Procurement Cards:

Training, Technology, Monitoring and Rebates

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A Report by the Internal Auditor

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Executive Summary

Key Findings

This audit on the use of procurement cards finds that Clackamas County has an opportunity to improve administrative efficiency by expanding technological capabilities and the use of procurement cards. By updating administrative procedures and current policies regarding the preference for procurement cards as a method of payment, as well as reducing some of the current restrictions on card use, the County can further reduce the number of checks written to experience cost savings and increase the opportunity for higher rebates. While some controls could be improved, most procurement card controls that are currently in place generally appear to be working appropriately.

We also found the County can better utilize data available for monitoring County spending and internal controls. Better use of that data may also assist finance department's procurement division in future efforts around strategic sourcing.

Our review encompassed over 92,500 transactions from December 2009 thru February 2016. We tested for transactions prohibited by County policy and others that may signal the existence of irregularities, risks and potential fraud. While we did not find anything to indicate fraud or misuse, testing performed did identify approximately $306,650 in questioned costs. We also had questions about a number of transactions and referred them to the finance department and/or the procurement cardholder's manager for additional review.

Key Recommendations

Our specific recommendations for management are included on page 18 of this report.

In summary, we made recommendations to:
- Take advantage of technology currently available;
- Update procurement card policies and procedures;
- Develop procurement card monitoring procedures; and
- Review procedures in place to obtain a higher rebate.

Response

County finance generally agreed with our recommendations. They are already implementing corrective action to address some of the improvements identified. Their full response is at the end of the report.

Background

In accordance with the Clackamas County 2016 internal audit plan, we conducted an audit of the County's procurement card program.

Clackamas County

The County introduced procurement cards in 1997 to streamline the purchase and approval process and reduce administrative costs. The County currently allows authorized employees to use procurement cards for one time purchases up to $2,500 and monthly purchases up to $7,500. The finance department's (finance) procurement division provides the overall issuance and monitoring of procurement cards, while finance's accounts payable work group reviews and processes the procurement card transactions. Ultimately individual County departments are responsible for monitoring their employees' card usage for appropriateness and compliance with procurement card policies and procedures. For fiscal year 2016 the County had just over 400 active cards. Like other counties in Oregon, in conjunction with the City of Portland, the County has linking authorization and currently uses the Bank of America procurement card program.

While procurement cards offer numerous benefits, they also carry risks. The County's procurement card policy identifies allowed and prohibited uses of procurement cards. Prohibited purchases include alcohol, cash advances or cash refunds, entertainment providers, gifts, and more. Personal use of the County procurement card is not allowed and cardholders must reimburse the County for unauthorized purchases. The procurement card policy also represents that the only person entitled to use the procurement card is the person whose name is imprinted on the face of the card.

Why have procurement cards?

A recent survey conducted by a national research corporation indicate some of the benefits related to a procurement card are as follows:

- Transaction cost savings

  Reducing average administrative cost of procuring and paying for a good or service by 77% (from $90 per transaction via the traditional purchase order-based process to $20 per transaction via procurement cards).

  Procurement cards can reduce the average administrative cost of procuring and paying for a good or service by 77%

- Transaction cycle time reduction

  Reducing average cycle time of processing a transaction (from need identification to receipt of goods) from 11.4 days in a traditional paper-based purchase order (PO) to 3.4 days using a procurement card (70% reduction).

- Increased convenience

  The traditional purchase order based method requires 2.3 approvals prior to a payment of $2,000 for goods while a procurement card-enabled process requires only 1.4 approvals (39% reduction).

- Simplification of process

- Rebates and incentives

  Cash rebates and incentives reward card-using organizations with significant spending and appear to motivate higher levels of transaction capture on the procurement card.

- Avoiding late fees and lost discounts

  By improving the control over when payment is made, procurement cards help the County to avoid late fees that might be assessed if payment is delayed due to the traverse of paperwork across the full accounts payable process. Eliminating the paperwork associated with low-dollar transactions improves the visibility of transactions and the ability of the organization to meet important discount deadlines.

- Reduced reliance on checks and lower production costs (more sustainable/green)

- Ability to obtain and monitor essential spend data

  Procurement cards can enhance the County's ability to (a) track and aggregate, on a global basis, spending with specific vendors, (b) track and aggregate spending conducted with vendors by multiple departments, and (c) monitor spending with vendors to ensure compliance with contractual terms. Bank of America may also be available to perform a free cost/benefit analysis related to procurement card transactions for the County.

Audit Results and Recommendations

Expand technology use

The finance department has been running a pilot program since January 2013 to try and capture efficiencies through the Bank of America, WORKS system. The pilot program's main objective is for the County to become more paperless as it relates to processing procurement card transactions. The program has not been fully developed and due to resource constraints, there has not been any recent progress on the pilot program. The few County departments who are taking part in this pilot program are required to process nearly the same hard copy documents as done by all departments as outlined in the procurement card policy, as well as information through WORKS.

