



Johnson County Auditor
Johnson County, Kansas
PERFORMANCE AUDIT

May 18, 2006

Accounts Payable Vendor Payment Review

The Division needs to improve management and oversight of programs



Johnson County Audit Services

May 18, 2006

To: The Johnson County Board of County Commissioners
Michael Press, County Manager
Tom Franzen, Director, Office of Financial Management

The audit objective was to determine if the Accounts Payable Division, Office of Financial Management (OFM) is managing the approved vendor listing effectively and efficiently and if vendors in the Aspire system are valid. The audit included these objectives:

- Analysis of the Active Supplier Listing
- Review of the management of the Purchasing Card (P-Card) program
- Review of the use of resources
- Review of the adequacy of management and internal controls in reducing the risk of fraud and liability to the County

We concluded improvements were needed in these areas:

- Management of the active vendor listing records
- Management and oversight of the P-Card program
- County policy for purchasing food and meals

The audit was conducted according to applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, except that Peer Review has not been performed, and included such tests of the procedures and records as considered appropriate.

I appreciate the cooperation received from the OFM Director and his staff during this audit.

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County Auditor

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RESULTS AND RECOMMENDATIONS

1. Improvements Are Needed in Managing the Vendor Listing

The active vendor listing contains duplications and invalid vendors. The Vendor Master¹ procedures do not detect all vendor duplications and the Vendor Master is not adequately supervised. External vendor records are entered through computer interfaces that do not properly detect existing records in the system, which creates duplicate vendor entries. Accounts Payable (AP) division personnel left vendor records active for a Payment Group² that has not been used since 2004. Thousands of invalid and duplicate records are now retained in the active vendor listing and continue to build each time external vendor records are entered in the system. The current situation can cause the ASPIRE system to slow down and cause errors in the entry of AP transactions.

Recommendations

We recommend the Director, OFM:

- 1.1 Review the vendor list and, to the extent possible, eliminate all duplications. This review should occur on a regular basis to ensure optimum performance of the ASPIRE system (*See discussion, page 4*)
- 1.2 Require the computer interfaces to be analyzed and modified to provide the best possible balance between automated transaction processing and effective use of the ASPIRE system for processing vendor payments. At a minimum, the interfaces should recognize valid vendors and handle them appropriately. (*See discussion, page 4*)
- 1.3 Provide periodic supervisory reviews of the Vendor Master's performance to ensure that policies and procedures are consistently followed. (*See discussion, page 4*)
- 1.4 Work with the ASPIRE team to inactivate all vendors in the inactive Payment Groups. (*See discussion, page 5*)

Management Comments

- 1.1 *OFM staff will continue to review for duplication of vendors and take steps to end-date or merge the duplicated records. Implementation: immediately.*

It should be noted that even if vendors are end-dated, they will continue to be in the database. The Aspire team will need to research and purchase an archiving software tool and work with OFM to develop a strategy to determine when and

¹ The Vendor Master is the person assigned to manage and maintain the vendors in the ASPIRE system.

² A "Payment Group" is an indicator used in the ASPIRE system to classify vendors into payment cycles. Each Payment Group has a defined payment cycle. A vendor can be assigned to more than one Payment Group.

what vendors are removed from the production server to a cold-storage medium. Significant time will be needed to research, acquire, and implement such a tool and to determine how archived data could be retrieved when needed.

- 1.2 OFM staff will continue to work with the Aspire team to make modifications to the interfaces as time permits. Some of the original interfaces developed during the implementation of the ASPIRE system had “bugs” in the code. All of these interfaces have subsequently been modified to reduce the possibility of duplicate entries. The ASPIRE team and OFM staff are aware that we still have a few issues. Additional resources will be needed in OFM and Aspire to code and test these interfaces appropriately. Implementation: FY2007.*
- 1.3 OFM believes that appropriate measures, including periodic supervisory reviews, are being performed to ensure that policies and procedures are followed by the Vendor Master. We will continue the existing efforts and place even more emphasis on them.*
- 1.4 OFM agrees that the old motor vehicle vendor records (TVIS) should have been end-dated. The TVIS interface was discontinued in September of 2004 and no TVIS payment group checks were issued after the discontinuation. Manual entry by OFM staff would be necessary to allow a refund to be issued from this payment group. Once the vendors are end-dated, the records will continue to populate the Oracle database, but not be active.*

As mentioned in bullet 1.1, an archiving software tool needs to be purchased and a strategy developed to determine when and what vendors are removed from the production server to a cold-storage medium.

