



Internal Audit & Licensing

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Kathie Gannon

District 7
Stan Watson

TO: Kelvin Walton, Director of Purchasing & Contracting
FROM: Interim Deputy Director of Finance, Internal Audit & Licensing
DATE: February 5, 2013
SUBJECT: **Purchasing Card (P-Card) Comprehensive Audit Report**

Internal Audit conducted a review of the County's Purchase Card

The issues addressed in the report were discussed with each Department's, Director, Manager, or Elected Official prior to this Comprehensive Audit Report.

If you would like to comment on the report, you may consider sending your comments or response directly to our department head, Joel Gottlieb.

If you have any questions about the review or this report, please free to contact me at extension 404-371-2639.

Sincerely,

Cornelia Louis

CC: Zachary Williams, Chief Operating Officer / Executive Assistant
Joel Gottlieb, Chief Financial Officer

**DeKalb County
Purchasing & Contracting
Purchasing Card Comprehensive Audit Report
Report: Dated February 5, 2013**

**Finance – Internal Audit & Licensing
Maloof Building
1300 Commerce Drive
4th Floor
Decatur, Ga. 30030**

**DeKALB COUNTY PURCHASING CARD
COMPREHENSIVE AUDIT REPORT
TABLE OF CONTENTS**

TRANSMITTAL LETTER.....iii

COVER PAGE..... 2

BACKGROUND 4

SCOPE & METHODOLOGY 5

DETAILED COMMENTS..... 6

OBTAIN POLICIES AND PROCEDURES FOR DEKALB COUNTY P-CARD PROGRAM..... 6

**EXAMINE INTERNAL CONTROLS OF EACH DEPARTMENT AS IT RELATES TO P-CARD
TRANSACTIONS..... 6**

ENSURE COMPLIANCE WITH POLICY & PROCEDURES 7

REVIEWING OTHER POLICIES OF OTHER JURISDICTIONS/ ORGANIZATIONS 8

TABLE & EXHIBITS

Exhibit 1: Total Number of DeKalb County Purchasing Card Cardholders 2011..... 10

Exhibit 2: DeKalb County Purchasing Card Expenditures for 2011 11

DeKALB COUNTY PURCHASING CARD BACKGROUND

BACKGROUND

DeKalb County established a Purchasing Card program in 2003 "as an alternate method for the purchase of small dollar value, miscellaneous expenses." The Purchasing Card or "P-card" is a Bank of America Visa card. The card is tendered to designated employees for the purpose of making necessary business-related goods and services. For most County employees, the dollar limit per transaction is up to \$1,000 and the total monthly limit is up to \$2,000. Other selected P-Cardholders have a dollar transaction limit of \$2,000 and monthly purchase limit of \$5,000. All employees issued a P-Card are given a copy of the P-Card policy and must sign an acknowledgement form recognizing their responsibility to comply with the County's P-Card policy.

Purchasing and Contracting is responsible for overseeing the P-Card program. The Purchasing Card Administrator, designated by Purchasing and Contracting, is responsible for the daily management of the P-Card program. The administrator serves as a liaison between the Cardholders and the bank and coordinates training associated with the P-Card.

The Purchasing Card Policy states that the "P-Card is the property of DeKalb County and should only be used for business-purposes. If an employee does not comply with the Purchasing Card guidelines, this may result in disciplinary action, up to and including termination of employment."

"In addition, DeKalb County is not required to pay sales tax to any supplier since the County is exempt from paying any State of Georgia sales tax. This applies to out of state purchases as well."

As of December 31, 2011, DeKalb County as (Number of P-Card Cardholder).

