TO: Ken Burke
Clerk of the Circuit Court
Ex Officio County Auditor

FROM: Hector Collazo, Jr., Director
Audit Services, Division of Inspector General

SUBJECT: Follow-Up Audit to the Finance Department Processing of Purchasing Card Expenditures

DATE: September 23, 2010

I am enclosing a copy of the report dated September 23, 2010 on the above-referenced audit.

cc: Claretha N. Harris, Chief Deputy Director, Finance Division
Jim Bennett, County Attorney
Ernst & Young
Follow-Up Audit Of
Finance Department Processing of Purchasing Card Expenditures

Audit Services
Division of Inspector General

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Clerk of the Circuit Court
Ex Officio County Auditor

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REPORT NO. 2010-14

*Regulated by the State of Florida
**Accredited Office of Inspector General
By the Commission for Florida Law Enforcement Accreditation
September 23, 2010

The Honorable Ken Burke
Clerk of the Circuit Court

We have conducted a follow-up audit of the Finance Department Processing of Purchasing Card Expenditures. The objectives of our follow-up audit were to determine the implementation status of our previous recommendations.

Of the seven recommendations contained in the audit report, we determined that four have been implemented and three have not been implemented. The status of each recommendation is presented in this follow-up audit.

We appreciate the cooperation shown by the staff of the Finance Department during the course of this follow-up audit.

Respectfully Submitted,

Hector Collazo, Jr., Director
Audit Services, Division of Inspector General
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INTRODUCTION

Scope and Methodology

We conducted a follow-up audit of the Finance Department Processing Of Purchasing Card Expenditures Audit. The purpose of our follow-up audit is to determine the status of previous recommendations for improvement.

The purpose of the original audit was to determine the propriety and reasonableness of Purchase Card Expenditures and evaluate internal controls.

To determine the current status of our previous recommendations, we surveyed management to determine the actual actions taken to implement recommendations for improvement. We performed limited testing to verify the process of the recommendations for improvement.

Our follow-up audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing and the Principles and Standards for Offices of Inspector General, and, accordingly, included such tests of records and other auditing procedures, as we considered necessary in the circumstances. Our follow-up testing was performed during the month of July, 2010. The original audit period was October 1, 2005 through December 31, 2006. However, transactions and processes reviewed were not limited by the audit period.

Overall Conclusion

Of the seven recommendations in the report, we determined that four were implemented, and three were not implemented. We commend management for their implementation of some of our recommendations, and continue to encourage management to fully implement the remaining recommendations.
Background

The Pinellas County Purchasing Card Program allows the cardholder to purchase approved commodities and services directly from vendors. Each card is issued to a named individual and Pinellas County is clearly shown on the card as the Governmental buyer. The Purchase Card Program has been in place since 1998. For the audit period of October 1, 2005 through December 31, 2006, the total amount charged through the County Purchase Card was 38,000 transactions totaling approximately $9.8 million.

The purpose of the Purchase Card Program is to:

1. Provide an efficient method for small purchase payments.
2. Reduce Purchase Orders, Petty Cash and Request for Payments.
3. Ensure purchases are in accordance with the County's code, policies and procedures.
4. Ensure the Clerk bears no legal liability for inappropriate use.
5. Provide payment of authorized travel expenditures for designated employees.
6. Provide for disciplinary action if the Purchasing Cards are misused.

The performance of the program is monitored by the Purchasing and Finance Departments.
STATUS OF RECOMMENDATIONS

This section reports our follow-up on actions taken by management on the Recommendations for Improvement in our original audit of August 2, 2007. The recommendations contained herein are those of the original audit, followed by the current status of the recommendations.

1. The County Does Not Have A Written Policy On Washing Of County Vehicles.

There is no formal written policy for the purchase of County vehicle washing and the use of the Purchase Card for payment. Since there is no clear policy on vehicle washing and what should or should not be allowed, we could not determine whether the expense was proper or necessary, in accordance with County Policy. We estimated about $4,500 (157 transactions) was spent washing County vehicles from October 1, 2005 through December 31, 2006, making an average car wash purchase approximately $28.66. The $28 average does indicate more than a car wash service was obtained, but some transactions appeared to be purchases of car wash discount books, thus inflating the transaction average. For some transactions, we noted other services such as vacuuming, detailing and waxing were included. Overall, there seems to be inconsistency in the car wash area and the role of the pre-audit function for this type of expense.