Discussion

ASPIRE was implemented in December 2002. At that time, an employee responsible for managing the ASPIRE vendor list was designated the Vendor Master. Vendor naming conventions were established to ensure the format for vendor records entries remained uniform to achieve efficient use of system software.

The AP division is responsible for maintaining the County’s approved vendor listing. An approved vendor is an active vendor in the ASPIRE system with a vendor number and no end date in the “active end date” field of the record.

The Vendor Master is responsible for ensuring that:

- There is one, and only one, vendor record for each vendor in the ASPIRE system;
- Each vendor record follows the adopted naming conventions; and,
- Periodic reviews are completed to avoid duplications.

Anyone who receives a payment from Johnson County must be a vendor in the ASPIRE system. Vendors are entered into the system by two methods – manual entry and automatic interfaces. Duplication of vendors will, over time, slow the ASPIRE system and also lead to errors in identifying the appropriate vendor for a particular payment.

Duplications can occur in a variety of ways. The two most prevalent are manual entry variations and vendors created by automated interfaces.

- 1) The ASPIRE system views any difference in spelling of name or address as an indication of a different vendor. For example, J Smith and J. Smith would generate two vendors with unique vendor numbers.

Similarly, a variation in the vendor's address will also generate another vendor: 10 1st Street, 10 First St, and 10 1st St., even if the name remained constant, would generate different vendors.

This system behavior was anticipated during the implementation of Oracle. To avoid duplication, the implementation team established a Naming Convention and the position of Vendor Master. The Naming Convention provides complete rules for entering names and addresses including abbreviations, punctuation, and order of entry (first name, last name, etc.). The Vendor Master was assigned the task of being the single, manual entry point for vendors and the responsibility to manage the vendor list.

The system also allows the user to set a flag, or indicator, for each vendor to group payments for scheduling. This flag is called the Payment Group. Each vendor has a default Payment Group but the default may be overridden for particular transactions. For example, one of the Payment Groups is Employee Payment. This group is used for employee reimbursements. Another Payment Group is Standard which is for general Accounts Payable vendors. The ASPIRE system creates a new vendor if the default Payment Group is different even if all the other characteristics are exactly the same.

The Vendor Master needs to monitor the Vendor List to ensure that duplications do not occur where the only difference is the default Payment Group, unless there is a valid reason for the duplication,³ or a deviation from the prescribed Naming Convention. This has not been done.

- 2) The ASPIRE system is also set up to receive automatic transfers of information from other sources where the County is required to make payments. An example of this is motor vehicle refunds. These payments are made by the County for refunds of license and title fees on motor vehicles. The payment information is provided by the State of Kansas electronically and entered through an interface to the ASPIRE system for payment. This system is designed to generate a vendor when there is no matching vendor in the ASPIRE system. The vendor, when set up by the interface, has a default Payment Group of MVM.

³ An example of a valid reason would be to differentiate between taxable and non-taxable payments where the system is not able to make the distinction based on other information.

Vendor list contains duplicate entries

There are duplications in the vendor list from both sources. Of the 69,289 active vendors in the ASPIRE system, we identified 3,291 vendors that had been duplicated between 2 and 127 times. Because of the duplication, these 3,291 vendors had 7,394 entries in the vendor list. As a result, 4,103 vendor entries, (5.9%) of the active vendors are unnecessary duplicates.

We focused our audit review on duplications caused by the automatic interfaces because they were more prevalent and easier to locate. The interface system is not working as intended. The computer interfaces that enter external vendor records into the ASPIRE system create a transaction record including a vendor with a default Payment Group. When these transactions are posted to ASPIRE there is no process to identify existing vendors and compare them to the transactions being posted. The ASPIRE system cannot create an exact duplicate of a vendor record and automatically modifies the vendor record so that it does not duplicate an existing vendor. ASPIRE does this by appending a period to the vendor name – J Doe, J Doe., J Doe., etc. This led to instances of vendor names with extended strings of periods after them. In one case, the vendor name had 81 periods after it. The duplicate records in the interface Payment Groups continue to build up each time the interface is run and there are no manual or automated inspections of the vendor records that are entered through the interfaces to detect any duplicates created in this way.