Procurement card transaction approval was set-up by the finance department and delegated to individuals within the WORKS system as outlined by management within their respective department. The pilot program is currently not effective at reducing the workload of departments processing procurement card transactions.

We also identified instances where department manager approval was not documented. Department managers with delegated authority have approximately one month from the Bank of America statement date to approve the transactions online before they are swept by the finance department. After the transactions are swept, department managers do not have the opportunity to review and approve transactions. We identified instances where transactions were swept prior to department manager approval.

There is potential for significant time savings and added security for departments in taking advantage of current technological capabilities. Managers approving transactions in an electronic system would have their own unique login and password to help better ensure they were the personnel reviewing and approving the transactions. County procurement card administrators could use WORKS to review and approve individual transactions, allocate purchases to individual cost centers, and reconcile monthly statements. The WORKS system also includes reports on a variety of aspects of the procurement card program, such as the number of active cards or the specifics regarding each instance where a card is declined.

We recommend *management take advantage of available technology (through WORKS or another source) and develop a procurement card program that allows for online approval by the employee and department designee. This program should also allow for transaction level documentation (e.g. receipts) to be scanned and uploaded by employees.* Training for County personnel should be considered prior to implementing new processes related to procurement cards.

Procurement card polices should be updated

Personal reward programs

The procurement card policy[1] does not currently outline information related to personal reward programs. Reward programs or cards are promoted under many labels such as, but not limited to: loyalty card, rewards card, point's card, advantage card, frequent flyer card, club cards, customer rewards, cash back rewards, repeat rewards, etc. These programs identify the cardholder as a member in a loyalty program which is typically offered to individuals rather than businesses. All of these are incentive-based programs providing cash back incentives, discounts or some other tangible benefit to reward customers at a future date. Under Oregon Revised Statute 244.040, generally any transactions that are combined with a personal rewards program are prohibited, even if there is an immediate price discount advantage to the County. Unless the reward is part of the employee's compensation plan, or is tracked and returned to the County, a transaction of this nature could be an ethics violation. Currently, we are only aware that frequent flyer mileage and other travel incentives awarded to County elected officials and employees traveling on County business are considered an approved form of non-cash compensation.

We recommend *either:*

1. *A personal rewards program prohibition related to non-travel incentives be added to the procurement card policy to protect employees from fines, penalties and/or disciplinary action by the Oregon Government Ethics Commission; or,*

2. *The County approve a policy that authorizes the aforementioned rewards to employees while on County business as a part of the salary and benefits to which such employees are entitled as compensation. The rewards may then be retained by the employee for future County use or personal use.* If this option is chosen, in keeping with the spirit of Oregon public employee ethics statutes, information concerning employee abuse and reporting of this benefit should be included in the policy.

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[1] Department of Finance, Purchasing, Policy 3.15 – Procurement Cards

Approval

When preparing procurement card documentation there are various locations where approvals can occur:

Figure 1: Location on documentation where signature field is present

Location	Signature
(Purchasing) Card Transaction Summary	Cardholder
	Department approver
Bank of America, Purchasing Card, Cardholder Activity Statement	Cardholder
	Manager (Department approver)
Clackamas County Payment Voucher	Preparer
	Department approver
	Finance review
Journal Entry	Preparer
	Entered by
	Finance management approval

The procurement card policy currently requires the department head, elected official or their designee to provide an authorizing signature on the "(Purchasing) Card Transaction Summary". Testing performed identified instances where the Card Transaction Summary did not include a space for the Approver's (Department's) signature or where the Department's signature line was present, but not signed. In most cases the purchases were authorized via signature on the Clackamas County Payment Voucher.

Although not required by the County's current procurement card policy, there also exists a place on the Bank of America, Purchasing Card, Cardholder Activity Statement, where the cardholder and manager can sign. This field was also inconsistently used by County employees and their respective approvers when preparing procurement card documentation submitted to accounts payable.

Lastly, signature authority lists are updated yearly by finance's accounts payable staff. We confirmed with finance staff that until recently the person primarily responsible for processing procurement card statements did not have an updated signature authority list. While signature authority delegation likely does not change significantly from year to year, it is important that staff reviewing the approver's signature are using an up to date list. Testing performed also revealed a number of signatures that were illegible and/or it was difficult for us to determine if it matched the signature authority list.

Until the electronic process[2] is fully implemented, **we recommend** *the procurement card policy be updated to reflect where the card holder, department approver and finance's signature are required. For ease of review, **we also recommend** personnel sign and print their name on the procurement card documentation.*

Lost Receipts

All authorized purchases and credits require an itemized receipt to support the transaction and enable the proper recording of the transaction into the accounting records. Failure to obtain a receipt or losing a receipt should be a rare occurrence.

The current procurement card policy outlines what is required to be submitted for all procurement card transactions and provides an attachment for what should be submitted if a receipt is lost or missing. The policy does not outline the specific repercussions that will occur as a result of submitting a lost or missing receipt form in place of an itemized bonafide receipt.

