



**Audit of the Onondaga County
Purchase Card Program
June 2020**

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SECTION I

BACKGROUND

Under County Law Section 371 and Administrative Code Section 2.15 and 6.16 the Onondaga County Legislature (Legislature) has the authority to establish departmental petty cash funds. The Legislature by Resolution 340 of 1992 established Departmental Petty Cash Funds to be used to purchase low cost items and services. The funds were to be utilized, with certain exceptions, for purchases costing \$100.00 or less. Guidelines, including policy and procedures, for the low cost purchases that the Petty Cash Program funds were established and distributed by the County Comptroller to ensure there were proper internal and administrative controls as required by Resolution 340 of 1992.

On August 7, 2000, the Legislature adopted Resolution 223 to amend Resolution 340 of 1992 to expand the Petty Cash Claim dollar limit for allowable low cost purchases to \$200 for Onondaga County Departments. Of note is while there is Legislative authorization for the Departmental Petty Cash Fund Program, there is no specific Legislative authorization for the Purchase Card Program.

In October 2000, Onondaga County implemented the Purchase Card Program and provided guidelines governing the use of the VISA purchase cards. According to the October 2000 Purchase Card Program Guide (the Program Guide), the purpose of the purchase card program was "...to provide departments with a streamlined method of purchasing small dollar items, thereby reducing the volume of individual payments processed by the County Suppliers." The use of the purchase card was intended to:

- Reduce the cost of processing routine transactions
- Reduce the volume of paperwork when making a purchase
- Decentralize purchasing authority for routine transactions up to \$200
- Allow for telephone/internet purchases
- Improve department satisfaction
- Increase the number of suppliers available to the County

The Purchase Card Program Guide provides guidance to all users with program restrictions and limitations:

- Purchases are for County-related business purchases only
- Single transaction maximum limits - \$200 (including shipping)
- Monthly transactions credit limits - \$5,000

Additionally, the guide governs Restricted Purchases, Restricted Vendor Categories and Sales Tax Exemption.

According to the resolutions of the Legislature and memos issued by the County Comptroller, at the onset of the petty cash program in 1992, the Comptroller's Office was responsible for the program and related oversight. At the time the Purchase Card program was instituted in 2000 the administrative controls and monitoring of all purchase card activity was delegated by informal agreement to the Director of Purchase. The Director of Purchase established a review process for all purchase card activity and each card holder was held accountable for purchase card violations. However, this process was not written into the Guide.

In 2011, the Division of Purchase updated the original County Purchase Card Guide and introduced a new MasterCard Purchase Card. According to the Program Guide, the intent of the purchase card continued to be "to provide an alternative to the existing County procurement processes" and to provide "an extremely efficient and effective method of acquiring and paying for goods and services costing \$200 or less."

Although the Purchase Card Program Guide had been established at the onset of the program, it has never provided a clear, definitive description of the program roles and responsibilities for each department involved in administrating the program. In addition, it does not include comprehensive program requirements for the use of the cards nor does it clearly identify the person(s) responsible for program disciplinary action for purchase card misuse.

As of the start of our audit, current, valid purchase cards have been issued to 122 designated employees located in various County departments. In 2017 Purchase Card departmental purchases totaled \$538,456 (\$44,871 average per month). In 2018 purchases totaled \$601,802 (\$50,150 average per month).

SECTION II

EXECUTIVE SUMMARY

Executive Summary

- ❖ **During this audit there was a change in the Director of Purchase position in the County Division of Purchase. The newly appointed Director of Purchase has been communicated with and has agreed to cooperate with this audit.**

In October 2000, Onondaga County implemented a Purchase Card Program. For this audit our focus was to review the overall program to determine compliance in accordance with the existing County Purchase Card Guidelines (last updated in 2011) and all applicable laws and regulations. Another focus of the audit was to evaluate internal controls, the availability and sufficiency of training and resources as well as the oversight and monitoring activities of the program.

Purchase cards have been issued to more than 120 employees located in various County departments and the Purchase Card Program averages \$50,000 per month in purchases across the County.

We noted numerous issues/concerns with the program in the following areas:

- **Purchase card restrictions/limitations.**
- **Purchase card holder feedback.**
- **Purchase card transaction activity.**
- **Oversight of purchase card activity.**
- **Issuance and cancelation of Purchase Cards.**

The details of the issues/concerns we identified in the above areas are included in the full Findings and Recommendations Section of this report.

