

Purchasing Card Audit
Board of County Commissioners

April 2008



Report by
Internal Audit Division
Clerk of the Circuit Court

Betty Strifler
Clerk of the Circuit Court
Citrus County



110 North Apopka Avenue, Room 101, Inverness, Florida 34450-4299 - Telephone: (352) 341-6481 / Fax: (352) 341-6491

April 30, 2008

The Honorable Betty Strifler
Clerk of the Circuit Court

Dear Mrs. Strifler:

We have completed the Purchasing Card (Pcard) Audit for the Board of County Commissioners (BOCC). The purpose of this audit was to evaluate the controls relative to processing pcard transactions and to determine whether purchases complied with established pcard policies and procedures.

The audit period covered transactions from December 1, 2005 through September 4, 2007. Several items beyond the scope of the audit period were reviewed. Discussion points regarding this audit are listed, along with Recommendations for improvement, and Management's responses. Other minor matters that have no material effect on operations were discussed with Management.

We thank the Office of Management and Budget (OMB) personnel, the Clerk's Finance Division, as well as other County divisions for their cooperation and assistance extended during the course of this audit.

Brenda Fontenot
Internal Auditor

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Abbreviations

BOCC – Board of County Commissioners
EAGLS – Electronic Access Government Ledger System
GFOA – Government Finance Officers Association
IA – Internal Audit
OMB – Office of Management & Budget
Pcard – Purchasing Card

EXECUTIVE SUMMARY

We have conducted the Pcard Audit of the Board of County Commissioners. The audit period covered transaction dates from December 1, 2005 through September 4, 2007.

The BOCC Purchasing Card Policies and Procedures Manual (hereinafter policy manual) provides the standards for maintaining the pcard control environment. Segregated duties of the various individuals and departments, transaction limits, monthly report review, periodic audits of statements and receipts, and training offer management reasonable assurance that the pcard program operates efficiently and effectively. Each individual participating in the program maintains accountability for his/her assigned responsibilities. The success of the foundational controls depends upon each individual's commitment to following the established standards. Everyone participating in this program is responsible for internal control.

A lapse in human judgment, failure to properly review a cardholder's transactions, or failure to provide adequate supporting documentation, contribute to a breakdown in internal controls. These factors contributed to pcard fraud discovered in May 2007 by Internal Audit (IA).

While conducting the Airport Audit, irregular pcard transactions by a former employee were noted. After a three-month investigation, sufficient evidence supported the conclusion that an employee misappropriated County funds during the period December 2004 through August 2006. IA issued a fraud report in August 2007, which was submitted to the Citrus County Sheriff's Office, and subsequently to the State Attorney's Office. In lieu of a trial, the former employee agreed to pre-trial intervention, with restitution payable to the BOCC.

Prior to IA's discovery, BOCC Management addressed several pcard abuses by this cardholder. This former employee reimbursed a \$10 gasoline charge in August 2005. According to the Human Resources Director, the cardholder admitted (prior to resigning on September 29, 2006) using the pcard to replenish the Sunpass account (which was used for personal travel). Management decided not to request reimbursement of SunPass charges. At that time, Management did not examine the cardholder's transactions to determine the extent of fraudulent use. County Administration offered this employee the option of resignation rather than termination, overrode the pcard policy of immediate reimbursement of personal charges (see policy manual, B2, page 9), and did not pursue prosecution for the fraudulent charges. The Board of County Commissioners was not notified of fraudulent use of a County purchasing card.

BACKGROUND

In September 2000, the County implemented EAGLS (Electronic Account Government Ledger System), a desktop tool designed to electronically manage the Bank of America purchasing card program. EAGLS provides 24-hour access to detailed transaction data, featuring reports, account setup and maintenance, spending control modification, dispute initiation, transaction reconciliation, authorizing specific merchants, and statement and transaction review. Authorized users performing these tasks from their PCs increased efficiency by streamlining pcard administration and accounting tasks.

The program was designed to increase efficiency in purchasing low dollar transactions from vendors who accept Visa cards. Utilizing the pcard program eliminates issuing individual vendor checks and reduces purchase order requests. During the 21 month period ending September 4, 2007, 243 cardholders conducted approximately 20,692 transactions, totaling \$4,568,126. Individual transactions ranged from \$9,973 to \$ 0.13. As of August 14, 2007, 13 emergency cards were available in the event of a natural or other disaster, or other unforeseen circumstances.

The data below depicts monthly transaction totals and the departmental transactions during the audit period.

Month	No. Transactions	Amount
Dec 2005	762	\$154,546
Jan 2006	854	\$197,744
Feb 2006	847	\$169,990
Mar 2006	970	\$195,605
April 2006	910	\$177,547
May 2006	849	\$188,019
June 2006	1,033	\$220,053
July 2006	929	\$204,678
Aug 2006	1,005	\$233,373
Sept 2006	1,129	\$314,309
Oct 2006	1,030	\$218,741
Nov 2006	930	\$237,163
Dec 2006	821	\$178,245
Jan 2007	1,021	\$173,887
Feb 2007	1,055	\$210,769
Mar 2007	1,132	\$220,437
April 2007	1,071	\$239,143
May 2007	1,148	\$270,099
June 2007	1,212	\$283,034
July 2007	976	\$219,353
Aug - Sept 2007	1,008	\$261,390
Total	20,692	\$4,568,126