STATISTICS

	FY09	FY10	FY11
Number of cardholders	347	360	297
Total transaction amount	\$ 1,218,000	\$ 1,130,992	\$ 1,199,157

SCOPE & METHODOLOGY

The audit objective was to determine whether DeKalb County personnel assigned to P-Cards were complying with DeKalb County's Purchasing Card Policy. This review included transactions for the period December 1, 2010 through May 31, 2011

I. OBJECTIVE - Obtain Manuals, Policies and Procedures

- a. Obtain and review P-Card policies and procedures for the P-Card program.
- b. Interview management and staff to develop an understanding of the P-Card process and procedures.
- c. Obtain Countywide statistical data as it relates to P-Card expenditures.
- d. Evaluate P-Card Administrators procedures for terminating P-Cards.

II. OBJECTIVE - Examine Internal Controls of each Department as it relates to P-Card transactions

- a. Examine P-Card internal controls of each department.

III. OBJECTIVE Ensure Compliance with Policies & Procedures

- a. We reviewed cardholder transactions, signoff reports, purchase comments and invoices to determine that:
 - The P-Card Administrator maintained the transaction log on a monthly basis.
 - The cardholder attached applicable receipts to the monthly transaction log.
 - Transactions were appropriate for the department's business.
 - Individual transactions did not exceed the amount specified by County P-Card policies and procedures (\$1,000 maximum per individual purchase).
 - Total monthly transactions did not exceed amount specified by the County P-Card policies and procedures (\$2,000 maximum per month).
 - Cardholders were not using the P-Card for non-business related goods and services.
 - The transactions were approved. (Manager and/or Department Head)

IV. OBJECTIVE - Review Policies of Other Jurisdictions/ Organizations

- a. Review P-Card policies of other jurisdictions/organizations.
- b. Determine whether policies of other jurisdictions can be included in the County's P-Card policy.

Below lists in detail the objectives of our comprehensive review. Based on the results of our review, we prepared specific issues and recommendations relating to the abovementioned objectives. These issues were discussed at the exit conference with management.

DeKalb COUNTY PURCHASING CARD DETAILED COMMENTS

The following were identified during our review.

I. OBTAIN POLICIES AND PROCEDURES FOR DEKALB COUNTY P-CARD PROGRAM

Comments

Procurement Card Policy/Process

We noticed that the P-Card Policy was last updated in 2004. Since then, procedures have been changed or amended. Cardholders and Department Purchasing Card Representatives (DPCRs) use the Bank of America Works System to retrieve information. We recommend that the P-Card policy be updated to reflect the current procedural changes.

Procurement Card Training

During our review, we noticed several inconsistencies with the DPCRs' knowledge of the P-Card policies/procedures. For example, some DPCRs had no knowledge of a transaction log and that it should be reconciled monthly. Several Cardholders were issued cards prior to receiving adequate training.

Training should be mandatory for Cardholders and DPCRs. A card should not be issued to Cardholders until the training requirement is met. We encourage periodic training sessions for Cardholders and DPCRs. A refresher course should be held every 5 years.

Training should include the following:

- Emphasize the importance of the Cardholder Agreement form by outlining the terms and conditions of the P-Card policy.
- Review of P-Card policy allowable and prohibited items and disciplinary actions.
- Overview of user manual for proper object codes for transaction expenditures.
- A review of forms associated with the P-Card policy, such as Sales and Use Tax Exemption form and transaction log.

II. EXAMINE INTERNAL CONTROLS OF EACH DEPARTMENT AS IT RELATES TO P-CARD TRANSACTIONS

Issues

Lack of Segregation of Duties

We found that some transaction logs were signed by the same Cardholder who made the purchases. Key duties and responsibilities need to be divided or segregated among different staff members to reduce the risk of error or fraud.

Recommendation

Someone other than the Cardholder should be responsible for the receipt and acceptance of the purchases. No one individual should control all key aspects of a transaction or event. This practice would strengthen internal purchasing controls by segregating the duties of ordering and receiving items within the department.

Comment

P-Card Agreement Form

During our review, Internal Audit found that some Cardholders haven't signed the P-Card Agreement Form, particularly employees who have been a Cardholder since the interception of the P-Card program.