This creates an additional problem in determining whether a potential new vendor is in the vendor list or not. A key word search through ASPIRE will turn up a long list of similar names with no way to differentiate between them.

We did not determine the exact number of manual entry duplications. These duplicate entries are caused by departures from established naming conventions and duplicating vendors in more than one Payment Group. We observed these types of duplication but determining the number of instances requires a case by case analysis of the remaining 61,895 active vendor entries. Manual entry duplications are not easily recognized by the automated processes. For example, if John Doe is entered as Doe John one time and John Doe another time (order of entry naming convention), software will not be able to find this duplication.

The Vendor Master is responsible for regularly reviewing the vendors in the system and inactivating any that are no longer needed or consolidating those that are duplicated and still needed. This has not been done.

OFM procedures require the Vendor Master to run an ASPIRE report on a quarterly basis to detect duplicate vendors in the vendor list. The Vendor Master is then supposed to merge duplicate vendors. The Vendor Master only reviews the Standard Payment Group. Duplicates in other Payment Groups and instances of the same vendor appearing in more than one Payment Group are not detected. The Vendor Master does not have any supervisory review to ensure that she is following procedures and naming conventions.

The Vendor Master's review is incomplete

The duplications in the vendor listing effect the ASPIRE user productivity and accuracy. According to the ASPIRE team,

Storing the same piece of information more than once violates the basic design of a relational data base and may cause problems in other modules and reports because of the integration of the various application modules. If we have Vendors listed in the system multi times (without reason), it will delay the query time to bring back results from that form, use additional memory, and provide confusion to the user as to which one is the correct one to use. Likewise, building intelligence into data, (for example adding a letter, a dot or other symbol or word to a piece of data) that is meaningful only to a user can defeat the intended functionality of the system and make standard reports inefficient and even useless. Determining a cost associated with the run time of the query and table space would be minimal now, and grow as the problem grows. The main cost would be in lost productivity (staff), as they wait for a query to run, or attempt to determine which vendor should be used.

The design and function of the interfaces needs to be changed to ensure that duplicate vendors are not automatically created.

Active vendor records remain in the vendor listing for an inactive Payment Group

We found 28,352 of the 69,289 (40.9%) active vendors in the vendor list are in a Payment Group which is no longer used. The state changed its motor vehicle payment software in 2004 and the County changed the Payment Group for these payments to MVM from TVIS. The TVIS Payment Group is obsolete but still has a large number of active vendors with the TVIS default Payment Group. Instead of inactivating those vendors or merging the vendor records with active vendors in valid Payment Groups, many of the vendor records were left active. As a result, 40.9 percent of the active vendors in the vendor list are not used for transactions. These active, but obsolete, vendors also appear in any search for vendors.

2. The P-Card Program Needs Better Management and Oversight

OFM needs to improve and enforce the P-Card program's Administrative Guidelines.

- P-Card holders are splitting purchases into two or more transactions to circumvent purchasing limits.
- Subordinates were approving County Department Director's purchases.
- P-Card accounts were not closed quickly after an employee terminated.

OFM audits of County Departments did not include reviews of departmental practices and Administrative Guidelines were not complete. This led to increased risk of inappropriate transactions occurring without detection. The risk is exacerbated by the rapid-fire nature of the purchase/payment cycle inherent in the P-Card system.

Recommendations

We recommend the Director, OFM:

