

PURCHASE CARD CONTINUOUS AUDITING

Yolo County

Division of Internal Audit

Report on the continuous auditing of purchase card transactions.

For the Period: July 1, 2020 to December 31, 2020

Audit No: 2021-17

Report Date: July 21, 2021

The County had 155 purchase cards issued to employees. During the audit period, the County departments spent **\$456,758** of **2481** 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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County of Yolo

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Date: July 21, 2021

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

From: Kim Eldredge, Internal Audit Manager *Kim Eldredge*

Subject: Purchase Card Continuous Auditing Report
For the period July 1, 2020 to December 31, 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, 2020 to December 31, 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
Daniel Kim, Interim 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

Purchase Card Transactions (CAATs Results) - 7/01/2020 12/31/2020		
8		Split Transactions- Potential split purchases within the same day and across multiple days to circumvent purchase card limits
64		Exceeds Limit- Transactions exceeded Cardholder's single purchase and monthly credit limits
259		Weekend/Holiday Transactions- Transactions that occurred on weekends or holidays
396		Purchases made through other means- Transactions typically made through the County's travel agency (hotels, airline, car rental, fuel)

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.

Scope and Methodology

The scope of this audit consisted of all purchase card transactions for the period of July 1, 2020 to December 31, 2020, which included 2481 transactions totaling \$456,758. 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		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 155 purchase cards issued to employees. County departments spent \$456,758 during the audit period. An overview of the of the number of cards and the purchase card transactions by department is presented in Figure 1.

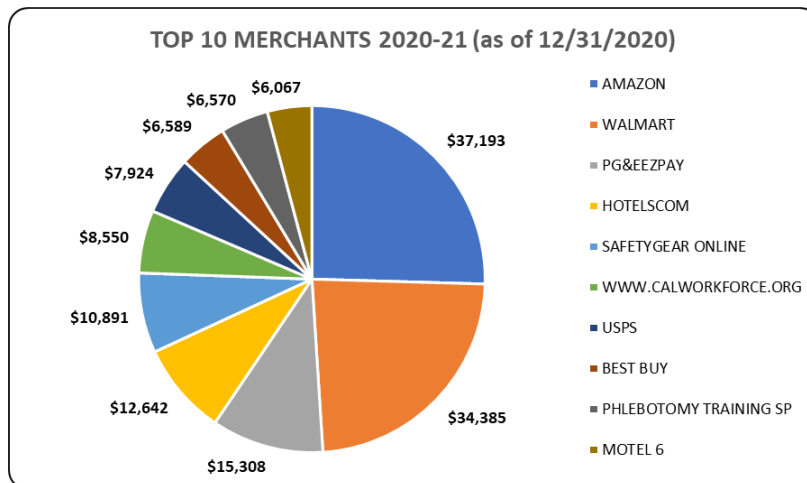
Fiscal Year 2020-21 (as of 12/31/2020)			
Department	Issued Cards	# of Transactions	Transaction Amount
Agriculture	5	55	\$10,920
Assessor Clerk Elections	4	164	\$9,324
Board of Supervisors	1	31	\$5,741
Child Support Services	3	22	\$2,264
Community Services	8	75	\$16,656
Coronavirus Recovery Operations Center	1	11	\$318
County Administrator	7	200	\$32,616
County Counsel	1	8	\$761
District Attorney	3	65	\$5,861
Financial Services	5	84	\$33,700
General Services	21	395	\$65,342
Health Human Services	37	862	\$209,187
Library	7	91	\$11,901
Probation	7	113	\$10,770
Public Defender	21	80	\$8,120
Sheriff	24	225	\$33,277
Total	155	2481	\$456,758

Number of purchase cards have decreased by 34 cards due to the efforts made by the Procurement Manager upon updating the new Procurement Policy and purchase card trainings.

