

PURCHASE CARD CONTINUOUS AUDITING

Yolo County

Division of Internal Audit

Report on the continuous auditing of purchase card transactions.

For the Period: January 1, 2021 to June 30, 2021

Audit No: 2022-27

Report Date: January 20, 2022

The County had 148 purchase cards issued to employees. During the audit period, the County departments spent **\$496,105** of **2372** 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
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- Internal Audit
- Procurement

Date: January 20, 2022

To: Ryan Pistochni, Procurement Manager
Tom Haynes, Yolo County, Interim Chief Financial Officer

From: Kim Eldredge, Internal Audit Manager 

Subject: Purchase Card Continuous Auditing Report
For the period January 1, 2021 to June 30, 2021
Audit Project: No. 2022-27

The Division of Internal Audit has completed the audit of Purchase Card - Continuous Auditing as part of our FY2021-22 Audit Plan approved by the Audit Subcommittee. The scope of this audit consisted of all purchase card transactions for the period January 1, 2021 to June 30, 2021. 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 CPA, Interim Yolo County Administrator
Yolo County Audit Subcommittee
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 FY 2021-22 Audit Plan approved by the Audit Subcommittee. 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.

Purchase Card Transactions (CAATs Results) - 1/1/2021-6/30/2021		
9		Split Transactions- Potential split purchases within the same day and across multiple days to circumvent purchase card limits
9		Exceeds Limit- Transactions exceeded Cardholder's single purchase and monthly credit limits
207		Weekend/Holiday Transactions- Transactions that occurred on weekends or holidays
111		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 January 1, 2021 to June 30, 2021, which included 2372 transactions totaling \$496,105. 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 continue to 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

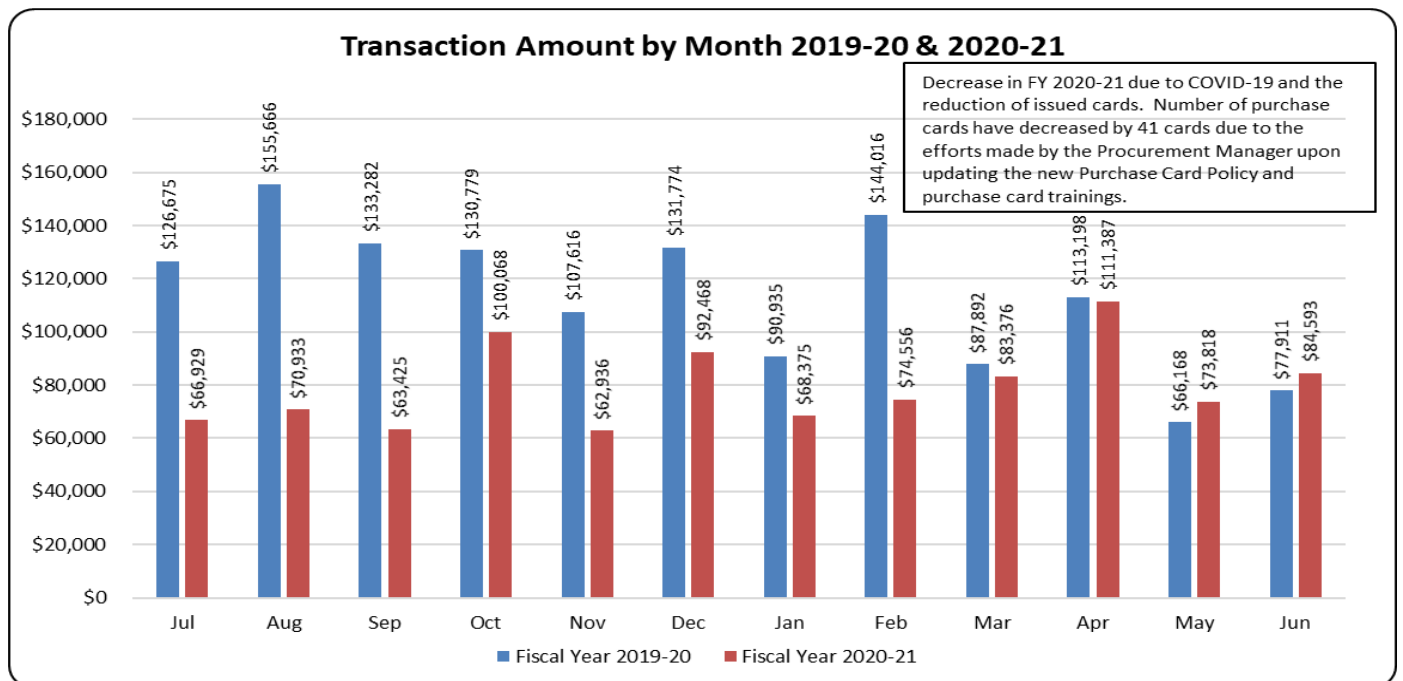
The County's policy for the Purchase Card Program governs what types of purchases are allowed with the purchase card. The card is used to pay for small dollar transactions for items such as supplies, goods and services. The single dollar limit per transaction must not exceed \$5,000 including sales tax 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 148 purchase cards issued to employees. County departments spent \$952,862 in fiscal year 2020-21. During the fiscal year 2020-21, there was a decrease in purchase card transaction activity of 40% due to COVID-19 and the reduction of issued cards. The departments with significant transaction amount decreases were the Assessor/Clerk-Recorder/Elections, Child Support Services, District Attorney, Health & Human Services, Probation, and Sheriff. An overview of the purchase card transactions for fiscal years 2019-20 and 2020-21 by department is presented in Figure 1 with a comparison by month in Figure 2.