Department	No. Transactions	Amount
Maintenance Operations/Fleet	6288	\$1,199,870
Library	1,133	\$754,652
Fire	1,959	\$500,156
Systems Management	701	\$454,147
Parks and Recreation	1,326	\$229,666
Support Services	1,344	\$172,387
Public Safety	670	\$151,389
Solid Waste Management	701	\$123,912
Road Maintenance	581	\$111,586
Engineering	556	\$93,125
Utilities	710	\$89,101
Court Administration	195	\$89,031
Elections	448	\$87,148
Extension	390	\$71,091
Tourism	409	\$70,684
Human Resources	737	\$59,347
Animal Control	617	\$45,315
Development Services	292	\$43,293
Aquatics	225	\$40,212
Building	183	\$36,957
Administration	279	\$35,895
Office of Management and Budget	157	\$26,252
Public Works	221	\$20,503
Housing	248	\$19,310
County Commissioners	46	\$9,812
Utility Regulation	76	\$9,311
Community Development	42	\$8,676
Community Services Admin	98	\$7,386
County Attorney	54	\$6,733
Emergency Cards	6	\$1,183
Total	20,692	\$4,568,126

SCOPE AND OBJECTIVES

The audit period primarily covered pcard transactions from December 2005 through September 4, 2007, which were recorded in the Bank of America Electronic Access Government Ledger System (EAGLS).

The objectives of this audit were to determine:

- a. whether internal controls over the issuance and use of purchasing cards are adequate.
- b. whether purchases made with the purchasing card are in compliance with BOCC purchasing and purchasing card policies and procedures.

The audit is a tool to assist management in the evaluation of the organization's internal controls, established policies, procedures, and operations. This audit is not designed to appraise the performance of management.

METHODOLOGY

To accomplish the objectives of this audit, IA performed the following:

- ❖ reviewed pcard invoices, supporting documentation, transaction logs and bank statements
- ❖ reviewed written policies and procedures
- ❖ traced pcard transactions from original source documents and scanned images through the financial records in Pentamation
- ❖ conducted site visits to locate randomly selected items purchased with a pcard
- ❖ utilized questionnaires to evaluate controls at the departmental level
- ❖ conducted interviews with OMB and Finance staff

Internal Controls

Individual cardholder spending limits vary per single transaction and per monthly transaction. The maximum limits are \$2,500/single purchase and \$25,000/monthly purchases. Cardholders in Systems Management, Library Services, Supervisor of Elections, Fleet Management, and Court Administration obtained approval for higher limits. Cardholders with spending limits less than \$2,500 must use purchase orders for acquisitions over \$2,500. Policy prohibits splitting purchases to stay within the single purchase limit. Emergency cards are secured in the office of the Assistant County Administrator and are restricted for use only during natural or other disasters, or other unforeseen circumstances.

In addition to defining the cardholders' responsibilities, the policy manual prohibits the following:

- a. cash advances
- b. alcohol or prescription drugs
- c. meals (unless in a declared emergency situation)
- d. food (unless approved for County purposes)
- e. recreation and entertainment
- f. gas and oil products unless necessary
- g. personal telephone calls
- h. other goods and services specifically restricted by the department
- i. vehicle repairs to other than County vehicles
- j. travel expenses (unless cardholder is specifically authorized for travel expenses)
- k. capital outlays in excess of \$1,000 (except as noted in Section B, 3d).

Each month the cardholder reviews and signs the monthly statement and notes any disputes or errors. The department/office/division card representative prepares a bi-monthly, detailed transaction report, along with receipts and supporting documentation, which is reviewed and

signed by the representative and the Director. Likewise, reports are prepared for the Division Directors, which are signed by the representative and the Division Director's supervisor. Department/Office Directors, and the Assistant County Administrator's transactions and reports are reviewed and approved by the County Administrator. The departments forward the bi-monthly reports to OMB for review, which are then submitted to Finance.

The Finance Department reconciles the cardholder statements with the transaction logs, remits payment to Bank of America, and performs reviews of the statements for compliance. Finance notifies the Pcard Administrator and the pcard reviewer(s) of any violations or discrepancies.

During the audit, Finance evaluated their pcard review process, updated the task outline, and implemented IA's suggestions regarding the scanning process.

The Pcard Administrator in OMB establishes program objectives, coordinates and maintains internal controls, performs spot audits of statements and receipts, and ensures compliance with policies and procedures. The OMB Pcard Team provides training for all card users, prepares various reports, maintains merchant category codes, and monitors issuance and deactivation of pcards.

Discussion Point 1 – Departments do not always comply with pcard procedures.

