Performance Audit
Johnson County Audit Services
Johnson County, Kansas

Countywide Review of Purchase Card Use
December 8, 2016

Report No. 2016 – 03

December 8, 2016

To: The Johnson County Board of County Commissioners
    County Manager
    Director, Treasury and Financial Management

In accordance with our approved audit plan, we performed a Countywide audit of the Purchase Card program. The objective of the audit was to determine if the system of internal control established for the purchase card program provided reasonable assurance that internal controls were operating as intended.

The internal control framework for guiding and controlling program operations is in place and working as intended to ensure P-Card holders comply with County guidelines. An opportunity exists for management to develop and implement a process for continuous improvement to maximize performance in the P-Card program.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

I appreciate the cooperation received from leadership and staff within the Department of Treasury and Financial Management, and other County staff consulted during this audit. I want to recognize John Halliday, Senior Auditor, who performed this review and was the primary contributor to this report.

Please don't hesitate to contact me if you have any questions. Thank you.

K. L. Kleffner, CIA
County Auditor

Executive Summary

Why We Did This Audit

In accordance with our audit plan, we performed a Countywide audit of the Purchase Card (P-Card) program. The objective of the audit was to determine if the system of internal control established for the P-Card program provided reasonable assurance internal controls were operating as intended.

What We Found

The County's internal control framework for guiding and controlling program operations is in place and working as intended to ensure P-Card holders comply with County guidelines.

Over time, oversight and monitoring controls did not expand to keep pace with P-Card program growth. As a result, the system for monitoring, measuring and reporting program effectiveness could be strengthened to include advanced analytics in the following areas:

- Assessing performance and compliance,
- Ensuring continuous improvement, and
- Providing timely program insight.

Management of a mature P-Card program should incorporate and continuously monitor performance metrics to minimize risk and ensure future success.

Additionally, an opportunity exists for management to develop and implement a continuous improvement process to maximize performance in the P-Card program.

Review of program performance is warranted to seek additional opportunities for the P-Card program. Further expansion and optimization is a natural progression for the P-Card program once a stronger internal control framework is established.

What We Recommend

We recommend the Director, Treasury & Financial Management:

Modify existing P-Card monitoring methodology to include the following:

- Enhancing program objectives and metrics
- Testing Countywide compliance
- Testing high risk transactions to include
  - ✓ split transactions,
  - ✓ duplicate payments,
  - ✓ card inactivity and
  - ✓ terminated employee with active card.

Establish a process for continuous improvement through expanded use of the P-Card program to include, but not limited to:

- Defining the P-Card as the primary method for purchases under $1,000,
- Ensuring cardholder single and monthly transaction limits are appropriate,
- Evaluating the assignment of P-Cards deployed.

JOHNSON COUNTY
K A N S A S

Countywide Review of Purchase Card Use

TABLE OF CONTENTS

1. Purchasing Card (P-Card) Program's System of Internal Control

The internal control framework for guiding and controlling program operations is in place and working as intended to ensure P-Card holders comply with County guidelines. Over time, oversight and monitoring controls did not expand to keep pace with P-Card program growth. As a result, the system for monitoring, measuring and reporting program effectiveness could be strengthened to incorporate advanced analytics in areas such as:
- Assessing performance and compliance,
- Ensuring continuous improvement, and
- Providing timely program insight.

Management of a mature P-Card program should incorporate and continuously monitor performance metrics to minimize risk and ensure future success.

Recommendation

We recommend the Director of Treasury and Financial Management (TFM):

1.1 Modify existing P-Card program monitoring methodology to include the following:
- Enhancing program objectives and metrics
- Testing Countywide compliance
- Testing high risk transactions to include
  - ✓ split transactions,
  - ✓ duplicate payments,
  - ✓ card inactivity and
  - ✓ terminated employee with active card.

Management Comments

TFM Management generally agrees with the recommendation listed. While the current monitoring methodology meets the goals and objectives that were initially set forth at the time this program was implemented, TFM agrees that additional program objectives and metrics could be developed to help evaluate the success and continued growth of the County's purchasing card program. While TFM currently audits each department annually for compliance, TFM will look to implement a more robust compliance audit that takes a more holistic approach to all purchasing card transactions. Currently, TFM staff tests for compliance on a smaller sample size of all purchasing card transactions through individual departmental audits. TFM will develop a methodology and testing tool to review all purchasing card transactions across the organization to further test countywide compliance with a focus on high risk transaction types. TFM Management agrees that testing for high risk transactions is an essential audit function, which is why TFM currently has processes in place to monitor split transactions, card inactivity, and terminated employees with purchasing cards. To ensure TFM's confidence that these high risk transactions are meeting TFM's allowable risk threshold, TFM

will revise applicable processes, practices and guidelines to monitor high risk transaction types more systematically and take a more proactive approach to ensuring departmental compliance when variances are identified.