(Figure 1) Transaction Summary by Department

Common Types of Merchants

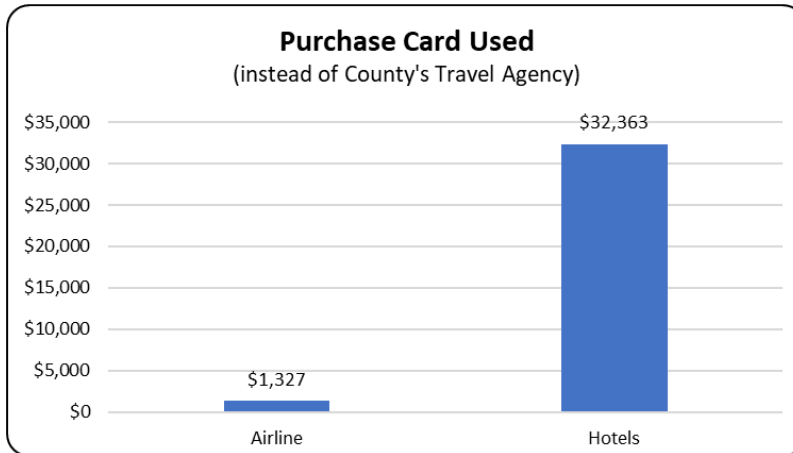
The most common merchants paid by the purchase card relate to items purchased for a specific program, office supplies, training, travel and shelter/utilities paid for clients as illustrated in the "Top 10 Merchants" in the pie chart below totaling \$146,119 from July 1, 2020 to December 31, 2020. Seven (7) vendors were added to the top ten based on goods needed during the pandemic.



(Figure 2) 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 81 transactions totaling \$33,690 for airfare, and hotels (Figure 3). Hotels include transactions for clients under the CalWORKs Housing Support Program (HSP) and transactions during COVID-19 to shelter clients.



(Figure 3) Purchase Card Used (instead of County's Travel Agency)

Summary of Spending Limits

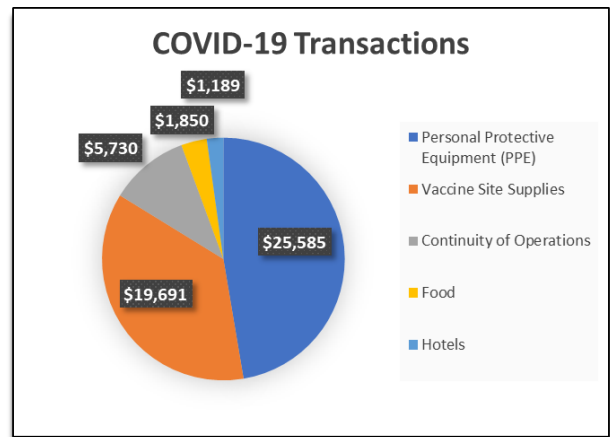
Each purchase card has a single purchase limit and monthly credit limit established within the CAL-Card system. Cardholders have single dollar limits that range from \$200 to \$6,000 and monthly credit limits from \$500 to \$20,000. The auditors reviewed the purchase card accounts and found that 32 Cardholders had low activity (less than 4 transactions per year); 24 Cardholders had no activity during the period under review; and 9 Cardholders had duplicate cards.

COVID-19 Transactions

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. The auditors reviewed thirty-two (32) COVID-19 related transactions totaling \$54,044. There were 34 exceptions noted for lack of supporting documentation, goods not verified when received, and purchase card statements not signed by authorized Approving Official. The following charts provide an overview of the COVID-19 purchase card transactions tested.

