

PURCHASE CARD CONTINUOUS AUDITING

Yolo County Division of Internal Audit

Report on the continuous auditing of purchase card transactions.

For the Period: July 1, 2018 to June 30, 2019

Audit No: 2020-25

Report Date: July 13, 2020

The County had 182 purchase cards issued to employees, which represent 10% of the total County employees. During the audit period, the County departments spent **\$1.5 million** of **8,472** transactions charged to the purchase cards issued to their employees. The auditors reviewed the purchase card activity to identify transactions exceeding single and monthly credit limits; split transactions; weekend and holiday transactions; and other unusual activity.



The results of the procedures performed included custom data analytics and review of purchase card transactions to determine if purchase card transactions were supported by adequate documentation, and in compliance with County policies and procedures.

Continuous Auditing is a method used to perform audit-related activities on a continuous basis that includes control and risk assessment performed by Internal Audit.
(Best Practice by the Institute of Internal Auditors)

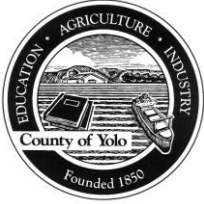
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Visit the Division's Website at
<http://www.yolocounty.org/general-government/general-government-departments/financial-services/internal-audit>





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www.yolocounty.org

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- Financial Strategy Leadership
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- Internal Audit
- Procurement

Date: July 13, 2020

To: Ryan Pistochini, Procurement Manager
Merilyn Tiriboyi, Accounting & Financial Reporting Division Manager

From: Kim Eldredge, Audit Manager

Subject: Purchase Card Continuous Auditing Report
For the period July 1, 2018 to June 30, 2019
Audit Project: No. 2020-25

The Division of Internal Audit has completed the audit of Purchase Card - Continuous Auditing as part of our FY2019-20 Audit Plan approved by the Audit Sub-Committee. The scope of this audit consisted of all purchase card transactions for the period July 1, 2018 to June 30, 2019. The audit objectives were to:

- develop custom data analytic reports that continuously identify purchase card transactions that may require further review;
- test the items identified in the custom reports to ensure they adhere to purchasing card policies and procedures; and,
- determine if the custom reports could be used by management as a tool to increase awareness and compliance throughout the organization.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing (Standards) established by the Institute of Internal Auditors. These standards require that we identify, analyze, evaluate, and document sufficient information and evidence to achieve our objectives. We believe that the evidence obtained provides reasonable basis for the results, observations, and recommendations contained in our report.

In regards to auditor's independence, the Internal Audit Manager reports administratively to the Chief Financial Officer, but functionally to the Board of Supervisors.

As required, in accordance with auditing standards, County Management responded to each finding and recommendation contained in our report.

We thank the Department of Financial Services management, staff and other county personnel for their assistance.

Attachments

Cc. Chad Rinde, Yolo County, Chief Financial Officer
Patrick Blacklock, Yolo County Administrator
Yolo County Audit Sub-Committee
Internal Audit Website
Audit File

Executive Summary

The Division of Internal Audit (DIA) completed the audit of Purchase Card – Continuous Auditing as part of our FY2019-20 Audit Plan approved by the Audit Sub-Committee. This audit performed an analytical review of the purchase card activity to determine that the purchase card transactions were supported by adequate documentation, and in compliance with County policies and procedures. We performed a variety of audit tests of the purchase card transaction activity utilizing computer-assisted audit techniques (known by the acronym CAATs). Continuous auditing is a method used to perform control and risk assessments automatically on a frequent basis.

Internal auditors use CAATs as a tool to help identify exceptions, duplicates, gaps, etc. in a set of data that require further review. CAATs can query 100% of the data population automatically with predetermined criteria. The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing (Standards) established by the Institute of Internal Auditors.