We evaluated the effectiveness of the internal controls established in the policy manual by performing numerous tests on transactions extracted from the EAGLS program. Listed below are examples of the deviations from the policy:

1. A sampling of 25 cardholders' transactions during the month of November 2006 revealed one instance of a transaction exceeding the spending limit. Further review of documentation revealed OMB was aware of this transaction and took appropriate action to ensure the proper handling of this one-time occurrence.
2. An analysis of the 20,692 EAGLS transactions revealed two split transactions:
 - a. a director and a supervisor each paid half of an invoice for \$2,990.
 - b. two identical items priced at \$2599.00 were purchased under two separate transactions on the same day, which circumvented the cardholder's \$5,000 single transaction limit.
3. A review of three randomly selected months, totaling 2700 transactions for 26 departments, reflected the following:
 - a. 15 missing receipts (five attached memo of explanation)
 - b. 6 missing pcard bank statements
4. A review of three randomly selected months of bank statements to test for timely submission, proper review and approvals disclosed that:
 - a. 81 of 227 bi-monthly reports (36%) were submitted past the required due date to Finance.
 - b. 3 bank statements were submitted without cardholder's signature.
 - c. 15 bank statements were submitted without the manager/director's signatures (3 of these were Commissioners' statements).
 - d. A card representative signed a director's bank statement as the cardholder and as the manager, and also signed another employee's transaction log (director had resigned).
5. We reviewed an additional 368 samples to determine if:
 - a. the account number was listed on the receipt.
 - b. the receipt was submitted.
 - c. the purchase was sales tax exempt.
 - d. the purchase served a County purpose.

The results of this review indicated that:

- a. the account number was missing on 46 receipts.
 - b. receipts were missing on 4 transactions—one of which included a memo of explanation.
 - c. sales tax was paid on 3 transactions (2 of which were internet transactions, totaling \$15.18).
 - d. numerous tickets in this sample, as well as other samples IA reviewed, did not adequately list or explain the items purchased or describe the business purpose.
6. Additional tests for sales tax transactions were performed:
- a. We analyzed 34 of 203 transactions that appeared to include sales tax. Upon further evaluation, we eliminated transactions for airlines. We also observed that EAGLS occasionally inserted amounts in the sales tax field. Invoices for those particular transactions were viewed to determine if tax had been charged. A total of 6 transactions incurred sales tax, totaling \$74.45.
 - b. We reviewed 25 transactions in a sales tax pending file maintained in Finance. A review of Pentamation records indicated a balance of \$196.92 in non-refunded sales tax charges.
7. A cardholder allowed another employee to use her card on two separate occasions. The policy manual, page 9, states that the card is to be used only by the employee whose name is embossed on the card, and no other person is authorized to use the card.

RECOMMENDATION

In accordance with the policy manual, the pcard representative should:

- a. ensure that all tickets/invoices display the appropriate fund, cost center and account number.
- b. review all receipts to determine if cardholder clearly defined the item(s) purchased, and stated the business purpose. Lowe's, Home Depot, hardware stores, and Wal-Mart tickets do not provide sufficient information to determine whether the purchase serves a County purpose. When applicable, the cardholder should identify a specific project related to the purchase, or state the reason for the purchase.
- c. review transactions to determine that purchases were tax exempt. If the vendor charged sales tax, the cardholder should take corrective action to obtain a credit. When a credit cannot be obtained, a statement of explanation should be attached to the receipt. This explanation would increase efficiency by eliminating additional inquiry by OMB and Finance on sales tax credits. Seeking sales tax refunds of small amounts is not cost effective; however, cardholders should inform vendors of the sales tax exemption *prior* to the point of sale. This preventive control measure would

- ensure that the County does not pay unnecessary charges, and save employee time in seeking refunds.
- d. Ensure the cardholder maintains security of the card at all times and does not allow anyone else to use the card.

Detection controls of transaction review and approval, as established in the policy manual, are designed to alert management to problems, errors, or deviations from policy. Corrective controls of card deactivation, disciplinary action, or additional training reinforce the effectiveness of the internal control environment.

In an audit status meeting with Cathy Taylor, Pcard Administrator, and Brad Thorpe, Acting County Administrator, on March 28, 2008, IA discussed the Discussion Points listed above. The consensus was that departments should improve their review process, and that periodic refresher training of all pcard participants would be scheduled.

MANAGEMENT RESPONSE

The Purchasing Card Policies and Procedures Manual clearly state the procedures to follow in making purchases, processing transactions and statements. These issues have also been addressed in Department training sessions and new cardholder orientation.

Department managers and P-Card reps have also been encouraged to carefully review the bi-monthly billing statements. Department management signature on the bi-monthly report is intended to denote management review and approval of transactions and their documentation.

The County plans to send periodic reminders of essential purchasing card guidelines, and schedule refresher training for all P-Card holders, card representatives and managers. The recommendations suggested by the Internal Auditor will be points emphasized in the training program.

The Purchasing Card program uses a Violation Notification Form to the cardholder with a copy to the Division and Department Director to document instances of non-compliance with purchasing card procedures. These forms are maintained as part of the cardholder's file.

Discussion Point 2 – The Commissioners’ and County Administrator’s pcard bank statements should be included in the approval/review process.

In our review of three randomly selected months of bank statements, we noted that Commissioners and the County Administrator sign their statements as the cardholder, but there is no designated person to review and approve their purchases on the bank statement. The review hierarchy outlined in the policy manual states that Department Directors approve all Division Directors’ transactions, and the County Administrator approves the Department/Office Directors’ and the Assistant County Administrator’s transactions.

RECOMMENDATION

Organizationally, the Board of County Commissioners maintains authority over the County Administrator's office. Aside from the taxpayers' opinions, the Board remains self-governing. To maintain the integrity of the internal control review process, *all* pcard bank statements should be reviewed and approved.

Management should consider assigning the review and approval of Commissioners' pcard bank statements to a Finance employee who is independent of the pcard disbursement process, and independent of the Board members.

Management should route the County Administrator's pcard bank statements to the Board Chairperson for review and approval.

