

**SEMINOLE COUNTY
PURCHASING AND CONTRACTS
DIVISION**

**SPECIAL REVIEW OF
ADMINISTRATIVE CONTROLS OVER
PURCHASING CARDS**

REPORT NO. 041113

APRIL 2013

Prepared by:
The Office of the
Clerk of the Circuit Court



MARYANNE MORSE
Clerk of the Circuit Court
Seminole County

April 11, 2013

The Honorable Bob Dallari,
Chairman
The Board of County Commissioners
Seminole County, Florida
1101 East First Street
Sanford, FL 32771

Dear Mr. Chairman:

I am very pleased to present you with the attached Special Review of the Administrative Controls over PURCHASING CARDS.

Management has provided written responses to this report and are in the process of implementing corrective actions.

I would like to acknowledge the assistance of the county staff for their cooperation and assistance throughout the course of this review. The assistance is deeply appreciated. With warmest personal regards, I am

Most cordially,

Maryanne Morse
Clerk of the Circuit Court
Seminole County

cc: Ms. Brenda Carey
Mr. Lee Constantine
Mr. Carlton Henley
Mr. John Horan

BCC Records

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OFFICE OF THE CLERK OF THE CIRCUIT COURT**

**SPECIAL REVIEW OF
ADMINISTRATIVE CONTROLS OVER**

PURCHASING CARDS

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**SEMINOLE COUNTY
PURCHASING & CONTRACTS DIVISION**

**Special Review of
Administrative Controls over**

PURCHASING CARDS

PURPOSE

The purpose of this review was to determine if the system of administrative control over PCARDS was adequate, effective, and in compliance with Seminole County policies and procedures. Also, to determine if audit issues previously identified have been corrected by management.

BACKGROUND

In September 1998, the Seminole County Board of County Commissioners (BCC) implemented a commercial credit card program for both the purchases of small-dollar goods and services and travel by employees. The program was implemented under the guidelines of Chapter 220 of the Seminole County Purchasing Code. The code requires that county departments use the Purchasing Card as the preferred method to purchase and pay for small-dollar purchases under \$1000.

The goal is to save on administrative costs by avoiding the issuance of purchase orders; and to allow employees to pay for travel expenses with the card. Section 3, Title VIII of the Seminole County Administrative Code (the Code) establishes the operational policies and procedures governing purchasing cards. It defines its use, the limitations, training, internal controls and also provides disciplinary action guidelines. In addition, the County Manager's Policy Manual further explains in more detail the policies and procedures of the Code.

This review is a follow-on review of previous reviews by the Office of the Clerk of the Circuit Court. The results of the review are included in the report that follows.

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SCOPE OF WORK

The months of August and September 2011 and September 2012 were subject to our review.

The review included the following:

- Seminole County policies, procedures, and applicable laws;
- Supporting documentation to determine completeness, accuracy and compliance with policy;
- Confirmation that purchases were for official county business, and required approvals were received;
- Transactions complied with single item limitations and restrictions on the number of daily transactions; and,
- Appropriate personnel interviewed as needed.

OVERALL EVALUATION

The system of internal controls is functioning effectively and it is generally in compliance with county policies and procedures. Management has taken the initiatives to continuously improve the efficiency of the program.

There are still, however, some areas that require management attention:

- *Negotiated term contracts are not always used;*
- *Non-compliance with Seminole County Manager Policy 60 (L).*
- *Training policy is yet to be published;*
- *Cost limits exceeded; and,*
- *Non-compliance with County Manager Policy (section L2A).*

These issues are addressed in more detail in the report that follows.

FINDING NO. 1

Negotiated term contracts are not always used.

Seminole County Manager Policy Section 60 (L) 13 states:

“A term contract is a formal contract executed as a result of either an RFP or an IFB. Term contracts are used to meet a recognized continuing County requirement. They are issued for a base period with annual options that maybe exercised at the discretion of the County. .. Each item on the term contract has a firm price or the contract may allow for a firm discount off established price lists...Term contracts are awarded for the use of a specific department or by the entire County and should be used when purchasing a term contract commodity and services...”