Our recommendations are as follows:

- 1. The County Legislature should formally adopt legislation establishing the Purchase Card Program either as a replacement of the Petty Cash Program or as a supplement to it.*
- 2. Clear written definition of the Purchase Card Program and its parameters should be established, including:*
 - Justification and definition of the overall program, including the purpose and objectives.*
 - Clear program requirements for the use of the cards and who is responsible for individual card holder oversight and enforcement at the County and department level.*
 - Clear policies and procedures for when adherence to County contracts for purchases of certain items is required and not required.*
 - Clear assignment, definition, and delineation of the program roles and responsibilities of each department involved including the issuance/revocation of Purchase Cards, training and support, monitoring and oversight, approval of exceptions and program modification, disciplinary action, etc.*
 - The implementation of internal controls over rights and access to the Chase Data Smart Program and clear definition of who can set and change card limits by creating and maintaining a control log of all employee rights and access.*
- 3. Formal assignment of a Department(s) to oversee the Administration of the Purchase Card Program. The appointed department(s) should:*
 - Monitor all purchase card activity, including individual card transactions for adherence to the defined requirements and guidelines. Monitoring should also include follow-up on purchase violations.*
 - Monitor the use of cards for purchases over the policy threshold, using split purchases to avoid the policy threshold and/or using multiple cards to avoid the policy threshold.*
 - Monitor all purchases for adherence to existing County contracts.*
 - Design training and resources that will both properly train and inform new users as well as assist in avoiding the most common historical mistakes and violations.*

- *Develop a process to regularly evaluate the Purchase Card Program to find ways to improve the areas that are not meeting requirements and/or not operating efficiently and effectively.*
- *Have regular communication with all departments who have employees in the program to better instruct them in using the cards and to either catch mistakes early or avoid them altogether.*
- *Create procedures for issuance and cancellation of cards, including a process for monitoring cardholder status to maintain a current active cardholder list.*
- *Establish written policies and procedures so that cards are not issued without a properly documented MasterCard request form submitted by the appropriate department head and a properly signed Cardholder Responsibility form.*
- *Establish record retention policies and procedures to ensure the supporting issuance documentation is complete, retained and readily available for audit.*

The definition and assignment of roles and responsibilities for Purchase Card Program training, resources, oversight, and coordination will help minimize or reduce issues/exceptions and improve the effectiveness of the Purchase Card Program.

SECTION II

SCOPE AND METHODOLOGY

Scope and Objectives

We performed an audit of the Onondaga County Purchase Card program for the period January 1, 2018 through August 31, 2019.

Our objectives for this audit were to:

- Determine compliance with the laws, regulations, policies, and procedures in regards to the program.
- Evaluate the internal controls of the program.
- Evaluate the sufficiency of training and resources available to comply with laws, regulations, policies and procedures.
- Evaluate oversight and monitoring activities to determine if they maximize compliance with laws, regulations, policies and procedures and the benefits of the program.

Methodology

In order to complete our objectives we:

- Reviewed the history, laws, policy, procedures and regulations of the program.
- Interviewed appropriate individuals in the Division of Purchase, Comptroller's Office, and Management & Budget to obtain an understanding of administrative controls over the program.
- Interviewed individuals in various departments having oversight and monitoring responsibilities relating to the program.
- Interviewed a selected sample of card holders from the following departments: Parks and Recreation, Facilities Management, Department of Transportation, and Board of Elections to ascertain their knowledge of the program rules and requirements and oversight activities.
- Tested selected administrative controls outlined in the Purchase Card Policy to evaluate their effectiveness.

- Reviewed and analyzed a sample of purchase card transactions from the selected departments.

SECTION V

FINDINGS AND RECOMMENDATIONS

Findings

Purchase Card Restrictions/Limitations

According to the Purchase Card Program Guide, for a single transaction no purchase may exceed \$200 (including shipping). We reviewed the official card holder list provided by the issuing bank and noted the following related to the program restrictions and limitations.

- 3 purchase cards had single transaction limit over the \$200 limit.
- 10 purchase cards had no single transaction limit.

During our initial review, we questioned the previous Director of Purchase regarding the amounts listed and requested clarification of the restrictions and limitations placed on each Purchase Card. We received a limited response. He stated that the restrictions were integrated into the cards and would automatically prevent employee(s) from purchasing restricted purchases based on a Merchant Category Code, (MCC). We requested the MCC Code definition but they were not provided to us by either the Division of Purchase or the issuing bank.