MANAGEMENT RESPONSE

Management will implement the audit recommendation by amending the Purchasing Card policy as follows:

County Commissioners' P-Card bi-monthly report will be assigned to a Finance employee for review and approval.

The County Administrator's P-Card bi-monthly report will be assigned to the Board Chairperson for review and approval.

Discussion Point 3 – Employee pcard fuel purchases lack adequate documentation.

According to the policy manual, gas and oil purchases are prohibited unless necessary. The 12 cardholders provided the following explanations for the 16 transactions reviewed:

No. Transactions	Explanation
2	Card used in error
4	Wright Express card would not work
2	Wright Express card would not work, in addition to losing the receipt
8	No explanation given; one lost receipt

Regarding the 16 fuel transactions:

- a. three receipts noted the identity of the vehicle.
- b. three receipts noted the mileage, but did not indicate the vehicle number.
- c. two cardholders turned in two tickets each without adequate explanation.
- d. of the six cardholders who turned in the eight tickets without adequate

explanation, five had Wright Express authorization, and all six were issued County fuel cards.

The policy manual, Section II.C.4, Missing Documentation, states if documentation is missing, the employee must provide signed certification that the purchase was made according to County's procedures and the purchase was required for County operations. Failure to comply may result in disciplinary actions, and the employee may be required to reimburse the undocumented expense.

Without a reasonable explanation on the receipt, it is not possible to determine if the purchase was for a valid County purpose. The County receives tax exemptions on Wright Express purchases. Therefore, pcard fuel purchases result in paying the federal excise tax of \$.183 per gallon.

RECOMMENDATION

Pcard fuel purchases are not recorded into the vehicle maintenance records maintained by Fleet. Accurate data is vital for management to analyze vehicle performance, especially in today's economy and fuel crisis. Without this documentation, vehicle usage reports will not furnish accurate statistics regarding fuel consumption.

- a. Management should require cardholders to comply with policy by providing the signed certification, with a full explanation for the fuel purchase, including vehicle number and mileage.
- b. Management should consider providing a copy of pcard fuel purchases to Fleet so that vehicle records reflect accurate data.

MANAGEMENT RESPONSE

Management agrees with the recommendation. A Fuel Card Affidavit will be created to provide a full explanation, documentation, and certification by the employee for the fuel purchase using the P-Card. The Wright Express card system is the Board approved program for fuel purchases, however management recognizes that sometimes extenuating circumstances exists.

Discussion Point 4 – Two GPS units in Fire Services could not be located.

During the audit period, the pcard purchases included numerous portable items--small tools and other non-capital assets (drills, chain saws, blowers, ladders, cameras, camcorders, binoculars, sound equipment, etc.). As part of the audit, we randomly selected 60 pcard transactions of non-capital assets to determine their location (approximately 100 items). These non-capital assets included digital cameras, webcams, a garden cart, televisions, dvd/vcr players, headphones, cd players, two-way radios, GPS units, microphones, leather chairs, recorders, a microwave, a food processor, answering machines, telephone, a manatee mailbox, a canvas gazebo, and an Elvis Presley cardboard cutout. IA traveled to several locations, and emailed inquiries to other departments to determine the location of these items.

IA commends the County employees for their cooperation and professional courtesy extended to us during our visits and through numerous phone calls and emails during this phase of the audit. During our site visits, IA either located the targeted items in their respective locations, or the items were located by the department subsequent to our visit. IA requested the following information via emails to those departments not included in the site visits:

- a. location of the item
- b. if applicable, assignment of item to an individual
- c. if item was replacement of existing like-kind item, was replaced item still in use or disposed?
- d. location of replaced item, if still in use

Based on the email responses, the departments satisfactorily provided the requested information, and all but two items were located.

Fire Services was unable to locate two of the seven GPS units purchased during the audit period. A search conducted by Deputy Chief Goodworth revealed the two missing units:

- a. a Garmin GPS Map 60, purchased on October 2, 2006 for \$237.49
- b. a Magellan Explorist 210, purchased on March 1, 2006 for \$179.99

After our meeting on April 17, 2008, Deputy Chief Goodworth filed a stolen goods report with the Sheriff's Department. He also commented that Fire Services would start tracking the numerous portable items their department acquires. IA commends this positive step which will enhance accountability and strengthen controls.

RECOMMENDATION

In their recommended practice, "Ensuring Control over Noncapitalized Items (2005), the Government Finance Officers Association (GFOA) describes non-capital asset purchases as "walk away" items "that require special attention to compensate for a heightened risk of theft." These items are virtually untraceable on the market and "easily diverted to personal use." GFOA recommends tracking these items at the departmental level, with lists certified annually that the information is available, reliable, verifiable, complete, and includes an explanation of changes.

Pcard theft was discovered in May 2007, and again during this audit from a small sample of 60 transactions. Even though there is no statutory requirement, IA recommends implementation of the GFOA recommended practice by maintaining a non-capital asset log at the departmental level, not only for non-capital assets acquired with the pcard, but also for non-capital assets acquired through the routine purchasing process.

Implementation of this control would facilitate locating items, eliminate the possibility of duplicate or unnecessary purchases, strengthen accountability, and pose a deterrence to theft.

MANAGEMENT RESPONSE

Management agrees that Departments should ensure control over all County assets. A procedure will be developed to formalize and standardize this process for non-capital assets including a log and annual certification to the Department/Office Director.

Discussion Point 5 – Some departments did not adhere to the safety shoes policy.