Department	Fiscal Year 2019-20			Fiscal Year 2020-21			Change				
	Issued Cards	# of Trans	Transaction Amount	Issued Cards	# of Trans	Transaction Amount	Issued Cards	# of Trans	# of Trans %	Transaction Amount	Transaction Amount %
Agriculture	5	170	\$35,661.00	4	123	\$22,423.34	(1)	(47)	-38%	(\$13,237.66)	-59%
Assessor Clerk Elections	5	352	\$43,877.10	4	368	\$20,549.32	(1)	16	4%	(\$23,327.78)	-114%
Board of Supervisors	1	103	\$20,794.04	1	61	\$17,216.60	0	(42)	-69%	(\$3,577.44)	-21%
Child Support Services	4	113	\$31,809.35	4	30	\$5,180.79	0	(83)	-277%	(\$26,628.56)	-514%
Community Services	9	217	\$48,404.18	6	159	\$34,369.38	(3)	(58)	-36%	(\$14,034.80)	-41%
County Administrator	6	341	\$57,168.11	6	242	\$38,291.88	0	(99)	-41%	(\$18,876.23)	-49%
County Counsel	1	23	\$1,961.55	1	20	\$1,279.94	0	(3)	-15%	(\$681.61)	-53%
District Attorney	6	249	\$43,832.85	3	153	\$21,959.89	(3)	(96)	-63%	(\$21,872.96)	-100%
Financial Services	5	225	\$50,659.22	5	184	\$60,705.58	0	(41)	-22%	\$10,046.36	17%
General Services	22	557	\$111,049.46	18	540	\$92,855.58	(4)	(17)	-3%	(\$18,193.88)	-20%
Health Human Services	45	2502	\$597,876.21	35	1767	\$438,940.78	(10)	(735)	-42%	(\$158,935.43)	-36%
Human Resources	2	140	\$30,866.84	2	102	\$24,316.30	0	(38)	-37%	(\$6,550.54)	-27%
Innovation Technology Services	5	83	\$26,715.56	2	81	\$16,642.69	(3)	(2)	-2%	(\$10,072.87)	-61%
Library	8	336	\$50,135.57	7	194	\$35,904.28	(1)	(142)	-73%	(\$14,231.29)	-40%
Probation	18	446	\$66,847.58	6	234	\$31,481.17	(12)	(212)	-91%	(\$35,366.41)	-112%
Public Defender	21	256	\$27,094.30	18	161	\$19,277.01	(3)	(95)	-59%	(\$7,817.29)	-41%
Sheriff	26	703	\$121,160.49	26	434	\$71,467.87	0	(269)	-62%	(\$49,692.62)	-70%
Total	189	6816	\$1,365,913.41	148	4853	\$952,862.40	(41)	(1963)	-40%	(\$413,051.01)	-43%