The Purchasing Card Administrator should ensure that the P-Card agreement form is signed by all employees prior to receiving a Purchasing Card. By signing the agreement form, the employee is acknowledging receipt and agreeing to the terms and conditions of the Purchasing Card Policy.

Also, we recommend that Purchasing and Contracting develop written procedures for issuing P-Cards to ensure proper receipt of the card to the appropriate Cardholder.

III. ENSURE COMPLIANCE WITH POLICY & PROCEDURES

Issues

Purchasing Policy – Statement Reconciliation – Section 12.0

Several departments did not provide supporting documentation during our review. “The Department must maintain appropriate files in the event of an audit. Files must contain, at minimum, copies of the Monthly Transaction Log, Monthly Electronic Cardholder Statement, and any receipts/supporting documentation.”

Recommendation

All P-Card transactions should have supporting documentation. The logs are to be completed and reconcile monthly with all applicable receipts attached. This ensures that authorized purchases are approved, unauthorized charges are corrected, and adequate documentation ensures that expenditures incurred are in compliance with the P-Card policy.

Purchasing Policy – Transaction Log- Section 9.0

Several departments did not complete or maintain a transaction log. Some department personnel expressed that they had no knowledge of the transaction log. “The Transaction Log is to be maintained monthly by the Cardholder. Each Cardholder is to complete all fields of the transaction log after they have made their purchase and attach applicable receipts. The Transaction Log is to be printed at the end of the statement period, checked for accuracy, reconciled against the Electronic Cardholder Statement.”

The following departments did not maintain a transaction log:

- Board of Commissioner – District 4 & 5
- Citizen Help Center
- Community Service Board
- Community Development
- Clerk of Chief Executive Office
- Clerk of Superior Court
- District Attorney
- Human Development
- Juvenile Court
- Magistrate Court
- Planning & Sustainability
- Probate Court.
- Public Defender
- Public Works –Sanitation
- Purchasing
- Records Court
- Roads and Drainage
- Superior Court
- Workforce Development

Recommendation

We recommend that Cardholders complete and maintain Logs and reconcile the Logs against the electronic statement monthly. The Log provides an explanation for the purchase and the appropriate general ledger account for the charge. Also, Logs are to be reviewed and approved by the Cardholder’s Manager or Director. The abovementioned recommendations ensure reconciliations of transactions are completed and management’s review for compliance with the P-Card policy. As mentioned in a previous section of the report, due to the number of departments not maintaining a Log, a refresher training course would aid in ensuring compliance with the P-Card policy.

Approval of Transaction Logs

P-Card Transaction Logs were not approved and signed by the Cardholder's Manager or Director. The Purchasing Policy outlines the Cardholder's Director Responsibilities to "review, approve, and maintain the monthly Electronic Cardholder Statements, Transaction Log and applicable receipts, and sign the monthly Transaction Log and Electronic Cardholder Statement, which will list all the individual Cardholder's monthly transactions. Ensure all transactions comply with the policy guidelines."

Recommendation

To ensure appropriate hierarchical review and approval of transactions by someone with supervisory authority over the Cardholder, Transaction Logs are to be reviewed and approved by the Cardholder's Manager or Director.

Purchasing Policy- Ordering Goods and Services – Section 8.0

During our review we observed that vendors included sales tax on several receipts.

The P-Card Policy states, "The County is exempt from paying any State of Georgia sales tax. This applies to out of state purchases as well."

During our review, we identified the following departments with sales tax charges:

- Clerk of Chief Executive Officer and County Commission's Office
- District Attorney
- Medical Examiner
- Parks & Recreation
- Public Works- Fleet Maintenance
- Public Works- Transportation

Recommendation

In order to take advantage of DeKalb County tax- exempt status, Cardholders should present their certificate of exemption to the vendor.