We recommend *finance management include in the procurement card policy the repercussions that will occur when a person consistently submits a lost or missing receipt form. At a minimum, the policy should include information on when the cardholders' card will be suspended for frequent submission of the lost/missing receipt form or no receipts and how it can be reinstated.*

Clear due date instructions

The "client services procedures" section of the procurement card policy states, "each monthly procurement card transaction summary must be completed and forwarded to finance within two weeks of receiving the monthly statement."

Attachment E, the "purchasing card transaction summary", states, "submit log and voucher to finance within 10 working days of receipt of card statement."

The procurement card policy does not currently outline the procedures that will occur if the required procurement card documentation is not receipted timely.

We recommend *management update the procurement card policy to consistently indicate when documentation is due from County departments. To help relieve the administrative burden of tracking documentation not turned in timely, management should consider including policies on when cards will be suspended for not submitting supporting documentation timely to finance.*

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[2] Described on page 5 of this audit report.

Monitoring procedures should be implemented

Card inactivity should be monitored

The bank will automatically replace active cards prior to the card's expiration date. When a card is activated and not used, it will remain on the bank's system until it is due to expire. Cards that are active, but are not being used, can pose a risk to the County. We identified one organization that purged procurement cards from the bank's system after 12-22 months of inactivity, depending on the circumstance. Clackamas County does not currently have policies or procedures related to purging cards after a significant period of inactivity. We identified 15 active procurement cards that have not been used since at least calendar year 2014.

15 active procurement cards have not been used since at least calendar year 2014

We recommend *finance management establish a timeline of procurement card inactivity that will result in the procurement cardholder's manager being notified to determine if the card should be closed.* When developing this procedure, management should consider flagging individuals who may have a card, but it would be appropriate that they are inactive for an extended period of time (e.g. disaster management personnel).

Regular transaction monitoring should be performed by finance

Regular and systematic transaction monitoring is not currently occurring. The main purpose for these reviews are to ensure that correct information is being captured and that the procurement card program policies and procedures are being followed. Specific policies and procedures have not been developed related to this review.

Uncontrolled spending is unacceptable to any organization. Regular review can ensure compliance with the County's policies and procedures, help prevent or detect procurement card abuse, and identify potential duplicate payments. Best practice programs maintain sufficient control over procurement card spending without adding unnecessary procedural complexity that discourages the card option.

Further, data on staff purchases could also be a useful tool as the County pursues new purchasing strategies. By analyzing procurement card data, it is possible to identify categories of purchases that would be good candidates to pursue in volume discounts.

We recommend *management implement data mining monitoring procedures related to procurement card transactions.* High risk transactions or potentially high risk procurement card users can be identified by Merchant Category Code (MCC), vendor used, procurement card holders with declined transactions, etc. Supporting documentation can then be reviewed and/or management consulted related to any high risk transactions identified.

Procurement card transaction limits should be reviewed

Establishing spending limits is a mechanism to manage procurement cards and prevent misuse, while also limiting losses if a card is misplaced or stolen. Currently all but a few procurement card holders are restricted to a single transaction limit of $2,500 and monthly overall purchase limit of $7,500. Temporary exceptions to these limits can be made by approval of the cardholders approving manager and approval by the procurement director.

As part of our audit, we identified other organizations who have emergency response cards (ERCs). ERCs are those procurement cards with abnormally high limits intended for emergency purposes, typically not above $50,000. The department requests the credit limit as part of emergency preparedness planning. All other features of an ERC are the same as a regular procurement card. Each department must determine if a need exists to designate emergency response cardholders. Not all departments will have a need for an ERC, while some departments may have a need for more than one card. Organizations using ERCs believe they will help cut down on valuable time in the event of an emergency or help mitigate the risk of not being able to contact the personnel who can increase card limits in the event of an emergency.

Best practices:
* Encourage activity on procurement cards by providing employees with more generous per transaction and monthly spending limits. Increased use of electronic payment methods, such as procurement cards, generally reduces the number of checks written. This, in turn, may reduce administrative costs and improve controls.
* Recognize that targeting vendors, commodities and high-dollar transactions for procurement card payment is important to the success of the procurement card program.
* Indicate the wider "bandwidth" of allowable uses the procurement card has a clearly beneficial impact on the procurement card program performance.

We recommend *management review the current spending limits in place and consider customizing the spending limits based on the particular needs of each cardholding employee.* To ensure appropriate procurement procedures are followed (receiving 3 bids, referencing current contract in place, etc.), management should consider setting single transaction limits no higher than $5,000 for employees with non-federally reimbursable transactions or $3,500 for employees with federally reimbursable transactions. Emergency response should also be considered when setting procurement card limits.

Stored value vendor card (e.g. gift cards)

A stored value vendor card refers to a monetary value on a card that allows the purchase of goods or services from a specific vendor. Throughout testing we identified a number of transactions associated with stored value vendor cards purchased by County employees via their procurement card. For all intents and purposes, stored value vendor cards are considered cash that can typically only be used for one specific vendor.