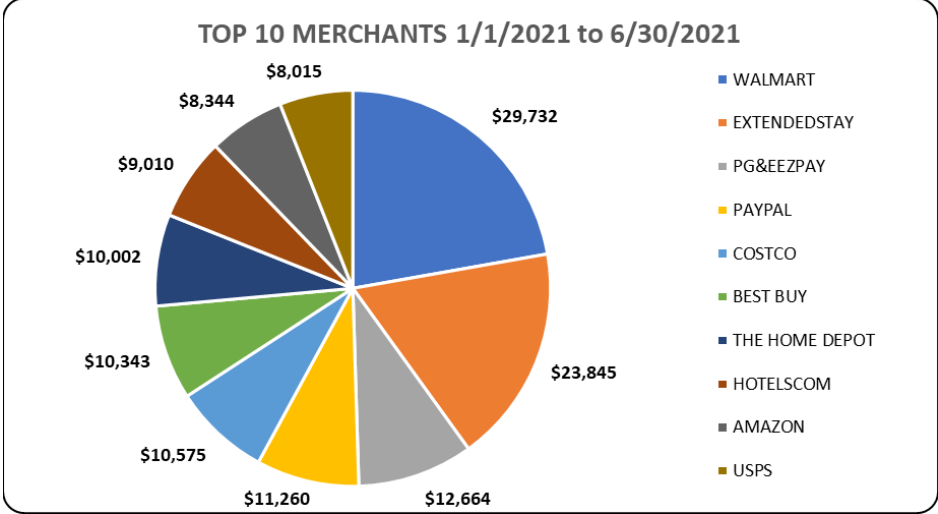
(Figure 1) Transaction Summary by Department



(Figure 2) Transaction Amount by Month

Common Types of Merchants

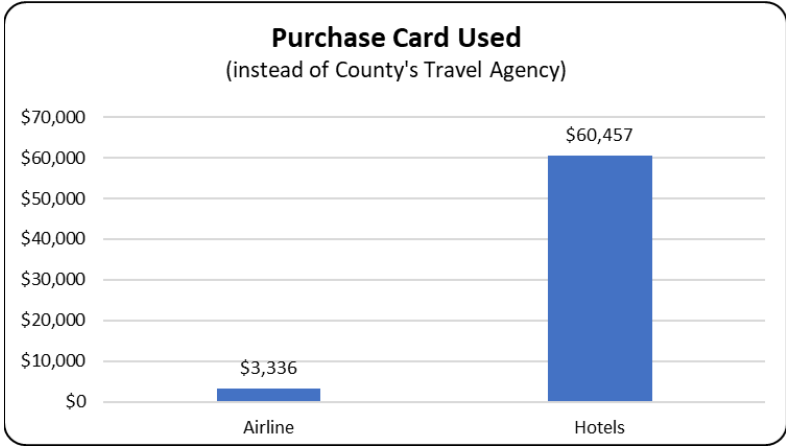
The most common merchants paid by the purchase card relate to items purchased for a specific program, office supplies, training, travel, and shelter/utilities paid for clients as illustrated in the “Top 10 Merchants” in the pie chart below totaling \$133,790 from January 1, 2021 to June 30, 2021. Four (4) vendors (ExtendedStay, Paypal, Costco, and The Home Depot) were added to the top ten based on goods needed for COVID-19 related transactions and items purchased for clients.



(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 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 audit period, there were 111 transactions totaling \$63,793 for airfare and hotels (Figure 4). Hotels include transactions for clients under the CalWORKs Housing Support Program (HSP) to shelter clients.