Category	Item Purchased	# of Trans	Transaction Amount
Personal Protective Equipment (PPE)	Face shields, masks, hand sanitizers, air purifiers	8	\$25,585
Vaccine Site Supplies	Safety vests, badges, temperature monitors, folding chairs and tables, gloves, folding platforms for trucks, and syringes	16	\$19,691
Continuity of Operations	Thermometers, plastic sneeze guards, and canopies	4	\$5,730
Food	Food for COVID-19 individuals and lunch for volunteers	3	\$1,850
Hotels	Hotel to shelter COVID-19 individuals	1	\$1,189
Total		32	\$54,044





(Figure 4) COVID-19 Purchase Card Transactions (Items Purchased)



(Figure 5) COVID-19 Purchase Card Transactions

Results of Transaction Testwork

The following findings and recommendations are made as a result of tests conducted on 115 transactions by Cardholders at the Agriculture, Assessor Clerk Elections, Board of Supervisors, Child Support Services, 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) – 7/01/2020 to 12/31/2020		
8		Split Transactions- Potential split purchases within the same day and across multiple days to circumvent purchase card limits
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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"/> Four (4) transactions had no original or supporting receipt on file and/or incomplete evidence of all items purchased <input type="checkbox"/> Nine (9) transactions had no approved Travel Request Forms attached <input type="checkbox"/> Twelve (12) 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. Marilyn Tiriboyi, Accounting & Financial Reporting Division Manager 7/20/2021. The process of ensuring proper documentation is a shared responsibility between DFS and the departments. DFS will continue to offer training as part of the travel and purchasing policy training that will be held at a minimum twice year.</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"/> Four (4) 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. Marilyn Tiriboyi, Accounting & Financial Reporting Division Manager 7/20/2021. Departments are responsible for documenting 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 as</p>

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Title	Finding	Recommendation	Management Response
			part of the monthly journal entry review process.
3. Goods not verified when received	DIA identified thirty-nine (39) 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. Marilyn Tiriboyi, Accounting & Financial Reporting Division Manager 7/20/2021. Mandatory cardholder training that began in December 2020 emphasized the need to record receipt of goods. Additionally, 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 continue to push back to departments as part of the monthly journal entry review process to remind users to keep and provide necessary documentation to verify that goods were received.
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"/> Three (3) cases were not active in the department's case management system at the time the items/services were provided <input type="checkbox"/> Two (2) cases where cost of the items procured exceeded the designated amount per policy for each person <input type="checkbox"/> Three (3) cases were missing acknowledgement from the client for the receipt of items/services <input type="checkbox"/> Seven (7) cases where management approval to procure the services/items on behalf of client was not received in advance 	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 7/20/2021. This relates to specific county departments serving clients including HHSA, Probation and Public Defender. It is the department responsibility to comply and enforce department policy and to ensure that cases are active in their case management system. DFS has no visibility to the case management system. DFS will reiterate the importance for department to follow policy guidelines in regard to these specific transactions. Additionally, the mandatory cardholder training that began in December 2020 contains a portion that focuses on documenting allowable purchases for clients.
5. Purchase card statements not approved by an authorized Approving Official	DIA identified: <ul style="list-style-type: none"> <input type="checkbox"/> Four (4) purchase card statements were not signed by authorized Approving Official 	CPM should communicate to the Cardholder, Approving Official, and Reconciler of the policy requirement for approval of purchase card statements.	Concur. Ryan Pistochini, Procurement Manager 7/20/2021. As part of the monthly mandatory purchase card user training that started in December 2020, cardholders were reminded of

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Title	Finding	Recommendation	Management Response
	<input type="checkbox"/> Fourteen (14) purchase card statements were missing wet or electronic signature		the importance of signing their statements. Management is developing specific training for approvers and reconcilers to roll out in late 2021.
6. Split transactions	DIA identified one (1) transaction that was 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 7/20/2021. Management will review the split transaction with the cardholder. The mandatory cardholder training that begin in December 2020 discusses what a split transaction is, and how to properly avoid creating a split transaction.

Since the last Purchase Card Continuous Auditing report, the CPM has conducted a series of 8 trainings commencing in October 2020 for cardholders on the use of the purchase card, policy and procedures. In addition, 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.

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.