Since stored value vendor cards are purchased at locations like Fred Meyer (i.e. Kroger), Home Depot, Walmart, and more; without pulling the supporting documentation associated with the transaction, it can be difficult to determine if the purchase is for a stored value vendor card or an actual good or service.

Although it is likely more departments are purchasing stored value vendor cards, card purchases identified via sampling and testing procedures performed generally fell into the following categories:

- Department of Employee Services (DES)
  Employee recognition program, commuter challenge winners, safety awards, etc.
- Water Environment Services (WES)
  Years of service and safety incentive program.
- Health, Housing and Human Services (H3S)
  Client services. For example, gas cards for homeless and at-risk clients, gift card for child care for at-risk client, gift card incentives for Head Start Family Focus groups, etc.
- Juvenile Department
  Starbucks gift cards for Kudos program. Minimum dollar amount (e.g. 20 cards for $5 apiece).
- Tourism & Cultural Affairs
  Gift cards for public tourism events.

Employer to employee gift cards

Internal Revenue Service (IRS) requirements indicate stored value vendor cards purchased as a gift (i.e. gift cards) from an employer to an employee are taxable, regardless of value. Testing performed over employer to employee gift cards indicates some departments were good at showing who the gift card went to and also having the e-mail to DES payroll in the supporting documentation. This supported that they intended the gift card to be included in the employees' regular pay as income. Other departments did not provide the same level of supporting documentation with their employer to employee gift cards.

> **Gift cards from an employer to an employee are taxable, regardless of value**

Client services

As it relates to client services, if the purchase is intended to be reimbursed with grant funds, the current procurement card policy states, "prepaid gift cards are not authorized unless, expressly permitted (in writing) by the grantor." Supporting documentation archived did not show expressed permission was given by the grantor. It is not clear if the personnel reviewing the purchase would have sufficient information to ensure that explicit consent was given by the grantor, as required by the policy.

Tracking

The current procurement card policy does not speak to or reference to how stored value vendor cards should be tracked. Without adequate controls in place intended to prevent, and detect unauthorized use of or theft of the stored value vendor cards, the County is exposed to errors or fraud going undetected and corrected in a timely manner.

We recommend *finance management develop broad policies outlining the documentation expected to be submitted related to stored value vendor card purchases and how departments should adequately safeguard and track stored value vendor cards.* The policy developed by finance management should include requirements that department management outline in their policies and procedures why stored value vendor card purchases are allowable and the department's process to secure and control the stored value vendor cards.

Testing Results

Results generally indicated adequate and sufficient supporting documentation was present and suggests that policies and controls currently in place are working. While most documents had a signature indicating procurement card transaction approval, many signatures were not legible, effectively circumventing the intended control, as it was not always possible to determine who actually approved the transaction.

Split purchase

County procurement policy currently limits procurement card single transaction purchases to $2,500. Cardholders are prohibited from splitting or fragmenting a purchase so that it falls under allowable limits for a procurement card. While establishing limits reduces exposure, best practice also suggests it is important to carefully monitor transactions to ensure that controls like these are not being subverted. Using data analytic software, we identified one purchase for a total amount of $5,117, where the purchase was split into three payments on the same day by the cardholder. Two payments were for $2,500 and the third payment was for $117. As previously discussed, certain procurement procedures may be required to be performed when a purchase is for $5,000 or above.

Unauthorized merchant category code (MCC) purchases

A merchant category code (MCC) is a four-digit number assigned to a business by credit card companies (e.g. MasterCard) when the business first starts accepting one of these cards as a form of payment. The code reflects the primary category in which the merchant does business. Additionally, the MCC is used to classify the business by the type of goods or services it provides. The County can prohibit the purchase of certain items via restricting the card from authorizing purchases to certain MCC codes.

Rather than preventing individual items from being purchased, blocking by MCC eliminates all purchases from merchants that identify themselves as being within a blocked category, such as pawn shops or cruise lines. Like credit and transaction limits, MCC blocks can be removed temporarily if necessary. Information from Bank of America indicates the County has appropriately taken advantage of this feature.

During our testing, we identified the following purchases that were made to MCC's that Bank of America indicated were restricted:

Figure 2: Purchases made under a restricted MCC code

MCC	Merchant Group	MCC Description	Total	Count
5542	Vehicle Expense	Automated Fuel Dispensers	$1,359	20
5960	Mail/Telephone	Direct Marketing - Insurance Services	$748	3
7392	Office Services	Consulting, Public Relations	$40,221	99
8911	Office Services	Architectural/Surveying Services	$7,775	14
8931	Office Services	Accounting/Bookkeeping Services	$6,512	22
9211	Business Expense	Court Costs, Including Alimony and Child Support - Courts of Law	$10,134	155
		Total	**$66,749**	**313**

Professional and membership & organizations services

The current procurement card policy prohibits purchasing "professional and membership and organizations services". Merchant category code (MCC) 8699 identifies transactions associated with "membership organizations". A total of $229,951 was spent on transactions classified as membership organizations from December 2009 thru February 2016. We scanned the 1,232 individual transactions that make up this amount and the vendor named generally supported that the transactions were for professional membership or organization service dues.

