

Health Department Purchase Card Audit

Good Processes, but Controls Need Improvement
November 2017



Multnomah County Auditor's Office
Steve March, Multnomah County Auditor



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November 6, 2017

To: Chair Kafoury; Commissioners Meieran, Smith, Vega Pederson, Stegmann; Sheriff Reese; District Attorney Underhill; COO Madrigal; Director Lear; and, ICS Director Abdellatif

From: County Auditor Steve March

Re: Health Department Purchase Card Audit

The attached report covers the results of our audit of the Health Department's Purchasing Card (P-Card) activity. The objectives of our audit were to:

- Determine whether the Health Department is complying with County policies with respect to expenditures related to purchase-card spending.
- Determine that the nature and extent of purchase-card spending is reasonable and necessary for County business.

We found that where the Health Department uses centralized purchasing processes the purchases were made with consistency, adequately supported, and authorized. However, the audit also identified areas needing improvement: such as, lack of supporting documentation; timely review of bank statements; and, appropriate segregation of duties for the travel and training processes. The report includes recommendations to address these deficiencies.

We at the Auditor's Office would like to thank the Health Department, their Business Services staff, as well as Central Accounts Payable staff for their assistance and cooperation. Annamarie McNeil and Nicole Dewees were the auditors who performed this audit.

Report Highlights

What we found

The Health Department uses purchase cards (p-cards) for a significant portion of their supplies and training costs. We tested a sample of the Health Department's p-card activity for fiscal years (FY) 2016 and 2017. We found overall, the Health Department has adequate controls in place over the majority of its p-card activity. However, there is room for improvement.

What we found to be **working well**:

1. Use of centralized purchasing processes.
2. Use of the County's web-based shopping tool, Multco Marketplace (MMP), to facilitate the approval process.

Areas **needing improvement**:

3. Lack of review of monthly bank statements.
4. Missing documentation. One cardholder had 64% of their entire support missing for FY2016.
5. A few unallowable purchases noted in our sample.
6. Lack of segregation of duties for the travel and training purchase process.

Why we did the audit

The Health Department was included on our 2016-17 audit schedule. We chose an initial focus of the Health Department's p-card activity due to their inherent risk. Further, we focused our attention on cardholders with high expenditure volume as well as other potential high-risk card use.

What we recommend

The Health Department should:

1. Immediately address adequate documentation issue with cardholders and responsible managers/supervisors. Take corrective action as deemed necessary.
2. Provide training to staff on allowable purchases and required documentation compliance.
3. Review internal processes to ensure adequate and timely reviews are occurring on bank statements and travel & training reconciliation forms.
4. Evaluate cardholders that are not part of centralized processes.
5. Review processes to ensure they are adequately staffed and have segregation of duties.
6. Ensure segregation of duties are appropriate and adequate to mitigate risks.

The Health Department should work with Central Accounts Payable to:

7. Revise required documentation for gift cards to prevent duplication of efforts.
8. Determine if the current policy of limiting monthly gift card purchases is still necessary.
9. Review the County's administrative procedures to ensure policies are sufficient and clear.

Introduction

Multnomah County's purchasing-card (p-card) program is designed to be an efficient and cost effective transaction method for streamlining the purchasing and accounts payable process. The County uses Bank of America and its web-based application, Works, as the banking institution to facilitate the process. P-cards make up a substantial percentage of the travel and training and supplies purchases for the Health Department. For example, p-card purchasing made up about 60% of the total travel and training expenditures and about 27% of the supplies for the Health Department for FY2016. We focused our testing on FY2016 activity with some additional testing over the first three quarters of FY2017 to determine if any changes occurred to address some of the issues that we identified in FY2016 (the FY2017 testing contained the same types of issues as FY2016). We performed analytical procedures over all of the Health Department's p-card activity, focused detailed testing on six of the highest volume purchasers, selected samples based primarily on risk (vendor name, date of purchase, and type of purchase), as well as performed some random sampling over FY2017 activity. For the remaining cardholders, we performed sampling based on risk.

P-card best practices include:

Adequate segregation of duties helps prevent fraud, waste, and abuse in the internal control system.* Segregation of duties should be adequate so a single user does not have control over all of the phases of a transaction.