Discussion

Internal control environment

Systemic controls have been developed for the P-Card program. Limits have been placed on the P-Cards, which establish certain restrictions, such as:
- Single purchase maximum limit,
- Monthly credit limit for each card,
- Maximum County Limit, and
- Merchant Category Codes (MCC).

The maximum County limit is the dollar amount that can be spent by all cardholders. Once that limit is reached, all P-Cards transactions will be suspended until the County calls the bank and requests the limit be raised. These transaction limits mitigate the overall risk exposure to the County on a per transaction level and overall County level. The MCC are restrictions placed on P-Cards to prevent prohibited purchases (e.g., cash advances, betting, alcohol purchases) or use of unapproved vendors (e.g., bars, pawnshops, financial and related institutions). P-Cards are reconciled and approved on a weekly basis. These systemic controls help ensure the card is only used for County business and within specific spending limits.

The County's *Government Purchasing Card Administrative Guidelines* are current, detailed, and designed to assist cardholders responsible for making P-Card purchases and for those involved in the administration of the P-Card program. These guidelines as well as the County's purchasing policy and procedures, are available to all cardholders. Additionally, each cardholder signs a cardholder agreement, receives training on the P-Card process and takes a test on his or her knowledge prior to being issued a P-Card.

All P-Card transactions are subject to an annual audit, conducted by TFM, for compliance with the terms and conditions of the purchasing card program. The objective of TFM's audit is to ensure proper management controls are maintained over the authorization and use of the County P-Card, the materials and services procured, as well as provide feedback for process improvement.[1]

P-Card use

During the period January 1, 2014 through December 31, 2015, County activities generated 108,704 P-Card transactions for $33,114,411. (Refer to Appendix II for a detailed breakout of P-Card transactions.) During that same time period, 38,390 purchase orders were issued totaling $453,601,003. As illustrated in Table 1.1 on top of the next page, seventy-four percent of the

---

[1] Johnson County's *Government Purchasing Card Administrative Guidelines*, dated June 2016

County's purchases were made with the P-Card and twenty-six percent of purchases were made issuing purchase orders.

Table: 1.1: P-Card and Purchase Order (PO) Usage

	P-Card	PO's
Transactions	108,704	38,390
Dollars	$33,114,411	$453,601,003
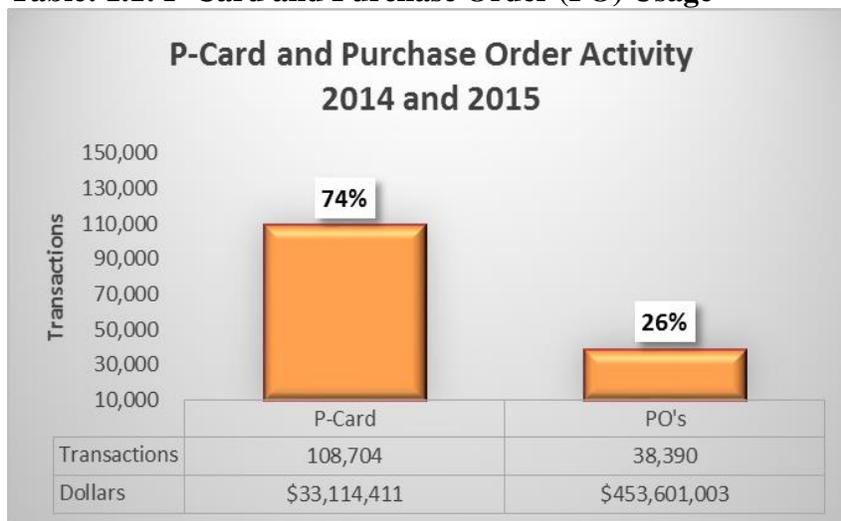
Source: TFM

Compliance testing

We reviewed a statistical sample of the 108,704 P-Card transactions[2] to determine whether cardholders followed purchase card guidelines when using the P-Card. Our examination looked for the existence of specific attributes[3] required by County policy. Table 1.2 below provides the results of this examination:

Table: 1.2: Compliance Testing Results

Attribute	Percent of Transactions with Attribute
Merchant receipt attached	95.3
Business justification noted	97.1
"Paid by P-Card" noted	94.9
Receipt of goods confirmation	96.4
Taxes considered properly	99.6

Source: Audit Services Analysis of 2014 & 2015 P-Card activity

Our examination also included an assessment of the items purchased to determine if they could satisfy a bona fide need of the organization. P-Card industry success/failure rates do not exist for the compliance testing we performed. Absent industry success/failure rate data, we determined these results to be satisfactory. We recommend TFM adopt and incorporate similar compliance testing into their P-Card monitoring methodology. As the program continues to grow, these results can serve as baseline benchmarks and will identify where management should direct their focus and attention.

