

PURCHASE CARD CONTINUOUS AUDITING

Yolo County

Division of Internal Audit

Report on the continuous auditing of purchase card transactions.

For the Period: July 1, 2019 to June 30, 2020

Audit No: 2021-17

Report Date: February 3, 2021

The County had 189 purchase cards issued to employees. During the audit period, the County departments spent **\$1.37** million of **6,816** 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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- Procurement

Date: February 3, 2021

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

From: Kim Eldredge, Internal Audit Manager

Subject: Purchase Card Continuous Auditing Report
For the period July 1, 2019 to June 30, 2020
Audit Project: No. 2021-17

The Division of Internal Audit has completed the audit of Purchase Card - Continuous Auditing as part of our FY2020-21 Audit Plan approved by the Audit Sub-Committee. The scope of this audit consisted of all purchase card transactions for the period July 1, 2019 to June 30, 2020. 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 FY2020-21 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.

FY19-20 Purchase Card Transactions (CAATs Results)		
15		Split Transactions- Potential split purchases within the same day and across multiple days to circumvent purchase card limits
31		Exceeds Limit- Transactions exceeded Cardholder's single purchase and monthly credit limits
569		Weekend/Holiday Transactions- Transactions that occurred on weekends or holidays
1102		Purchases made through other means- Transactions typically made through the County's travel agency (hotels, airline, car rental, fuel)

Scope and Methodology

The scope of this audit consisted of all purchase card transactions for the period of July 1, 2019 to June 30, 2020, which included 6,816 transactions totaling \$1,365,913.41. 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 exceeding single purchase limits
- Transactions exceeding monthly credit limits
- Transactions split to circumvent purchasing card limits
- Transactions occurring on weekends and holidays
- Purchases typically made through other means
- Top Ten Merchants with the highest transaction amounts

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)		Split transactions
	Purchase card statements not approved by an authorized Approving Official		Goods not verified when received
	Description of business purpose not identified		Purchase card used for unauthorized purchases
	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 research reported exceptions and 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

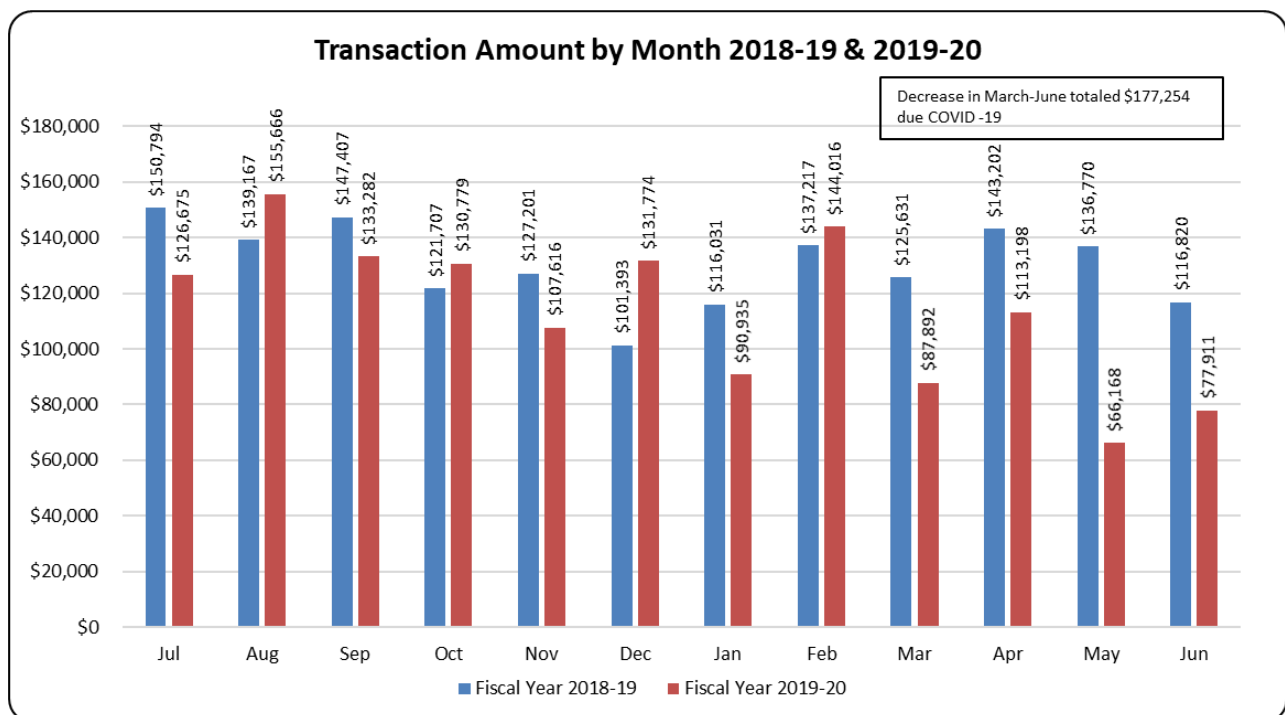
The County's policy for the Purchase Card Program governs what types of purchases are allowed with the purchase card. The card is used to pay for small dollar transactions for items such as supplies, goods and services. The single dollar limit per transaction must not exceed \$5,000 including sales tax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

