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COUNTY AUDITOR-CONTROLLER

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COUNTY OF RIVERSIDE  
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November 27, 2007

Subject: Internal Auditor's Report #2007-005 – Countywide Credit Cards

Dear Department Heads:

We have completed a countywide audit over the establishment and usage of credit cards. We conducted the audit during the period October 19, 2006 through May 7, 2007, for operations of July 1, 2005 through January 31, 2007.

Our primary objective was to provide an independent assessment about the appropriateness of the authorization to establish credit cards billed to the county and the adequacy of internal controls over the use of these cards countywide. Our audit included the following nine county departments: Child Support Services, District Attorney, Fire, Information Technology, Office on Aging, Probation, Sheriff, Transportation & Land Management Agency (TLMA) and Waste Management.

We conducted our audit in accordance with the auditing standards established by the Institute of Internal Auditors. These standards require that we plan and perform the audit to provide sufficient, competent, and relevant evidence to achieve the audit objectives. We believe the audit provides a reasonable basis for our conclusions.

**Overview**

In an effort to improve efficiency and reduce the cost of making purchases and processing vendor payments, the Purchasing and Fleet Services Department implemented the Procurement Card (P-Card) Program. The P-Card eliminates the requisition and purchase orders associated with small dollar purchases and requires only one payment to the bank on a monthly basis instead of individual payments to a large number of vendors. When used to purchase goods or services, the P-Card improves the timely delivery of products and services, reduces administrative cost and allows for a rebate based on timely payment. It is not intended to circumvent existing statutes or county procurement procedures.

A number of unique controls were developed and implemented for the P-Card Program that does not exist in a traditional credit card environment. These controls help ensure the cards can be used only for specific purchases and within established dollar limits. In addition, each cardholder is required to verify all purchases, which also must be approved by an approving official before payment is made.

County departments utilize Procurement Cards, Voyager Fleet Cards and various retailers and financial institutions' cards. Examples of retailers and financial institutions' cards used by county departments include, but not limited to, Home Depot, Smart & Final, Wal-Mart, Staples, Chevron and Altura Credit Union Credit Cards.

The following schedule summarizes amounts paid to major credit cards used by departments countywide during the two-year period fiscal years 2005/06 through 2006/07:

Credit Card	Countywide Payments During FY 2005/06 & 2006/07	Number of Vouchers Processed	Number of Departments Utilizing Credit Card
P-Cards	\$2,384,110.65	418	20
Voyager Fleet Cards	\$3,544,889.27	308	13
<b>Total P-Cards &amp; Voyager Fleet Cards:</b>	<b>\$5,928,999.92</b>	<b>726</b>	
Altura Credit Union	\$484,729.38	266	4
Chevron USA Inc	\$157,774.74	119	6
Home Depot	\$780,389.59	6,272	19
Office Depot	\$9,594.67	61	5
Office Max	\$23,887.91	213	8
Smart & Final	\$319,427.08	2,118	14
<b>Total Retailers &amp; Financial Institutions' Credit Cards:</b>	<b>\$1,775,803.37</b>	<b>9,049</b>	

**Overall Conclusion**

Although three of the nine departments that participated in this countywide audit complied with the established county policies and internal control procedures in establishing and using the county approved Procurement Cards, we concluded there was a general departure from a sound system of internal controls over the authorization to establish and the use of retailers and financial institutions' credit cards. Specifically:

- County departments did not obtain the Purchasing Agent or the Board of Supervisors' authority to contract for the establishment and usage of their current active credit cards.

Our recommendation to the county departments was to cancel all retailers and financial institutions' credit cards not approved by the Purchasing Agent or the Board of Supervisors once the Purchasing and Fleet Services Department has evaluated the P-Card process and has made any necessary amendments to the existing policy.

- Internal controls in place were not adequate over the usage of retailers and financial institutions' credit cards or commercial accounts. Examples include:

- o Finance charges were incurred due to late payment;
- o Prior approval for payments/purchases was not obtained;
- o Physical control of credit cards was not maintained;
- o Proper supporting documentation was not obtained;
- o Reconciliations between the merchandise receipts and the monthly statements were not conducted; and
- o Payments were made based on merchandise receipts rather than reconciled monthly statements.

We identified the inadequacy of internal controls over retailers and financial institutions' credit cards were attributed to the inefficiency of the payment process, which was based on merchandise receipts rather than reconciled monthly statements. The inefficiency in this process requires significantly more personnel resources to process each merchandise receipt for payment. For the period stated, 9,049 vouchers averaging \$196 per voucher were processed for retailers & financial institutions' credit cards, compared to 726 vouchers averaging \$8,167 per voucher for P-Cards and Voyager Fleet Cards. Processing payments for P-Card and Voyager Fleet Card purchases is infinitely more efficient than payment processing for other credit cards in use by county departments.

To ensure adequate internal controls are in place over the credit card usage process, we recommend departments should only utilize County Procurement Cards and Voyager Fleet Cards approved by the Board of Supervisors and Purchasing and Fleet Services Department.

**Collaboration with Purchasing and Fleet Services Department**

During the course of our audit, we met with administrative staff of the Purchasing and Fleet Services Department to communicate the results of our audit and to discuss the process over the County Procurement Cards. As a result, we made two recommendations to the Purchasing and Fleet Services Department:

- Conduct a thorough review of the current Procurement Card process and evaluate if any changes can be implemented to make the process more efficient.

The Purchasing and Fleet Services Department believes the current process is fairly easy and reasonable for the amount of control required to insure proper activity. However, this review should be in conjunction with the Auditor-Controller's Office (ACO) as most of the process is tied to controls required by the ACO for accountability. The department has already removed various steps to streamline the process, but is willing to revisit it in conjunction with the ACO.

- Submit a Form 11 to the Board of Supervisors proposing the Procurement and Voyager Fleet Cards as the only approved credit cards to be established and utilized by county departments.

Purchasing agrees that the number and types of cards should be limited. The Procurement Card is recognized by almost all institutions eliminating the need for specialty cards. The limitation should be to the P-Card, Voyager Fleet Card, and for the fuel depot cards issued by our awarded fuel supplier.

We thank the participating departments and their staff for their cooperation during the audit. Their assistance contributed significantly to the successful completion of the audit.

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County Auditor-Controller



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