****Note:** The information related to the MMC Codes (above) was provided by the Director of Purchase but after the audit results had been shared with him for the purpose of responding. Testing of the MCC Codes will be explored at a later date.*

Purchase Card Holder Feedback

According to the Guide, the Division of Purchase will schedule training. Once complete, the card holder agreement form must be signed and sent to the “Agency Procurement Card Coordinator.” We interviewed 19 of 122 active Purchase Card holders regarding training, issuance of their card, and their knowledge of the Guide restrictions. We also checked to determine if cards were kept in a secure location.

We noted the following findings:

- *16/19 Card holders* indicated they did not receive training prior to signing the Responsibility Agreement according to the policy and *3/19 Card holders* indicated they had limited training.

- *16/19 Card holders* indicated they were not fully aware of the Guide's requirements. *3/19 Card holders* indicated they had limited knowledge of the Guide's requirements.
- *12/19 Card holders* indicated they did not know who to contact if they had questions, problems or exceptions. *5/19 Card holders* said they would contact their supervisor and *2/19 Card Holders* knew who to contact.
- *17/19 Card holders* indicated they were not aware of the specifics of approved County vendor contracts. *2/19 Card holders* indicated they were aware of the County vendor contracts.
- *18/19 Card holders* were verified to have their purchase cards kept in a secure location. *1/19 Card holder* did not have purchase card in a secure location.

Purchase Card Transaction Activity

We reviewed purchase card transaction activity for the following departments: Parks and Recreation (Parks), Department of Transportation (DOT), Board of Elections (BOE), and Facilities Management (FM) for the period January 1, 2019 to August 31, 2019 to determine if purchase card activity was conducted in compliance with the Guide. Testing period varied per department according to transaction activity. In order to assist us with this review, we requested the Merchant Category Codes (MCCs) from the Division of Purchase on September 5, 2019. They were not provided and we were told the MCCs describe the restrictions built into the purchase cards that automatically prevent employee(s) from purchasing restricted items.

****Note: The information related to the MMC Codes (above) was provided by the Director of Purchase but after the audit results had been shared with him for the purpose of responding. Testing of the MCC Codes will be explored at a later date.***

We noted the following violations of restricted purchases and limitations:

- Card holders are paying sales tax paid on purchases. According to the Guide, the cardholder must inform the merchant that the purchase is exempt at the time of the sale. The Guide also states the purchase cardholder is responsible for all sales tax paid. However, we found the County is absorbing this cost.
 - *Parks Card holders* paid sales tax on **14 purchases**.
 - *FM Card holders* paid sales tax on **5 purchases**.

- *DOT Card holder* paid sales tax for *1 purchase*.
- Card holder purchases exceeded the single transaction maximum \$200 limit.
 - *DOT- 10 purchases*
- Card holders evade the \$200 single transaction limit by splitting purchases greater than \$200 into two or more transactions, sometimes using more than one card:
 - *DOT- 2 transactions*
 - *FM - 12 transactions*
- During their interview, *3/6 Card holders from Parks*, stated they regularly split purchases over \$200 over multiple purchase cards and did not realize that it was prohibited.
- During our review cardholders stated they were transferring or assigning their purchase card to unauthorized cardholder(s) for use and did not realize that it was prohibited.
 - *Parks - 3/6 Card holders* are transferring or assigning their purchase card to unauthorized cardholder(s) for use.
 - *BOE - 2/2 Card holders* are transferring and assigning their purchase cards to an unauthorized cardholder for use. *1 Unauthorized Card holder made all the purchases for the BOE.*
- Card holder purchases had missing/supporting documentation:
 - *Parks - 16 purchases*
 - *BOE - 2 purchases*
 - *FM - 1 purchase*
- Cardholder's purchases exceeded the \$5,000 monthly limit for the month of July 2019.
 - *Parks - 1 cardholder*
- Card holders made purchases for items that should have been purchased on County contract.
 - *Parks - 1 purchase*
 - *DOT - 1 purchase*

Oversight of the Purchase Card Activity

According to the Guide, card holders are to be held accountable for all transactions related to their card, including those transactions made with cards they have delegated to another individual. Consequences of misuse of the procurement card range from card cancellation to disciplinary proceedings. The Guide does not provide guidelines for monitoring the purchase card transaction activity nor does it address who has the responsibility of oversight for the purchase card transaction activity or enforcing disciplinary action when cards are misused.

The Comptroller's Office reviews purchase card transaction activity monthly and has been documenting instances of purchase activity that is not in accordance with the Guide. The report detailing instances of improper purchase activity is sent to the department card coordinators/financial officers for follow up. However, many of the reoccurring items remain unresolved. It appears no one is responsible for enforcing consequences for the misuse of their card.

