ULSTER COUNTY COMPTROLLER'S OFFICE

Kingston, New York

REVIEW OF THE ULSTER COUNTY PROCUREMENT CARD PROCEDURES

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Dear County Officials:

One of the County Comptroller's Office's top priorities is to identify areas where Ulster County departments and agencies can improve their operations and services in order to assist Ulster County officials in performing their functions. This includes the development and promotion of short-term and long-term strategies to achieve reduced costs, improved service delivery, and to account for and protect the County's assets.

The reports issued by this Office are an important component in accomplishing these objectives, and are expected to be a resource to identify current emerging fiscally related problems and provide recommendations for improvement.

Following is our report on the review of purchases made on Ulster County procurement cards for the year ended December 31, 2012. Procurement cards are a practical alternative to the use of purchase orders for high volume, low value purchases. The purpose of these cards are to minimize the paperwork required during the requisitioning, purchasing, and payment processes.

During the 2012 calendar year, 22 county procurement card-holders charged 357 transactions totaling $89,392. This report analyzes these purchases and determines if they were in compliance with Section I of the current Standard Operating Procedures.

Respectfully submitted,

Ulster County Comptroller

I. AUTHORITY

The Office of the County Comptroller conducted this report ("Report") in accordance with the Comptroller's authority as set forth in Article IX, Section 57, first paragraph, and Sections 57(A) and (G) of the Ulster County Charter, as well as applicable State laws, rules and regulations.

II. BACKGROUND

In May 2008, Ulster County implemented the use of procurement cards ("P-Cards") issued by JP Morgan. A procurement card is a credit card that can be used by County personnel to make small purchases up to a stated maximum. The primary benefits of P-Cards are user convenience, the elimination of some steps required by the traditional procurement processes, and a reduction in the internal paperwork needed to support a purchase. The P-Card is not intended to replace, but rather, to supplement, existing purchasing procedures. The Ulster County Purchasing Department ("Purchasing") acts as the P-Card Coordinator to administer the program.

P-Cards are being utilized by government agencies as a way to remove "red tape" from the normal purchasing procedures. The U.S. Government found that while purchases under $2,500 only comprised 2% of the overall spending, they accounted for 85% of all purchases. As administrative costs of such small purchases often exceed the actual dollars spent, the use of P-Cards has dramatically increased in recent years as an efficient and cost saving alternative.

The County currently has 32 employees assigned a P-Card, with credit limits ranging from $1,500 to $7,000. The breakdown of the cards issued by the Administrative Units of County government ("Units") and the total amounts charged during 2012 are detailed below in **Table #1**.

Table #1: Authorized Card-Holder's by Units and amounts charged for 2012

Unit Name	Authorized Card-Holders	Total Amount Charged
District Attorney	3	$18,593
Ulster County Area Transit	1	17,800
Personnel Department	1	17,531
Dept. of Social Services	6	10,636
Comptroller's Office	1	8,843
Veterans' Affairs	1	3,339
Probation Department	10	2,963
Purchasing Department	1	2,938
Health Department	1	2,788
Tourism	2	2,099
Office of the Aging	1	1,732
Information Services	2	130
County Executive	1	0
Fire Coordinator	1	0
Totals	**32**	**$89,392**

III. CRITERIA

Subsequent to the implementation of P-Cards, the County Executive established Section I-3, entitled *Procurement Card Use*, of the current Standard Operating Procedures ("SOP"), to facilitate the appropriate use of P-Cards and to establish internal control procedures. Also in April of 2012 (the same month as the issuance of the updated SOP) Purchasing issued its own *Procurement Manual*. For purposes of this Report we have focused generally on the SOP, as we have been advised by Purchasing that the *Procurement Manual* is being updated to comply with the current language of the SOP.

The SOP is developed, instituted, and distributed by the Executive's Office. The SOP endeavors to cover a massive range of County functions, and in our view, the Executive's Office has put in place a functional system of controls in this and other areas of the document's jurisdiction. It is not a static document as issued by the Executive's Office, but rather, in its own words, a "work-in-progress." Its use as a criterion is not meant to elevate it artificially to the level of law or regulation, nor its breach to the level of malfeasance, but rather to identify areas of potential development and improvement in County government as a whole.