Comment

Purchasing Policy – Department Purchasing Card Representative Responsibilities – Section 5.0

Internal Audit reviewed the corresponding general ledger account number and supporting documents for each transaction on the transaction log. Several departments' transactions were misclassified to Operating Supplies or Other Miscellaneous Charges, object code 531101 and 523909, respectively. The P-Card Policy states that "upon receipt of all information from the Cardholder," the Purchasing Card Representative "verifies the correct general ledger account numbers for each department Cardholder transaction." Internal Audit recommends each Cardholder examine the transaction type prior to charging expenditures to Operating Supplies or Other Miscellaneous Charges. Each transaction should be charged to the appropriate object code to ensure departmental expenses are properly identified.

IV. REVIEWING OTHER POLICIES OF OTHER JURISDICTIONS/ ORGANIZATIONS

Internal Audit obtained copies of the Purchasing Card policies from the State of Georgia, Clayton State University, and the University of West Georgia's websites.

We observed that the State of Georgia has the following categories in their Policy:

- P-Card Policy Internal Controls
 - Weekly independent review of all account maintenance activity by Card Program Administrator.
- Legal Issues
 - Cardholder Background Checks
 - Cardholder Credit Checks

University of West Georgia's website addresses the following in their P-Card policy and a Training PowerPoint is available online. Their website has copy of a Disputed Item form that lists reasons for disputing a charge and Cardholder's certification of the disputed item.

- **Splitting Orders**

"The practice of splitting a large order into two or more orders, as well as purchasing the same items from two or more vendors may be considered an attempt to evade the limitations of the P-Card and may lead to revocation of an individual's P-Card privileges."

We compiled a list of prohibited items from the abovementioned websites:

- **Prohibited Purchases**

- Personal purchases of any kind (Personal purchases are defined as purchases of goods or services intended for non-work related use or use other than official County business).
- Gift cards, calling cards, pre-paid cards or similar products
- Fuel, mechanical repairs, and maintenance
- Data plans, software, or applications (i.e. "apps") for non-State Entity issued devices, including, but not limited to, smart phones (e.g. iPhone, Android, blackberry), laptop computers, or tablets (e.g. iPad).
- Entertainment, including in-room movies
- Alcoholic beverages & Tobacco products
- Any type or style of gifts, to include but not limited to awards, trophies, plaques, speaker fees, and honorariums to employees or non-employees.
- Holiday decorations (All holiday decorations for the office, office door, or employee work station.)
- Use of P-card for Catering/Food for consumption by County Employees unless purchase qualifies as Employee Training. Per the GOA, "There are other exceptions to the general prohibition to providing free food to government employees at their official duty stations. Two exceptions are derived from the Government Employees Training Act, 5 USC 4109. The first exception is called the "training" exception and it allows an agency to pay for the food of government employees attending a training conference at their official duty station if the meal is NECESSARY to obtain the full benefit of the training program. And it's not enough to simply call the conference a "training conference." There must be actual training taking place. The Act specifically allows the expenditure of appropriated funds to pay for "all or a part of the necessary expenses of training" and meals can be considered a necessary expense of providing training, under the right circumstances. Use of this exception requires an administrative determination, by a responsible official in the organization, that providing meals is necessary to obtain the full benefit of the training."

Comments

Internal Audit recommends Purchasing and Contracting establish P-Card guidelines to clearly define inappropriate usage of the P-Card. These guidelines should provide a list of prohibited expenditures that cardholders should not purchase. This will ensure proper utilization and program management for Cardholders.

In addition, Purchasing and Contracting may consider including in their policy the aforementioned items to help improve the existing P-Card controls.

The following Exhibits are summaries of the data obtained and evaluated as part of our review.