Summary of Purchase Card Transactions by Department

At the time of the audit, the County had 189 purchase cards issued to employees. County departments spent \$1.37 million in fiscal year 2019-20. During the fiscal year 2019-20, there was a decrease in purchase card transaction activity of 24% and \$197,427 decrease in total transaction amount mainly due to COVID-19 during the months of March, April, May and June 2020. The departments with the most significant transaction amount decreases were Health & Human Services, Probation, Community Services, General Services and Sheriff. An overview of the purchase card transactions for fiscal years 2018-19 and 2019-20 by department is presented in Figure 1 with a comparison by month in Figure 2.

Department	Fiscal Year 2018-19			Fiscal Year 2019-20			Change				
	Issued Cards	# of Transactions	Transaction Amount	Issued Cards	# of Transactions	Transaction Amount	Issued Cards	# of Trans	# of Trans %	Transaction Amount	Transaction Amount %
Agriculture	6	163	\$32,416.44	5	170	\$35,661.00	(1)	7	4%	\$3,244.56	9%
Assessor Clerk Elections	5	393	\$31,920.28	5	352	\$43,877.10	0	(41)	-12%	\$11,956.82	27%
Board of Supervisors	1	123	\$29,105.39	1	103	\$20,794.04	0	(20)	-19%	(\$8,311.35)	-40%
Child Support Services	4	113	\$34,039.88	4	113	\$31,809.35	0	0	0%	(\$2,230.53)	-7%
Community Services	7	308	\$88,941.38	9	217	\$48,404.18	2	(91)	-42%	(\$40,537.20)	-84%
County Administrator	9	487	\$94,924.73	8	481	\$88,034.95	(1)	(6)	-1%	(\$6,889.78)	-8%
County Counsel	1	14	\$1,050.76	1	23	\$1,961.55	0	9	39%	\$910.79	46%
District Attorney	7	281	\$41,321.85	6	249	\$43,832.85	(1)	(32)	-13%	\$2,511.00	6%
Financial Services	3	157	\$36,805.51	5	225	\$50,659.22	2	68	30%	\$13,853.71	27%
General Services	30	1091	\$191,109.39	27	640	\$137,765.02	(3)	(451)	-70%	(\$53,344.37)	-39%
Health Human Services	44	2922	\$614,082.83	45	2502	\$597,876.21	1	(420)	-17%	(\$16,206.62)	-3%
Library	8	396	\$57,140.52	8	336	\$50,135.57	0	(60)	-18%	(\$7,004.95)	-14%
Probation	13	665	\$91,458.47	18	446	\$66,847.58	5	(219)	-49%	(\$24,610.89)	-37%
Public Defender	20	241	\$30,453.44	21	256	\$27,094.30	1	15	6%	(\$3,359.14)	-12%
Sheriff	24	1118	\$188,569.58	26	703	\$121,160.49	2	(415)	-59%	(\$67,409.09)	-56%
Total	182	8472	\$1,563,340.45	189	6816	\$1,365,913.41	7	(1656)	-24%	(\$197,427.04)	-14%

