



Steve March  
County Auditor

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Date: June 1, 2015

To: Chair Kafoury; COO Madrigal; DCJ Director Scott; County Attorney Madkour

From: Steve March, Multnomah County Auditor

Re: Report to Management – DCJ Purchase Card Use Review

This review of the Department of Community Justice's County-issued purchase cards (P-Card) usage and internal controls was the result of investigating a DCJ-Juvenile Justice employee who made undetected fraudulent purchases with a County issued P-Card over a number of years. We targeted a sample of P-Card purchases in FY 2014 using criteria from the Government Accountability Office (GAO) Purchase Card Audit Guide as well as from our recent investigation.

We did not detect any additional fraudulent purchases, though every sample is limited in that regard. We did discover other issues, such as gift card tracking, documentation, purchasing practices, and the use of personal rewards cards while using a County P-Card. Differentiating fraudulent purchases from legitimate purchases in DCJ (and likely other departments) is difficult due to the type and variety of purchases that are deemed legitimate, which under GAO guidelines would be suspect, such as restaurant and grocery store purchases, and at some specialty stores found in our sample.

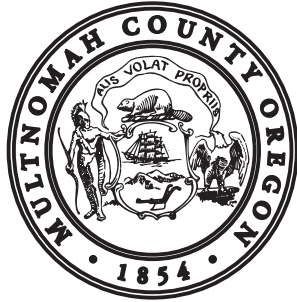
The purchasing, tracking and documentation of gift cards needs additional attention. Over a third of gift card purchases needed documentation to indicate to whom the gift cards were given. Some gift card purchases appeared to be year-end spend-down with more than a month's worth of cards purchased at a time. Documentation of change in custody of the gift cards needs to be formalized; DCJ Finance has informed us of changes to more closely monitor these transactions. The County's Finance Manager has also instituted a program to better document and monitor the use of gift cards throughout the County.

Lastly we found an issue of personal rewards cards being used while making purchases using a County P-Card. The use of rewards and rebate programs when making purchases for the County is likely prohibited under the County's Code of Ethics (Rule 30-020). Additionally, our review with the Oregon Government Ethics Commission, also informed us that the personal use of rewards cards (like Fred Meyer, Safeway, etc) or rebate programs (such as REI) when purchasing for the County could constitute

a financial benefit to employees and thus prohibited under ORS 244.040. Under the County Ethics Code employees could be disciplined and County employees may be at risk of violating the law. A clear prohibition is being added to our Finance rules to clarify this for employees.

We would like to thank DCJ staff as well as the CFO and staff for their cooperation and attention in this review, and to the COO for her attention to this matter. Marc Rose did the primary work on this report with assistance from Craig Hunt, CPA, and Judith DeVilliers, CPA (retired) during the previous investigative part of this work.

cc: CFO Campbell; HR Director Graves; Finance Manager Waddell; DCJ Finance Manager Resare



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DCJ Purchase Cards  
Careful Supervisory Review is Essential,  
Improved Documentation is Needed,  
and Rewards Use Likely Violates Oregon Law

## Executive Summary

The Multnomah County Auditor's Office initiated this review of Department of Community Justice (DCJ) purchase cards primarily to exercise due diligence, after an investigation revealed that a former DCJ employee used her County issued purchase card to make fraudulent personal purchases over a number of years. We reviewed 152 fiscal year 2014 transactions, primarily based upon a targeted sample pulled from the purchase card management system, Bank of America Works. The purchases we reviewed appeared to be toward legitimate government need. However, we identified several issues of concern:

- *Due to the variety of items purchased by DCJ cardholders, it was challenging to identify legitimate government need.*
- *Gift card tracking requires attention and improved documentation.*
- *Use of rewards programs likely violates state law and the County Code of Ethics.*

## Background

In May 2014, the Multnomah County Sheriff's Office and the District Attorney's Office sought the assistance of the Auditor's Office in assessing the extent to which a former DCJ Juvenile Justice employee defrauded the County through theft by personal use of her County-issued purchase card. Our investigation revealed that the theft by procurement card in this one instance likely exceeded \$13,000. The individual pled guilty to three felonies and one misdemeanor in this case.