Restricted vendors

The current procurement card policy indicates transactions can be rejected by the merchant if presented to an excluded vendor. Clackamas County does not currently restrict transactions to any specific vendors.

Receipts

We identified eight transactions where receipt information could be improved.

- Five transactions where the receipt was not itemized to support the actual items purchased (e.g. just credit card receipt showing amount charged, not items purchased);
- One transaction where the e-mail quote was used in place of a receipt;
- One transaction where the rental contract associated with the events deposit could not be located; and
- One transaction where documentation could not be found.

Lack of manager approval

We identified five transactions where manager approval was not present on the supporting documentation. Three of these five transactions were the result of the department being on the pilot program and it appears the transactions were swept by finance prior to the manager approving the transaction online. Once swept, the transaction is effectively locked and the department manager can no longer approve the transactions online.

We recommend *training include information which provides examples of:*
- *What is appropriate and inappropriate supporting documentation?*
- *What can and can't be purchased with a procurement card?*
- *What it means to fragment or split a purchase?*

Monitoring procedures performed should also have an element of detailed transaction review to verify supporting documentation present is complete and accurate.

Additional rebate opportunities exist

In addition to purchasing inexpensive items more efficiently, the County can also receive an annual volume rebate related to procurement card use. The County earns the annual volume rebate if three criteria are met:

- Bank is paid total amount of the new balance shown as due on each billing statement on or before the payment due date; and
- County has not breached any obligation, covenant, representation or warranty contained in the bank card agreement; and
- Transaction volume is at least $500,000.

If these three conditions are met, the amount of the rebate is essentially based on the annual card volume (i.e. dollar amount spent) and the number of file turn days[3].

Figure 3: County rebates received by calendar year
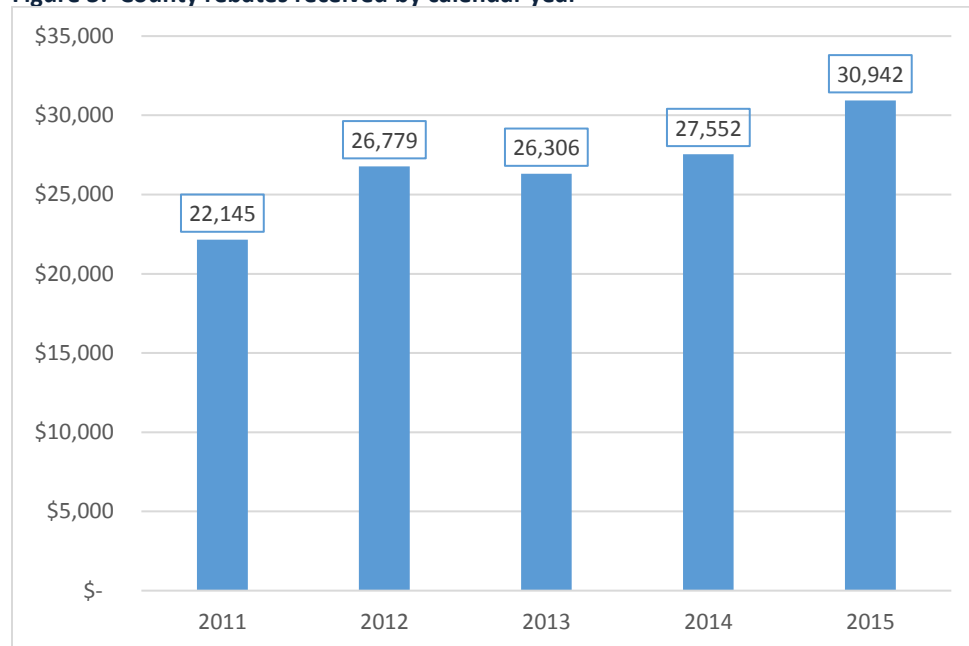
Information reviewed indicates the County generally receives their Bank of America bill on the last day of the month. The County then generally makes payment on that bill on the 21st - 24th day of the following month.

We found opportunities did exist to earn additional rebates. The two main ways to earn additional rebates are to increase procurement card spending[4] and reduce the number of file turn days.

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[3] File Turn Days: The average number of days between the transaction posting date and the payment posting date of the full amount due, averaged over the calculation period. For the calculation period, file turn days are calculated by dividing the average daily balance by the transaction volume multiplied by the number of days. The average daily balance is calculated by taking the ending daily balance for each day during the calculation period ,and then dividing by the number of days in that period.

[4] Potential ways to increase or promote procurement card spending are outlined throughout this report.