Nevertheless, the document must be used as a criterion in performing our function, because on its face it is intended to prescribe how to perform required tasks and therefore, it provides a baseline for performance review in the areas addressed by it. The SOP states in its introductory language that "[Ulster County Employees] should be able to rely on [the SOP] to learn how to best interact with other departments and administrative units, in order to … comply with County Procedures."

Taking all this into account, the recommendations of this Report and others which touch upon the SOP, should be read as part of the process set forth by the SOP itself: as a model reflecting best practices which should, as completely as possible, conform to the expected and established practice in the workplace.

Other criteria include general best practice considerations in the industry with respect to procurement and purchasing procedures.

IV. OBJECTIVES , SCOPE, AND METHODOLOGY

Although P-Cards are beneficial to governments, their use also heightens the potential for fraud. A P-Card allows an individual the opportunity to order, pay for, and receive goods and services. If these programs are not monitored closely, the risk for abusive and improper transactions increases. Implementing strong internal controls and clearly defining procedures for the proper use of these cards can reduce the risk for fraud. Having custody of a P-Card is an extension of the public's trust and should be given only to employees who have gone through an approval process.

The objectives of this review were to ascertain whether (1) the internal controls of the County's P-Card system are reasonable and adequate to prevent misuse or abuse, and (2) whether P-Card transactions are in compliance with current applicable County procedures.

To determine if controls are reasonable and adequate, we reviewed procedures for employee training, monitoring and reviewing, receipt of goods and services, proper and timely accounting, and fraudulent and/or improper transactions. We also reviewed guidelines from the JP Morgan website and publications regarding the misuse of these cards.

In an effort to establish if P-Card purchases comply with current County procedures, we obtained a file provided by JP Morgan that contained the 357 charges to the County's account during calendar year 2012. From this data we selected a sample of 107 transactions totaling $23,628, or roughly 26% of the total charges.

V. FINDINGS AND RECOMMENDATIONS

Our findings indicate that while most card-holders and supervisors follow procedures, some transactions lacked adequate supporting documentation.

In general our findings demonstrate that the procedures instituted appear to be adequate, it is our opinion that the language of the SOP could be modified to more clearly outline the procedures for the users. Doing so would ultimately increase adherence to the SOP, strengthen internal controls, and reduce the risk of misuse.

1. Finding; Sales Tax on Invoices:

Ulster County is a tax-exempt entity which is not subject to pay sales tax on purchases. Section I-3.9 of the P-Card procedures states the card-holder should not complete a transaction if a vendor will not process it as tax-exempt.

Our review identified 25 instances in our sample of 107 transactions where the County was charged sales tax in connection with a P-Card purchase. Those transactions resulted in a total sales tax charge of $616 to the County. Although the sales tax from these transactions was eventually credited back to the card-holders account, the additional time and resources spent in obtaining the credits could have been avoided if the procedures were originally adhered to. We also found additional transactions where the County may have paid sales tax on transactions, but this could not be confirmed due to lack of detailed receipts.

Recommendation # 1: Employees who have failed to obtain appropriate documentation of the tax exempt status of their purchases, or who have in fact made non-tax-exempt purchases, should be made aware of this breach of procedure, and efforts should be made in general to reiterate to all card-holders the procedures which must be followed, with an

eye toward appropriate censure for future failures in accordance with their governing management policy or bargaining agreement.

2. Finding; Detail Receipts:

Good internal controls require that every charge have proper documentation which contains details of the items purchased and the reason for such purchase. Section I-3.11 of the P-Card procedures cites the requirement of receipts with every purchase and further obligates the card-holder to sign each receipt and provide a brief explanation for the charge. Furthermore, the SOP specifically calls for the customer's copy of the receipt as well as the *detailed* invoice/receipt. This detailed information is necessary as it identifies the type and number of items purchased along with the unit costs.

We identified 7 transactions where the card-holder(s) neglected to provide a detailed receipt as required. This lack of information makes it impossible to determine the quantity, per unit cost, or the detail of each transaction. We also note that 5 of those identified transactions, or 71%, were related to travel and entertainment, a category of expense which is renowned for potential abuse.

Furthermore, we reviewed each detailed receipt to determine if they included the card-holder signature and the reason for the transaction as required by the SOP. We confirmed 97 transactions, or 91%, were not signed by the card-holder. Additionally, none of the 107 transactions sampled contained a written description explaining the charge on the receipt.