The theft occurred mainly in fiscal years 2013 and 2014, but appears to have occurred as far back as fiscal year 2012. Review of DCJ internal controls identified established, present controls to identify and prevent the theft. However, lack of strict adherence to the controls allowed the theft to go undetected for a significant time period. The primary control failure was lax supervisor scrutiny of purchases.

Given this control failure, we initiated this additional review of purchase transactions in DCJ; our concern was that a similar control failure may have allowed other fraudulent transactions to go undetected. Our objective was to identify potentially fraudulent purchases.

## **Findings**

### **Identifying Potential Fraud Was Challenging Due to the Nature of Purchases in DCJ**

We did not detect fraud in the sample of transactions that we reviewed. However, we found data mining for fraud challenging, since purchases which might typically draw suspicion as potentially fraudulent are relatively common and legitimate in DCJ. Because of this circumstance, careful supervisory review of purchases by a knowledgeable manager is critical.

We used criteria from the Government Accountability Office (GAO) Purchase Card Audit Guide and from our recent purchase card investigation to inform our search for potentially fraudulent transactions. The Purchase Card Audit Guide cautions that purchases made from vendors specializing in toys and consumer electronics have a high likelihood of being potentially fraudulent, and that GAO audits have found potentially fraudulent purchases from vendors such as restaurants and grocery stores. In our previous investigation, we found that groceries, consumer electronics, and regular household goods were purchased for personal use without detection.

In this review, we found that purchases by DCJ cardholders included prepared foods, groceries, toys, electronics, clothing, books, gift cards, and office supplies, among others - items that were required for DCJ purposes, but which were difficult to distinguish from items that could be for personal use. Based on the explanations provided by purchasers and management, the purchases we reviewed appeared to be toward legitimate government need. However, since potentially fraudulent purchases are difficult to detect through audit means, careful supervisory review of purchases by a knowledgeable approving manager is essential; the cardholder and the approving manager may be the only individuals with a clear understanding of the legitimate government need.

## **Gift Card Tracking Requires Attention**

Of the one hundred fifty-two transactions we reviewed, thirty-seven (about 25%) included the purchase of gift cards. We found that for over a third of these purchases, there was no documentation to indicate to whom the gift cards were given, and that some gift card purchases appeared to be unnecessary, fiscal year-end purchases.

DCJ requires a gift card disbursement form to document the disbursement of gift cards. The form includes fields to indicate the date given to client, card ID, card value, disbursement date, person issued by, department/program, client name, and client signature. More than half of the gift card transactions we reviewed either lacked a completed gift card disbursement form or the form was incomplete. For 14 of the 37 purchase transactions we reviewed, the form did not include the names of the clients to whom the cards were distributed, creating a significant control weakness.

We found that in some cases, gift card purchases may have been fiscal year-end purchases that were unnecessary. For instance, one hundred \$25 gift cards were purchased from Goodwill on June 13, 2014, shortly before the end of the fiscal year on June 30. According to the gift card disbursement form, as of December 12, 2014 (six months later), only eighteen of the one hundred cards had been distributed. Similarly, one hundred \$10 Subway gift cards were purchased on June 20, 2014. According to the gift card distribution form reconciled on December 17, 2014 (nearly six months later), only seven of the cards had been distributed, demonstrating a lack of need for the items.

In addition, we found that in the case of the Success Through Accountability, Restitution, and Treatment (START) program, gift cards were entrusted to a court representative – a non-County employee – for distribution, but we found no documentation formalizing this change in custody.

In February of 2014, the Department of County Management issued new guidance regarding gift card purchases in County Administrative Procedure FIN-5. During the time of our review, DCJ Finance management informed us that the gift card disbursement process had changed in an effort to more closely monitor these transactions and comply with FIN-5. This policy revision was communicated to DCJ employees in August 2014.

## **Use of Rewards Programs Likely Violates State Law and the County Code of Ethics**

We found that some employees accumulated rewards and rebates when making purchases with County purchase cards. The personal use of rewards and rebate program benefits when making purchases for the County is likely a violation of Oregon law and the County Code of Ethics, and employees could be prosecuted or disciplined for such violations.