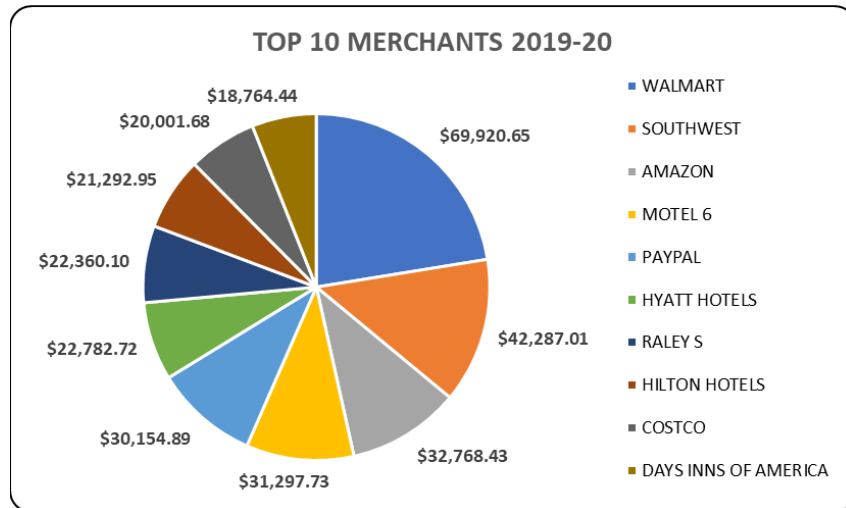
(Figure 1) Transaction Summary by Department



(Figure 2) Transaction Amount by Month

Common Types of Merchants

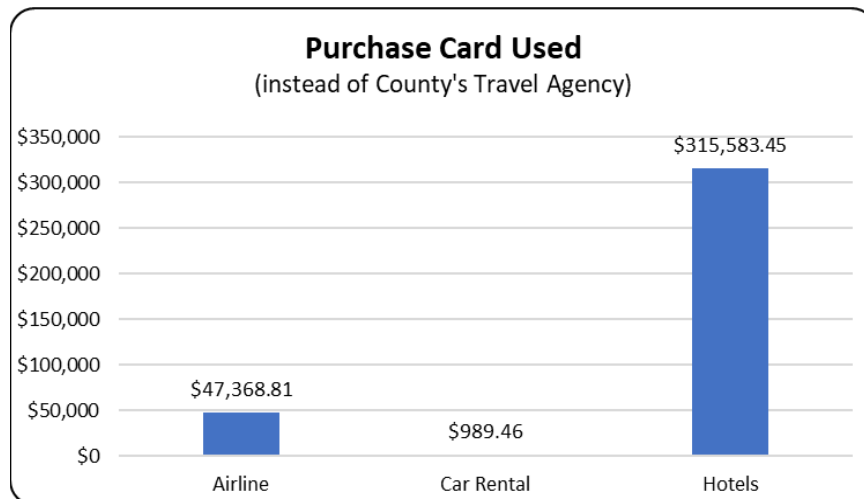
The most common merchants paid by the purchase card relate to items purchased for a specific program, office supplies, training, travel and shelter for clients as illustrated in the "Top 10 Merchants" in the pie chart below totaling \$311,631 during the fiscal year 2019-20.



(Figure 3) Top 10 Merchants

Transactions Typically Made Through Travel Agency

The County has contracted with an outside travel agency to arrange travel involving airfare, car rentals and/or an overnight stay in a hotel. The preferred method for arranging travel is through the County's Travel Agency. In certain circumstances, better rates may be obtained via the Internet or sources other than the Travel Agency. Travel may be obtained from these other sources only if it results in a net saving to the County and has been pre-approved by the department head or their designee. During the fiscal year 2019-20, there were 1,102 transactions totaling \$363,941.72 for airfare, car rentals and hotels as described on the chart below.



Comments: Hotels include transactions for clients under the CalWORKs Housing Support Program (HSP) and transactions during COVID-19 to shelter at-risk clients.

(Figure 4) Purchase Card Used (instead of County's Travel Agency)

Summary of Spending Limits

Each purchase card has a single purchase limit and monthly credit limit established within the CAL-Card system. Cardholders have single dollar limits that range from \$200 to \$5,000 and monthly credit limits from \$500 to \$20,000. The auditors reviewed the purchase card accounts and found that 43 Cardholders had low activity (less than 5 transactions per year); 13 Cardholders had no activity during the period under review; and 9 Cardholders had duplicate cards.