Exhibit 1: Total Number of DeKalb County Purchasing Card Cardholders 2011

Exhibit 2: DeKalb County Purchasing Card Expenditures for 2010 & 2011

Total Number of DeKalb County Purchasing Card Cardholders 2011¹

Departments	Cost Center	Total Number of P-Cards Holders	Total Expenditures for 2011
Board of Commissioners	00200	16	135,179.50
CEO's Office	00100 & 06100	5	25,118.56
Child Advocacy Center	04000	1	110.51
Clerk of Superior Court	03600	3	13,292.29
DeKalb Peachtree Airport	08200	7	33,576.56
District Attorney	03900	8	69,492.95
Economic Development	05600	1	3,439.45
Extension Service	06900 & 02500	9	13,488.10
Facilities Maintenance	01100	45	353,563.77
Finance	01000 & 02100	6	20,681.67
Fire & Rescue	04900	3	7,158.19
Fleet Maintenance	01200	7	13,823.47
GIS	00800	3	2,381.41
Workforce Development	7900	2	5,983.20
Human & Community Development	07500	2	3,557.72
Human Resources	01500	2	1,974.01
Juvenile Court	03400	1	971.67
Law Department	00300	1	2,011.24
Magistrate Court	04800	2	9,696.42
Medical Examiner	04300	5	20,876.57
Parks Bonds Administration	09100	2	398.34
Information Systems	01600	4	1,582.18
Parks & Cultural Affairs	06100 & 06200	14	33,877.89
Planning & Sustainability	05100	6	4,152.62
Police	04600	9	9,668.35
Probate Court	04100	3	1,270.95
Public Defender	04500	4	8,164.92
Public Works	05400 & 05700	15	25,597.48
Purchasing & Contracting	01400	5	7,341.38
Recorders Court	04700	3	5,394.62
Registrar	02900	6	7,154.90
Sanitation	08100	8	14,597.10
Sheriff's Office	03200	4	25,206.96
Solicitor	03800	6	22,416.67
State Court	02400 & 03700	21	74,199.92
Superior Court	03500	13	34,874.72
Tax Commissioner	02800	3	6,165.95
Watershed	08000	42	180,714.68
Total		297	1,199,156.89

¹ Numbers were obtained from the Purchasing and Contracting Department.

DeKalb County Purchasing Card Expenditures for 2011¹

OBJECT CODE	DESCRIPTION	TOTAL EXPENDITURES FOR 2011
513100	Wellness	\$771.93
521108	Investigation Services	\$7,336.25
521205	Legal Fees	\$973.62
521209	Other Professional Services	\$12,530.72
522201	Maintenance & Repair Services	\$8,601.67
522321	Rental of Equipment	\$1,519.91
523112	Insurance – Loss Control	\$772.04
523201	Postage	\$3,228.55
523202	Postage – Central Services	\$1,640.60
523209	Other Telecommunication Services	\$2,555.84
523401	Printing Services	\$1,119.63
523502	Travel – Airfare	\$10,047.54
523503	Travel – Car Rental	\$1,180.45
523504	Travel – Accommodations/ Hotel	\$17,132.13
523505	Travel – Per Diem	\$874.62
523506	Travel – Miscellaneous	\$2,586.65
523601	Dues	\$3,912.84
523701	Training & Conference Fees – External	\$21,712.26
523903	Grand Jurors Expense	\$4,225.24
523904	Witness Fees	\$1,053.33
523909	Other Miscellaneous Charges	\$88,581.80
531101	Operating Supplies	\$564,646.26
531102	Supplies – Central Services	\$1,956.54
531105	Industrial Chemicals	\$277.20
531106	Drugs & Medical Supplies	\$2,292.22
531107	Uniforms & Clothing	\$6,279.45
531108	Shop Supplies	\$4,342.68
531111	Maintenance & Repair Materials – Parts, Tires, Lubes	\$9,452.87
531112	Maintenance & Repair Materials –Other	\$403,696.66
531301	Food & Groceries	\$35.31
531401	Books & Subscriptions	\$13,400.69
531701	Other Supplies	\$310.64
542202	Computer Software	\$108.75
		\$1,199,156.89

¹ Numbers were obtained from the Purchasing and Contracting Department.