The County's safety shoe policy in effect from September 24, 2001, stated the County would pay up to \$50 per year for one pair of safety shoes for employees in specific job classifications associated with a high risk of foot injury. In an email on April 17, 2008, the HR Coordinator explained that during our audit period, the County's policy was consistent with the Union Contract (Teamsters). Article 12, Section 6 (A) of that contract states that the County would provide safety shoes at no expense to the employee, or the employee could receive reimbursement for \$50 per fiscal year.

Since the County policy mirrored the Union Contract, the five departments we reviewed purchased safety shoes directly for their employees, with prices ranging from \$49.95 to \$134.95.

IA noted five shoe purchases for positions that were not listed in the safety shoe policy memo. Of those five, two pairs were hiking boots from L.L. Bean--\$97.90 and \$134.95, respectively--which did not conform to the minimum standard.

Even though the 2001 policy was not updated as job classifications changed, departments purchased safety shoes to protect those employees whose positions exposed them to foot injuries. On April 10, 2008, the County Risk Manager issued Administrative Memo 08-01, which now provides a more comprehensive listing of job descriptions requiring safety shoes. The Risk Manager may update the job classifications as necessary.

To achieve consistency and compliance with safety shoe requirements, on March 25, 2008 the County awarded a contract to Red Wing Brands of America, Inc., that was competitively bid through Brevard County.

RECOMMENDATION

IA commends the County for updating the Safety Shoe Policy which promotes employee safety and mitigates inequities regarding individual shoe purchases.

- a. Management should closely monitor safety shoe transactions to ensure safety shoes are purchased only from the authorized vendor, Red Wing Brands of America, Inc., and that no purchases are made on a pcard.
- b. Management should collect reimbursement for the two pairs of hiking boots which, according to the Risk Manager, did not meet minimum standards.

MANAGEMENT RESPONSE

Management agrees with the recommendation and will implement a requirement for the Risk Manager to approve all safety shoe invoices. As of now, we have initiated this new vendor with payment on a purchase order. However, in the future we would consider a payment using purchasing cards, as long as all other controls and procedures are followed.

The County will collect reimbursement for the purchases not meeting the policy requirements.

Discussion Point 6 – Some departments purchased uniforms from merchants other than the awarded uniform vendor and may not have purchased at the lowest price.

The Board-approved uniform vendor changed from Aramark to Unifirst Corporation on September 30, 2006. Six departments continued to purchase uniforms from the former vendor, Aramark (aka Wearguard) from October 2006 thru August 07:

Department	Date	Amount
Parks & Recreation	11/06	\$ 111.18
Fleet Management	10/06	\$ 112.25
Support Services	10/06-12/06	\$ 391.74
Housing Services	12/06-1/07 & 4/07	\$ 339.08
Engineering	6/07 & 8/07	\$ 872.37
Public Safety	3/07-04/07 & 7/07	\$1,907.48
	TOTAL	\$3,734.10

Other vendors used by various departments included Citrus Sports & Apparel, Logo Shirts, Inc., T-Time Unlimited, Nightingale Uniforms, Career Choice Uniforms, All About Promotions, Cabela’s, and Sweet Ideas Company. The items ordered included t-shirts, fleece shirts, scrubs, jackets, jeans, work shorts, and caps. Many of these items included logos.

The Unifirst online catalog offers the same type of apparel, and also provides logo/embroidery service.

Since Unifirst was the County’s official uniform vendor, the departments should have taken advantage of the negotiated prices.

An analysis of purchases for t-shirts and hats (with logos) from a local vendor is listed below:

Department	Item	Quantity	Amount
3200 - Fire Rescue	t-shirts	1029	\$12,082.58
3225 - Fire Training Center	t-shirts	40	\$ 774.00
3340 – Public Safety	t-shirts	25	\$ 421.95
5212 – Solid Waste Mgt	hats	18	\$ 360.00

T-shirts, hats, scrubs, jackets, jeans, and work shorts purchases should have been acquired through Aramark or Unifirst, since those vendors were awarded the uniform bid during this audit period.

RECOMMENDATION

The County should consider requiring all departments to purchase from vendors awarded a bid contract, whenever possible, to obtain the best competitive price. IA acknowledges that firefighters' uniforms require special vendors; however, non-specialty apparel should be purchased through the County's negotiated bid contracts.

When all departments participate, the County benefits from negotiated contract pricing, thus saving taxpayers' dollars.

MANAGEMENT RESPONSE

The Purchasing and Contracts Manager will circulate a memorandum requiring Departments utilize the bid or apply for an exception with appropriate justification.

Discussion Point 7 – The County has rented a Culligan water softener since 1994, along with water coolers, resulting in excessive costs to taxpayers.

Due to poor water quality, a water softener was installed in Fire Station #4 in Homosassa in 1994. In 2007, this rental unit cost \$50.38 monthly, totaling \$604.56 annually. Culligan was unable to provide IA with the initial installation cost, or the monthly rental fees in years past. Since this unit is vital to maintaining water quality, management should have analyzed the cost benefit of purchasing a permanent water softener device, as opposed to an open-ended rental contract.

During the audit period, pcard purchases to Culligan Bottled Water and Silver Springs Bottled Water vendors totaled \$3,387.20. This amount comprises the water softener rental and bottled water service, and does not include accounts payable checks by Finance.