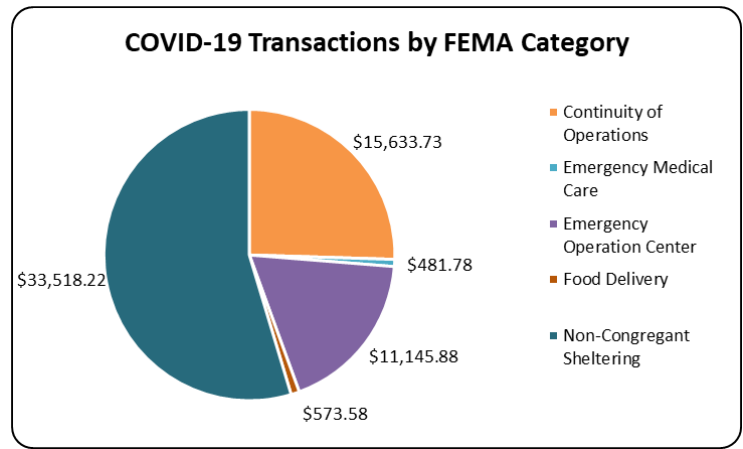
Transaction Analysis During COVID-19

On March 17, 2020, the State of California Governor executed a Shelter in Place Order from March 19 to April 17, 2020 (Executive Order N-29-20) due to COVID-19. The Shelter in Place Order remained in effect until the middle of May 2020. During this period, the CPM allowed the purchase cards to be used for emergency purchases for various cleaning supplies, personal protective equipment (PPE), food, and hotel expenses to house at-risk clients until contracts were established. The CPM also approved increases to purchase card credit limits to allow for these purchases. All credit limits were restored to their previous levels by June 30, 2020.

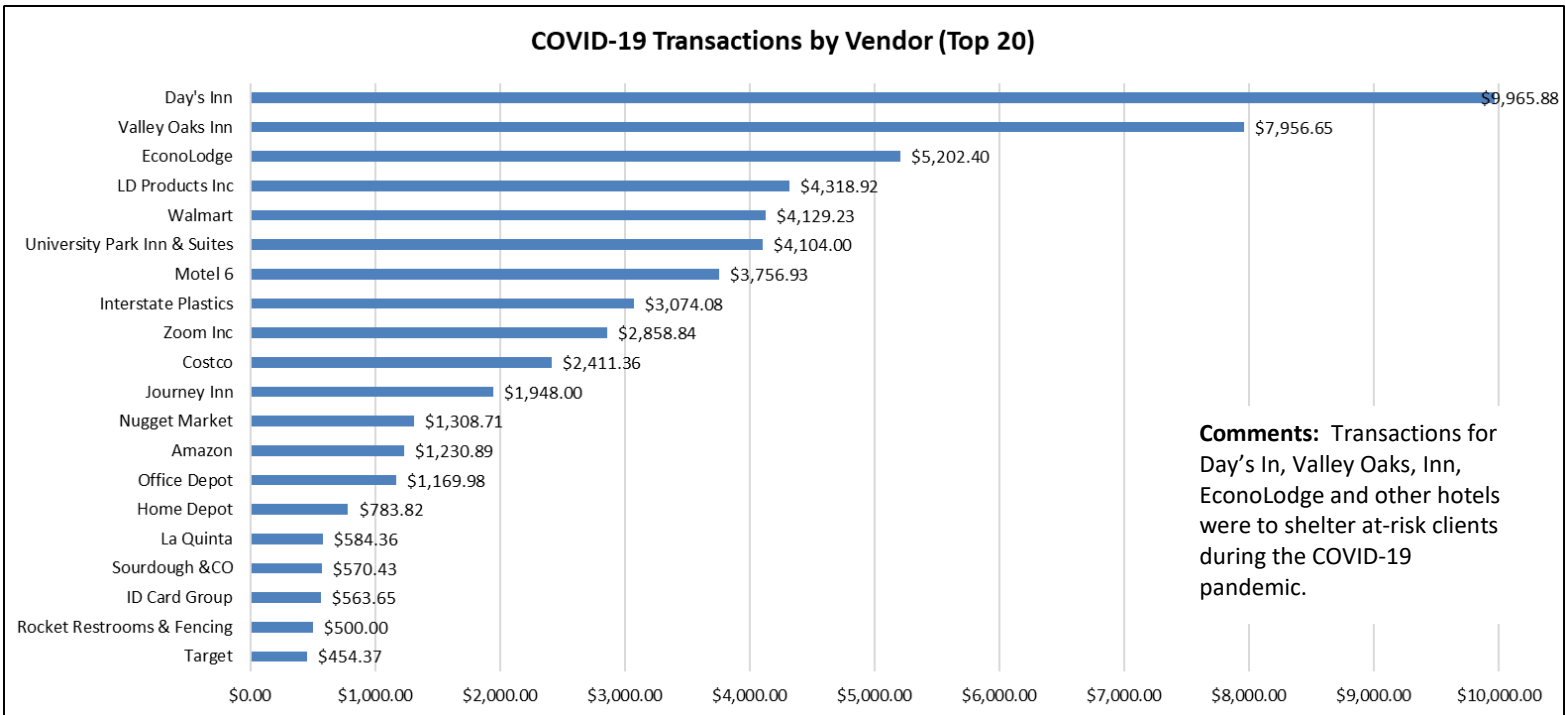
The Yolo County Coronavirus Recovery Operations Center (CROC) is responsible for monitoring COVID-19 related transactions and for ensuring compliance with the Federal Emergency Management Agency (FEMA) and other applicable policy and procedures. During the fiscal year 2019-20, the CROC reported 241 purchase card transactions totaling \$61,353.19 for COVID-19 related expenditures. The following charts provide an overview of the purchase card transactions by different categories from the CROC-Finance and Administration Division.