---

[2] Sample size of 274 transactions which provided a 90% confidence level with a +/- 5% confidence interval.
[3] Purchasing Card Administrative Guidelines.

High risk P-Card transactions

High risk P-Card transactions indicate exceptions to normal processing. We reviewed the entire population of 108,704 transactions for the possible occurrence of these transactions. The results of this review are identified in Table 1.3 below:

Table 1.3: Review of High Risk Transactions

Description[4]	Transactions reviewed	Results
Duplicate Payment	96	Duplicate payment discovered in the amount of $14,994.78 - refund obtained.
Split Transactions	237	19 split transactions identified.
Forced Transactions	793	Less than 2% of all transactions forced.
Inactive Cards	All P-Cards	26 P-Cards with no activity > 365 days.
Terminated Employees w/ P-Card	All P-Cards	1 terminated employee with active P-Card.

Source: Audit Services Analysis of 2014 & 2015 P-Card activity

Given the size and complexity of Johnson County's P-Card program, we consider these results to be satisfactory. We recommend TFM adopt and incorporate similar reviews of high risk transactions into their P-Card monitoring methodology. Similar to compliance testing, as the program continues to grow, these results can serve as baseline benchmarks and will identify where management should direct their focus and attention.

TFM audit procedures

TFM reviews each department/agency's P-Card use annually by selecting 12 transactions for examination. Results are compiled and reported to department/agency P-Card Administrator. We believe TFM's P-Card audit methodology should be enhanced to include a review of transactions similar to that performed in this audit – compliance testing and high risk transactions. Such augmentation would:

- Provide a Countywide view of the P-Card program allowing TFM to compare results, determine trends, and report the findings to management.
- Provide a benchmark comparison of the department's prior year audit results with future results.
- Identify specific training needs to be addressed on a County and departmental level.

---

[4] Reference the "Glossary of Terms" section in Appendix I.

Industry best practices

The National Association of Purchasing Card Professionals[5] (NAPCP) identified characteristics needed to build and maintain a "best practice" purchase card program. We compared these "best practice" characteristics with Johnson County's purchase card program to determine how many characteristics are contained within Johnson County's program. (Appendix III describes these NAPCP characteristics in more detail.) Table 1.4 below identifies the results of this comparison.

Table: 1.4: Best Practice Characteristics

Best Practice Characteristic	Does Characteristic Exist in Johnson County's Program?
Program Design	
Roles and Responsibilities	Yes
Goals and Objectives	Partially
Policies and Procedures	Yes
Design Control Environment	Yes
Determine a Tax Strategy	Yes
Program Management	
Partnership with Card Issuer	Yes
Maintain Internal Relationships	Yes
Utilize Metrics	Partially
Monitor Performance Against Goals	Partially
Expand Knowledge	Yes
Enhanced Audit Procedures	
Systemic Controls	Yes
Attribute Documentation Review	Yes
Transactional Auditing	Partially
High Risk Transaction Auditing	No
Track Audit Results	Partially

Source: Audit Services summarization of NAPCP practices

Johnson County's P-Card program compared to the NAPCP's best practices can be summarized as follows:
- 9 characteristics are incorporated in Johnson County's P-Card program,
- 5 are partially incorporated and
- 1 are not currently in the P-Card program

---

[5] *Purchasing Card Best Practices: The Key Elements of Building a World-Class Program*, Third Edition – May 2012; and *Fraud Prevention and Detection: Establishing and Maintaining a Purchase Card Program with Adequate Management Controls to Prevent Fraud, Misuse and Abuse* - May 2014.

The recommendations offered in Sections 1 & 2 of this report are designed to fully align Johnson County's P-Card program with industry best practices.

Conclusion

The internal control framework for guiding and controlling program operations is in place and working as intended to ensure P-Card holders comply with County guidelines. This assessment was based on our reviews of:
- Compliance testing,
- High risk transaction testing,
- Annual audits,
- Written policies and procedures, and
- P-Card Program compared against industry best practices.

