





WASHOE COUNTY


"Dedicated To Excellence in Public Service"

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CM/ACM 
Finance 
DA N/A
Risk Mgt. N/A
HR N/A
Other N/A

STAFF REPORT

BOARD MEETING DATE: January 26, 2010

DATE: December 24, 2009
TO: Board of County Commissioners
FROM: Bill Mikawa, Manager Internal Audit 
(775)328-3639, bmikawa@washoecounty.us

THROUGH: Katy Simon, County Manager

SUBJECT: Acknowledge Receipt of Washoe County Procurement Card Audit Report from the Internal Audit Division (All Commission Districts)

SUMMARY

The procurement card program was established to provide a fast, flexible alternative for processing low dollar value purchases. The program is designed to delegate the authority and capability to purchase low-value items directly to the individual. Procurement cards are for County business purposes only and may not be used for any travel, entertainment, or personal transactions. Procurement cards save cost and increase efficiency by eliminating the requisitioning, purchasing, receiving, and accounts payable functions for thousands of purchases each year. All procurement card purchases during a specific time period are combined together and billed to the County on one bill and paid with one check thereby eliminating multiple requisitions, purchase orders, invoices, vouchers, and checks to multiple vendors.

A Washoe County Procurement Card Policy and Procedures Guide has been approved by the Board of County Commissioners. Guidelines have been established on what items can and cannot be purchased with a procurement card and limitations on the amount of each transaction are also defined in the procedures. In addition, reconciliation of the monthly billing statement to the purchases made by each department utilizing the procurement card is outlined in detail.

The purpose of this audit was to determine whether cardholders were adhering to the guidelines for the use of procurement cards especially in the types of purchases that were being made and within the limitations established by policy. The proper use of procurement cards can result in significant cost saving, however, there is also a risk of fraud, waste, and abuse if the use of procurement cards is not properly managed and controlled. In addition, we endeavored to determine if procurement cards were being utilized to their maximum potential to reduce transaction costs in Purchasing and Accounts Payable.

AGENDA ITEM # 8F

The results of our review indicated:

1. The County can be more efficient in the purchase-to-pay cycle by following best practices of industry leading companies who have integrated purchase cards to settle (pay) an increasing number of transactions thereby reducing the workload on accounts payable functions at the same time capturing more early payment discounts. This has been accomplished using purchase card payment models where vendors get paid through a participating bank at the time of the transaction and the companies get billed by the bank on a monthly basis. Based on our analysis of checks issued to 14 high-usage vendors during FY08/09, we determined we could reduce the number of checks issued from 553 to 168, a 30.4 percent reduction. We believe the County can adopt a similar payment type practice and still be compliant with the requirements of NRS 244.210 which requires the County Comptroller to audit each payment demand upon the County.
2. The current process of manually reconciling monthly procurement card bank statements to individual transaction logs of each cardholder could be automated thereby further reducing the cost in the purchase-to-pay cycle. Currently, cardholders maintain a manual transaction log recording each of their procurement card purchases. Each month they manually reconcile this log to the monthly statement received from the bank. WINnet recently completed a Materials Management Study that recommends automating the approval, encumbering, and reconciliation processes for procurement card transactions. We endorse these recommendations.
3. The policy and procedures guide for procurement cards needs to be updated or the procedures need to be more stringently enforced.
 - a) Currently, the procurement card policy and procedures guide prohibits all travel costs from being charged on procurement cards. Certain departments are allowed to purchase transportation and lodging on their procurement cards for non-County travelers. Sierra Fire Protection District staff members are also allowed to charge travel expenses when on a fire incident.
 - b) The current spending limit per transaction is not to exceed \$1,000 according to the procurement card policy and procedures guide. We found 212 transactions that exceeded this limit in our analysis of 2008 procurement card transactions, less than 2 percent of the total transactions.
4. There was no indication of fraud, waste, or abuse through the use of procurement cards.

County Priority supported by this item: Government Efficiency and Financial Stability.