Proper authorization of transactions ensures that transactions are executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions are initiated or entered into.*

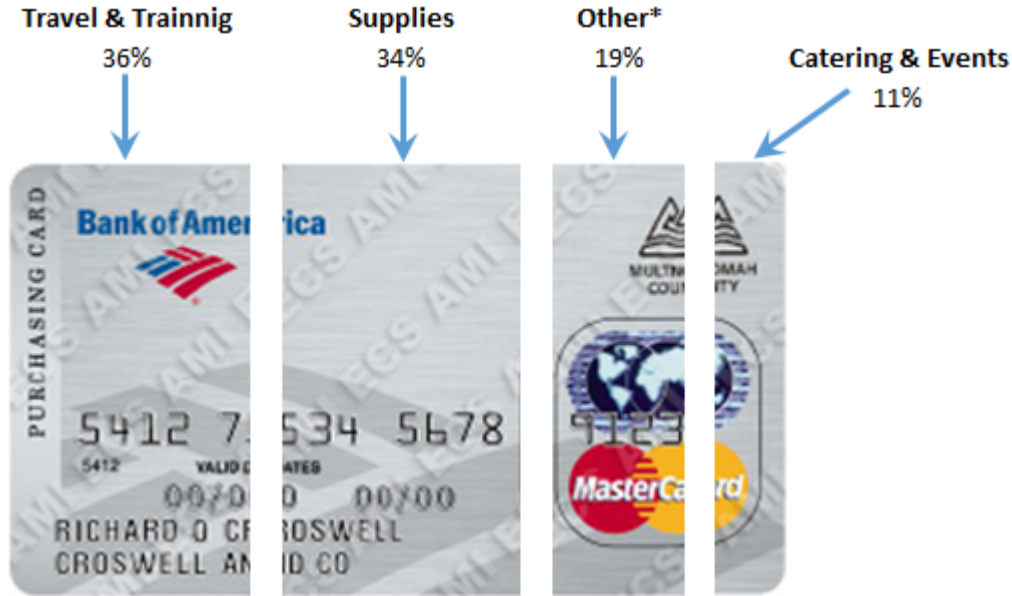
Sufficient supporting documentation is necessary to ensure the transaction is accurate, complete and properly authorized. Cardholders must maintain adequate supporting documentation for all transactions charged to a County credit card.**

* Source: U.S. Government Accountability Office's Green Book (10.03 & 10.13)

** Source: County Administrative Procedure (FIN-3.IV.E).

Below is a summary of the Health Department’s p-card purchases by type for FY2016.

Travel & Training, Supplies and Catering Make up Most of the P-Card Purchases
In FY16, Health Department P-Card Purchases Totaled \$1.38 Million



*Other consists of software license/maintenance, professional services, direct client assistance, dues & subscriptions, and medical supplies
Source: Auditor’s Office analysis of SAP & Bank of America Works data

Room for improvement over p-card controls for supplies and other purchases

The Health Department's p-card activity for supplies and other purchases use centralized purchasing processes for the majority this activity. The controls for the centralized process were working well. For example, the p-card procurement process for the majority of the supplies use the County's web-based shopping tool, Multco Marketplace (MMP), to capture each purchase request along with an authorized approver.

Overall, we found the p-card documentation to be accurate, complete, and properly authorized. However, we identified some areas needing improvement, such as:

- Lack of review for the monthly bank statements
- Instances of missing documentation
- Gift card tracking is inconsistent and may result in duplication of effort

Lack of review of the monthly bank statements

The majority of bank statements were noted to be either missing a review entirely or were not being reviewed timely. Other controls existed, such as an approval for the purchases specifically. However, lack of a consistent review of the bank statements establishes a risk that all the activity for a given month of purchases on a p-card were not supported, complete, accurate, and authorized.

Instances of missing documentation

For cardholders with missing documentation we noted that typically only a small piece of the support was missing (a meeting agenda or a sign-in sheet, for example). There were only a limited number of transactions where we did not receive any documentation. However, there is one exception; for one cardholder there was no documentation for 64% of the transactions. For this cardholder we tested 100% of their FY2016 activity to confirm the issue was not isolated. Further, the issue persisted with the additional testing of FY2017 activity.

Gift card tracking is inconsistent and may result in duplication of effort

We also tested a number of gift cards purchases and found the processes to be sufficient in most cases. We investigated nine different transactions where employees purchased gift cards and the purchase was \$200 or over. While we did look at a number of transactions, this was not an exhaustive investigation of gift card purchases and our positive findings may not apply to all gift cards.