RECOMMENDATION

- a. Management should consider purchasing a water softener for Fire Station #4, the cost of which would be offset by eliminating open-ended rental payments.
- b. Management should determine whether other departments currently rent water softeners, and if so, analyze the cost benefit of replacing with County-owned equipment.
- c. Management should determine whether purchasing bottled water meets the criteria for conducting County business.

MANAGEMENT RESPONSE

The Fire Rescue Division will be advised to purchase a water softener and discontinue the rental unit.

Management is reviewing, through the budget process, other instances of water softener rental and bottled water service. The purchases will be reviewed with the County Administrator for final determination.

Discussion Point 8 – Several departments purchased janitorial supplies from sources other than the contract vendor, Bestway Industrial Supply.

In our review of transactions, IA noted that four departments purchased janitorial supplies totaling \$ 9,627, from Janitorial Junction.

Department	Amount
Fire Services*	\$ 8,276.33
Chassahowitzka Campground*	\$ 1,165.29
Parks & Recreation	27.50
Maintenance Operations	\$ 140.36
Support	\$ 17.99
TOTAL	\$ 9,627.47

*The OMB Director stated that a management decision by the Maintenance Operations Director, the Public Safety Director, and OMB allowed Fire Services to obtain their janitorial supplies from Janitorial Junction. The prices from Janitorial Junction were lower than those offered by Bestway.

The OMB Director also commented that the Campground was approved to purchase supplies independently due to its distant location from Maintenance Operations.

During our review of pcard transactions, IA noted that various departments also purchased janitorial type items from Wal-Mart and Lowe’s. Occasionally, these stores may offer lower prices; however, the costs associated with numerous trips to obtain the items—driving a County vehicle, fuel, and employee time from the job—outweigh the assumed savings.

RECOMMENDATION

Management should adhere to the bid requirements, and ensure that departments utilize the contracted vendors, unless specifically authorized to purchase elsewhere.

MANAGEMENT RESPONSE

The Purchasing and Contracts Manager will circulate a memorandum requiring Departments utilize the bid or apply for an exception with appropriate justification.

Discussion Point 9 - Opportunities for discounts through the bid process may not be fully utilized.

The policy manual states (page 2) that card purchases will conform to the County’s ordinances, policies and procedures. The BOCC Administrative Regulation AR:9.01-8, Purchasing Policy, requires official sealed bids for purchases and services that aggregate to \$10,000 or greater from one vendor during a 12-month period. We analyzed vendor transactions in Pentamation and vendor pcard transactions for a 12-month period from September 1, 2006 through August 31, 2007, to determine if the bid process applied.

IA reviewed the bid list provided by the Purchasing and Contracts Manager in OMB to determine those vendors with County contracts. The County often will piggyback onto another entity’s bid, or purchase items through the State to receive the most competitive pricing.

The table below depicts those vendors in which pcard payments and accounts payable checks combined exceeded \$10,000, which would meet the requirement to obtain bids:

VENDOR	CHECK	PCARD	TOTAL
ACE HARDWARE CORP	5,762	6,815	12,577
ALL ABOUT PROMOTIONS INC	10,864	13,175	24,039
EVEREADY FIRE & SECURITY	4,230	6,025	10,255
GAUDETTE ELECTRIC INC	3,918	9,458	13,376
HOME DEPOT	14,948	50,859	65,807
HOPPER ELECTRIC SUPPLY INC	6,465	5,585	12,051
KWI OCALA INC	1,416	9,921	11,337
LOWE'S	1,737	69,937	71,674
MAC 1 SIGNS	3,985	9,851	13,836
NICK NICHOLAS FORD	1,553	19,486	21,039
OCALA TRACTOR & EQUIPMENT	1,570	17,770	19,340
REXEL CONSOLIDATED	10,381	26,819	37,200
RINKER MATERIALS	12,030	1,066	13,095
SAFETY PRODUCTS INC	11,023	12,057	23,080
TEAM EQUIPMENT INC	12,885	888	13,773
TRUCKPRO INC	1,766	17,216	18,982
WAL-MART	325	29,296	29,621
TOTAL	\$104,858	\$306,223	\$411,082

The table depicts purchases from electrical suppliers, printing companies, and numerous local suppliers, including Home Depot, Lowe’s, Wal-Mart, and Ace Hardware. Our analysis of some of these local vendor transactions for the entire 21-month audit period revealed the following:

Vendor	Number of transactions
Lowe’s	1090
Home Depot	923
Wal-Mart	899
Golden X Plumbing	192
Hardware stores	361

These transactions represent the approximate number of trips employees travel to obtain supplies.

IA spoke with the Sales Manager at Lowe's, who responded that the company did not offer contractor or government discounts. He did say, though, that projects of \$10,000 or more submitted to their store are forwarded to the corporate office, which would negotiate discount prices with their vendors, and subsequently pass the discount to the customer.

IA spoke with a Home Depot representative to determine if discounts were offered. He stated Home Depot uses a "bid room" method for purchases over \$2,500. The customer submits their project list, which then is submitted to the "bid room." Usually within 24 hours, Home Depot responds with the selling prices—which may or may not be discounted. However, the representative stated that lumber was usually the item associated with the greatest discount.

IA contacted the Store Manager at Wal-Mart to inquire about local merchant discounts. He stated that Wal-Mart only offers a 10% discount to non-profit organizations with an IRS 501(c)(3) status.