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

Summary of Spending Limits

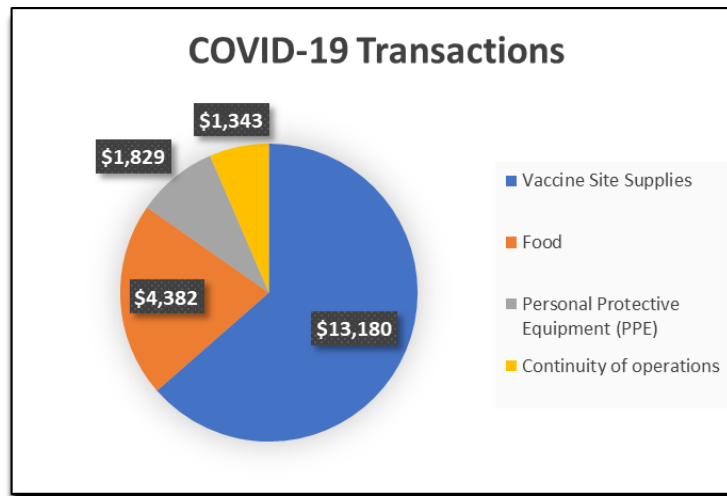
Each purchase card has monthly credit limit established within the CAL-Card system. Cardholders have monthly credit limits from \$500 to \$20,000 depending on their usage. Single transaction limits will no longer be applicable under the new Purchase Card Policy. Cardholders currently have single dollar limits that range from \$0 to \$5,000. The auditors reviewed the purchase card accounts and found that 37 Cardholders had low activity (less than 5 transactions in a 6-month period); 24 Cardholders had no activity during the period under review; and 8 Cardholders had duplicate cards.

COVID-19 Transactions

The auditors reviewed sixteen (16) COVID-19 related transactions totaling \$20,734. There were 13 exceptions noted for lack of supporting documentation and purchase card statements not signed by Cardholder and authorized Approving Official. The Yolo County Coronavirus Recovery Operations Center (CROC) was responsible for monitoring COVID-19 related transactions and for ensuring compliance with the Federal Emergency Management Agency (FEMA) and other applicable policy and procedures. The Health and Human Services Agency department (HHSA) will be assuming the CROC responsibilities moving forward. The following charts provide an overview of the COVID-19 purchase card transactions tested.

Category	Item Purchased	# of Trans	Transaction Amount
Vaccine Site Supplies	Folding tables, thermometers, coolers, iPads and covers	7	\$13,180
Food	Food for COVID-19 individuals and lunch for volunteers	5	\$4,382
Personal Protective Equipment (PPE)	Cleaning supplies	2	\$1,829
Continuity of operations	Subscriptions and window repairs for CROC vehicle	2	\$1,343
Total		16	\$20,734

(Figure 5) COVID-19 Purchase Card Transactions (Items Purchased)



(Figure 6) COVID-19 Purchase Card Transactions

Results of Transaction Testwork

The following findings and recommendations are made as a result of tests conducted on 109 transactions by Cardholders at the Agriculture, Assessor/Clerk-Recorder/Elections, Board of Supervisors, Community Services, County Administrator, 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.

Purchase Card Transactions (CAATs Results) – 1/1/2021 to 6/30/2021		
9		Split Transactions- Potential split purchases within the same day and across multiple days to circumvent purchase card limits
9		Exceeds Limit- Transactions exceeded Cardholder's single purchase and monthly credit limits
207		Weekend/Holiday Transactions- Transactions that occurred on weekends or holidays
111		Purchases made through other means- Transactions typically made through the County's travel agency (hotels, airline, car rental, fuel)

Summary of Findings and Recommendations

Title	Finding	Recommendation	Management Response
1. Lack of supporting documentation (original or supporting receipts)	<p>DIA identified:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Seven (7) transactions had no original or supporting receipt on file and/or incomplete evidence of all items purchased <input type="checkbox"/> Four (4) transactions for food purchases did not include a list of name(s) of persons who benefited from the County paid meal as required by County policy <input type="checkbox"/> Seven (7) transactions had no approved Travel Request Forms attached or the forms were not signed by an authorized official <input type="checkbox"/> Seven (7) transactions had no documentation for using alternative methods for travel arrangements instead of the County's Travel Agency 	<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. Tom Haynes, Interim Chief Financial Officer 1/19/2022. Management is conducting travel policy training in fiscal year 2021/2022 and will incorporate into the training the issues identified in this report. Management will remind departmental approvers and reconcilers that they are the first and second level of people who are responsible for ensuring supporting documentation is present and sufficient.</p>
2. Description of business purpose not identified	<p>DIA identified:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Three (3) transactions had no description of business purpose <input type="checkbox"/> Six (6) transactions with not enough information to determine compliance with County policy and procedures 	<p>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 information to better assist in the coding of the transaction is helpful.</p>	<p>Concur. Tom Haynes, Interim Chief Financial Officer 1/19/2022. Management has established trainings that inform cardholders of the need to document the business purpose. Management will</p>