To assess whether procurement card rebates would be cost-effective, **we recommend** *management periodically compare the value of available rebates with the extent and nature of costs necessary to earn those rebates.* Making this comparison of costs and benefits on a recurring basis is important because of potential amendments to the procurement card contract, improvements in available technology, and changes in cost factors. Note, part 3 of the July 2016 OMB A-133 compliance supplement states, "Except as otherwise provided in the Federal awarding agency regulations or terms and conditions of the award, program income does not include… rebates…"

Training and communication: Take advantage of electronic learning

Training is an essential element of a successful procurement card program. New cardholders are required to attend an in-person training provided by finance's procurement division. On-going cardholders are required to attend an in-person training each time their card renews. The in-person training provides users with guidance on allowable expenditures, expenditures that are not allowed, the statement reconciliation process, proper card security, the steps to handle lost or stolen cards, and other relevant procurement card guidance.

Conversations with management throughout Clackamas County as well as review of other Counties in Oregon that offer procurement cards indicate Clackamas County could take advantage of e-learning (electronic learning) courses.

With over 400 County employees having a procurement card, e-learning would be more efficient and cost effective

Like most counties, many Clackamas County operations are decentralized. Employees attending in-person cardholder training are typically required to attend the training at the County's Public Service Building. Although the procurement division appears to do a good job at being flexible when scheduling training for employees issued a procurement card, with over 400 employees having a card, managers and employees throughout the County have indicated it would be more efficient and cost effective for the County to offer the training electronically.

One reason the County has not yet offered e-learning courses related to the procurement card is due to the belief that in-person training is more effective and offers employees a better opportunity to ask questions and receive clarification on procurement card policies and procedures.

E-learning training has progressed in recent years. The trainings can ensure the trainee is in attendance by requiring a unique login, scheduling regular check in points randomly throughout the training and having test questions periodically or at the end of the training to ensure learning objectives were achieved. Conversations with the County's Training and Development Manager also support that e-learning training helps ensure the message delivered is consistent and concise to each person. And e-learning training modules can be reviewed at any time by employees if they feel they need a refresher prior to their required training attendance.

We recommend *the procurement division work with the department of employee services (DES) to explore e-learning training options for new and on-going procurement cardholders.* Until the e-learning training option can be implemented, the procurement division should continue with in-person training. Training should also be performed and/or countywide e-mails should be distributed to ensure all departments are aware of any changes to the procurement card policies and procedures before they occur.

Recommendations in Summation

To improve County processes, we recommend finance management:

- Take advantage of available technology (through WORKS or another source) and develop a procurement card program that allows for online approval by the employee and department designee. This program should also allow for transaction level documentation (e.g. receipts) to be scanned and uploaded by employees.

- Add a personal rewards prohibition related to non-travel incentives to the current procurement card policy; or, the County approve a policy that authorizes the aforementioned rewards to employees while on County business as a part of the salary and benefits to which such employees are entitled as compensation.

- Update the procurement card policy to reflect where the card holder, department approver and finance's signature are required. For ease of review, we also recommend personnel sign and print their name on the procurement card documentation.

- Include in the procurement card policy the repercussions that will occur when a person consistently submits a lost or missing receipt form. At a minimum, the policy should include information on when the cardholders' card will be suspended for frequent submission of the lost/missing receipt form or no receipts and how it can be reinstated.

- Update the procurement card policy to consistently indicate when documentation is due from County departments. To help relieve the administrative burden of tracking documentation not turned in timely, management should consider including policies on when cards will be suspended for not submitting supporting documentation timely to finance.

- Establish a timeline of procurement card inactivity that will result in the procurement cardholder's manager being notified to determine if the card should be closed.

- Implement data mining monitoring procedures related to procurement card transactions.

- Review the current spending limits in place and consider customizing the spending limits based on the particular needs of each cardholding employee.

- Develop broad policies outlining the documentation expected to be submitted related to stored value vendor card purchases and how departments should adequately safeguard and track stored value vendor cards.

- Include information in the training which provides examples of what is appropriate and inappropriate supporting documentation; what can and can't be purchased with a procurement card; and what it means to fragment a purchase. Monitoring procedures performed should also have an element of detailed transaction review to verify supporting documentation present is complete and accurate.

- Periodically compare the value of available rebates with the extent and nature of costs necessary to earn those rebates.

- Work with the department of employee services (DES) to explore e-learning training options for new and on-going procurement cardholders.

Objectives, Scope and Methodology

Our audit objective was to evaluate the County's procurement card program. Clackamas County works with its card issuer, Bank of America, to operate the procurement card program. Bank of America manages the operational side of all procurement card transactions and provides real-time access to transaction data to a limited number of County employees in a system called WORKS.

We reviewed internal controls associated with procurement card use. These controls included those that are part of the card issuers system as well as the guidance and procedures for documentation and review of purchases made by County employees. We reviewed individual purchase decisions. Due to the broad range of purchases that would be appropriate for County programs under their governing polices and rules, we contacted County department managers if we were unsure if a purchase was appropriate. We also reviewed whether purchases had the required supporting documentation and approvals.

We conducted a series of tests of both the card issuer's system controls and the County's process and procedural controls. We used individual transaction data from December 2009 thru February 2016 as the basis for many of these tests. Detail control and substantive testing was performed over 133 individual transactions. Substantive procedures were also performed over an additional 220 items. We selected all transactions judgmentally using various data stratification techniques to identify transactions we would consider higher risk (e.g. transaction occurs on a holiday, transaction appears to be fragmented, Benford's law, etc.). In some cases we also used data from the County's PeopleSoft financial system.