- 2.1 Ensure all card holders are receiving sufficient P-Card Administrative Guidelines training to be fully aware of all policy and procedures related to the use of the P-Card. *(See discussion, page 8)*
- 2.2 When performing P-Card Audits, ensure the County Departments' transactions are reviewed for purchases made to the same vendor during the same time frame (within 48 hours) and examine such purchases to determine if they are split transactions. Include this audit step in the Audit Guide. *(See discussion, page 9)*
- 2.3 Ensure the CMO, Commission, or the department's governing board chairman is reviewing and approving supporting documentation for a Department Director's P-Card purchases after the purchases are made. *(See discussion, page 9)*
- 2.4 Include a sufficient definition of an "approving official" as someone who is in a supervisory role to the cardholder in the P-Card Administrative Guidelines and ensure instructions for approval of Department Directors' purchases are included. *(See discussion, page 9)*
- 2.5 Require Department P-Card coordinators to contact the County Program Purchasing Administrator, (CPPA) immediately upon termination or suspension of employees with P-Card accounts and ensure the department is held liable for any charges made on the account after termination until the account is closed. Include Audit Steps in the Audit Guide to ensure departments are following these guidelines. *(See discussion, page 10)*
- 2.6 Update the P-Card Administrative Guidelines to ensure adequate instructions are given to the P-Card coordinators in the event of an employee termination. *(See discussion, page 10)*

Management Comments

- 2.1 *OFM staff believes that training has been adequate and that users have been fully aware of policy and procedures. OFM continues to offer training on P-cards on a monthly basis. These classes are listed on OFM's website. The P-Card Administrative Guidelines state that the Office Program Coordinators, after receiving training from OFM, are to then train their cardholders. As the Guidelines are updated, OFM sends e-mail notices to the Office Program Coordinators providing a summary of the changes. Since, all County cards expire every two years, Office Program Coordinators are trained a minimum of every two years. Before a department can receive their new cards, the Office Program Coordinators are trained on the latest changes to the Administrative Guidelines, as well as given an overview of all of the Guidelines. The Office Program Coordinators are then responsible for making sure that cardholders are adequately trained and supplied with the latest information. The Office Program Coordinators are also informed that the complete Guidelines are on OFM's website for all to review. In order to make this information more easily accessible, OFM will place a link to the Guidelines document in a more prominent location on the OFM home page.*
- 2.2 *The County Program Purchasing Administrator (CPPA) will continue to receive a weekly report from Accounts Payable listing potential split purchase violations. The CPPA will analyze the report to determine probable split purchase violations. Violation notices explaining the infraction and possible disciplinary action will be emailed to the cardholder with copies to the Office Program Coordinator and department director.*
- The CPPA has begun to maintain a log detailing each split purchase violation including all information pertaining to the violation. The CPPA will begin to perform regular periodic audits to identify repeat offenders so that appropriate disciplinary action may be initiated. Completed.*
- 2.3 *OFM has updated the Administrative Guidelines as of April 4, 2006 to address this issue. This will also be a part of the audit procedures. Completed.*
- 2.4 *OFM has updated the Administrative Guidelines as of April 4, 2006 to address this issue. This will also be a part of the audit procedures. Completed.*
- 2.5 *OFM has updated the Administrative Guidelines as of April 4, 2006 to address this issue. This will also be a part of the audit procedures. The Office Program Coordinators are now required to notify OFM prior to the last day of employment so that the card can be inactivated. Completed.*
- 2.6 *OFM has updated the Administrative Guidelines as of April 4, 2006 to address this issue. This will also be a part of the audit procedures. Training for this new procedure was also provided to all Office Program Coordinators in April. Completed.*

Discussion

The Purchasing Card Program

Since 1997, Johnson County, Kansas Government has contracted with a sponsoring bank for a purchasing card program under the authority of OFM. The goal of this program is to reduce the processing cost of buying goods and services.

The P-Card program started with just a few cards for each of six pilot departments. Ten additional departments were phased in after the 3-month pilot program,. Initially, the departments were disinclined to use the P-Card for the majority of the small dollar purchases. OFM's goal is to have 80 percent of the county's small dollar transactions made with the P-Card.

In late 2004, OFM made changes that increased the use of the P-Card by departments for small dollar purchases. In August 2004, new P-Card software was implemented to automate the process of reconciling and approving purchases. In December 2004, purchasing policies and procedures were changed to increase dollar limits for small purchases and corresponding authority for using P-cards from \$2,000 to \$10,000. OFM changed the Administrative Guidelines to reflect the automated procedures and in April 2005 adjusted the purchasing limit levels to reflect the new purchasing policies.