We sampled three months and found forty (40) transactions for \$7,686.22 of purchases from suppliers other than from the term contract negotiated with Independent Stationers (a supplier of office supplies).

Although the exact savings from using the term contract, with a 10% savings in price, the county might have saved about \$780 on these 40 transactions.

By not using the term contracts, the county loses discounts and rebates. It also defeats the purpose of having County Purchasing negotiate these contracts.

Recommendation

1. A memorandum should be sent to all cardholders reiterating county policy.
2. Attach to the PCard statement a written justification for not using the term contract vendor. This ensures compliance with policy and provides constant feedback as to the reasonableness of item prices from contract vendors. This can be used as a very important consideration on the contract renewal.
3. County Finance should notify Purchasing of all exceptions to the policy so that it can be incorporated into annual training.

Management Response

Term contracts are a result of PCD awarding agreements. At times piggybacking existing agreements would be an acceptable practice in lieu of PCD creating a term contract. Independent Stationary is an approved and authorized piggybackable contract for office supplies using the U.S. Communities Governmental Purchasing Alliance. Sometimes items are not available from Independent Stationeries and other vendors are acceptable with the use of the P-card. Also, please see the "prohibited Uses of the Purchasing Cards" posted on SharePoint whereas services available on a County Term Contract with the exception of purchases from the County wide office supply contracts (Independent Stationary) are not a prohibited purchase. We have reminded all cardholders via email on the use of Independent Stationary for County office supplies. Annual training is conducted to remind cardholders of the Prohibited Uses of the Purchasing Card list.

Audit Comment

The items noted in this finding were available from Independent Stationers. County Finance should flag those office supply purchases that are not through Independent Stationers and ask for written justification from Purchasing on why the Independent Stationers contract was not used.

FINDING NO. 2

Non-compliance with Seminole County Manager Policy 60 (L).

Seminole County Manager Policy Section 60 (L)(2) (b) states:

"Information Technology Services (ITS) must approve all computer equipment (except CAD [Computer Aided Dispatch] and the items listed in the pre-approved list) for Telecommunication, peripherals, and software. All scopes of services with significant IT requirements must be approved by ITS. Allow sufficient time for approval process".

We selected items to verify compliance with IT's pre-approved list. IT representatives confirmed that county staff is required to order items from the list with the same product number. They also told us that they are not overly concerned with buying from the suppliers that they received quotes from but they do intend for staff to order the products that they have identified to ensure standardization throughout the county.

We found examples of items ordered not on the pre-approved list and we did not see a record of getting the IT divisions approval. Buying items not on the list requires the user department to request in writing approval from IT. The

second issue is that the items on the list are outdated. We found a few that are no longer manufactured.

Purchasing's viewpoint is that only hardware and software should require pre-approval. Items such as flash drives, cards, and laptop batteries are not hardware and software. If this view is correct and it might well be, it needs to be clarified in the policy.

Although the Office of the Clerk of the Circuit Court does not dictate procurement policy, it is very apparent that IT was taking the initiative to institute homogeneity all the way through the county. We support this plan and also share the opinion that items procured frequently should be identical to achieve cost saving benefits.

Below are two charts that are provided for illustration purposes. The first is a chart illustrating items not on the pre-approved list and were purchased by staff without approval by IT. The second chart illustrates items purchased by staff on the list but were not purchased with the suppliers that IT had already identified as having the lowest prices.

CHART #1.

Example of items purchased by not on the pre-approved listing and staff did not get IT approval.

Item	Cost	Date	Division
UPS System Back-up	\$1,112.40	10/6/2011	Water and Sewer
UPS	\$747.95	9/6/2011	Water and Sewer
UPS-Thnn-10	\$115.05	9/6/2011	Water and Sewer

CHART #2

Example of items purchased by staff on the list but was not purchased with the same product number that IT had already identified as having the lowest prices.