PREVIOUS ACTION

No previous action has been taken on this Board item.

BACKGROUND

The Washoe County procurement card program is administered by the Purchasing Department, each department procurement card coordinator, and the Comptroller's Office. The County's Procurement Card Program Coordinator in the Purchasing Department initiates the issuance of cards, based upon department head request and approval, and is responsible for training each cardholder. The Program Coordinator also monitors the use of procurement cards for violation of County's policies and procedures.

Each department head or designated department procurement card coordinator is responsible for keeping records of all procurement card purchases in their respective department and reconciling these purchase receipts to the monthly billing statement from the bank. They are also responsible for approving transactions for payment and forwarding all supporting documentation to the Comptroller's Office. All disputes are resolved by the cardholder or the department procurement card coordinator and credits issued by the supplier will appear on the following month's statements.

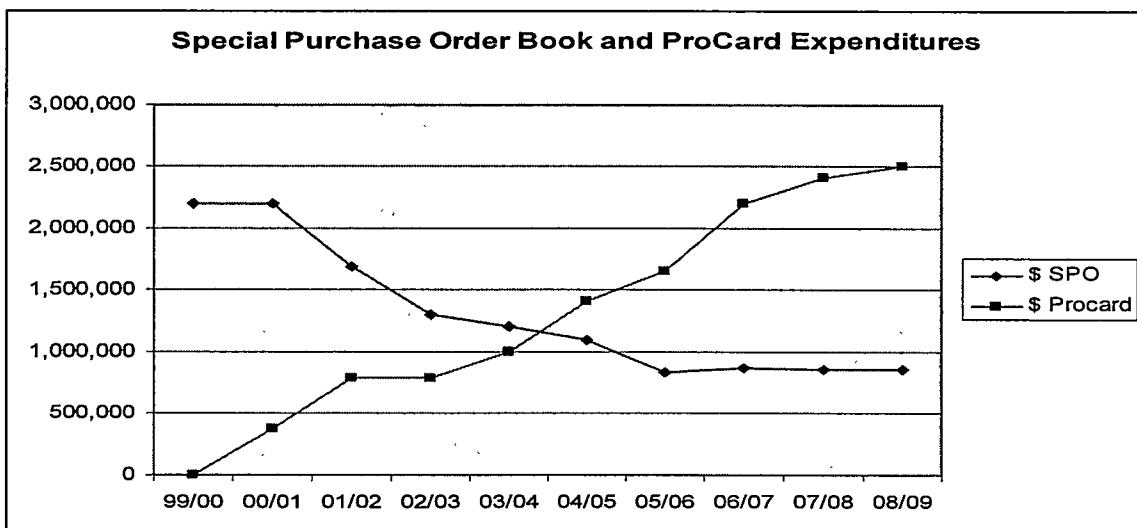
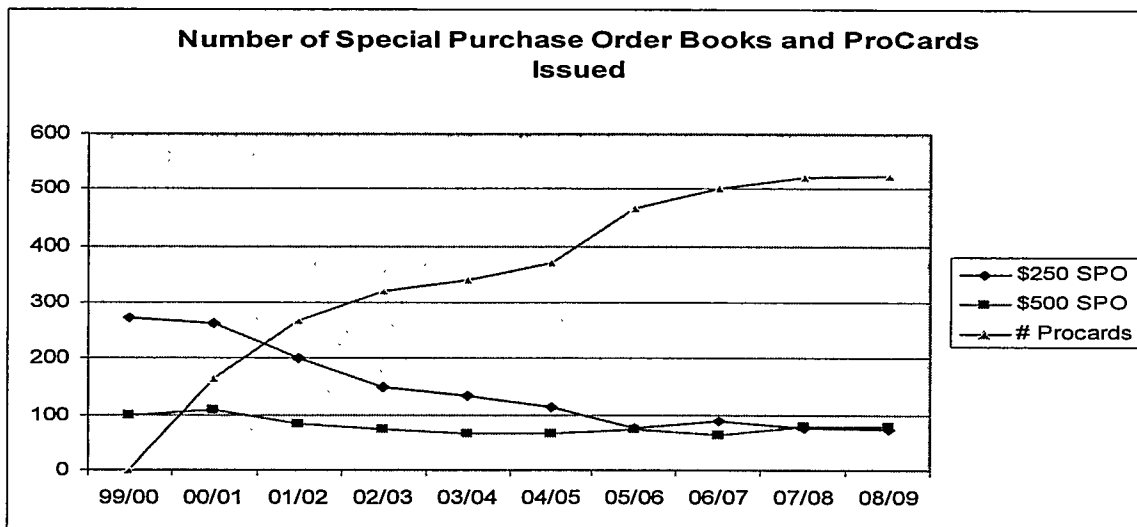
The Comptroller's Office, upon receipt of reconciled billing statements, transaction logs, and receipts, pays the amount due on the statement which was received from the bank issuing the procurement cards.