In 2004, 50 percent of the county purchases were made with P-Cards. In 2005, P-Card use increased to 62 percent of the county's purchases. From December 1, 2004, through November 30, 2005, there were 32,786 purchase transactions totaling \$6,361,728 using the P-Card

OFM established guidelines for maintaining the related supporting documents at the department level and providing for audits of the supporting documents and procedural compliance by OFM. The AP Division is responsible for auditing the departments annually for compliance with the P-Card Administrative Guidelines and managing the payables to the sponsoring bank. AP accomplishes its enforcement responsibilities through an internal audit program that examines each department's P-Card activity on an annual basis. The Purchasing Division is responsible for establishing accounts, analyzing the use of the P-Card program, and enforcing compliance related to purchasing procedures.

We reviewed the P-Card audits accomplished by the AP Division personnel, analyzed over 15 months of the County's P-Card transactions and reviewed supporting documentation for 79 transactions.

Cardholders are circumventing single purchase limits

Twelve of 79 transactions we reviewed were split transactions. Cardholders split 5 purchases into 12 separate transactions to avoid exceeding their single purchase limitations. According to the P-Card Administrative Guidelines, "the total of a single purchase may be comprised of multiple items, but cannot exceed the assigned single purchasing limitation. Single purchases may not be split between two or more transactions to circumvent the limits."

The administrative guidelines included instructions for emergency increases in purchase limits. Cardholders in the sample were unaware that emergency increases were available because they did not have sufficient training in the administrative guidelines before receiving their P-Card.

The OFM department audits do not include analysis to detect cardholders who are splitting purchases. The CPPA receives a listing of purchases made to the same vendor on the same day by the same cardholder. If she believes that the purchase was split in order to circumvent the purchasing limits, she calls the department P-Card coordinator about the purchase.

Audit analysis needs to cover split purchases

The CPPA does not document her actions for audit purposes. The AP Division audit guide does not include analysis steps to detect departments or specific cardholders that are regularly making two or more purchases to the same vendor in the same timeframe (within 48 hours).

Cardholders are splitting high dollar purchases into two or more transactions to circumvent purchasing limits. Two of the five split purchases that we examined exceeded \$6,000. One purchase was split into two transactions that totaled \$6,050. Another purchase was split into four transactions that totaled \$6,377.91. If cardholders are continuously allowed to split transactions to circumvent the single purchase limits, the County's single purchasing policy limit of \$10,000 could also be circumvented.

Subordinates are approving Department Directors' purchases

Three of the Departments' directors in the County have subordinates as "approving officials." The P-Card Administrative Guidelines do not adequately define an approving official as someone who is in a supervisory role to the cardholder.

P-Card approval authorities need review

The P-Card Administrative Guidelines require cardholders to follow all purchasing policies including the County Travel Policy and Miscellaneous Expense Policy. According to County Travel Policy,

"All travel expense forms and vouchers shall be approved by the traveler's supervisor, or next higher ranking individual who has been given authority by the Department Head to authorize such payments. Travel expenses for members of Governing Boards will be approved by the Governing Board Chairperson."

The P-Card Administrative Guidelines do not define "approving official," only the responsibilities. The Audit Guide describes "Segregation of Duties" as having an approving official that is in a supervisory role, but does not indicate the approving official has to be supervisory to the cardholder. Allowing a subordinate to be an approving official for a supervisor's purchases is an improper management practice and a fraud risk.

Terminated employees' P-Card accounts are not being closed on the termination date

The average time to close P-Card accounts for 72 employees terminated between September 2004 and January 2006 was 14 days. However, we found P-Card accounts that remained open for as many as 76, 100, and 300⁴ days after the employee was terminated. Fifty-one of 72 accounts (70.8%) remained open from 2 to 300 days after the date the cardholder terminated employment. The remaining 21 accounts were closed either the day the employee terminated or prior to the date that the employee terminated.

The P-Card Administrative Guidelines give the following cancellation instructions:

“To cancel a card, the Department Representative should cut the card in half and forward it (with a cancellation form) to the County Program Purchasing Administrator.”

The CPPA is responsible for processing the cancellation forms and canceling the accounts at the sponsoring bank. No one notifies the bank of the cancellation until this reporting process is completed. This procedure resulted in the 14-day average time to cancel accounts and elevated the fraud risk for P-Cards. The cardholder does not need to have the card in his/her possession to make charges on the account.