Item	Cost	Date	Division
Laptop Batteries	\$397.00	9/6/2011	Public Works
USB Flash Drive	\$116.80	10/6/2011	Coop. Extension
USB Flash Drive	\$64.00	10/6/2011	Community Serv.
Nikon Coolpix	\$220.46	9/21/2012	Traffic Engineering
Camera	\$172.97	9/21/2012	Leisure Services
2 USB Drive	\$24.98	9/21/2012	Traffic Engineering
PNY 8 GB USB	\$5.99	9/21/2012	Solid Waste

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Card for Admin Recorder	\$19.00	9/21/2012	Leisure Services
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Obviously, there is some opportunity to fine-tune the policy so that all parties are operating from the same set of rules.

By not complying with policy, the system of internal administrative control is not effective and employees are buying items without management approval.

Recommendation

1. Update SharePoint for current product/pricing and require compliance; written justification for non-compliance. Provide options for second best if first is not available.
2. Division management needs to ensure its staff fully complies with existing policy.
3. The County Manager's Office should send a memorandum to cardholders' reiterating policy.
4. County Finance should reject all non-compliance charges and forward the non-compliance issue to County Manager's Office for resolution.

Management Response

IT approves all software and hardware purchases. Consumable items such as flash drives, cards, and laptop batteries are not considered to be hardware or software and therefore do not need to be on the preapproval list for IT. Cameras are not considered IT products unless it contains software that requires installation by the IT department.

Audit Comment

IT staff has stated that a Pre-Approved listing is to insure that all divisions are buying the products that they had identified for standardization. Divisions are required to buy from the same manufacturer and serial numbers identified.

Purchasing and IT should continue to define common requirements and ascertain the most economical prices available.

FINDING NO. 3

Training policy is yet to be published.

In 2011, management had several inquiries as to the policy for paying for conferences and continuing professional education (CPE) courses; and, other job related training. Employees were ordering training materials and paying for it with the P-Cards. There were various opinions as to what had to be initially approved through Human Resources (Training Division) and what could be paid for using a P-Card.

The interim plan agreed to was for the County Manager's Office to review and approve all training and conferences. County Finance would then make payment based on this approval. The longer-term plan was to publish a revised policy so that all members knew clearly the expectations of the program; and, then, have the County Manager and the Office of the Clerk of Court agree to the process. This has not yet been completed as of the date of this report.

By not having a written policy there are inconsistencies with the approval process; members and County Finance do not have a set of rules to comply with.

Recommendation

Publish a written policy; submit to County Manager and the Office of the Clerk of Court for implementation.

Management Response

Human Resources is currently developing a flow chart and written policy related to training and continuing education credits that will be included in the updated version of the Administrative code. This is not a P-Card issue since training is exempt under the Purchasing Code, Section 220.2 (b).

FINDING NO. 4

Cost limits exceeded.

County Manager policy establishes three cost control limits: the first is the card has a per item limit of \$1000; the second is that there is a \$3000 cap on non recurring services; and finally the cardholder cannot buy like items over \$10,000.

Per the County Manager policy:

1. Use of the purchasing card is not intended to replace effective procurement planning which enables volume discounts. The P-Card is primarily the purchasing instrument used for commodities valued at less than \$1,000.00 and non recurring services valued at less than \$3,000.00 **(W6f)**; and,
2. The Purchasing Card cannot be used to purchase like items totaling over \$10,000 per fiscal year/per Division or goods or services available on a County Term Contract with the exception of purchases from the County –wide office supply contract **(W6b)**.

Here are some examples of non-compliance with these requirements.

- On a monthly basis, the card is used to pay for PAYPAL charges by Environmental Services and the Probation Division. On average charges to the card for this service average about \$5,400 per year; and, The second part of this issue is that the PAYPAL fees are directly associated with the on-line bill paying of Water and Sewer billings. This cost is a direct cost of the Water and Sewer Enterprise Fund. We take exception to the cost being budgeted and paid out of the general fund. To represent an accurate financial status of the Water and Sewer Fund, proper accounting treatment is required.
- Recurring monthly charges for IDS Monitoring and Monthly Waste Management Services for \$45 and \$118 respectively are being charged each month. This is a violation of paragraph (c) from “Do Not Buy List” which prohibits utility services. In addition, these costs are covered under a county term contract. Thus, it is: (1) a recurring charge; (2) a cost covered by a term contract that staff is prohibited from using a pcard.
- There were \$16,645.14 in office furniture that were purchased piece meal; a few pieces each month. Per the policy only \$10,000 per fiscal year per division for like items can be purchased. Also, we found a case of \$13,210.28 in gravel millings..utility charges of \$10,968.35 also a direct violation of policy.