We reviewed procurement card use for 2008 which totaled \$2,221,365 in purchases (11,428 transactions). In addition, there were 477 credits totaling \$91,800 that included purchase adjustments, returned goods, cancellations, etc. Travel was one of the major expenditures with the procurement card. Employee travel, through the Welcome Aboard Travel agency, totaled \$147,736 (816 transactions). Agent fees comprised \$9,959 of this amount in 355 transactions and the balance was expended to various airlines. There was also 342 non-employee travel (excluding credits) totaling \$145,658. Non-employee travel by procurement card was authorized for specific departments such as the District Attorney's Office, Juvenile Services, Social Services, Sheriff's Office, Public Defender, and Alternative Sentencing. Sierra Fire Prevention District staff was also authorized to use their procurement cards for travel expenses when on a fire incident.

An analysis of vendors with the highest volume of procurement card purchases revealed there were 34 vendors with 50 or more transactions in 2008. In total, these 34 vendors did 5,185 transactions or 43.6 percent of the total transactions via procurement card by County employees during 2008 (\$761,375). The top seven vendors utilized were Welcome Aboard Travel (635 transactions, \$17,526), Home Depot (595 transactions, \$43,140), Southwest Airlines (509 transactions, \$138,164), Wal-Mart (444 transactions, \$45,069), Lowe's (390 transactions, \$25,883), Office Depot (317 transactions, \$28,113), and WW Grainger (296 transactions, \$61,836).

Special Purchase Order (SPO) books in \$250 (25 vouchers) and \$500 (10 vouchers) amounts are also used by the County to enable departments to make small dollar purchases when the County's procurement card is not appropriate. The use of SPO's are restricted to those departments whose historical expenditures justify the need such as on-site repairs, purchases by foster parents, etc. Department heads must make a request in writing to the Purchasing Department and are responsible for the pre-numbered SPO books.

There has been a steady decline in the use of SPO's and an increase in the number of procurement cards issued since the establishment of the procurement card program in January 2000. Correspondingly, the amount of expenditures by procurement card has also steadily increased while expenditures using SPO's has decreased.



One of the long term goals of the Purchasing Department was to eventually phase out the use of SPO's with increased utilization of procurement cards. Since County procurement cards can only be used by County employees, the use of SPO's appears to be the most viable means for foster parents to make needed purchases. In addition, some vendors will not accept credit cards as a payment option.

FISCAL IMPACT

This report has no fiscal impact. However, implementation of some recommendations may have fiscal impact.

RECOMMENDATION

It is recommended that the Board of County Commissioners acknowledge receipt of the Washoe County procurement card audit report from the Internal Audit Division.