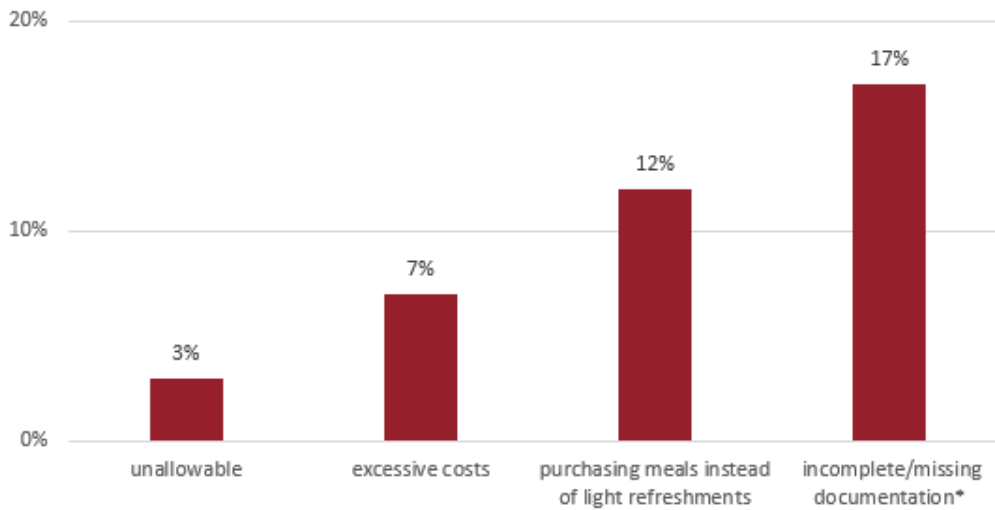
In instances with a high volume of gift cards, the employees kept them in a locked safe, limited access to the safe, kept records of who received gift cards and who issued them, and had appropriate segregation of duties. However, some work units violated the policy of not having more than a month's supply on hand. Employees told us that ordering gift cards was time consuming, so it made more sense to order many at one time. There were also some work units that felt that the form they

were required to use did not contain enough information, so they fill out both the required form and developed their own method for tracking gift cards, which results in a duplication of effort. Treasury also tracks gift cards, but it is up to the employees to enter the information, so the Treasury log may not be complete. In our small sample, we found that eight transactions were correct in the log, but one transaction was listed as being \$300, when it was actually \$444.85.

Some catering and event charges were unallowable

We identified some unallowable charges for catering activities and expanded our testing to include all of the two largest catering purchasers’ activity for all of FY2016. Their activity accounted for over 80% of the Health Department’s catering and event charges on p-cards. These cardholders process requests but they do not make decisions about what to purchase. However, they do ensure the purchase is properly authorized and may perform follow-up inquiries based on their experience. Below are the results of our testing (note: the results are not mutually exclusive of one another).

Most common problems: Incomplete/missing documentation and excessive costs
 Catering and Events FY2016- Percent of Transactions Tested



* 13% related to missing agenda and/or sign-in sheet only
 Source: Auditor’s Office analysis

Unallowable purchases

The County’s Administrative Procedure (FIN-4.II.B.3) outlines specific unallowable costs. We identified several unallowable purchases in our sample. Unallowable costs include catered ‘holiday’ parties for \$2,192 and routine monthly staff meetings with a combined cost of \$1,302.

Excessive costs

County administrative procedure FIN-4 outlines conditionally allowable miscellaneous expenses. This procedure (FIN-4.II.B.2b) states “Light meals for staff retreats are allowed providing the meal cost, including delivery and gratuity, does not exceed the standard individual meal per diem cost for Portland, Oregon as defined by the U.S. General Services Administration (GSA).” We identified a few

instances where the cost of the event appeared higher than allowed. For example, an all-day leadership group meeting held off-site had breakfast, lunch, and afternoon snack provided at a cost of almost \$51 per person (\$72 per person with event space factored in). The GSA per diems for that would have been \$36 per person. Further, while there is no specific guidance on the cost of event space, we noted a few instances where the cost for event space appeared unreasonable. For example, two different all-day leadership group meetings used a conference center for a cost of \$1,150 and \$1,075 for a group size of twenty and nine, respectively. This amounted to over \$57 and \$119, respectively, per person, not including food costs. In contrast, other event space was obtained for zero to \$500 (zero to \$25 per person) for similar events.

Purchasing meals instead of light refreshments

Light refreshments are allowable for meetings with members of outside business or public sector community, which relate to official County business as well as periodic employee meetings and formal classroom training functions (FIN-4.II.B.1.b/c). “Light refreshments for morning, afternoon or evening breaks are defined to include beverages, cookies, fruit, chips or similar snacks and should not constitute a meal” (FIN-4.II.B.1.b). We identified many instances of catered meals, such as lunch or dinner, instead of light refreshments for events described above.