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By not complying with policy, the administrative controls over the program are not functioning as intended.

Current Status

Documentation in the county files indicates that both County Finance and the Purchasing Division are actively working these issues and we are satisfied that their monitoring is resulting in making awareness of the issue.

Recommendation

1. Comply with the county policy to ensure the controls continue to function effectively.
2. Direct costs associated with Enterprise Funds should be budgeted and accounted for as a cost associated with operating the fund.

Management Response

PAYPAL charges/Waste services are a cost of doing business associated with the utility on line billing and is considered more of a payment method rather than a purchase under the P-Card program. Since these are exempt from procurement this can be treated as a direct pay and therefore with Finance concurrence could be paid under the P-Card. Also, utilities charges are exempted from the procurement under Section 220.2(b) of the purchasing code. Regarding the furniture, and gravel millings we would need more information. Please note that \$10k limit is per Division not Countywide or Department. Some asphalt milling from APAC that is used by both Leisure Services and Roads and does exceed the \$10k combined, but is from two different Departments and would not be considered a violation. Please provide the backup information concerning your finding so that we may investigate these findings.

Audit Comment

Two issues need to be addressed. First, we agree that PayPal charge/Waste Services is a cost of doing business. With this being said, the written policies need to complement the actions taken. This office is auditing to the existing management policies. If these policies are outdated, they should be revised accordingly.

The second issue relates to the furniture being purchased by the Leisure Services Department. We forwarded a copy of our spreadsheet to Purchasing for corrective action. The splitting up of the purchase of the furniture is clearly a violation of the \$10,000 threshold. We would expect that Purchasing would notify the division of the violation and a corrective action plan be submitted by the department director.

FINDING NO. 5*Non compliance with County Manager Policy (Section L2A).*

The county manager policy prohibits the purchase of motorized equipment without Fleet Services approval. This is to ensure that the equipment and accounted for and scheduled for the appropriate maintenance.

Per County Manager Policy L2A:

“Fleet Services must approve vehicles, motorized equipment, roadway equipment, and other related purchases. Allow sufficient time for the approval process.”

The following gas powered equipment was bought with P-Cards without pre-approval from Fleet Services.

Date	Supplier	Cost	Division
9/10/2012	Kershaws	\$1,397.00	Leisure
9/6/2012	Lake Mary	\$400.00	Leisure
6/14/2012	Lowe's	\$197.10	Solid Waste
3/5/2012	Lowe's	\$484.00	Solid Waste

The gas-powered equipment has since been submitted to Fleet and is tagged with BCC identification.

By not complying with policy, there is no assurance that all equipment is accounted for and maintained in accordance with county policy.

Recommendation

1. Send a memo to the departments involved for corrective action.
2. County Finance should send a list of violations to Purchasing Card Administrator for corrective action.

Management Response

Items under \$1k are not tagged as fixed assets. Three of the four items cited are under \$1k under the County Manager's Policies and Procedures. The other purchase from Kershaws could be multiple items not exceeding \$1k; and therefore not a violation of policy. Purchasing and Contracts is not aware of any purchases of Fixed Assets through the P-Card, we need more information. In addition, Solid Waste is authorized to procure equipment.

Audit Comment

Internal Audit has provided a listing violation of the County Manager's policy and the "Prohibited Uses of Purchasing Cards List". Item J of this list specifically prohibits "Gas powered tools".

Policies should be consistently applied throughout the county. If county staff make exceptions to policy, these deviations should be formally approved by County Manager.