Recommendation # 2: We recommend that the Executive's Office consider whether the SOP requirement of signatures and descriptions on individual receipts is necessary or if simply the card-holder's signature on the monthly statement is sufficient. From a claims audit perspective, our Office is satisfied with the signature on the monthly statement as most purchases were over the internet and were self-explanatory.

3. Finding; Required Documents not on File:

As part of the card-holder application process, according to Section I-3.1, Purchasing should have a "*Procurement Card Request Form*" ("Form I-02") on file for all card-holders. This form should be dated and signed by the employee, Department Head, and Program Administrator. Also on file for each card-holder is the "*Acknowledgment of Card Receipt and Card Holder Agreement*" ("Form I-03"), which is to be signed by the card-holder and the Program Administrator.

These forms are required as they substantiate the authorization and issuance of a P-Card to the card-holder, as well as detail the terms, conditions, and responsibilities of holding the card.

To ensure that Form I-03 and Form I-04 are indeed a part of the process we requested 7 of each. We are pleased to report our request returned all 7 Form I-03's. However, only 5 Form I-04's were returned, or 71%, from which we infer that these forms had not been completed, indicating that complete files are not being maintained.

Recommendation #3: We recommend that Purchasing review the forms submitted by the 32 card-holders to ascertain that all required forms are on file in one central location to strengthen all controls pertaining to this procedure.

4. Finding; County Executive Approval Process:

Section I-3.8 of the SOP states, "*any* purchase exceeding $1,000 must go through the County Executive approval process." Upon further discussion with the County Executive's Office, we were informed that the intent of the language "any purchase" was to indicate only "*equipment* purchases" and also should have referenced Section D-1.2c of the SOP (*Fiscal Equipment Purchase Requests*) which sets forth "[a]ll equipment purchases in excess of $1,000 are [to be] sent to the County Executive's Office for approval."

Table 2 below details departmental transactions which exceeded the $1,000 limit. It also breaks down the number of transactions and amount charged.

Table #2: Purchases over $1,000 by Unit and No. of Transactions

Unit Name	Total Transactions	Total Amounts Charged
Ulster County Area Transit	7	$ 7,430
Personnel Dept.	3	3,992
Dept. of Social Services	2	3,543
District Attorney	2	2,552
Comptroller's Office	1	1,395
Totals:	**15**	**$ 18,912**

We point out that the District Attorney's two charges above were for computer hardware. The D.A.'s equipment purchase did not go through the Executive's Office approval process, despite being equipment purchases over $1,000. Regardless of the reading of the SOP, this purchase violates its language. This stresses an area of concern which our Office has struggled with in past reports: it appears to be actual practice that "Offices" headed by an elected official sometimes utilize their independent judgment to equip their offices in accordance with their budget. This may be best practice, and may even be understood by the "Offices", Purchasing, and the Executive's Office, to be appropriate practice, falling outside the scope of the SOP. However, it should be reflected in the SOP if that is the case.

Our review on this area revealed three areas of concern:

(1) The policies and procedures of Ulster County must be evaluated and analyzed for conflicting language as to its applicability, which we have mentioned in past reports.

(2) The assumption and apparent past practice that "Offices" under the leadership of an elected official (ex. Sheriff's Office, District Attorney, Comptroller, and County Clerk) do not have to follow the SOP in at least some respect, is a matter which should be addressed clearly in the SOP and as a matter of procurement and purchasing protocol in general.

(3) Contrary to past practice, if the District Attorney's Office is required to adhere to the SOP, then the purchased pieces of equipment should have gone through the Executive's Office for approval. Furthermore, on the face of the SOP, this type of purchase should have gone through the normal procurement process in an effort to ensure the best price.

Recommendation #4: If it is the Executive's intent to limit the approval process to equipment purchases only, the SOP should be amended to clearly reflect this.

In past reports we have identified instances in which the policies and procedures have conflicting language, and in some instances do not mirror what happens in general practice. We have recommended that these policies and procedures are read and analyzed thoroughly to identify these shortcomings. As procedural requirements bearing upon the operation of the departments under its direction and control, the Executive's Office intent as to what is required is an appropriate factor in developing such procedures, and is under its purview.