Many retailers, including Fred Meyer, Rite Aid, Walgreens, REI, and Safeway, offer programs that allow customers to accumulate rewards or rebates when making purchases. According to ORS 244.040, a Multnomah County employee (or any person who is a public official as an employee or agent of Oregon state or local government) may not use his or her position to gain financially. While discounts and rebates from retailer membership programs may appear to be a minor benefit, they are regardless a financial benefit to the employee that is prohibited by ORS 244.040, and violations may be prosecuted. To protect employees, the Oregon Government Ethics Commission strongly advises clear policy regarding the use of rewards and rebate programs.

Likewise, the County Code of Ethics prohibits employees from gaining financially by virtue of their position. Use of rewards and rebate programs when making purchases for the County is likely a violation of County personnel rule 30-020, and may result in discipline.

We found that employees accumulated rewards or rebates when making purchases at Fred Meyer, Safeway, Rite Aid, Golf Galaxy, and REI. For example, we reviewed three REI purchases totaling \$867. The receipts for each of the purchases indicated that a membership number was provided when the purchase was made. REI generally pays a ten percent dividend to its members each year, based on the cost of eligible purchases. If the employees that made purchases with DCJ department cards use the rebates from these purchases, they will be in violation of ORS 244.040. We notified the Department of these purchases in December 2014.

While DCJ Finance management has instructed some cardholders to stop using personal rewards and rebate programs when making purchases for the County, the County does not have an explicit policy prohibiting the use of rewards programs. In fact, a written purchase card procedure provided to us in May of 2014 indicated that the use of Safeway rewards was permissible since the benefit was to the County in reduced prices. Such use is likely a violation of ORS 244.040, since additional rewards accumulate to the individual user (such as gas discounts). The procedure has since been revised, but now provides no reference to rewards programs, leaving the issue unclear. According to the Oregon Government Ethics Commission, the absence of a policy, or lack of clarity regarding a policy, does not protect the employee from prosecution.

## **Recommendations**

The lack of documentation in regard to gift cards, the possible violation of state law in regard to rewards programs, and the challenge of identifying legitimate government need for purchases led to our recommendations.

## Recommendations for the Department of Community Justice

1. Department management should make it clear to employees that the personal use of rewards, rebates or any other vendor incentives acquired when making purchases for the County is likely a violation of ORS 244.040, and employees could be prosecuted for violations of the statute.
2. Ensure that gift card purchases are made in accordance with FIN-5, which provides specific guidance on gift card tracking and distribution, and in cases where custody of gift cards changes hands, chain of custody should be documented in writing and include appropriate signatures.
3. Because identifying potentially fraudulent transactions through audit means is difficult, management should emphasize the importance of careful review of purchases by a supervisor with knowledge of the legitimate government need.

## Scope and Methodology

The methodology for this analysis of purchase card transactions was based primarily on two sources: 1) the previous special report investigation regarding personal purchases that a former DCJ employee made with her County-issued purchase card, and 2) the GAO Purchase Card Audit Guide. From the prior investigation we gained an understanding of some of the weaknesses in the purchase card control activities - primarily that scrutiny of actual purchases was dependent on the level of supervisory understanding, awareness, and diligence, and that at least in that case, approval of purchases was subject to very little scrutiny; receipts were not carefully reviewed.

The GAO's Purchase Card Audit Guide informed our methods for selecting among the near 2200 transactions by DCJ cardholders in FY14 for further evaluation. Our primary method for attempting to identify suspect transactions was to group transactions by MCC description, thus identifying questionable vendors. For example, we grouped transactions by "Grocery Stores," "Restaurants," "Service Stations-Gas," etc. The GAO document indicates that a number of types of vendors are suspicious for personal use, including: restaurants, grocery stores, casinos, clothing or luggage stores, auto dealers, gasoline service stations, among others. The GAO document also suggests looking for fraudulent transactions by way of split transactions, weekend and holiday transactions, late fiscal year transactions, and transactions of unusual amounts or relationships. In the last category, for instance, we selected for further review, transactions at grocery stores and restaurants that were a round figure (\$250.00 or \$125.00) as these indicated likely gift card purchases. After dividing the transactions into groups, we looked into each group and reviewed specifically for suspect transactions.