FY18-19 Purchase Card Transactions (CAATs Results)		
94		Split Transactions- Potential split purchases within the same day and across multiple days to circumvent purchase card limits
33		Exceeds Limit- Transactions exceeded Cardholder's single purchase and monthly credit limits
888		Weekend/Holiday Transactions- Transactions that occurred on weekends or holidays
1246		Purchases made through other means- Transactions typically made through a purchase order or the County's travel agency (hotels, airline, car rental, fuel, software)

Scope and Methodology

The scope of this audit consisted of all purchase card transactions for the period of July 1, 2018 to June 30, 2019, which included 8,472 transactions totaling \$1,563,340.45. Our objectives were to analyze purchase card data, employee data and vendor payments to identify purchase card activity in the following areas:

• Transaction overview of purchase card activity	• Transactions occurring on weekends and holidays
• Transactions exceeding single purchase limits	• Purchases typically made through other means
• Transactions exceeding monthly credit limits	• Top Ten Merchants with the highest transaction amounts
• Transactions split to circumvent purchasing card limits	

What We Found

The audit found exceptions as the result of tests conducted on the purchase card activity in the following areas:

	Lack of supporting documentation (original or supporting receipts)		Transactions exceeded Cardholder's single purchase and monthly credit limits
	Purchase card statements not approved by an authorized Approving Official		Goods not verified when received
	Description of business purpose not identified		Purchase card used instead of authorized procurement methods
	Program eligibility and department's policy and procedures for client services needs improvement		

What We Recommend

The auditors recommend that County Management consider the following to improve accountability and compliance within the Yolo County Purchase Card Program.

- County Procurement Manager (CPM) should regularly monitor purchase card activity to reflect all changes to procedures, personnel, and updates to the Cal-Card system. In addition, the CPM should review Cardholders with low usage, no activity, or with multiple cards to determine need of card.
- Department Financial Services (DFS) should ensure that the Cardholders attach copies of sales receipts or other documentation to support the charge expensed to the County.

Transaction Analysis

The County's policy for the Purchase Card Program governs what types of purchases are allowed with the purchase card. The card is used to pay for small dollar transactions for items such as supplies, goods and services. The single dollar limit per transaction must not exceed \$5,000 including sales tax and any additional charges, such as freight or shipping.

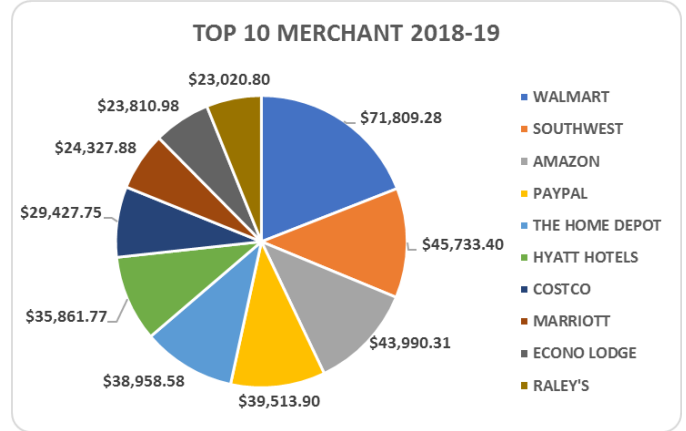
Note: The purchase card may be used instead of traditional purchasing methods (petty cash, travel advances and purchase orders).

Fiscal Year 2018-19			
Department	Issued Cards	Number of Transactions	Transaction Amount
Agriculture	6	163	\$32,416.44
Assessor Clerk Elections	5	393	\$31,920.28
Board of Supervisors	1	123	\$29,105.39
Child Support Services	4	113	\$34,039.88
Community Services	7	308	\$88,941.38
County Administrator	9	487	\$94,924.73
County Counsel	1	14	\$1,050.76
District Attorney	7	281	\$41,321.85
Financial Services	3	157	\$36,805.51
General Services	30	1091	\$191,109.39
Health Human Services	44	2922	\$614,082.83
Library	8	396	\$57,140.52
Probation	13	665	\$91,458.47
Public Defender	20	241	\$30,453.44
Sheriff	24	1118	\$188,569.58
	182	8472	\$1,563,340.45