Fraud risk exists
for P-Cards of
terminated staff

The County's risk and liability are only limited by the transaction limits and monthly billing limits set on the open accounts of terminated employees. The 51 accounts that remained open after the termination date of the employee represented a risk/liability of approximately \$391,000 during the time that they remained open.

Department P-Card coordinators should be required to contact the CPPA to have the account closed on the day that an employee is terminated.

P-Card program will be reviewed for use of authorization limits

In the spring of 2005, OFM reviewed purchasing and billing cycle limits and set new limits for the P-Card accounts. After 12 months of P-Card use at the new limits, OFM planned to analyze the use of the new limits and recommend appropriate changes. The review of the P-Card use had begun as of the date of this report.

⁴ The employee, whose account was not closed 300 days after the Human Resources termination date, was on an extended disability leave and did not return to employment with the county. The final decision to terminate employment was not made until January 2006. However, Human Resources entered the actual termination date as the date of departure which was April 2005.

3. Procedures Are Needed to Define Appropriate Non-Travel Related Food Purchases

County employees used P-Cards to purchase \$87,069 worth of food from December 1, 2004, through November 30, 2005. Our analysis found 87 percent of these purchases were spent locally for lunches, dinners, and other non-travel related functions. OFM has not established procedures for food and meal purchases for non-travel related activities. Without specific procedures, County employees are purchasing food and meals locally for purposes that range from department organized functions to lunch between two co-workers “to discuss county functions.”

Recommendation

- 3.1 Develop and implement specific procedures which include authorized purposes for non-travel related food/meals and clearly define what is inappropriate. (See discussion, page 11)

Management Comment

- 3.1 *OFM has been coordinating the effort to revise all of the travel and miscellaneous policies and procedures for the County since last summer. Included in these policies and procedures is non-travel related food/meals expense. A group of five user departments of various sizes and with various business needs is working with OFM on these revisions. The draft procedures provide clearer definitions and new procedures on day travel and miscellaneous expenses. These policies and procedures will be sent to Chief Legal Counsel for review in May, with an expectation to have them reviewed by executives over the summer and presented to the BOCC for approval by year-end. Implementation: 4Q06.*

Discussion

The food charges included in our analysis included purchases made at restaurants, fast food establishments, catering businesses, bakeries and miscellaneous food preparation businesses. We did not review items bought from grocery stores or meals that were processed through expense reimbursements.

Total P-Card Food Purchases by Vendor Type

Vendor Type	Local	Travel	Total
Restaurants	\$30,536	\$9,480	\$40,016
Fast Food	25,942	1,292	27,234
Caterers	7,586	178	7,764
Bakeries	327	12	339
Misc. Food	10,981	735	11,716
Total	\$75,372	\$11,697	\$87,069
Percent	87	13	100

Source: Audit Services Analysis.

The current miscellaneous expense policies do not have any prohibition on the purchase of food as long as the purpose of the food purchase serves the mission of the department. The expense policy defines “light refreshments for official agency and department functions” as a conditionally allowable expense. The conditions allowing the expense are not defined. Of the 79 P-Card transactions that we reviewed, 14 were for food. Eight of the food purchases were for lunches or dinners locally which do not appear to be official agency or department functions. County practices reflect the lack of procedures.

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

The objective was to determine if the AP Division is managing the approved vendor listing effectively and efficiently and if vendors in the Aspire system are valid. Also, to determine if payments made to vendors through the AP Division were appropriate. We accomplished our objective as follows:

- Analyzed the active vendor records in the Aspire Supplier Listing
- Reviewed the policies and procedures for the AP Division and the Vendor Master
- Analyzed the P-Card transactions and reviewed supporting documentation for some P-Card purchases.
- Reviewed department P-Card Audits and County purchasing policies including; P-Card Administrative Guidelines, Travel, and Expense policy.

Scope and Methodology

Our period of audit included transactions from September 1, 2004, through December 12, 2005, and the active vendors in the Supplier List as of November 1, 2005. We reviewed the following:

- Policies and procedures for compliance with County polices and applicable laws, rules and regulations
- Procedures for the P-Card program
- All P-Card purchases and supporting documentation for a selected sample of P-Card purchases
- The current cardholder listing and terminated employee listing

We interviewed management and staff members to obtain an understanding of management and internal controls. We had staff members explain how they performed tasks relating to vendor payment and P-Card processing procedures.