We reviewed 152 transactions, which equates to 7.1% of all DCJ FY14 transactions, totaling \$65,069.47, which equates to 19.4% of the total spending on purchase cards in DCJ in FY14.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions



June 1, 2015

Auditor Steve March  
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Dear Auditor March:

Thank you for the opportunity to review and respond to the Department of Community Justice (DCJ) Purchase Card Usage and Internal Controls Audit. Multnomah County takes its role as steward of public resources seriously. DCJ took prompt action after learning that an employee was suspected of misconduct with a county-issued purchase card (p-card) in the spring of 2014. Since then, thanks to the thorough investigation by your office and the work of Accounts Payable and DCJ, we are better poised to safeguard county spending against fraud.

DCJ and the Department of County Management (DCM) Accounts Payable team have refined purchasing policies and procedures in response to the three areas identified for improvement in the audit:

- stricter adherence to established internal purchasing controls;
- better tracking and documentation of gift cards; and,
- establishment of an explicit policy prohibiting the use of personal store loyalty and rewards programs when purchasing for the County.

### **Screening Purchases for Potential Fraud**

The audit highlighted the difficulty in differentiating legitimate business transactions from potentially fraudulent ones. Business purchases may be nearly indistinguishable from personal purchases due to the varied nature of department purchases. Vigilant review on the part of p-card approvers is an important protection against unauthorized spending.

In the case of DCJ, the Department Business Manager continues to make improvements to procedures for p-card holders. Over the past year, new processes have been developed for p-card holders, p-card approvers, and p-card reconcilers that better outline responsibilities. Included are references to relevant policies and procedures and, especially for managers, recommendations on what to look for when approving p-card purchases. The Department will remind supervisors about their responsibilities and the need to ask specific questions when questionable charges arise. The Business Manager is also available to conduct trainings for Department p-card approvers.

### **Gift Card Tracking**

The audit raises important issues related to the use and tracking gift cards. DCJ distributes most gift cards to clients as incentives, using them to acknowledge positive efforts to change criminal behavior. Gift cards are also provided to individuals when they are released from prison and are in need of basic

necessities. Many gift cards are for stores where clients can purchase clothing for employment interviews and household items. The Department views this assistance as a small investment in a much larger effort to help clients successfully reintegrate into the community.

Since last spring, DCJ has been working to develop a more comprehensive tracking system to ensure the Department is in compliance with the new County policy on tracking Cash Equivalents (FIN-5). Prior to this policy, gift cards were logged but not tracked closely. The Department completed implementation of a more consistent and comprehensive tracking method in the fall of 2014.

Central Accounts Payable is also working toward providing "instant issue" gift cards that will allow the Finance Division to directly issue gift cards to departments. This centralized approach would improve financial monitoring and tracking as well as offer a potential strategic sourcing opportunity.

### **Use of Personal Rewards Programs**

Although this audit focused on DCJ, it revealed a countywide training opportunity. In addition to individual p-card holders, departments also have Department Purchasing Cards (DPC) and Department Travel Cards (DTC) for employees with occasional purchasing needs. While training on the proper use of county p-cards is provided to individual p-card holders, it has not been routinely provided to all staff. The ability to check out a DPC or DTC necessitates countywide education on the proper use of county p-cards.

To that end, three actions have been taken. First, Central Accounts Payable revised Administrative Procedure FIN-3 to prohibit the use of personal rewards programs. Second, a countywide email communicating the prohibition on the use of personal rewards programs when purchasing on behalf of the county, under joint cover from the County Auditor and Chief Operating Officer, was sent on May 14, 2015. And lastly, Central Accounts Payable has developed stickers that will be added to all department purchase and travel cards reminding users to avoid the use of personal rewards programs when purchasing on behalf of the county.

DCJ investigated the specific instances of personal rewards use mentioned in the audit. The three REI purchases and Golf Galaxy purchases were made by Alternative Community Services staff using department cards, not individual p-card holders. In consultation with the Central AP Finance Manager and DCJ Human Resources staff, DCJ will remind the individuals involved of the potential for an ethics violation if personal rewards programs are used when making county purchases.

We appreciate the review of the county purchase card system by your office. Again, although this audit was particular to DCJ, we can apply the lessons learned countywide. Providing the essential services that our community needs while being good stewards of taxpayer money is the most important duty we have at the county. Thank you for helping us identify measures we can take to ensure more effective purchasing practices.

Sincerely,



Marissa Madrigal  
Chief Operating Officer