A continuously improving internal control environment allows management the ability to adapt to evolving demands, changing risks, and new priorities. The enhancements and audit recommendations being discussed throughout this report are designed to assist management create a stronger internal control framework.

2. <u>Additional Efficiencies Can Be Realized</u>

An opportunity exists to achieve greater efficiencies in organizational payment processing through increased usage of the P-Card program. To illustrate, the County can realize significant savings by targeting purchase transactions under $1,000 currently following the traditional purchase order process and converting the transaction to a P-Card. Continuous review of program performance is warranted to seek additional opportunities for the P-Card program. Further expansion and optimization is a natural progression for the P-Card program once a stronger internal control framework is established.

Recommendation

We recommend the Director of TFM:

2.1   Pursue the following process improvements initiatives:
- Define the P-Card as the primary tool for purchases under $1,000 and encourage its use for all small dollar purchases meeting this threshold.

- Make a concerted effort to increase P-Card use in the future specifically targeted at purchases under $1,000. Establish objectives/metrics to increase P-Card use each year over the next several years that meet this dollar threshold. (Objectives should be achievable yet challenge the organization to achieve significant progress.)

- Evaluate the current number and assignment of P-Cards deployed and cardholder dollar transaction limits (single and monthly). Engage Office Program Coordinators and Approving Officials to evaluate their business needs and determine if number and assignment of accounts and spending controls accurately reflect their operational requirements.

Management Comments

TFM Management appreciates the Auditor's review of the Purchasing Card program. In addition to recommendation 1.1 to enhance already strong program controls, TFM Management agrees that the County purchasing card is the preferred method of small dollar purchases and TFM will encourage purchasing card usage as the primary tool for purchases under $1,000 when feasible. TFM will promote this stance at Financial User Group meetings and directly with Purchasing Card Program Coordinators across the organization. TFM will develop metrics to evaluate how departments are responding to this request for additional card usage.

As part of a separate initiative under the direction of the County Manager and in concert with the Executive Leadership Team, TFM Management is re-evaluating the County's procurement policies, procedures and practices. As part of this review, TFM will analyze current purchasing level thresholds that may lead to changes to the individual purchasing card single and monthly transaction limits. In the meantime, TFM Management will continue to evaluate cardholder transaction limits during departmental audits and help departments analyze where greater purchasing card penetration may be appropriate for the department.

<div align="center"><u>**Discussion**</u></div>

The P-Card program simplifies the procurement process

Purchases following the traditional purchase order process have significantly more processing steps when compared to the P-Card process. There are 15 additional processing steps involved in the traditional purchase order process when compared to the P-Card process according to *NAPCP Report: The P-Card Value Proposition* [6]. Savings are realized when those 15 additional steps are omitted from the procurement process through use of the P-Card.

As noted in the previous section, 38,390 (26%) purchase transactions were completed by purchase order of which 17,609 were under $1,000. According to the RPMG Research Corporation's *2014 Purchasing Card Benchmark Survey*[7], a net savings of $69.82 per transaction can be achieved when using a P-Card over a traditional purchase order. If a P-Card would have been used in lieu of the traditional purchase order for the purchases under $1,000, the County could have potentially realized cost savings of up to $615,000 annually[8] depending on the P-Card acceptance rate with all vendors. (Savings noted are based on historical data and should only be used as a barometer to gauge future opportunities.)

Purchase transactions under $1,000

Defining the P-Card as the primary tool for purchases under $1,000 and encouraging its use for all small dollar purchases meeting this threshold can garner additional efficiencies for the entire procurement process. The complexity of Johnson County operations may necessitate the need for some purchase transactions to follow the traditional purchase requisition process, thus, allowing exceptions. Exceptions should be based on business reasons and should be rare. If implemented, purchasing and accounts payable resources could focus on strategic issues such as, supplier relationships or negotiating contract terms which would have a greater impact on the "bottom line".

The majority of standard P-Card holders are already equipped to pay for P-Card transactions under $1,000. In fact, 80% of all employees have a single transaction credit limit of $1,500 or more. In order to accommodate more transactions each month, the monthly transaction limit may need to be increased. Table 2.1 at the top of page 9 represents a breakdown of the 1,039 standard card holders by single transaction limit as of July 2016.

---

[6] *NAPCP Report: The P-Card Value Proposition*, August 2015.
[7] This report is a national survey with over 3,000 responses from purchasing cad end users representing public and private corporations, state and federal government, city and county government, public and private universities and colleges, and school districts.
[8] 17,609 purchase orders paid with a check multiplied by the savings to be realized by converting to P-Card ($69.82) divided by two for years reviewed.