IA inquired about bids for automotive parts with the Fleet Management Section Chief. He stated that fuel, oil and grease are under a bid contract, and tires are purchased from various Goodyear dealers. He stated there are no current bids for automotive repair parts. In a Board meeting in September 1997, a bid waiver was approved for purchasing parts that were needed on a daily basis, that were not an inventory item. During the audit period, Fleet incurred a total of 1,225 automotive related transactions totaling \$141,646.82.

IA also noted numerous trips to purchase small items, including office supplies, feed store merchandise, as well as two trips in one week to Tractor Supply in Chiefland. Several of these trips included travel to Wal-Mart and a feed store in Dunnellon.

RECOMMENDATION

In the March 28 meeting with Cathy Taylor and Brad Thorpe, IA discussed seeking bids whenever possible to obtain the lowest competitive price. During the annual budget process, Purchasing and OMB might consider merging the departments' budgeted line items for supplies and materials to forecast which bids to seek. High volume purchases from a few vendors who provide delivery service, instead of small purchases from many vendors for the same type service or merchandise (printing, janitorial supplies, uniforms, etc.) would yield increased purchasing power for the County.

- a. Purchasing should monitor vendor transactions for both pcard and accounts payable to determine when those aggregate transactions exceed \$10,000, which should then initiate the bid process according to AR:9.01-8.
- b. Management should require all departments to participate in the bid process for homogeneous items.
- c. Due to the high volume of transactions, management should consider seeking bids for automotive parts for Fleet Maintenance.

- d. In order to comply with AR 9.01-8, OMB/Purchasing should initiate the bid process with the vendors listed above, where applicable. Once awarded, departments should purchase goods and services from the correct vendor in order to take advantage of the negotiated prices.

IA acknowledges there are instances, due to unforeseen circumstances, in which special trips to purchase necessary supplies will occur. However, streamlining the purchasing process would not only save budgeted dollars, but would assist management in accomplishing their business goals. Departments would recognize increased efficiency by reducing the number of trips employees routinely incur to purchase supplies and materials.

MANAGEMENT RESPONSE

We concur with the recommendation.

- a. A review of vendor payments over \$10,000 in Fiscal year 2007 identified 102 vendors that were competitively bid. OMB/Purchasing will continue to monitor vendor payments and initiate bids where payments exceed the bidding threshold.*
- b. Management will require all Departments to participate, when cost-effective and feasible, in the bid process.*
- c. Fleet Management and Purchasing will evaluate the best method to ensure automotive parts are purchased at competitive prices.*
- d. OMB/Purchasing will investigate the 17 vendors listed and, if applicable, initiate the bid process.*

CONCLUSION

Prior to completion of the audit, the Commissioners restricted pcard activity to reduce spending. The intended purpose of pcards was to reduce purchase order requests for low dollar transactions, and to improve operating efficiency. The policy manual provides the policy and standards, along with strong internal controls.

The pcard affords convenience and efficiency for employees conducting transactions over the phone or internet. The County receives an annual rebate, based upon the total transactions. In calendar years 2006 and 2007, the rebates were \$10,137.25 and \$11,860.18, respectively. However, convenience, efficiency, and rebates cannot compensate for circumvented controls and weak oversight.

Management should ensure all controls are enforced, from accurate, timely reports, to requiring justification prior to a purchase, and including full documentation of the business purpose for the transactions. Cards should be limited to managers and only those key departmental personnel assigned responsibility for supplies, materials, and activities vital to the daily operations. As discussed with OMB, periodic training will ensure cardholders understand their obligations and responsibilities.

Strong oversight, proper planning, limited card issuance, and refresher training will ensure the pcard program viability.

EXHIBIT A

MERCHANT TRANSACTIONS OVER \$5,000

MERCHANT	NO. TRANSACTIONS	AMOUNT
BAKER & TAYLOR - BOOKS	230	\$447,124
OFFICE DEPOT	3338	\$358,120
DELL MARKETING LP	202	\$267,921
LOWES	1090	\$100,734
CDW GOVERNMENT	207	\$93,377
HOME DEPOT	938	\$90,637
WW GRAINGER	202	\$55,597
REXEL-CONSOLIDATED	221	\$52,984
GOODYEAR AUTO SERVICE	57	\$49,358
SUN TECH COMMUNICATIONS	128	\$47,311
WAL-MART	905	\$46,289
HIGHLAND TRACTOR	110	\$45,843
BESTWAY INDUSTRIAL SUPPLY	102	\$38,711
SOFTWARE HOUSE INTL	57	\$36,896
BAKER DISTRIBUTING CO	261	\$34,998
OCALA TRACTOR & EQUIPMENT	95	\$28,526
GREENSOUTH EQUIPMENT INC	76	\$28,368
CITRUS EQUIPMENT & REPAIR	135	\$28,169
MAUDLIN INTERNATIONAL TRUCKS INC	89	\$26,831
DAVIDSON TITLES INC	11	\$26,221
MENZI USA SALES INC	43	\$23,674
LESCO	40	\$23,496
SAFETY PRODUCTS INC	49	\$23,091

