



**January 24, 2018**

**To:** Finance and Administration Committee  
**From:** Darrell Johnson, Chief Executive Officer  
Janet Sutter, Executive Director  
Internal Audit  
**Subject:** Purchasing Cards, Internal Audit Report No. 18-503



### ***Overview***

The Internal Audit Department has completed an audit of purchasing cards. Based on the audit, controls to ensure transactions are valid, authorized, and in compliance with policies and procedures are generally adequate; however, three recommendations were made to improve compliance with the policies and procedures.

### ***Recommendation***

Direct staff to implement three recommendations provided in Purchasing Cards, Internal Audit Report No. 18-503.

### ***Background***

A purchasing card administrator within the Contracts Administration and Materials Management Department is responsible for administration and oversight of the Orange County Transportation Authority (OCTA) Purchasing Card Program. OCTA purchasing cards are issued by Bank of America, and transactions are available for review and approval through an internet-based system known as WORKS. For the year ended June 30, 2017, a total of 4,192 transactions were processed, totaling \$855,000.

### ***Discussion***

The audit identified five purchases that exceeded the single transaction limit of \$2,500. To improve oversight, the Internal Audit Department (Internal Audit) recommended that the purchasing card administrator enhance monitoring controls by analyzing monthly transaction activity for any transactions that

exceed the stated threshold. Management agreed and indicated that enhanced procedures will be implemented.

Numerous instances were identified where purchasing cards were used to purchase food items and the accompanying receipt was not signed by an executive, as required by procedures. Internal Audit recommended that management implement controls to ensure compliance with procedures or consider revising procedures to exempt certain employees who purchase food items on a regular basis. Management agreed and plans to modify procedures.

Four of the twenty-four designated approving officials are not department managers or directors, as required by procedures. Internal Audit recommended management replace these approving officials or revise procedures to reflect intended practices. Management agreed and plans to modify procedures.

***Summary***

Internal Audit has completed an audit of purchasing cards and offered three recommendations for improvement.

***Attachment***

A. Purchasing Cards, Internal Audit Report No. 18-503

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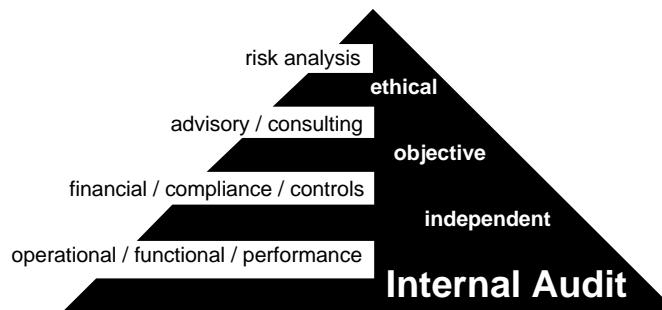
# ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



## Purchasing Cards

### Internal Audit Report No. 18-503

January 15, 2018



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## **Conclusion**

The Internal Audit Department (Internal Audit) has completed an audit of purchasing cards. Based on the audit, controls to ensure transactions are valid, authorized, and in compliance with policies and procedures are generally adequate; however, three recommendations were made to improve compliance with the policies and procedures.

## **Background**

The Contracts Administration and Materials Management Department (Camm) of the Finance and Administration Division is responsible for administration of the Orange County Transportation Authority (OCTA) Purchasing Card Program. The purpose of the Purchasing Card Program is to simplify the procurement process for small dollar purchases and to allow employees to purchase items directly from suppliers when necessary to meet business needs. Purchasing cards are also used to make business travel arrangements and to test taxicabs' ability to accept credit card payments as required by the Orange County Taxicab Administration Program. OCTA purchasing cards are issued by Bank of America and transactions are available for review and approval through an internet-based system known as WORKS.

As of the audit, a total of 64 purchasing cards are issued to OCTA employees. For the year ended June 30, 2017, a total of 4,192 transactions were processed totaling \$855,000. The Purchasing Card User Guide Policies and Procedures set a single transaction limit of \$2,500 and a monthly credit limit of \$5,000, or \$10,000 for designated travel coordinators. Purchasing cardholders are required to reconcile transactions to an online monthly statement and provide supporting documentation for review and approval by a designated approving official.

The Section Manager of Maintenance Procurement is the designated Purchasing Card Administrator and is responsible for maintenance and oversight of purchasing cards and related activity.

## **Objectives, Scope, and Methodology**

The objective was to assess the adequacy of controls to ensure transactions are valid, authorized, and in compliance with policies and procedures.

The methodology consisted of interview with the Purchasing Card Administrator and Accounts Payable staff, review of the Purchasing Card User Guide Policies and Procedures, testing of a random sample of purchasing card transactions, verification of the position titles for all approving officials, and data analysis and testing of purchasing card transactions for violation of transaction and/or monthly card limits. In addition, Internal Audit reviewed details of multiple transactions to one vendor to determine whether transactions represent violations of the procurement rules. For judgmental

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samples, conclusions are limited to the sample items tested since sampling is non-statistical.

The scope was limited to the purchasing card transactions for the fiscal years ending June 30, 2016 and June 30, 2017.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## **Audit Comments, Recommendations, and Management Responses**

### **Transaction Limits**

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Five purchases exceeded the single transaction limit of \$2,500. These violations were not detected during the sample monthly reviews conducted by the purchasing card administrator.

#### **Recommendation 1:**

The purchasing card administrator should enhance oversight procedures to include analysis of transaction activity exceeding \$2,500.

#### **Management Response:**

Management has reviewed the recommendation and agrees that the purchasing card administrator will enhance oversight procedures to include analysis of all cardholder's monthly transaction activity exceeding \$2,500. Currently, the purchasing card administrator pulls a minimum of three cardholder purchasing card statements monthly, at random, and reviews for compliance to ensure the OCTA Business Expenses Policy is being followed. This change will take place with the January purchasing card statements.

### **Authorization of Food Purchases**

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Internal Audit identified numerous instances where purchasing cards were used to purchase food items and the accompanying receipt was not signed by an executive as required by procedures. In some cases, staff attached a memo signed by an executive authorizing food purchases "up to" a stated dollar amount; however, the same memo was used multiple times, and the "up to" maximum was exceeded.

#### **Recommendation 2:**

Management should implement controls to ensure compliance with procedures or consider revising procedures to allow certain employees, who purchase food items on a regular basis, to do so without executive approval on each receipt.

#### **Management Response:**

Management has reviewed the recommendation and agrees to revise the Business Expenses Policy to include modifications to the current procedure. The modifications will be as follows: require executive approval on each receipt for food item purchases, except for food purchased by the Clerk of the Board for Board of Director and Board Committee

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meetings and new employee orientation conducted by Human Resources. Modifications to the Business Expenses Policy will be completed by March 31, 2018.

**Guidelines for Designated Approving Officials**

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Four of the twenty-four designated approving officials are not department managers or directors, as required by procedures.

**Recommendation 3:**

Internal Audit recommends management replace these approving officials with either a department manager or a director, or revise procedures to reflect intended practices.

**Management Response:**

Management has reviewed the recommendation and agrees to update the Purchasing Card User Guide Policies and Procedures to include section managers as approving officials. The Purchasing Card User Guide Policies and Procedures will be updated and posted on OCTA Today no later than January 31, 2018.