendees, the sheer volume, and the inability to administer at certain special events. For example, the Parks & Recreation department often purchases perishable items for large events attended by thousands of unknown individuals. In addition, food/drink supplies purchased by various County departments for public meetings, yet to be scheduled at the time of the food/drink purchases, are generally depleted over many months.

Management Due Date: The Purchasing Card Procedures along with the P-Card Liaison Procedures will be updated and distributed by February 28, 2013.

Audit Finding: No Stated Policy for the Purchase of Gift Cards Using P-Cards

Management Response: The P-Card policy dictates that the receipts for purchases made with a P-Card need to be itemized and forwarded to the Comptroller's Office, which in the case of purchased gift cards, only require a receipt showing the individual gift cards and their respective values, but not the items that were ultimately purchased with those gift cards. However, departments are not permitted to use P-Cards for gift card purchases unless the department can justify why such purchases cannot be obtained through the normal purchasing process. In addition, the requesting department must provide to the Budget and Comptroller offices written procedures outlining how the gift cards will be tracked and safeguarded against theft or misuse. For example, the Family Services department has an internal policy for gift cards, which requires all employees who utilize gift cards as part of their job responsibilities to sign an agreement that covers all rules governing the release of gift cards. In addition, their P-Card Liaison performs the following procedures:

- Receipts are validated and gift card transaction statements are printed for each card and reconciled.

- Replenishment worksheet is completed for each gift card followed by a subsequent replenishment request sent to the eligible vendor (e-mail request or web-enabled manual reload).
- E-mail confirmation is received for payment of the reload on each gift card and printed.
- Gift card log is noted with new available balance

Although the process as noted above is not documented in the Purchasing Card Procedures, we believe safeguards are in place to manage the purchase of gift cards through the P-Card program. Nevertheless, the Purchasing Card Procedures and the P-Card Liaison Procedures will be updated to adopt the audit recommendations to include specific language in regards to the management of gift cards purchased, including a possible supplemental agreement to be signed by the users of those gift cards.

Management Due Date: The Purchasing Card Procedures along with the P-Card Liaison Procedures will be updated and distributed by February 28, 2013.

Audit Finding: Travel Authorization Form Missing from Receipt

Management Response: The Purchasing Card Procedures along with the P-Card Liaison Procedures will be updated to indicate that P-Cards can be used for travel as authorized by the P-Card Administrator (i.e. on a case by case basis). In those cases where P-Card usage for travel is allowable, compliance with the County's Travel Policy will be required and will be noted accordingly within the Purchasing Card Procedures and P-Card Liaison Procedures.

Management Due Date: The Purchasing Card Procedures along with the P-Card Liaison Procedures will be updated and distributed by February 28, 2013.

Audit Finding: Cardholders Making Multiple Merchant Trips

Management Response: The Program Administrator will recommend to both the cardholders and P-Card liaisons that they be as efficient as possible in planning their vendor trips and to identify inefficiencies, respectively.

Management Due Date: The recommendation will coincide with the distribution of the updated Purchasing Card Procedures and P-Card Liaison Procedures to be completed by February 28, 2013.

Audit Finding: Fiscal Directive Number Four Non-Compliance

Management Response: The Director of Budget & Financial Planning has directed the Budget Analysts of departments that purchase food and beverages as part of their operations to obtain a copy of the department's respective annual approval by the County Manager to do so by July 1st of each fiscal year to verify compliance with Fiscal Directive No. 4.

Management Due Date: The Director of Budget & Financial Planning has already initiated this requirement as recommended in the audit.