Table 2.1: Standard issued P-Cards by limit
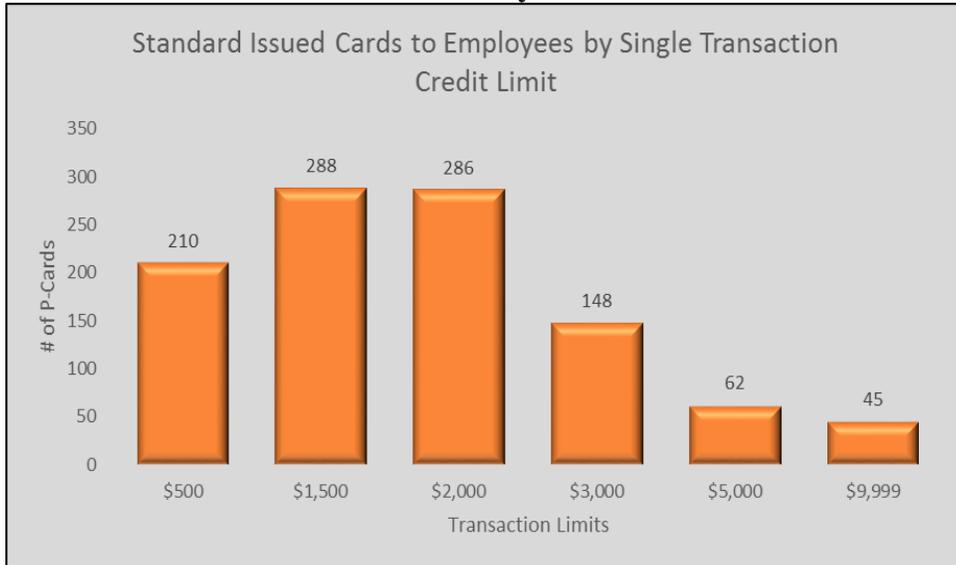
Source: Audit Services Analysis

We recommend TFM evaluate a business strategy which ultimately leads to using the P-Card for any purchase under $1,000.

Cardholder limits

During our review of high risk transactions, we noted purchases were being "split" to avoid the single transaction limit. We suggest single and monthly credit limits be reevaluated and adjusted based on expected organizational operational needs. Starting in 2016, TFM provided each department with an annual report of cardholder spending. Office Program Coordinators and Approving Officials should review cardholder limits to ensure they are in line with P-Card program objectives and operational requirements.

P-Card deployment

Table 2.2 below identifies the top five departments[9] with purchase order transactions. These departments make up 75% of the POs under $1,000 during the audit period[10]. All departments, but specifically these departments, should be reviewed to make sure enough P-Cards are available to the appropriate employees to transition to making more purchases with a P-Card.

Table: 2.2: POs by Department

DEPT	# of POs	Dollars
PRK	10,031	$2,402,389
JCL	1,666	$410,737
HSD	1,347	$414,005
SHR	1,269	$385,471
JCW	1,073	$290,972

Source: Audit Services Analysis of 2014 & 2015 PO activity

---

[9] The number of POs for the Park and Recreation District reflect P-Card implementation as of October 2013.

[10] These 20,593 POs under $1,000 generated a check, journal voucher or ACH payment.

Vendor Review

Table 2.3 below identifies the top five vendors with the greatest purchase order usage under $1,000.

Table 2.3: Top Five Vendors

Vendor	Transactions	Dollars
AT&T	1,227	$206,409
WaterOne	840	$144,073
First Student Inc	811	$223,489
Westar Energy Inc	505	$105,810
Ricoh Americas Corp / Ricoh Business Solutions	480	$85,798

Source: Audit Services Analysis of 2014 & 2015 PO activity

The audit confirmed each of these vendors accept the County P-Card. If the P-Card would have been used in lieu of a purchase order for these transactions, the County would have saved almost $270,000 in operating costs over the two years reviewed in our audit. A review of P-Card utilization is needed to determine if other vendors accept P-Cards to take advantage of additional cost savings.

Conclusion

Optimal program performance results when organizations strive for continuous improvement and build upon the best practice building blocks outlined in this report. Promoting and expanding the P-Card program to its maximum capacity by increasing P-Card usage throughout the County is the natural progression. The addition of monitoring controls discussed in Section 1 would create a stronger internal control environment and would allow management to focus on program growth and optimization. Expansion should initially focus on quantifying the return on investment (ROI) and setting realistic goals for P-Card expansion. Program metrics play a key role, as management should analyze data in relation to the goals and objectives of the program.