Travel and training lacks segregation of duties and may need additional staffing

One employee is primarily responsible for travel and training procurement, overseeing 93% of purchases. We applaud the Health Department for centralizing this role, as centralization can lead to greater efficiency and consistent processes. However, this employee appears to have a large workload and lacks the support to do the job properly. We spoke with an employee who also performs the centralized travel and training role for another department. This employee received additional support to ensure that there is segregation of duties. This employee appears to have a full schedule and completes about 2,300 travel related transactions per year. In contrast, the employee who does travel and training for the Health Department completes over 4,100 transactions per year. While a full workload analysis may need to be completed, it appears that the other department is appropriately staffed, while the Health Department may need additional travel support given the higher workload.

Due to limited staffing and a lack of segregation of duties, not all processes are completed correctly

Steps	Appropriate Employee			
	Employee Receiving Training	Manager	Travel and Training Coordinator	Different Employee From the One Who Made Travel Purchases**
Request travel or training for employee	Typically happens correctly			
Prepare estimated cost documentation	Typically happens correctly			
Authorize purchase based on estimate		Typically happens correctly		
Book travel and/or training			Typically happens correctly	
Turn in travel receipts	Typically happens correctly*			
Collect travel receipts			Typically happens correctly*	
Reconcile all costs from travel				This occurs, but should be done by someone other than travel coordinator
If actual costs are \$150 or more than estimated, notify manager				This does not occur
If actual costs are \$150 or more than estimated, review and approve when required		This does not occur		
Determine the correct amount employee should be reimbursed and/or repay the County				This occurs, but should be done by someone other than travel coordinator
Review monthly bank statements				This does not occur
Reconcile final travel and training forms within 30 days				This does not occur on time

* Transactions booked by the centralized travel coordinator typically contain all necessary receipts, but travel purchases booked by other employees often lacked receipts. The centralized travel coordinator is responsible for 93% of purchases.

** If the County allows employees to reconcile their own purchases, they could potentially commit fraud without anyone noticing.

Source: Multnomah County Auditor's Office

We found a variety of issues with the Health Department's travel and training procurement, including:

- A lack of segregation of duties, which is an important practice for preventing and catching abuse of taxpayer dollars. For example, the employee who is responsible for travel and training performs the entire process, from purchasing to final reconciliation, with no routine monitoring or review. If the County allows employees to reconcile their own purchases, they could potentially commit fraud without anyone noticing. It is the responsibility of management to implement segregation of duties.
- Due to limited time, staff do not review monthly bank statements. There is the potential for incorrect or fraudulent billing to go unnoticed.
- When employees have upcoming travel or training, the manager signs off on the estimated travel costs. However, County policy says that if the actual costs are greater than \$150 above the estimate, then the manager must review these costs and, if they approve, sign the travel documents. In every instance we reviewed, managers did not review and approve travel or training that exceeded the estimates. In a few instances, actual costs were thousands of dollars greater than the estimate the manager approved.
- Staff often reconciled travel and training forms long past the 30-day requirement.
- County policy requires that a form needs to be filled out when there are certain modes of travel (such as a personal vehicle) or unusual timing of travel (such as weekend travel). This helps to ensure that the lowest cost option is selected, and if not, that the employee will reimburse the County the difference. However, the Health Department did not always use this form.
- Occasionally, the Health Department reimbursed employees the wrong amount. In one instance, an employee submitted a receipt for personal shopping done while travelling for work and the Health Department reimbursed them.
- The current policy gives managers tremendous discretion in their approval of travel requests. However, we found several instances where supervisors approved travel expenditures that seemed to be a poor use of funds. For example, an employee attended a training 27 miles from Portland, and the Health Department paid for them to stay in a hotel that cost \$330 per night. The manager approved the expenditure, so technically it was not against policy. However, we believe that given the close proximity, this was not a prudent use of public dollars.

Objective, Scope, and Methodology

The Objectives of this audit were to:

- Determine whether the Health Department is complying with County policies with respect to expenditures related to purchase-card spending.
- Determine that the nature and extent of purchase-card spending is reasonable and necessary for County business.