POSSIBLE MOTION

Should the Board of County Commissioners acknowledge receipt of this audit report, a possible motion would be:

Move to acknowledge receipt of the Washoe County procurement card audit report from the Internal Audit Division.

bm

Attachment

Washoe County Procurement Card

Internal Audit Report

December 24, 2009

Executive Summary

Best Practices

1. Procurement card use has steadily increased since its introduction in January 2000 reducing the cost of processing low-cost purchases. Procurement card transactions totaling \$168,396 in 2000 has increased to \$1,221,365 in 2008.
2. For the volume of procurement card transaction made in 2008, the number of exceptions to established policies and procedures was relatively small indicating excellent monitoring of transactions by departments and Accounts Payable staff.
3. The capture of key information of each procurement card transaction, in SAP and electronic bank statements allowed review and evaluation of 100 percent of all transactions utilizing audit tools instead of sampling a small number of paper transactions as in past audit practices.

Observations

1. Washoe County could be more efficient in the purchase-to-pay cycle by utilizing an automated payment programs to settle (pay) transactions at the time they occur. This will enable capturing more aggressive early payment discounts as well as rebates from banks for utilizing their bankcard.
2. Washoe County can substantially reduce the cost of reconciling procurement card transactions to bank statements by creating an interface between the bank and SAP in order to download card charges on a nightly basis and creating approvals through the workflow process of SAP. This would enable an electronic reconciliation between the monthly bank statement and the individual transactions already approved in the system. It would also allow procurement card transactions to be encumbered on a timely basis.
3. The County's procurement card policies and procedures guide should be updated or enforced especially in regards to travel and spending limits per transaction.

Observations and Recommendations

1. Leveraging Payments by Credit Card

Washoe County can be more efficient in the purchase-to-pay cycle by following best practices of industry leading companies. When purchasing or procurement cards were first introduced industry-wide 25 years ago, they were intended as a payment tool for low-dollar supply items and field services purchased by employees. Washoe County adopted procurement cards as a means for purchasing low dollar items in order to reduce the cost of the purchasing-to-pay cycle. Many best-in-class companies have advanced over time in utilizing purchasing cards to their full potential by integrating purchase payment cards into the financial supply chain and using them to settle (pay) an increasing number of transactions.

NRS 244.210 requires that every demand against the County (except the salaries of elective officers of the county whose salaries are fixed by law, contested claims, and requests for refunds payable out of budgeted appropriations) must be listed on cumulative voucher sheets and audited by the Comptroller. The Comptroller must determine whether the money demanded is legally due and remains unpaid, and whether its payment is authorized by law.

Credit card purchases made by County employees and elected officials are billed to the County by the credit card holder bank after the vendor makes a claim upon the bank for the purchases made by credit card. The Comptroller audits the billing received from the bank and determines whether the money demanded is legally due, remains unpaid, and whether payment is authorized by law in compliance with NRS 244.210. Transactions that are disputed are usually settled quickly with the bank.

Purchase transactions made through an automated payment program would be paid in the same manner as regular credit card purchases. The only difference would be that County employees would not carry a physical credit card to the specific vendor that has been pre-authorized to conduct these types of transactions. The vendor participating in this program would make a demand upon the bank for the transaction, the bank would be required to get the County's permission to pay the vendor, and the County would still have to go through the requirements of NRS 244.210 before making payment to the bank.

The County has addressed minimizing the number of purchase orders that are generated to vendors by issuing blanket purchase orders and by encouraging use of alternate purchasing methods such as procurement cards. However, we have not addressed the payment side of these same purchases. For example, in FY 08/09, we issued 7 purchase orders (mostly blanket purchase orders) to one vendor but had to generate 57 checks to pay invoices submitted by the vendor for purchases made on these purchase orders. To further demonstrate this issue, we reviewed the payments made to 14 high-volume vendors in FY 08/09 and discovered 553 checks had been issued in payment to invoices received from these vendors.