Further, the SOP with respect to P-Cards does use language which could be read to include, under its controls and procedures, all administrative units of County government. As has been previously noted by our Office, this language leaves unclear whether the intent of the SOP was to govern independent offices to the same procedures. The County Executive's Office should clarify whether, and to what extent, the "Offices" led by elected officials are intended to be required to follow the established SOP, and it may be prudent to engage the County Attorney's Office to determine the extent to which such limitations may lawfully be imposed on independent offices. There are arguments for their exclusion, and if they are excluded, such should be clearly stated. If they are to be included, the SOP should clearly state this as well, and such a determination may be subject to some debate as to the efficacy or enforceability of such inclusion on certain points (as to which we take no position in this report). Even if "Offices" are to be exempt, our recommendation is that they should be required to develop, their own written policies which are subject to review, as well.

5. Finding; Conference Approvals after the Charge:

As stated by Section 5h of I-3, "[c]onference attendance forms must be completed and approved BEFORE booking and charging to the P-Card." To test compliance with this procedure we reviewed 19 conference transactions. We found one transaction did not contain a conference attendance approval and six transactions had the conference attendance approval form signed *after* the charge had been placed. This amount totals $1,792 of non-compliance.

Recommendation #5: No charge should be made to the P-Cards related to a conference until it has gone through the appropriate conference approval process, as detailed in the SOP.

6. Finding; Duplicate Procedures:

During the background review of the procurement procedures, as they specifically relate to P-Cards, it became apparent that there were two sets of procedures which both had an effective date of April 2012. They are as follows:

- The SOP issued by the Executives Office on April 5, 2012 and published on the County's intra-net. Section I-03 specifically deals with the P-Cards.
- The Procurement Manual issued by Purchasing also in April of 2012. The section specifically dealing with P-Cards are outlined in Section VIII.

We contacted Purchasing as to which of these procedures are to be followed in which they replied that the SOP is the "up to date" set of procedures. They also indicated that they are working on updating the Procurement Manual to reflect the language that exists in the SOP.

Recommendation #6: To eliminate confusion, duplication, and inefficiencies, we recommend that at any time the SOP is being amended and/or revised, there should be communication between the Executive staff and the head of the particular administrative units affected by the change, so that the SOP and any guiding document or actual practice within the administrative unit do not conflict.

7. Findings; Miscellaneous:

Too many cards?

Purchasing provided a listing of 32 County employees who currently have a P-Card assigned. Our review determined that 10 cards, or 31%, were not used during 2012 and had a combined credit limit of $18,000. The Executive should determine if these cards ought to be left open or if the credit limits could be decreased. Keeping these cards open

increases the risk for the potential to be lost and/or stolen and also heightens the susceptibility to fraud.

Rebates

Through our research of P-Cards, we found that many governments utilize the benefits offered by the credit companies. Many card companies offer attractive rebates based on purchasing volume. Large volume purchasing can earn significant amounts of rebates and rewards. Cost studies have shown that the typical cost to purchase a single item can be as much as $15. Obviously, in this time of cost cutting the use of these P-Cards should be investigated further, especially as they pertain to high volume, low cost items.

Recommendation #7: We recommend that Purchasing assess the savings related to P-Card use, including the amount of potentially eligible transactions which are not being charged to P-Cards.

VI. CONCLUSION

During our review we uncovered minor discrepancies but we are nonetheless pleased to confirm we found no evidence of fraud or abusive transactions.

We have made recommendations above which are summarized as follows:

- No transaction should include sales tax and the identified employees should be notified and made aware of their purchases to avoid further violation of this procedure.
- No transaction should be processed without a detailed receipt and the employees who did not submit these should be notified as well.
- All procedures of the SOP must be scrutinized for conflicting and vague language as well as unwritten references to other areas of the SOP.
- The County Attorney or outside counsel should opine on whether the "Offices" led by an elected official are to follow the established SOP, and if so, to what extent.
- No charge should be made on P-Cards for conferences until such conference is approved by the Executive's Office.
- There should be communication between the various Departments and "Offices" so that they are not simultaneously working on the same documents/procedures/manuals. This is not only inefficient but leads to further inconsistencies.
- The Purchasing Department should investigate whether a more aggressive use of procurement cards would yield a saving in processing claims and the rebate programs offered.
- The list of authorized and issued cards should be investigated to confirm the employees whom did not make purchases during 2012 still warrant a P-Card.

We wish to thank Purchasing and their staff for their help with the gathering of necessary items in order to complete this report. A draft copy of this report was provided to the following departments/offices: Purchasing, District Attorney, County Attorney, and Executive for review and comments. No comments were received.

Respectfully submitted,

Ulster County Comptroller