

**AUDIT REPORT
DUTCHESS COUNTY
PROCUREMENT CARD PROGRAM
ADMINISTERED BY
THE DIVISION OF CENTRAL SERVICES**

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Comptroller's Summary

Opportunities exist for improvements in internal controls and operating procedures for the Dutchess County Procurement Card program to safeguard county funds. Periodic risk assessments should be conducted by Central Services for the following control areas: cardholder spending limits, cardholder purchasing practices and approval authorities in regards to departmental oversight.

Organization and Background

The Director of Central Services is responsible for maintaining a procurement card program (P-Card) for the purpose of streamlining the purchasing process for selected goods and services used by selected County staff and departments. Procurements made through this program may not exceed the requirements or thresholds detailed in the county procurement policy and as outlined in the *Dutchess County Procurement Card User Guide*. The county has utilized the P-Card for selected transactions since 2006. A total of \$1,241,895.48 was reported expensed in 2013.

Audit Scope, Objective and Methodology

An audit of internal controls for the county's P-Card program administered by the Division of Central Services was conducted for the time period January 2013 to March 2014 to identify potential control weaknesses. Information was derived from the County's policies and procedures, contract agreements, county financial records and staff interviews.

Summary of Findings and Recommendations

Actions taken during our review of the P-Card included: Revised policies and procedures, enhanced monitoring of day to day transactions, and additional enforcement through corrective actions.

Additional measures are recommended to ensure policies and procedures are adhered to and county funds are safeguarded. Recommendations to alleviate control weaknesses include:

- ◀ The establishment of a daily limit for each individual cardholder.
- ◀ The establishment of a periodic risk assessment of each cardholder based on their previous spends and card activity and adherence to county P-Card policies and procedures.
- ◀ The establishment of a policy requiring a departmental transaction approver to be someone other than the cardholder to promote checks and balances.
- ◀ The establishment of a periodic risk assessment of merchant codes for potential blocking to eliminate potential misuse.

Assessment of the Internal Control Environment

To gain an understanding of how the procurement card program operates, we reviewed the flow of transactions from initial charges to payment authorization. Key process controls reviewed included transaction authorization, approval, review and reconciliation. In addition, we interviewed program officials responsible for managing the procurement card program to gain an understanding of changes in the program and deviations from policies.

There are two program administrators who are responsible for managing the P-Card program. Responsibilities of these individuals include issuing cards, reviewing daily and monthly expenditures to ensure that all payments are accurate and allowable, training and computer based controls.

Training

Training is important to ensure charge cardholders understand their roles and responsibilities in order for charge card programs to be effectively implemented. Prior to issuance of the P-Card, Central Services requires 'Procurement Program' training to each prospective cardholder. The county purchasing policies and procedures, the *Procurement Card User Guide* and transaction detail review instructions are reviewed during training. At the end of the training, Central Services requires the cardholder to sign the "Dutchess County Procurement Card User Agreement" which outlines the terms of agreement. This 'agreement' is on file at Central Services certifying the cardholder read, understand and agree to the terms.

Finding:

- While Central Services requires training for the issuance of each card, follow-up training was not required.

Recommendation:

- We recommend Central Services offer refresher training that cardholders would be required to take at a minimum of every 3 years. A new form should be signed after completion attesting to the training and the agreement of the terms of the "Dutchess County Procurement Card User Agreement".

Computer Based Controls

Authorized cardholder spending thresholds

We reviewed the authorized cardholder list(s) and the daily and monthly thresholds established for spending limits against the monthly and annual charges incurred by departments. The listing of cardholders provided in April 2014 was used for the audit. A total of 100 active cards were listed. Cardholder daily/monthly limits ranged from \$200 to \$84,000. Central Services stated they have the ability to give one-time purchasing limit increases where necessary. Purchase Cardholder approval levels were also reviewed for duty segregation to promote checks and balances.

Findings:

In reviewing the list of authorized cardholders and their monthly thresholds, we noted the following:

- In some cases, monthly dollar thresholds for individual cardholders were excessive. Three individuals in one department had monthly limits of \$84,000. In fact, analysis of monthly charges for the 2013 time period and three months of 2014 found these amounts were much higher than the monthly spending.
- There were no daily spending limits established; individual cardholders could expend the monthly limit in one event.
- An individual who had been on a leave of absence had automated charges posting to the monthly billings.
- An employee has two cards issued for two different departments: The department they previously worked for and the current county department.

Recommendations:

- Thresholds should be lowered to conservative estimates based on usage. The reduction in cardholder credit limits lowers financial exposure to loss from fraudulent, improper and abusive purchases. Thresholds can be raised for anticipated large purchases for one-time events.
- Daily spending limits should be established and set within the system to add internal control and reduce financial exposure.
- When individuals are on a leave of absence, purchases should cease. Automated charges should be switched to another cardholder within that department.
- P-Card issuance should be limited to the department an individual is currently assigned to.

Approval levels

We reviewed the following three roles listed in the 'computerized' department hierarchy of approval: Cardholder, Reconciler and Transaction Approver. In addition, we reviewed the administrator permissions provided by Central Services. Five individuals who are employed by Central Services are administrators and have permissions to the entire hierarchy of departments.

Findings:

In reviewing the computerized hierarchy, we found a lack of duty segregation and checks and balances.

- Fifteen departments have cardholders who also approve their own purchases which does not promote the appropriate duty segregation for checks and balances.
- Of the five administrators, one individual is a cardholder.

Recommendations:

- The fifteen departments should be notified of this lack of duty segregation and requested to institute a proper check and balance; whereby, the approver is not a cardholder.
- An administrator should not be a cardholder.

Merchant Category Codes (MCCs) and Groupings

Merchant Category Codes are a categorization of the type of business the merchant is engaged in and the kind of goods and services provided. There are a total of 990 MCC Code Categories. The following groupings were established by Central Services each of which includes specific allowable MCC categories. A cardholder may have one or multiple permissions.

950 – Basic Purchases: includes 263 allowable MCC Categories

951 – Travel Only: includes 701 allowable MCC Categories

952 – Unrestricted: includes 970 allowable MCC Categories

953 – Office Supplies/Furniture: includes 8 allowable MCC Categories

Finding:

The MCC grouping codes 950, 951 and 952 are not restrictive as they do not block potential purchases from businesses that may be engaged in the sale of goods and services that are prohibited by county

policies and best practices. In reviewing the groupings we noted the following merchants allowed in the MMC category codes and recommend further review for blocking:

950 - Basic Purchases: Of the **263** allowable MCC categories that are available to the cardholders within this grouping the following are **allowed** and should be reviewed for possible blocking. Some of these are: court costs, alimony, child support, bail and bond payments, religious organizations, amusement parks, aquariums, video game arcades, spas - health and beauty.

951- Travel Only: Of the **701** allowable MCC categories that are available to the cardholders within this grouping the following are **allowed** and should be reviewed for possible blocking. Some of these are: various Air carriers, Rent-a car Carriers, Casino resort hotels.

952 – Unrestricted: Of the **970** allowable MCC categories that are available to the cardholders within this grouping **only 20 are blocked**. This grouping includes the allowable merchant codes from the Basic and Travel grouping. A thorough review of the unrestricted codes should be completed in conjunction with the above codes.

Recommendation:

The Merchant Category Codes should be reviewed and selected codes **should be blocked** to safeguard against questionable transactions to prevent fraudulent, improper and abusive purchase card transactions. The blocking of codes is a recommended best practice that is common in business and government environments. If there is a selected need to unblock a code, a central service P-Card administrator can contact the purchase card vendor. Risk assessments should be conducted periodically.