Fleet Management informed us that it is the individual’s responsibility to keep the County vehicle clean. This verbal policy appears to apply only to vehicle washing, not extending to wax, detail and vacuum services. However, this is not formally stated as a policy. In addition, we learned that the County does provide the supplies for individuals to wash their vehicles. Fleet does provide vehicle washing by appointment Monday through Friday from 8 a.m. to 2 p.m. The service is free of charge to the County since they use inmates through the Sheriff’s Work Release Program. Fleet Management and the General Maintenance Department wash vehicles when the automobile is in the shop for servicing. The County had two contracts (All Ways Car Wash Inc. and Royal Palm Auto Spa LLC) for car washing, but both expired January 18, 2007. Purchasing stated that the discount received under the contract did not offset the travel time and mileage cost to use the service.

County Management stated that they do not believe there is a need to establish policies/procedures for vehicle washing due to the insignificance in annual expenditures in this area. But a lack of written procedures is an internal control weakness causing application inconsistency for County employees. Written policies/procedures will help cardholders and department representatives understand what is allowable and will help prevent misunderstandings and deter misuse. Without a concise and clear policy, it cannot be determined what is a proper/improper County expense regarding vehicle washing.

We Recommend Finance work with the Purchasing Department to develop written procedures/policies regarding vehicle washing and other services.
Status:

Not Implemented.

Finance has not worked with the Purchasing and Fleet Departments to develop these procedures/policies. Instead, Finance stated that they are waiting for those departments to develop them.


Neither the policy nor the Finance pre-audit procedure adequately ensure that airfare not purchased through the County Travel Agency is the most cost effective flight or that the flight meets other deviation criteria. The purchaser is not required to document in writing the justification for the deviation on the travel voucher and/or the Purchase Card log.

Our test sample found that 22 out of 35 airfares purchased with the Purchase Card, totaling $13,281.78, were not supported with documentation showing that the cardholder had performed due diligence to ensure the most economical airfare was obtained under the circumstances.

Section 18 of the Program Guidelines requires cardholders to be diligent and make the most economical purchase. It also states that cardholders must give the County Travel Agent a chance to meet or beat any other offer. The procedure does not require any documentation to evidence compliance with this procedure. This policy is a weak control; the guidance exists, but there is no true control in place to verify the cardholder followed procedure since documentation is not required. Documentation is especially needed if the low fare is not selected for other deviation criteria (i.e., time constraints). Finance's pre-audit function, in most cases, has no means to determine that the Guidelines are followed by cardholders.

Finance encourages cardholders to provide a note or supporting documentation, such as a quote from the County Travel Agency. However, it is not required within the Program Guidelines and, therefore, is often ignored by cardholders. Without a firm documentation requirement, cardholders may not be conscientious in finding the most economical flight. Consequently, Finance may be paying unsubstantiated airfare costs above what is needed for County business. Since the process does not require justification documentation, the "most economical airfare control" is not truly enforced.

We Recommend Finance work with the Purchasing Department to change the procedure(s) to require documentation from the cardholders to evidence their decision to purchase airfare with the Purchasing Card rather than through the County Travel Agency.
Status:

Implemented.

Our review determined that Finance issued a memo June 2, 2010 to purchasing card holders and coordinators to clarify the Travel Policy related to airfare documentation required when using purchasing cards for airfare.

3. Some Statement/Log Files Had Insufficient/Missing Documentation To Support The Propriety And Reasonableness Of The Expense.

Our review and testing of Purchase Card transactions found some transactions that lacked adequate documentation to support the expenditure(s) as a proper County expense. Although the number of documentation issues were limited, it does represent a breakdown in the areas of internal controls, procedures' issues and limitations in the Finance pre-audit process or process oversight. In addition, Finance's review of the Purchase Card items is usually a "post-audit review" since, by contract, the County pays the total monthly Purchase Card bill before the statements/logs are received and processed by Finance.