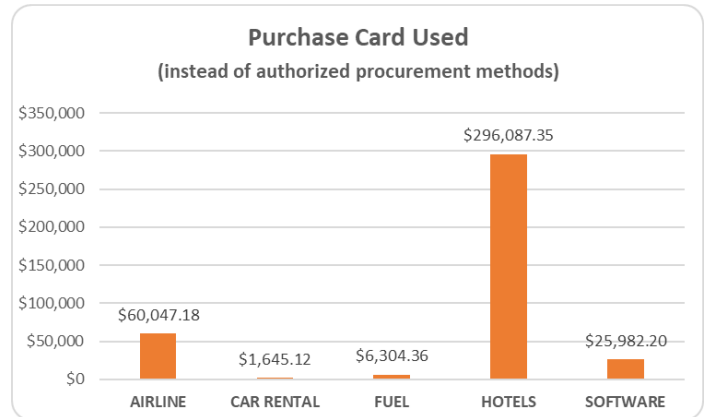
(Figure 1) Transaction Summary by Department

The chart provides an overview by department of the number of cards issued and purchase card transactions for the period under review

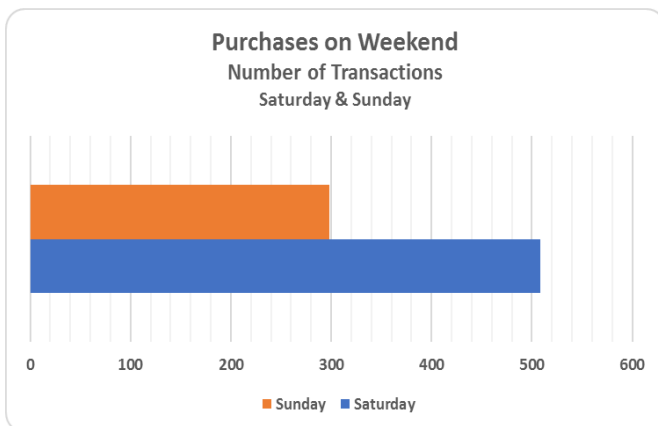
Cardholders have single dollar limits that range from \$0 to \$5,000 and monthly credit limits from \$250 to \$20,000. The auditors reviewed the purchase card accounts and found that 79 Cardholders had low activity (less than 2 transactions per month); 9 Cardholders had no activity during the period under review; and 9 Cardholders had duplicate cards.



(Figure 2) Top 10 Merchants
Most common merchants paid by the purchase card

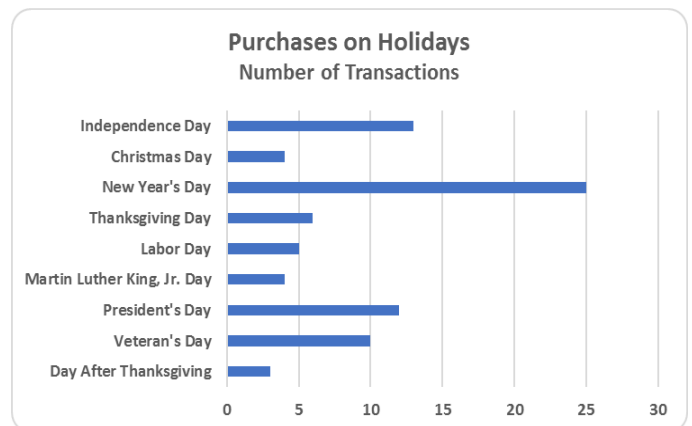


(Figure 3) Purchase Card Used
Transactions typically made through a purchase order or the County's travel agency



(Figure 4) Purchases on Weekend

Transactions that occurred on Saturday or Sunday







(Figure 5) Purchases on Holiday

Transactions that occurred on a County holiday

Results of Transaction Testwork

The following findings and recommendations are made as a result of tests conducted on 40 transactions by Cardholders at the County Administrator, Agriculture, Board of Supervisors, County Administrator, Community Services, Child Support Services, District Attorney, Financial Services, General Services, Health & Human Services Agency, Library, Probation, Public Defender and Sheriff's departments. The auditors reviewed the transactions and additional documentation provided by the department management and verified compliance with County policy and procedures. The results are listed below.