To address our audit objectives, we interviewed County employees who manage the procurement card program. We also interviewed County employees in various departments who manage the procurement card program for their department.

We compared our operations to other government agencies with procurement card programs. We learned of additional procedures that could be implemented by the County.

We reviewed federal and state laws, administrative rules and best practices related to the procurement card program and our audit objectives. We also reviewed various finance policies and procedures.

An auditor from another organization, who was not involved with the audit, reviewed the report for accuracy, checking facts and conclusions against the supporting evidence. This auditor is a Certified Public Accountant and Certified Internal Auditor.

The courtesies and cooperation extended by officials and employees of Clackamas County during the course of this audit were commendable and sincerely appreciated.

Supplementary Information

Travel cards

In response to an inquiry from finance, we also examined the use of travel cards. The County does not currently have travel cards and we have no current recommendations related to travel cards.

Many procurement card-using organizations also have a travel card for employee use on business trips. A recent national procurement card survey indicates the percentage of procurement card-using organizations that report having separate travel card programs has decreased from 68% in 2007 to 51% in 2013. Likewise, the Government and Not-for-Profit sector reports a decline in the use of a separate travel card program from 53% in 2007 to 38% in 2013.

This means, most Government and Not-for-Profit organizations are currently using one procurement card for business and travel purposes, instead of one card for business and one card for travel (two cards). The predominant two reasons for one card use are for convenience for employees (who will not have to hold different cards for different purposes), and the administrative simplicity of having one data feed from the card issuer and one spend reporting structure for card transactions. However, using the same card for both categories does increase risk that the procurement card may be used inappropriately.

The County is in the midst of updating the travel policy to ensure it meets state, federal, IRS and County rules and regulations. Given the decrease in having a separate and distinct procurement and travel card for Government and Not-for-Profit entities and the administrative burden that would be added for managing another credit card, it is likely an appropriate decision to focus current resources on other procurement areas, such as fully implementing electronic procurement card banking and training.

Management can consult internal audit as they continue to update the travel policy. Becoming a part of the State's price agreement related to travel may be one mechanism to help reduce risk and save the County money.

How the County uses procurement cards

The use of procurement cards for high volume, small dollar purchases is a widely accepted best practice because it can be a source of greater organization efficiency and effectiveness. Payments using procurement cards have grown over time.

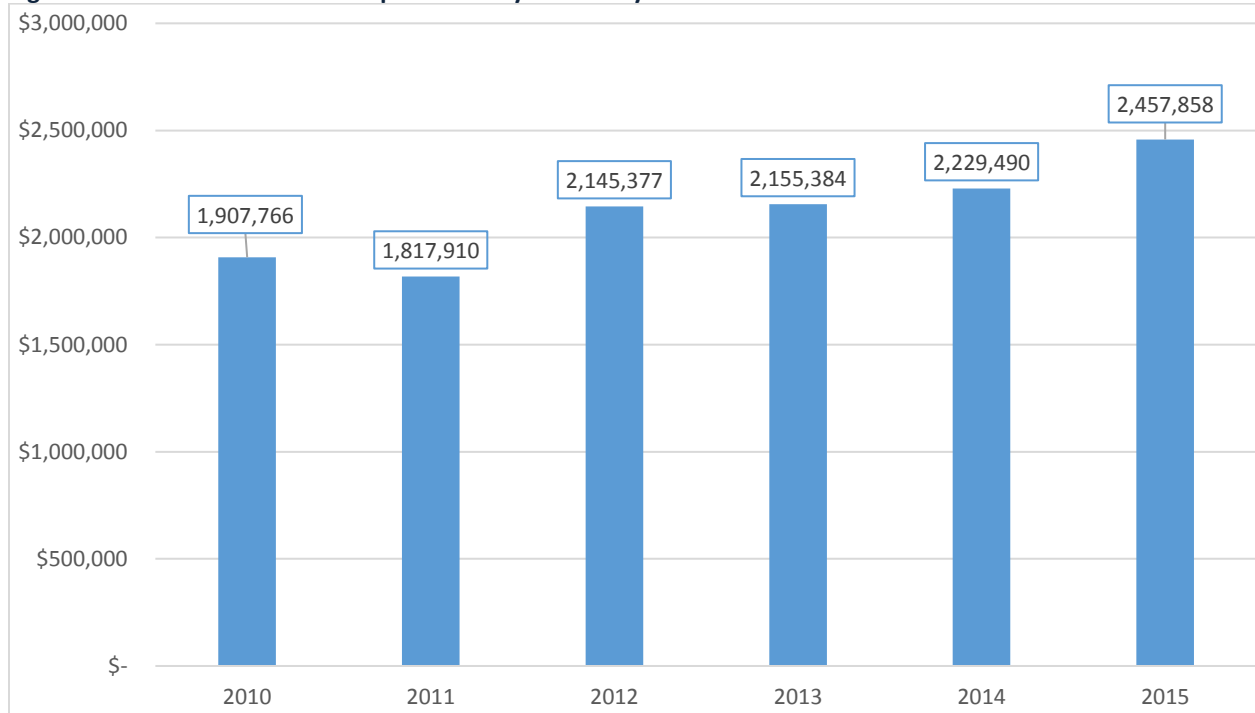**Figure 4: Procurement card total purchases by calendar year**