A. Two transactions had no supporting documentation attached to the statement/log.

- $2,150.00 — paid to Globe Advertising. There was no evidence that this item was caught and/or investigated by Finance in their pre-audit function.
- $4.22 — gas purchase transaction. There was an e-mail from Finance to the cardholder/approver asking for backup for three transactions for that period. There was no notation that the receipts were obtained. This amount could be considered immaterial for follow-up by Finance.

The missing documentation also represents a breakdown in the department review and approval process; the cardholder statement/log should not have been submitted to Finance without proper support for the expense.

B. Five transactions were not supported by a Travel form.

- $38.00 - gas purchase transactions for travel.
- $714.57 — airline ticket. The cardholder did record the purpose of the trip on the activity log.
- $917.60 — airline ticket. The cardholder did record the purpose of the trip on the activity log.
- $20.00 — charge for overweight luggage. The cardholder did record the purpose of the trip on the activity log.
- $381.78 — Rosen Plaza Hotel, Orlando. The cardholder did record the purpose of the trip on the activity log.
Status of Recommendations

Follow-Up Audit of the Finance Department Processing of Purchasing Card Expenditures

There was no notation that the missing travel form was found by the Finance pre-audit function or that the form was obtained. Without the approved travel form, there is no documented validation that the travel was approved for County purposes.

C. Two transactions on the cardholder statement/log were not on file in the Finance Department; documentation was not located when fieldwork ended.

- $10.99 – gas purchase transaction
- $ 32.50 – My Florida.com

We could not tell if the statement/log was received by Finance and then misfiled or not received at all.

To summarize the testing results above, our total test basis (universe) consisted of transactions on cardholder statements from October 1, 2005 through December 31, 2006. This entailed 38,000 transactions totaling approximately $9.8 million. Our testing of transactions was on a sample basis. The following test scope relates to the issues listed above:

- Testing of transactions over $2,000. The test sample consisted of 30 transactions of a universe of 113 transactions, with one item having an issue.
- Testing of gas purchase transactions. The test sample consisted of 34 transactions of a universe of 302 transactions, with three items having an issue.
- Testing of travel transactions. The test sample consisted of 37 transactions of a universe of 214 transactions, with three items having an issue.
- Testing of Merchant Category Codes (MCC). The test sample consisted of 25 transactions of a universe of 1,431 transactions, with two items having an issue.

Section 18 of Pinellas County Purchasing Card Program Guidelines requires cardholders to obtain the customer copy of the charge slip and an invoice or receipt specifically describing each item purchased. If, for some reason, the cardholder does not have documentation of the transaction to send with the statement, the cardholder must attach a description of the purchase. Continued incidents of missing documentation may result in the cancellation of the employee's Purchasing Card.

In addition to receipts/proof of purchase, the Guidelines require the following additional procedures when using the Purchase Card for travel related expenditures: 1) Travel Form A must be submitted to Finance as soon as the travel arrangements are anticipated. Conference brochures, itineraries, and/or other reference material must also be included to document the cost of travel expenses that will be paid in advance with the Purchasing Card. 2) Travel Form D must be completed, approved and forwarded with the Purchase Card statement and all required original receipts. Failure to provide reconciliation of travel receipts with the Purchase Card statement may result in loss of this privilege.

Based on the internal procedures, it is the Departmental Representative's (Card Holder Coordinator) responsibility to review all charges for appropriateness, proper authorization and
ensure all charges are confirmed with attached receipts or signed documentation. They are to ensure purchases were necessary and for official use.

Based on our testing results, limited cardholders are not providing proper supporting documentation to validate their purchase(s). The department's Card Holder Coordinator is not ensuring that the cardholder has supported all items properly as required by the policies and procedures. Finance's pre-audit process is structured to notify Purchasing on most documentation support issues and is not required to follow through to obtain missing or incomplete documentation to ensure such purchases are proper County expenses. In addition, directing documentation issues to the cardholder, not the department authorized approver, will not serve to improve the department review process. Both items are considered weak control.