Lowe's	50 Checks	WW Grainger	54 Checks
Scolari's	24	Sierra Welding	27
Sierra Repair	34	Costco	41
Western Nevada Supply	57	Airgas NCN, Inc	47
Graybar Electric	51	Ram's Discount	53
Miller's School Jackets	32	Sierra Office Supply	17
Napa Auto Parts	26	Nevada Rubber Stamp	40

Under the current payment model (excluding procurement card purchases):

- a. Department places order with vendor through Purchasing
- b. Vendor ships goods to department along with shipping documents
- c. Vendor sends invoice to Accounts Payable
- d. Accounts Payable sends copy of invoice to department for approval to pay
- e. Department sends approval to pay to Accounts Payable via SAP
- f. A/P makes payment to vendor (for highly utilized vendors this may result in multiple invoices and payment checks each month)
- g. Payment to vendor automatically posts transaction to SAP

Best practices in purchase-to-pay cycles include payment to vendors through an automated program utilizing bankcards thereby avoiding reconciling numerous invoices to receiving documents, writing and mailing a number of checks to vendors, and filing large volumes of documentation. This automated payment method would require only one check to the bankcard holder each month thereby reducing the number of checks to the 14 vendors in our sample to 168 versus the 553 that were issued. This program works best with suppliers who are used often by various departments where best prices have been negotiated with the County.

Several alternative payment programs are available with some programs having more restrictive controls than others. For example, under one program, departments would continue to requisition annual purchases for items through the purchase requisition process. Purchasing would issue a blanket purchase order, to the vendor who has submitted the best bid prices for the commodity such as office supplies. When a department places an order, the vendor would ship the supplies to the requesting department along with a shipping document. At the same time, they would send an invoice to Accounts Payable. When the requesting department receives their shipment, they would acknowledge receipt of the shipment to Accounts Payable and Accounts Payable would match the amount received to the invoice and the dollar amount to the purchase order (this approval process could be done through SAP workflow). Accounts Payable would then notify the bank via email (telephone or fax) with the payment code. The bank would enter this payment code into the payment program and issue immediate payment to the vendor thereby allowing the County to take advantage of more stringent payment discounts. The payment code would be restricted to the amount of one invoice or could be batch processed for a number of invoices and payments to multiple vendors. Some payment programs would provide an electronic report that would include accounting information which would flow directly into our general ledger on SAP along with their monthly billing statement. The report would capture a unique identifier to link

each transaction's invoice to a department for downstream verification and as an alternate means of expense posting. Any disputes or discrepancies would be resolved and credited to the following month's billing statement from the bankcard company. This process would automate reconciliation of bank statements to transactions thereby minimizing the manual reconciliation process to resolving disputes.

Under an automated payment program model:

- a. Department places order with vendor through Purchasing
- b. Vendor ships goods to department with shipping documents
- c. Department notifies Accounts Payable of shipment delivery
- d. Vendor sends invoice to Accounts Payable
- e. Accounts Payable matches number of items shipped on invoice with amounts on shipping documents and checks price invoiced against PO
- f. Accounts Payable emails payment code to bank after confirmation completed
- g. Bank enters payment code into automated payment program and makes a payment to the vendor
- h. Bank sends monthly billing statements to Accounts Payable along with information for each transactions paid in electronic form
- i. Accounts Payable verifies information and posts electronic information to SAP

Recommendation: *Washoe County should consider an automated payment program model to reduce the number of checks currently being issued to vendors.*

2. Electronic Payment and Reporting

The County needs to transition from a paper-based payment and reconciliation method to electronic payment and reporting. A commercial payment card program that is fully integrated and automated within the accounts payable function can be one of the most effective ways to achieve this. Industry research reveals that the fully-allocated costs when using a commercial payment card versus traditional paper-based payment and reconciliation methods are reduced by 70 percent.

Our current method of processing payment to the procurement card vendor is a highly manual process. Each card holder receives a copy of their billing statement monthly from the Comptroller's Office. Each item on the billing statement is reconciled to the individual's manual transaction log. If the dollar amount is different, the billing statement is compared to the actual purchase receipt that is maintained with the transaction log. Any disputed charges need to be resolved by the individual card holder and the vendor. Unresolved differences must be discussed with the bank's customer service department. Any subsequent credits will be recorded on the following month's transaction log. Department heads or designated procurement card coordinators are responsible for reviewing and approving each of their staff member's bank card statements, transaction logs, and receipts before forwarding them on to the Comptroller's Office for payment.