<u>OBJECTIVES, SCOPE AND METHODOLOGY</u>

Objective

The objective of the audit was to determine if the system of internal control established for the purchase card program provided reasonable assurance that internal controls were operating as intended.

Background

The P-Card program was implemented in Johnson County almost 20 years ago in 1997. In 2013, departments and agencies began scanning images of P-Card receipts, invoices and other pertinent attachments in Oracle to support P-Card purchases. The Park and Recreation District migrated to the County's P-Card program in 2013 as they previously used their own P-Card program. Currently, Johnson County has contracted with UMB Bank, n.a. (UMB) to administer the County's P-Card program and Treasury and Financial Management (TFM) is the responsible County department to oversee the program on behalf of Johnson County. Using a Johnson County government P-Card is the most efficient, cost effective method of purchasing and paying for eligible purchases or for any purchases that do not require competitive bids, including all delivery, shipping and/or special handling charges. The P-Card is favored over purchase orders because it enables users to obtain goods and services more efficiently and at a lower overall cost to the County. The intent is to streamline the traditional procurement process by reducing the number of requisitions, purchase orders, invoices and checks.

The purchasing program, at the time of review, had 1,083 P-Cards issued. The type of P-Card breaks out in the following manner:
- 1,039 Standard P-Cards
- 27   Business Purchasing Account (BPA)
- 12   Online Manager Account Owner (OMAO)
- 5   Emergency P-Cards

During the audit period of January 1, 2014 through December 341, 2015, the County generated 108,704 P-Card transactions for a total dollar spent of $33,114,411, which equates to an average P-Card transaction of $305.

The top 10 departments with the most P-Card transactions make up 82% of all transactions performed during the audit period. Those same 10 departments comprise 79% of all P-Cards issued.

Scope

The scope of the audit included an assessment of internal controls within the P-Card Program provide assurance that internal controls established within the Purchase Card Program are operating as intended. This review is Countywide and will include all departments, agencies and elected offices. The scope does not include the internal controls within the Oracle I expense

module. Review of P-Card transactions during this audit were between January 1, 2014 and December 31, 2015, unless noted otherwise.

Audit field work was completed on August 26, 2016.

Methodology

We conducted this audit in accordance with generally accepted government auditing standards, which require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained in this audit provides a reasonable basis for our findings and conclusions.

Internal Control

To determine the adequacy of internal controls, we:
- Compared the P-Cards policies and procedures to best practices identified by the National Association of Purchasing Card Professionals (NAPCP).
- Selected a random sample of 274 transactions to determine if the expenditures were properly supported by receipts, purchased for a business purpose, invoices stamped 'paid by p-card', purchased items were receipted-in when received, and if taxes were paid correctly, if applicable.
- Reviewed the transactions during the audit period for high risk transactions including but not limited to - duplicate payments, split transactions, forced transactions, terminated employees, and inactive cards.
- Review and analyze monthly management reports used to evaluate the P-Card program.
- Judgmentally selected annual audits for (5) departments for each year reviewed.
- Interviewed County staff involved in purchasing activities and other key stakeholders

This review may not find instances of 'circumvention of controls' such as:
- Storing a P-Card number online to a merchant account
- Collusion between/among P-Card holders to purchase items and review/approve their own purchase transactions

Data Analysis Methods
- All P-Card transactions and reports, during the scope period, as recorded in Johnson County's Accounting records are obtained through the County's enterprise management system, Oracle.

- A statistical sample was developed using software and IDEA random sample selection in order to review a sample of P-Card transactions. The statistical sample has a confidence level of 90% and +/- 5% interval. This means based on our review of the transactions, the results can be projected to the population of all P-Card transactions during the scope period +/- 5% with 90% confidence. We reviewed the sample of transactions for:
    o Supporting merchant receipts

- o Invoices stamped 'paid by p-card'
- o Business justifications
- o Purchased items receipted-in when received
- o Appropriate tax handling, if applicable

- IDEA was used to analyze and test the following types of P-Card transactions:
  - o Inappropriate transactions
  - o Transactions without supporting documentation
  - o Forced transactions
  - o Split transactions
  - o Duplicate transactions
  - o Evaluate the number of cards with no activity

- We also reviewed a sample of TFM's annual P-Card audits performed on each department and reviewed for effectiveness
  - o Supporting documentation of each audit selected for detailed review
  - o What issues are being discovered, are the issues being resolved, how long to resolve these concerns and what follow up is being performed by TFM?

- Review and analyze management reports information sourced from the Treasury and Financial Management (TFM) used to evaluate the weekly P-Card transactions for appropriateness.

Glossary of terms

Benchmark – A measurable metric or industry standard against which comparisons can be made.