FY18-19 Purchase Card Transactions (CAATs Results)		
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Summary of Findings and Recommendations

Title	Finding	Recommendation	Management Response
1. Lack of supporting documentation (original or supporting receipts)	DIA identified: <ul style="list-style-type: none"> <input type="checkbox"/> Three (3) transactions had no original or supporting receipt on file <input type="checkbox"/> Ten (10) transactions had no approved Travel Request Forms attached <input type="checkbox"/> Six (6) transactions had no documentation for using alternative methods for travel arrangements instead of the County's Travel Agency 	DFS should ensure that the Cardholders review the statement for accuracy and attach copies of sales receipts or other documentation to support the charge expensed to the County in the order they appear on the statement. The Approving Official ensures that receipts and documentation are in order and that they match the statement. The Reconciler reviews the supporting documentation, records the proper expenditure accounts, and prepares the journal entry.	DFS Acctg/Rptg satisfactorily explained the exceptions, and training will be offered as part of the travel and purchasing policy trainings at minimum twice a year to ensure proper documentation is provided.
2. Purchase card statements not approved by an authorized Approving Official	DIA identified four (4) purchase card statements were not signed by authorized Approving Official	CPM should regularly monitor purchase card activity to reflect all changes to procedures, personnel and updates to the Cal-Card system.	CPM satisfactorily explained the exceptions, and recently took over the monitoring of purchase card transactions in FY18/19. Recently implemented an alert system to monitor activity.
3. Description of business	DIA identified eight (8) transactions had no description of business purpose	DFS should ensure that detailed information be documented when the business purpose is not evident from the sales draft. Fund codes	DFS Acctg/Rptg satisfactorily explained the exceptions, and will

Internal Auditor's Report

Title	Finding	Recommendation	Management Response
purpose not identified		need to be exact, and having information to better assist in the coding of the transaction is helpful.	reinforce procedures and policy standards.
4. Goods not verified when received	DIA identified twelve (12) transactions had no verification of when goods were received	DFS should ensure that the Cardholder keep a copy of the order form, including all shipping and sales tax information. When the order is received, the Cardholder should keep a copy of the packing slip and attach it as proof that the goods were received.	DFS Acctg/Rptg satisfactorily explained the exceptions, and will remind users to keep and provide necessary supporting documentation to verify goods were received.
5. Transactions exceeded Cardholder's single purchase and monthly credit limits	DIA identified: <input type="checkbox"/> Three (3) transactions exceeded the Cardholder's single purchase limit <input type="checkbox"/> Two (2) transactions exceeded the Cardholder's monthly credit limit	CPM should regularly monitor purchase card activity to reflect all changes to procedures, personnel and updates to the Cal-Card system.	CPM satisfactorily explained the exceptions, and recently took over the monitoring of purchase card transactions in FY18/19. Also implemented an alert system to monitor activity.
6. Program eligibility and department's policy and procedures for client services needs improvement	DIA identified: <input type="checkbox"/> Four (4) cases were missing acknowledgement from the client for the receipt of items/services <input type="checkbox"/> Four (4) case had no documentation that the client existed in the department's case management system <input type="checkbox"/> Four (4) cases had no documentation to determine client eligibility	DFS should ensure that the Cardholders review the statement for accuracy and attach copies of sales receipts or other documentation to support the charge expensed to the County in the order they appear on the statement. The Approving Official ensures that receipts and documentation are in order and that they match the statement. The Reconciler reviews the supporting documentation, records the proper expenditure accounts, and prepares the journal entry.	DFS Acctg/Rptg satisfactorily explained the exceptions, DFS will reach out to the specific county departments to remind users of the proper procedure.
7. Purchase card used instead of authorized procurement methods	DIA identified four (4) transactions where the purchase card was used to supplant other procurement methods	CPM should regularly monitor purchase card activity to reflect all changes to procedures, personnel and updates to the Cal-Card system.	CPM satisfactorily explained the exceptions, and will be offering continuous training on a quarterly basis in FY20-21.

For the exceptions and findings noted in this report, we forwarded the exceptions to the County Procurement Manager for further research, which involves contacting departments/agencies and/or clarifying existing purchase card policies and procedures.