The Accounts Payable staff member assigned to procurement card transactions reviews the transaction log from each cardholder to verify that each transaction has been

reconciled to the bank statement. Those with pending credits are set aside and the total amount of credits is subtracted from the total billed amount when payment is made to the bank. Bank statements, transactions logs, and receipts are filed and maintained in Accounts Payable.

The Materials Management Study recently completed by WINnet points out that this manual process is very labor intensive. Furthermore, since the bank reconciliation only occurs once a month, the departments do not have an accurate view of their budget. This is problematic in that some departments, in our review of 2008 Procurement card transactions, had as much as \$30,000 to \$44,000 in purchases in a single month (including travel). WINnet recommends encumbering funds on a nightly basis by creating an interface between the bank and SAP in order to download card charges each day. Once card documents are created for each transaction they could be routed through SAP workflow to the appropriate departments for approval before being routed to Accounts Payable in the Comptroller's Office. This would enable an automatic reconciliation between the monthly bank statement and the individual Procurement card charges already approved in the system. In our opinion, internal controls over Procurement card purchases will be improved through the workflow process. Departments will be held to a higher degree of accountability as they review and approve Procurement card transaction on the day they occur or soon thereafter, thereby stopping suspicious transactions immediately. This will allow the departments to set higher transaction thresholds for Procurement card purchases (see item 3 below).

We recognize that some departments may be limited in participating in a workflow process for Procurement card transactions because of access to computers in the field. These situations will have to be addressed on a case-by-case basis.

Recommendation: The County should pursue the opportunity to encumber funds on a nightly basis by creating an interface between the bank and SAP. The recommendations made by WINnet in the Materials Management Study should also be considered to process Procurement card transactions through SAP workflow and automate the reconciliation process to the bank statement. WINnet estimates a savings of 312 person hours per year through an automated system.

3. Procurement Card Policies and Procedures

The Washoe County Procurement Card Policy and Procedures Guide should be updated to reflect the actual practices being followed or current procedures should be enforced.

- a. The current policy states (page 1, introductory section), "This card is for **County business purposes only** and *may not be used for any travel, entertainment, or personal transactions.*" (emphasis as written)

Procurement cards have been used for non-employee travel by departments and agencies that regularly have clientele requiring the County to pay their travel arrangements. The District Attorney's Office, Social Services, Sheriff's Office,

Alternative Sentencing, Public Defender, and Juvenile Services were among those departments that used procurement cards to book airline travel in 2008. In addition, Sierra Fire Protection District staff can charge travel expenses on their procurement cards when they are out on an incident.

We also found instances when lodging related to travel by employees was charged to procurement cards. The current guideline did not address this issue but it was verbally understood that individuals could use their procurement card to reserve lodging when they traveled. As a consequence, some travelers charged their lodging on their procurement card and, in some instances, this was allowed on the first night's stay. We feel this issue should be addressed in the guidelines.

- b. The current policy states (page 2, Guidelines for Procurement Card Use), "The Procurement Card...shall be subject to spending limits approved by the department not to exceed \$1,000 per transaction dollar limit..."

There were 212 purchase transactions that exceeded \$1,000 in 2008. Individual transactions varied from \$1,001 to \$9,865. The number of transactions was 2 percent of the total 10,391 transactions recorded and the total dollar amount of these transactions over \$1,000 (\$379,093) was less than 2 percent of the total amount of transactions of \$2,013,098.

Recommendation: *The Washoe County Procurement Card Policy and Procedures Guide should be updated:*

1. *to define when travel costs are authorized using the procurement card and*
2. *to increase the transaction limits to a higher amount when authorized by department heads.*

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Attachment