After we notified Finance of the issues, and subsequent to the completion of our fieldwork, Finance Management resolved the documentation found in our testing and placed the missing documentation in the statement/log files for the transaction.

We Recommend Management:

A. Direct the follow-up process for documentation issues to the department Card Holder Coordinator with the coordinator obtaining the requested information from the cardholder.

Status:

Implemented

We determined that the follow-up process for documentation issues is directed to the purchasing card coordinators.

B. Further define the follow-up responsibility between Purchasing and Finance.

Status:

Implemented

Our review verified that Finance Department procedures do now require a summary of issues be sent to purchasing card coordinators, and we verified that these summaries are being utilized.

C. Set cost justification levels for follow-up on documentation issues for resolution by either Purchasing or Finance.

Status:

Not Implemented
Finance has not set cost justification levels for follow-up on documentation issues for resolution by either Purchasing or Finance.

4. Due Diligence Is Not Being Exercised By Some Cardholders In Not Paying Florida Sales Tax Or Requesting A Credit From The Merchant.

Cardholders are submitting purchases made with the Pinellas County Purchase Card that contain Florida Sales Tax charge(s). The Purchase Card states that the County is a tax exempt entity and, therefore, should not be charged Florida sales tax. If the merchant charges sales tax, the cardholder should obtain a credit to the Purchase Card. Likewise, the department Card Holder Coordinator of the statement/log should ensure the cardholder is actively pursuing the credit for the sales tax paid. The results of our review of the cardholders’ transactions found for the items tested for the sales tax amount was immaterial, but our testing was neither designed to identify sales tax paid nor project the materiality of the amount being paid by the County.

The Finance pre-audit process looks for and identifies paid sales tax on Purchase Card transactions. When this situation occurs, Finance tracks the transaction in their log and contacts the employee/department and requests the cardholder to contact the merchant for a refund. If the sales tax issue is persistent, Finance notifies the Purchasing Department of the problem. There is no further investigation or follow-up conducted by Finance to assure that the sales tax credit is obtained. Finance has concluded, for most transactions, there is no cost benefit for follow-up of the sales tax credit; generally, the amounts are minor. We see weaknesses in the process. The notice that sales tax was included in a cardholder’s transaction should be sent to the department Card Holder Coordinator for follow-up with the cardholder on obtaining the credit, not just the cardholder. In addition, there has been no dollar limitation for cost justification related to follow-up on the tax items.

According to Section 18.13 of the Program Guidelines, purchases made:

a) In Florida and for use in Florida are exempt from Florida Sales and Use taxes. The County’s tax-exempt identification number is printed on the face of the Purchasing Card and should be sufficient information for the merchant to honor the tax-exempt status of the card.

b) Purchases made in other states are generally subject to that state’s sales tax. Examples include supplies purchased while traveling or for use in that state.

c) As with all County purchases, the cardholder must be diligent when dealing with merchants regarding taxes. The cardholder will be unable to dispute taxes charged since the Purchasing Card Issuing Institution cannot process a charge back to the merchant for taxes.
Status of Recommendations

Follow-Up Audit of the Finance Department Processing of Purchasing Card Expenditures

Cardholders may not be exercising diligence in dealing with merchants regarding taxes. In addition, the County does not have a policy for dealing with merchants that will not accept our tax exempt status. While we noted that tax is, in most cases, immaterial, it is still considered an unnecessary County expense.

We Recommend Management:

A. Change the procedure to place the responsibility of collecting the sales tax refund on the department Card Holder Coordinator; that is the main internal control point for the review and approval process for the Purchase Card.

Status:

Implemented

Our review determined that Finance notifies the purchasing card coordinators when sales tax has been charged and a credit has not been obtained.

B. Also, consider the feasibility of setting a dollar amount in which the follow-up to receive a credit will be carried through to resolve; investigate a limit which will be cost beneficial to the County.

Status:

Not Implemented

Management considered setting cost justification levels, but decided that it was more appropriate to handle issues on a case-by-case basis keeping in mind the instance of reoccurrence by an individual.
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