FEMA Category	Items Purchased	# of Trans	Transaction Amount
Continuity of Operations	Cleaning/disinfecting supplies, PPE, pexiglass, web cameras, cables, and software	64	\$15,633.73
Emergency Medical Care	Cleaning/disinfecting supplies, caution tape and other supplies for testing centers and Stollwood facility	7	\$481.78
Emergency Operation Center	Cleaning/disinfecting supplies, PPE, food for Emergency Operations Workers, and other items for the Emergency Operations Center	120	\$11,145.88
Food Delivery	Can openers and caution tape for food distribution	2	\$573.58
Non-Congregant Sheltering	Hotels for at-risk clients	48	\$33,518.22
Total		241	\$61,353.19

(Figure 5) COVID-19 Purchase Card Transactions by FEMA Category (Unaudited)



(Figure 6) COVID-19 Transactions by FEMA Category (Unaudited)



Comments: Transactions for Day's In, Valley Oaks, Inn, EconoLodge and other hotels were to shelter at-risk clients during the COVID-19 pandemic.

(Figure 7) COVID-19 Purchase Card Transactions by Vendor (Top 20) (Unaudited)

Results of Transaction Testwork

The following findings and recommendations are made as a result of tests conducted on 200 transactions by Cardholders at the Agriculture, Assessor Clerk Elections, Board of Supervisors, Child Support Services, Community Services, County Administrator, County Counsel, 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.

The sample included 25 COVID-19 related transactions. There were 23 exceptions for lack of supporting documentation, goods not verified when received, purchase card statements not signed by authorized Approving Official, and split transactions.

FY19-20 Purchase Card Transactions (CAATs Results)		
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Since the last Purchase Card Continuous Auditing, the CPM has made improvements on the monitoring of Cardholder's single purchase and monthly credit limits by maintaining supporting documentation for all changes in spending limits.

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"/> Thirty-One (31) transactions had no original or supporting receipt on file <input type="checkbox"/> Fourteen (14) transactions had no approved Travel Request Forms attached <input type="checkbox"/> Fifteen (15) 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.	Concur. Marilyn Tiriboyi, Accounting & Financial Reporting Division Manager 1/29/2021. Departments are largely responsible for ensuring that cardholders review the statements and attach copies of receipts or other documentation to support the charge expensed. Therefore, the process of ensuring proper documentation is a shared responsibility between DFS and the departments. DFS is actively providing training to users on the county purchase card policy.
2. Description of business purpose not identified	DIA identified: <ul style="list-style-type: none"> <input type="checkbox"/> Eleven (11) 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 need to be exact and having	Concur. Marilyn Tiriboyi, Accounting & Financial Reporting Division Manager 1/29/2021. Departments are responsible for documenting