MERCHANT	NO. TRANSACTIONS	AMOUNT
TEN-8 FIRE EQUIPMENT INC	26	\$14,011
BEVERLY HILLS PRINTING	60	\$13,869
TAYLOR RENTAL CENTERS	123	\$13,798
CARRIER SALES & DISTRIBUTION	20	\$13,794
RBI RECORDED BOOKS INC	38	\$13,674
BIG A AUTO PARTS	386	\$13,514
TCD THOMSON GALE	46	\$13,203
TROPICAL INTERNATIONAL	83	\$12,866
WEARGUARD/ARAMARK	81	\$12,723
MAC SIGNS	32	\$12,707
FDLE CRIMINAL HISTORY	547	\$12,535
UNIFIRST CORP	66	\$12,131
GULF ICE SYSTEMS INC	12	\$11,980
GOLDEN X PLUMBING SUPPLY	192	\$11,610
JONES & BARLETT PUBLIS	11	\$11,566
CARRIER COMMERCIAL SYSTEMS & SERVICE	11	\$11,444
JOHNSONS PONTIAC INC	84	\$11,394
D B SPRAKER SAW AND TOOL	32	\$11,134
HIGHSMITH INC	17	\$11,026
CENTRAL FLORIDA GAS	18	\$10,864
HOPPER ELECTRIC	64	\$10,591
RILEY AUTO ELECTRIC	56	\$10,586
NORTHERN TOOL EQUIP	38	\$10,496
CMH CASHIER	12	\$10,468
GRAYBAR ELECTRIC	39	\$10,404

MERCHANT	NO. TRANSACTIONS	AMOUNT
USPS	212	\$10,331
GLOBAL RADIO INC	34	\$10,275
COX LUMBER CO	57	\$10,194
CITRUS COUNTY CHRONICLE	34	\$10,170
COASTAL	63	\$9,957
MORGAN BROS SUPPLY INC	129	\$9,952
SUMMIT HOME RESPIRATORY	26	\$9,932
ESRI INC	11	\$9,839
HALL MARK FIRE APPARATUS	18	\$9,823
OC TANNER	38	\$9,737
JANITORIAL JUNCTION	79	\$9,627
INVERNESS SHELL INC	14	\$9,337
SHERWIN WILLIAMS	147	\$9,217
FOUNDRY NETWORKS	6	\$8,971
TEN-8 FIRE EQUIPMENT	21	\$8,962
FLORIDA FLEET SERVICE	20	\$8,740
SANDPIPER SIGN AND SCREEN	10	\$8,285
RINKER MATERIALS	12	\$8,163
RMO ENVIRONMENTAL INST	10	\$8,142
NAPA AUTO PARTS	110	\$8,097
FLORIDA PEST	39	\$7,964
ECHO BLUEPRINT INC	87	\$7,952
EMERGENCY MEDICAL	12	\$7,932
BLACK BOX RESALE	29	\$7,895
UF - DIVISION OF CONTINUING EDUCATION	19	\$7,815

MERCHANT	NO. TRANSACTIONS	AMOUNT
HELTON ELECTRIC MOTOR & HARDWARE	65	\$7,706
CITRUS CHD BILLING DEPARTMENT	6	\$7,676
RITE-FLO SUPPLY INC	10	\$7,648
DY NYE CO INC	2	\$7,512
PETERSEN INDUSTRIES INC	21	\$7,500
CJS TRANSMISSIONS INC	10	\$7,305
ALL PRO SOUND	2	\$7,288
DANKA OFFICE IMAGING	29	\$7,202
CITRUS POOL SERVICE	15	\$7,198
TAMPA SPRING COMPANY	4	\$7,158
AMAZON.COM	70	\$7,055
PUBLIC SAFETY CENTER	11	\$7,024
MOORE MEDICAL	11	\$6,980
JASPER ENGINES AND TRANSMISSIONS	3	\$6,872
WS DARLEY & CO	6	\$6,773
BRIGGS EQUIPMENT	32	\$6,747
BUDGET RENT-A-CAR	14	\$6,629
GATOR-PHILLIPS PRINTING INC	6	\$6,544
KIMBALL MIDWEST	42	\$6,544
TRANE COMPANY	16	\$6,515
NEW HORIZONS COMPUTER	1	\$6,500
CRYSTAL CHRYSLER DODGE JEEP	36	\$6,382
FLORIDA ASSOCIATION	32	\$6,357
AUTO PARTS SUPPLY	34	\$6,239
CUMMINS POWER SOUTH	23	\$6,021

MERCHANT	NO. TRANSACTIONS	AMOUNT
CARNAHANS SUPPLY	7	\$5,981
BIG SUR TECHNOLOGIES INC	4	\$5,961
EVEREADY FIRE SECURITY	40	\$5,953
LENGEMANN OF FLORIDA	39	\$5,945
JOHNSTONE SUPPLY	22	\$5,832
BAYSHORE TECHNOLOGIES	3	\$5,791
LEXIS NEXIS MATTHEW BENDER	4	\$5,775
MID STATE GLASS	27	\$5,749
CLE INTERNATIONAL	9	\$5,460
CMC RESCUE INC	8	\$5,406
GAL GALLS INC	23	\$5,340
CRYSTAL CHEVROLET	21	\$5,338
SEARS ROEBUCK	25	\$5,260
ACE HARDWARE	216	\$5,248
TRUEVANCE MANAGEMENT	3	\$5,196
KANES ACE HARDWARE	184	\$5,077
SCALLYS LUBE & GO	17	\$5,069
EXIDE CORPORATION	25	\$5,042
DISCOUNT AUTO PARTS	97	\$5,030