Year	Amount
2010	1,907,766
2011	1,817,910
2012	2,145,377
2013	2,155,384
2014	2,229,490
2015	2,457,858

Figure 5: Top 7 card purchases by merchant group from December 2009 – February 2016

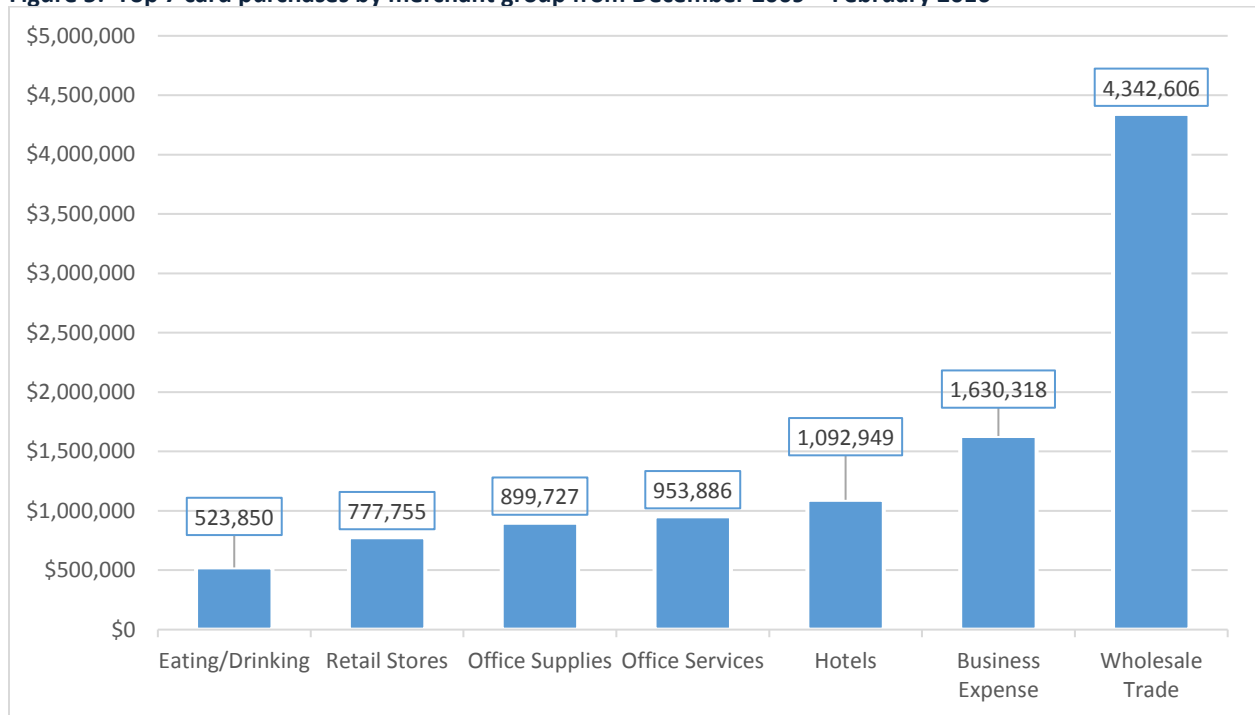| Merchant group	Amount
Eating/Drinking	523,850
Retail Stores	777,755
Office Supplies	899,727
Office Services	953,886
Hotels	1,092,949
Business Expense	1,630,318
Wholesale Trade	4,342,606

Figure 6: Highest volume procurement card purchases from December 2009 – February 2016

Vendor	Total Purchases
The Home Depot	$584,406
Fred Meyer	$463,741
Amazon	$443,854
Office Max & Office Depot	$210,729
Lowes	$144,501
Alaska Airlines	$139,884
Hilton	$112,042
Grainger	$100,491

Photos courtesy of Oregon's Mt Hood Territory and Clackamas County's Public and Government Affairs Department.

To: Brian Nava, Internal Auditor

From: Marc Gonzales, Director, Finance

Re: Management Response to September 2016 Procurement Card Internal Audit

Date: November 24, 2016

Finance Department Management has reviewed the September 2016 Procurement Card Internal Audit ("Audit") and agrees with all the program recommendations made in the Audit. Management has started implementation of several of the recommendations and plans to implement the remainder by no later than February 1, 2018.

Management has identified that it will be essential to use rebate proceeds and other sources of funds, until program revenue covers all associated expenses, to dedicate a full time employee to implement the recommendations and enhance the efficiency of the program. The enhancement of the procurement card program will lead to County-wide savings.

Thank you.