Overall, there appears to be very little interaction or communication with respect to the Purchase Card Program activities between the Division of Purchase, Comptrollers' Office, and Management and Budget, the three County departments involved in the administration of the program. There also appears to be no follow through to address the misuse of the cards in accordance with the Guide or County work rules.

During the review of the monthly credit card reconciliations it was noted that a budget analyst in the Division of Management and Budget has the same administrative rights access to the issuing bank data as card administrators in the Division of Purchase. The budget analyst downloads the raw data for the County's transaction activity and reconciles it to the County's Master Card payment due each month. Once reconciled, the budget analyst sends the Onondaga County Purchase Card Statement excel report to the Comptroller's office. The budget analyst can edit individual accounts and run and create reports. Editing access includes increasing card holder single transaction limits and monthly maximum limits.

We recommend the appointed Purchase Card Program Administrator properly implement internal controls over employee rights and access to the Chase Data Smart Program. We recommend creating and maintaining a control log of all employee rights and access to the Chase Data Smart Program to ensure there is a separation of duties.

Issuance and Cancellation of Purchase Cards

Currently, County purchase cards are issued by the Division of Purchase. We interviewed the Director and Assistant Director of the Division. They stated the following:

- Both have the authority to authorize or delete card holders.

- They issue cards on the request of a County department head after they receive a completed MasterCard (department head) request form and signed cardholder Responsibility Form.
- They do not provide training for new card holders.
- Both have full electronic access to the issuing bank's database and can make changes to card holder's data (e.g., limits).
- They rely on the County departments to inform them when there are changes that affect cardholders (e.g., transfers to other departments, resignations, death, etc.).

We noted the following findings related to the issuance and cancellation of purchase cards:

We obtained a list of purchase card holders from the Division of Purchase on June 24, 2019, and an official purchase card holder list from the issuing bank as of August 5, 2019 for testing of purchase card issuance according to the 2011 Purchase Card Guide (the Guide).

- We noted the following:
 - The purchase card holder list provided by the issuing bank had 122 purchase card holders, while the list provided by the Division of Purchase had 120 purchase card holders. We identified the two card holders that made up the difference in the list and questioned the Division of Purchase as to why there was a difference. To date, we have not received a response.
 - Purchasing Division does not have, and the Guide does not address, a process for monitoring and removing employees that have been terminated or otherwise should not continue to have purchase cards. One card holder was listed as active on the Division of Purchase card holders list and the issuing bank purchase card holders list however the card holder passed away on March 6, 2019. The card remained active until October 4, 2019.
- We verified that the card number listed on each card agreed with the purchase card number list obtained from the issuing bank. For two card holders, the account number listed on the card list received from the issuing bank did not match the account number on the Division of Purchase list. It appears that the purchase card holder account numbers are not monitored, tracked, or verified on a regular basis.

- We requested the Division of Purchase provide us with documentation supporting the issuance of 22 purchase cards. They were unable to provide us with copies of the MasterCard (department head) request forms for nine purchase card holders and two of the purchase card holder signed Responsibility Forms.

During further review, it was determined the missing forms were issued prior to the 2018/2019 testing period and the documentation was not properly retained. Currently there is no retention policy in place.

Recommendations:

1. *The County Legislature should formally adopt legislation establishing the Purchase Card Program either as a replacement of the Petty Cash Program or as a supplement to it.*

2. *Clear written definition of the Purchase Card Program and its parameters should be established, including:*
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SECTION IV

MANAGEMENT RESPONSE

Purchase Card Program Audit

Management Response

Division of Purchase

Received 6/5/2020

We appreciate the time and effort your office put into the review of the County's Purchase Card program. We generally agree with the recommendations in the report to improve the current program. We have been aware of the need to refresh this program for some time now and previously started the process of updating it. We intend to use your review and its resulting recommendations to create a new small card purchasing program that is efficient, cost effective, and meets the needs of our departments.

While we may agree with the overall recommendations focused on revising the current program, we have concerns with some of the findings identified in the report. While interviews with staff charged with operating within the program may yield some general themes, the resulting information is subjective, narrowly focused, and shouldn't be relied on to reach conclusions regarding the effectiveness of the program.

The methodology used to review purchase card activity does not provide a context to enable us to determine the extent of the issues. The total population of purchase card transactions or dollar amount from which the sample was selected for review are not identified. The sample size and how it was determined are not identified either. Without knowing the total population, the sample size tested from that population, how the sample size was determined, and the specific number of instances of non-compliance, we are not in a position to identify if a challenge exists.

We have already begun the process for revising the program and intend to include many of the recommendations provided in the report.