Internal Auditor's Report

Title	Finding	Recommendation	Management Response
	<ul style="list-style-type: none"> □ Eighteen (18) transactions with not enough information to determine compliance with County policy and procedures. 	<p>information to better assist in the coding of the transaction is helpful.</p>	<p>the business purpose and appropriate coding for accounting purposes. There is therefore shared ownership between DFS and the departments in ensuring that proper procedures are followed. DFS will continue to reinforce procedures and train users on proper business purpose documentation.</p>
<p>3. Goods not verified when received</p>	<p>DIA identified fifty-six (56) transactions with no verification of when goods were received</p>	<p>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.</p>	<p>Concur. Marilyn Tiriboyi, Accounting & Financial Reporting Division Manager 1/29/2021. Ensuring adequate documentation is a shared responsibility between DFS and the departments. Specifically, the approving official for the cardholder is the first line of defense. DFS will remind users of the proper procedure during the purchase card user trainings and will continue to push back to departments to remind users to keep and provide necessary documentation to verify that goods were received.</p>
<p>4. Program eligibility and department's policy and procedures for client services needs improvement</p>	<p>DIA identified:</p> <ul style="list-style-type: none"> □ Six (6) cases were missing acknowledgement from the client for the receipt of items/services □ Two (2) cases were not active in the department's case management system at the time the items/services were provided □ Thirty-four (34) cases to procure the items/services on behalf of client was not approved by management in advance 	<p>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.</p>	<p>Concur. Marilyn Tiriboyi, Accounting & Financial Reporting Division Manager 1/29/2021. Ensuring adequate documentation is a shared responsibility between DFS and the departments. DFS will remind users of the proper procedure during the monthly purchase card user training.</p>
<p>5. Purchase card statements not approved by an authorized Approving Official</p>	<p>DIA identified:</p> <ul style="list-style-type: none"> □ Fifty (50) purchase card statements were not signed by authorized Approving Official □ One (1) purchase card statement was not signed by Cardholder 	<p>CPM should review the transactions and communicate to the Cardholder, Approving Official, and Reconciler actions required to resolve these types of transactions.</p>	<p>Concur. Ryan Pistochini, Procurement Manager 1/15/2021. The Purchase Card Policies and Procedures approved by the Board of Supervisors on September 29, 2020, combined with a new training series started in December 2020 emphasizes the importance of having signed statements. The Procurement Division will</p>

Internal Auditor's Report

Title	Finding	Recommendation	Management Response
			monitor the program over the next six billing periods for future occurrences to determine the effectiveness of the new policies and trainings.
6. Split transactions	DIA identified twelve (12) transactions that were split into multiple purchases	CPM should review the transactions and communicate to the Cardholder, Approving Official, and Reconciler actions required to resolve these types of transactions.	Concur. Ryan Pistochini, Procurement Manager 1/15/2021. The new policies and trainings are designed to reduce the occurrence of split transactions. The Procurement Division will monitor the program over the next six billing periods for future occurrences to determine the effectiveness of the new policies and trainings.
7. Purchase card used for unauthorized purchases	DIA identified two (2) transactions where the purchase card was used for personal travel related transactions (meals and airline accommodations)	CPM should discuss the transactions with the applicable department and determine whether the transactions were in compliance with County policy and procedures. If required, request refund from Cardholder.	Concur. Ryan Pistochini, Procurement Manager 1/15/2021. The Procurement Division has contacted the two cardholders for additional information to determine if the expenses are allowable and authorized. If the expenses are not allowable or authorized, the Division will take appropriate action.

All findings are Priority 1 Issues – 60 days required corrective action. See Attachment A for definitions of priority rankings.

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.

PRIORITY RANKING DEFINITIONS

Auditors use their professional judgment to assign rankings to recommendations using the criteria and definitions listed below. The purpose of the rankings is to highlight the relative importance of some recommendations over others based on the likelihood of adverse impacts if a corrective action is not taken and the seriousness of the adverse impact that may result. Adverse impacts are situations that have or could potentially undermine or hinder the following:

- a. The quality of services department provides to the community;
- b. The accuracy and completeness of County books, records, or report;
- c. The safeguarding of County asset;
- d. The County's compliance with pertinent rules, regulations, or laws;
- e. The achievement of critical programmatic objectives or program outcomes; and/or,
- f. The cost-effective and efficient use of resources.

Priority 1 Issues

Priority 1 issues are control weaknesses or compliance lapses that are significant enough to warrant immediate corrective action. Priority 1 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category may be situations that create actual or potential hindrances to the department's ability to provide quality services to the community, and/or present significant financial, reputational, business, compliance, or safety exposures. Priority 1 recommendations require management's immediate attention and corrective action within 60 days of report issuance.

Priority 2 Issues

Priority 2 issues are control weaknesses or compliance lapses that are of a serious nature and warrant prompt corrective action. Priority 2 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category, if not corrected, typically present increasing exposure to financial losses and missed business objectives. Priority 2 recommendations require management's prompt attention and corrective action within 120 days of report issuance.

Priority 3 Issues

Priority 3 issues are the more common and routine control weaknesses or compliance lapses that warrant timely corrective action. Priority 3 recommendations may result from weaknesses in the design or absence of a procedure or control, or when personnel fail to adhere to the procedure or control. The issues, while less serious than a higher-level category, are nevertheless important to the integrity of the department's operations and must be corrected or more serious exposures could result. Departments must implement Priority 3 recommendations within 180 days of report issuance.