Business purchasing account (BPA) – BPA's are similar to standard P-Card accounts except all BPA's will be cardless and attached to specific suppliers and contracts. These cards are issued to a County employee as well.

Cardholder - The employee who is issued a Government Purchasing Card.

Card inactivity – P-Cards which have not had any activity for more than 365 days.

Duplicate payments - County pays the same invoice more than once. Multiple payments on the same invoice.

Forced transaction – P-Card transactions not approved by the assigned approver in Oracle by 3:00pm on Tuesday. These transactions are 'Force Approved' by TFM in order to pay the bank on a timely basis.

High risk transaction – High risk P-Card transactions do not follow the County's Administrative Guidelines and are exceptions for the P-Card program.

Inactive Card – P-Card without transaction activity for 12 months.

Metric - Quantified, relative statistics used to rate card program performance.

Online manager account owner (OMAO) – OMAO is similar to a standard P-card account except that all OMAO's will be cardless and attached to a specific online managed County program site or event. These accounts will be subject to County P-card guidelines and purchasing procedures.

Procurement Card (P-Card) – A credit card issued to an employee for purchasing commodities and services in accordance with Johnson County's purchasing policies.

Single transaction limit – A specific limit on the dollar amount for any one transactions.

Split transaction – Separating a purchase that exceeds a cardholder's single-purchase limit into two or more transactions as a means of circumventing the cardholder's purchase limit.

Standard Issued P-Card – A County issued credit card that allows goods and services to be procured by County employees without using a traditional purchasing process.

Systemic controls - An automated means for controlling the purchases made with a P-Card (e.g., spend and velocity limits, MCC restrictions, etc.).

Terminated employee with active card – A terminated employee but their P-Card is still active with the bank.

Countywide Summary of P-Card Transactions

Dept	# of Cardholders (3)	2014 & 2015 P-Card Activity			
		Transactions		Amount	Average Amount
PRK	188	21,441	$	4,723,771	$ 220
FAC	94	18,108	$	4,666,700	$ 258
JCW	108	9,929	$	7,248,169	$ 730
JCD	92	9,751	$	1,532,661	$ 157
SHR	148	8,437	$	2,162,741	$ 256
JCL	85	5,219	$	1,142,251	$ 219
MNH	45	4,811	$	1,137,199	$ 236
COR	34	4,354	$	1,183,797	$ 272
DHE	57	3,976	$	1,988,161	$ 500
AIR	9	2,637	$	779,863	$ 296
DCA	12	2,233	$	569,411	$ 255
HSD	39	2,129	$	494,821	$ 232
PWK	33	1,790	$	710,218	$ 397
EMS	28	1,764	$	532,416	$ 302
EMC	24	1,740	$	547,327	$ 315
TFM	10	1,251	$	541,786	$ 433
DTI	15	1,199	$	487,847	$ 407
ELC	5	1,122	$	270,225	$ 241
CMO	10	1,058	$	218,990	$ 207
DAT	3	927	$	232,786	$ 251
APR	4	801	$	237,261	$ 296
HRD	16	750	$	234,624	$ 313
MUS	0	636	$	104,339	$ 164 (1)
PLN	6	552	$	190,901	$ 346
LGL	2	413	$	211,697	$ 513
JIM	5	363	$	293,359	$ 808
JCT	0	359	$	161,702	$ 450 (2)
BFP	3	342	$	335,301	$ 980
DCT	2	281	$	36,322	$ 129
RTA	5	229	$	116,963	$ 511
BOC	1	102	$	20,801	$ 204
Totals	1,083	108,704	$	33,114,411	$ 305

Notes:

(1)   As of January 1, 2016 the Museum became part of the Parks and Rec departmen
Services previously performed by JCT were assumed by Kansas City
(2)   Transportation Authority (KCATA).
(3)   Cardholders as of July 2016

[This Page Intentionally Blank]

NAPCP Purchasing Card Best Practices

The National Association of Purchasing Card Professionals (NAPCP) is a professional association committed to advancing Commercial Card and payment professionals and industry practices worldwide. The NAPCP is a respected voice in the industry, serving as an impartial resource for member sat all experience levels in the public and private sectors.