To accomplish these objectives we:

- Interviewed Health Department financial managers, and financial staff.
- Interviewed central accounts payable and treasury staff.
- Reviewed County and Health Department policies and procedures.
- Reconciled the Bank of America p-card transactions to the County's Enterprise Resource Planning (ERP) system (SAP) for FY2016 and the first three quarters of FY2017.
- Analyzed cardholder time records in conjunction with p-card data.
- Performed analysis of vendor data.
- Reviewed payment and invoice supporting documentation.
- Physically inspected a sample of purchases.
- Performed walk-throughs of the gift card process and physically inspected inventory on hand and physical security of the gift cards.
- Reviewed travel and training packets.
- Reconciled SAP data with traveler packets.

Sampling was performed with a risk-based approach as well as some random sampling procedures. The sampling was not statistical and cannot be extrapolated to the population as a whole. We focused on high card purchaser's activity as well as reviewing the activity for weekend/holiday purchasing and reviewing vendor names and type of businesses. The analysis focused on FY2016 with additional procedures and testing performed over FY2017 to determine if changes had occurred since FY2016. Our results did not change as we continued to see the same issues in the FY2017 samples as we did for FY2016.

For this report, we analyzed financial data for the time period of FY2016 through third quarter of FY2017 from SAP, the County's enterprise resource planning system. Based on the annual review of SAP datasets by the County's external auditor, our office has determined that the data were sufficiently reliable for the purposes of this report

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.

Recommendations

We recommend the Health Department:

1. Immediately address adequate documentation issue with cardholders and responsible managers/supervisors. Take corrective action as deemed necessary. FIN-3.IV.E2
2. Provide training to staff on allowable purchases and required documentation compliance. Consider making this a routine (such as annually) practice to reinforce the message to help ensure compliance with County administrative procedures.
3. Review internal processes to ensure adequate and timely reviews are occurring on bank statements and travel & training reconciliation forms.
4. Evaluate cardholders that are not part of centralized processes and determine if their purchasing authority is the most effective for the Health Department's needs or if their activity should be handled under a centralized process.
5. Review the centralized purchasing processes to ensure they are adequately staffed to handle the workload level and meet segregation of duties best practices.
6. Ensure segregation of duties are appropriate and adequate to mitigate risks.

We recommend the Health Department work with Central Accounts Payable to:

7. Revise required documentation for gift cards to prevent duplication of efforts.
8. Determine if the current policy of limiting monthly gift card purchases is an effective and efficient strategy.
9. Revise the County's administrative procedures to ensure policies are sufficient and clear to help guide departments in their purchases. A couple of areas in particular:
 - Specific guidance about the distance an employee needs to travel before the County will provide lodging would help ensure that taxpayer dollars are well spent.
 - Guidance around event space: when it is appropriate to procure event space (in lieu of using a County location) and what is reasonable spending for event space. For example, documenting the rationale for the use of third-party event space with appropriate level of authorization.



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MEMORANDUM

TO: Steve March, County Auditor

FROM: Vanetta Abdellatif, Integrated Clinical Services
Director/Co-Interim Department Director
Wendy Lear, Co-Interim Health Department Director

DATE: November 2, 2017

SUBJECT: Management Response to Health Department
Purchasing Card Audit

HONOR CULTURE, CELEBRATE DIVERSITY, AND INSPIRE QUALITY

Thank you for the opportunity to comment on the audit of Health Department Purchasing Cards. We appreciate your thoughtful review and your recommendations to continuously improve our processes. We take our role as stewards of public resources very seriously. As a large department with programs and services sited across the County, we are continuously balancing the operational needs of the programs with the requirements to maintain adequate controls over the appropriate use of County funds.

We agree with all your recommendations for improvement and have already taken steps to address timely reconciliation and segregation of duties, as these are steps most likely to prevent fraud and abuse. Examples of improvements already made include:

1. Added staff to Travel and Training workflow, so that reconciliations are timely and for internal control purposes, separating travel coordination from the reconciliation duties.
2. Modified workflows and added more online functionality to make the travel and training process faster and more efficient.
3. Coordinating with Central Accounts Payable to streamline and improve our practices that overlap.
4. Immediate corrective action was taken to address the one employee with a high rate of missing or inadequate procurement card documentation.



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Future process improvement include:

1. Regular training for managers and supervisors on the appropriate use of procurement cards, specifically highlighting past areas of non-compliance (e.g. missing documentation, unreconciled accounts, separation of duties).
2. Reviewing the process by which we issue procurement cards, potentially moving to issuing fewer cards and relying on more “super users” which reduces the risk to the County and makes training and monitoring easier.

Finally, these measures will improve our processes and build on what is already working well. Once again, we would like to express our appreciation to you and your staff for the extensive and informative audit. We are happy to answer any questions and provide updates as we continue implementing your recommendations.