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Title	Finding	Recommendation	Management Response
			remind departmental approvers and reconcilers that they are the first and second level of people who are responsible for ensuring supporting documentation is present and sufficient.
3. Goods not verified when received	DIA identified ten (10) transactions with 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.	Concur. Tom Haynes, Interim Chief Financial Officer 1/19/2022. Management has established trainings that inform cardholders of the need to verify when goods were received. Management will remind departmental approvers and reconcilers that they are the first and second level of people who are responsible for ensuring supporting documentation is present and sufficient.
4. Program eligibility and department's policy and procedures for client services needs improvement	DIA identified: <ul style="list-style-type: none"> <input type="checkbox"/> Six (6) cases were missing acknowledgement from the client for the receipt of items/services <input type="checkbox"/> Two (2) cases where documentation that the client existed in the department's case management system was not available for review <input type="checkbox"/> Two (2) cases to procure the items/services on behalf of client was not approved by management in advance <input type="checkbox"/> One (1) case where there was not enough information to determine client eligibility for the program 	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. Tom Haynes, Interim Chief Financial Officer 1/19/2022. Management has established trainings that inform cardholders of the need to document the allowability of the purchase for clients and that the client received the items purchased. Management will remind departmental approvers and reconcilers that they are the first and second level of people who are responsible for ensuring supporting documentation is present and sufficient.
5. Purchase card statements not approved by an authorized Approving Official	DIA identified: <ul style="list-style-type: none"> <input type="checkbox"/> Three (3) purchase card statements were not signed by authorized Approving Official <input type="checkbox"/> Two (2) purchase card statements were not signed by Cardholder <input type="checkbox"/> Fifteen (15) purchase card statements had printed names instead of an authorized signature <input type="checkbox"/> Two (2) purchase card statements were approved through 	CPM should communicate to the Cardholder, Approving Official, and Reconciler of the policy requirement for approval of purchase card statements.	Concur. Ryan Pistoichini, Procurement Manager 1/7/2022. Management is developing a training specific for approvers and reconcilers that will begin in Quarter 1 of 2022.

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Title	Finding	Recommendation	Management Response
	email without detail of transaction or amount		
6. Split transactions	DIA identified three (3) 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 this type of transaction.	Concur. Ryan Pistochini, Procurement Manager 1/7/2022. The change in approach regarding split transactions was communicated in 2021 to all involved parties through trainings that occurred during the first half of 2021.
7. Purchase card used for unauthorized purchases	<p>DIA identified one (1) transaction where the purchase card was used to pay for cold weather clothing. (Fourteen jackets were purchased for employees totaling \$747).</p> <p><i>According to GAO, cold weather clothing is an employee's personal responsibility, not the government's. In order for an item to be authorized for purchase, three tests must be met: (1) the item must be "special" and not part of the ordinary and useful furnishings an employee may reasonably be expected to provide for himself; (2) the item must be for the benefit of the government, that is, essential to the safe and successful accomplishment of the work, and not solely for the protection of the employee; and (3) the employee must be engaged in hazardous duty.</i></p>	CPM should discuss the transaction with the applicable department and determine whether the transaction violates the recommended standard from GAO.	Concur. Ryan Pistochini, Procurement Manager 1/7/2022. Management will engage with the department to determine if the transaction is authorized and allowable.

Since the last Purchase Card Continuous Auditing report, the CPM has conducted a series of 6 trainings for cardholders on the use of the purchase card, policy, and procedures. In addition, the CPM revised the Purchase Card Policy and the Purchase Card Procedures Manual in January 2021 to strengthen accountability and improve the effectiveness of the purchase card program. Furthermore, the number of purchase cards have decreased by 41 cards due to the efforts made by the Procurement Manager upon updating the new Purchase Card Policy and purchase card trainings.

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.

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

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.