Program Design

1. Establish Roles and Responsibilities – The roles and responsibilities for each individual in the P-Card Program should be clearly defined to minimize gaps in accountability
   - Program Management Team
   - Cardholders
   - Approvers
   - Card Issuer
2. Create Goals and Objectives – P-Card program goals and objectives should support the organization's goals and payments strategy. Goals should be measurable, presented in a format that can be adopted by various departments and adjusted over time as the program changes and matures.
3. Written Policies and Procedures – A P-Card policy provides the foundation for establishing expectations for program participants and the program management team. End-user organizations must create card policies that align with program goals and objectives. Procedures support the policies and should be reviewed and revised as policies change. Procedures intended for cardholders and their managers should be easily accessible. Electronic procedures are easier to update and maintain that paper-based manuals, reducing the risk of employees using outdated materials. A periodic review of policies and procedures is advisable, especially as the program grows and changes.
4. Designed Control Environment – It is extremely important to design an effective control environment, one that neither under nor over controls the program. Appropriate controls should be integrated into a P-Card program from the beginning, during the design phase. Controls can also be strengthened or added to an existing program at any time, which is often necessary as a program grows or changes. Key controls include:
   - Cardholder reconciliation of posted transactions
   - Independent review of cardholder's transactions
   - Card limits – dollar and transaction
   - Merchant Category Codes (MCC) restrictions
   - Mandatory training for cardholders
   - Effective use of technology
5. Determine a tax strategy – Become familiar with the tax rules and regulations impacting your organization and, specifically, your targeted P-Card purchases. Develop a strategy that allows cost-effective compliance without unnecessary risk.

Program Management

1. <u>Partnership with Card Issuer</u> – Maximize your partnership with the card issuer by clearly communicating the agreed upon roles of each party from the onset. The partnership should continue to evolve along with the program. Developing a method for review of issues and concerns, including regularly scheduled communication and periodic meetings, facilitates the achievement of program goals.
2. <u>Internal Relationships</u> – Adopt a cross functional team when implementing or expanding a P-Card program. The team should include representatives from various stakeholder's departments. Their continued involvement with the program contributes to the ongoing success of the P-Card program.
3. <u>Utilize Metrics</u> – When incorporating the regular use of metrics into your program management strategy, focus on the ones that will increase program buy-in and lead to program optimization, such as pertaining to process savings, impact on A/P, program performance and compliance. Evaluate metrics in relation to program goals and compare to previous years' data as the program matures. Regularly present the results to management by providing relevant reports and synthesizing the key points into a few concise bullet points.
4. <u>Monitor Program Performance against Goals</u> – Performance tracking helps the organization to effectively manage program expansion and sustain long-term commitment to its P-Card program. Once program goals have been quantified, baseline metrics for reporting will need to be established. Prepare progress reports comparing actual results against performance goals. Use these reports to communicate progress to senior management identifying current performance and any potential growth opportunities.
5. <u>Expand your Knowledge</u> – Stay abreast of best practices and industry information by taking advantage of as many education opportunities as possible, including conferences, webinars, industry reports, websites and more. Networking and benchmarking with other organizations are important ways to identify process improvements and solidify current program strengths.

Enhanced Audit Procedures

1. <u>Systemic Controls</u> – Appropriate systemic card controls should be implemented for each P-Card account based on the cardholder's business needs while aligning with the program goals and policies. Systemic card controls provide an automated approach to controlling purchases, helping to prevent fraud and misuse, and supporting card use for targeted transactions. Typically, P-Card programs employ several of the following systemic controls:
   - Single Transaction Limit
   - Monthly Spend Limit
   - Velocity controls
   - Merchant category code (MCC) blocks
   - ATM Blocking
2. Attribute Documentation Review – Attribute testing may also be used to assess the internal controls. If the controls are found to be ineffective, modifications or supplemental controls may be necessary. These types of process audits generally occur

annually, but may vary depending on the stage of a program, previous audit results or other factors.

3. Transactional Auditing – This type of auditing focuses on card activity, such as transactions and supporting documentation to identify potential fraud and misuse and determine compliance with polices. Transaction audits should be strategic, focusing, for example on new cardholders purchases, transactions with prohibited vendors, purchases which do not occur during business hours, cardholders with recurring disputes, reviewing for proper approvals, and attached supporting documentation to list a few.

4. High Risk Transactions Auditing – This is a detective approach that focuses on high risk areas of misuse such as duplicate payments, split transactions, inactive cards, forced transactions, and inactive/terminated employees with active cards. Set data mining parameters to help identify these potential high risk transactions by department. This will not prevent the transactions but will help detect if these transactions are occurring and determine if additional training is needed.

5. Track Audit Results – The results of each department should be stored and compared against previous years' results to ensure all recommendations are being implemented. Additionally, the results of the entire organization should be compiled for a 'big picture' approach of all preventive and detective audit results. This information will allow each organization to modify any necessary training to address areas of compliance that need to be strengthened.