**INTERNAL AUDIT DEPARTMENT**
**COUNTY OF ORANGE**

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# Follow-Up of Department Control Review
# County Executive Office
# Purchasing Card Program, Audit No. 2346

**AUDIT NUMBER: 2440** **REPORT DATE: FEBRUARY 16, 2005**


| | |
|---|---|
| **Audit Director:** | **Peter Hughes, Ph.D., CPA** |
| **Deputy Director:** | **Eli Littner, CPA, CIA** |
| **Audit Manager:** | **Michael Goodwin, CPA, CIA** |
| **In-Charge Auditor:** | **Michael Dean, CIA** |
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Follow-Up of Department Control Review
County Executive Office
Purchasing Card Program
Audit No. 2346

As of November 30, 2004

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**COUNTY OF ORANGE**
INTERNAL AUDIT DEPARTMENT

**OFFICE OF THE DIRECTOR**

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**PETER HUGHES**
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**Transmittal Letter**

Audit No. 2440

February 16, 2005

TO: Thomas G. Mauk
County Executive Officer

FROM: Peter Hughes, Ph.D., CPA, Director
Internal Audit Department

SUBJECT: Follow-Up of Department Control Review
County Executive Office
Purchasing Card Program, Audit No. 2346

We have completed a follow-up audit of CEO/Purchasing's administration of the County's purchasing card program. Our follow-up audit was limited to reviewing, as of November 30, 2004, actions taken to implement the recommendations made in our audit report dated May 5, 2004.

We appreciate the courtesy and cooperation of your staff during our review.

Attachment

Other recipients of this report:
Members, Board of Supervisors
Members, Audit Oversight Committee
Foreman, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors
Ed Corser, Chief Financial Officer
Ellen Gordon, Administrative Manager, CEO/Purchasing and Real Estate
Dennis Edwards, Manager, CEO/Purchasing



*The Internal Audit Department is an independent audit function reporting directly to the Orange County Board of Supervisors.*

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**INTERNAL AUDITOR'S REPORT**

Audit No. 2440

February 16, 2005

Thomas G. Mauk, County Executive Officer
County Executive Office
10 Civic Center Plaza, 3rd Floor
Santa Ana, CA 92701

We have completed a follow-up audit of CEO/Purchasing's administration of the County purchasing card program. Our examination was limited to reviewing, as of November 30, 2004, actions taken to implement the recommendations made in our audit report dated May 5, 2004.

The original audit report contained nine recommendations. We are pleased to report that all nine recommendations have been fully implemented.

We noted that CEO/Purchasing has experienced significant staff turnover in the position responsible for administering purchasing cards. In addition, the Administrative Manager overseeing the program will be retiring this year. Because of the criticality of CEO/Purchasing's role in administering the program, and the potential effects from staffing changes and retirements, we plan to revisit this area within a year to reassess CEO/Purchasing's process and controls over the purchasing card program.

We appreciate the cooperation and assistance extended to us by the staff of CEO/Purchasing during our review.

Sincerely,

Dr. Peter Hughes, CPA
Director, Internal Audit Department

Distribution: Pursuant to Audit Oversight Committee Procedure No. 1
Members, Board of Supervisors
Members, Audit Oversight Committee
Foreman, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors
Ed Corser, Chief Financial Officer
Ellen Gordon, Administrative Manager, CEO/Purchasing and Real Estate
Dennis Edwards, Manager, CEO/Purchasing

# DEPARTMENT CONTROL REVIEW
# CEO/PURCHASING
# PURCHASING CARD PROGRAM

**FOR THE PERIOD FROM**

**JULY 1, 2002 THROUGH JUNE 30, 2003**

**REPORT DATE: May 5, 2004**

**Audit Number 2346**


| | |
|---|---|
| **Audit Director:** | **Dr. Peter Hughes, CPA, CIA, CITP** |
| **Deputy Director:** | **Eli Littner, CPA, CIA** |
| **Audit Manager:** | **Michael Goodwin, CPA, CIA** |
| **In-Charge Auditors:** | **Michael Dean, CIA** |
| | **Sonia Maceranka** |
| **Senior Auditor:** | **Toni Smart, CPA** |


**INTERNAL AUDIT DEPARTMENT**

**COUNTY OF ORANGE**

**DEPARTMENT CONTROL REVIEW**
**CEO/PURCHASING**
**PURCHASING CARD PROGRAM**

**For the Period from July 1, 2002 through June 30, 2003**

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**PETER HUGHES, Ph.D, MBA, CPA, CIA, CFE, CITP**
**Director**
Internal Audit Department
400 Civic Center Drive West
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(714) 834-5475 Fax: (714) 834-2880

## Transmittal Letter

Audit No. 2346

Date: May 5, 2004

TO: James D. Ruth
County Executive Officer

FROM: Peter Hughes, Ph.D., Director
Internal Audit Department

SUBJECT: Department Control Review of CEO/Purchasing - Purchasing Card Program

We have completed a review of internal controls and processes over CEO/Purchasing's administration of the purchasing card program for the period from July 1, 2002 through June 30, 2003. The final report is attached along with your responses to our recommendations.

We appreciate the courtesy and cooperation of your staff during our review.

Attachment

Other recipients of this report:
Pursuant to Audit Oversight Committee Procedure No. 1
Members, Board of Supervisors
Members, Audit Oversight Committee
Foreman, Grand Jury
Frederick A. Branca, Interim Deputy CEO/CFO
Darlene J. Bloom, Clerk of the Board of Supervisors
Bill Rawlings, Director, CEO/Purchasing and Real Estate
Ellen Gordon, Administrative Manager, CEO/Purchasing and Real Estate

**PETER HUGHES, Ph.D., MBA, CPA, CIA, CFE, CITP**
**Director**
Internal Audit Department
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**INTERNAL AUDITOR'S REPORT**

Audit No. 2346

May 5, 2004

James D. Ruth, County Executive Officer
County Executive Office
10 Civic Center Plaza
Santa Ana, CA 92701

We have completed a review of internal controls and processes over the purchasing card program, as administered by County Executive Office (CEO)/Purchasing, for the period from July 1, 2002 through June 30, 2003 to determine whether controls are adequate to ensure purchasing card issuances, terminations, and account modifications are valid, adequately supported, properly authorized, and transactions are executed in compliance with requirements of County of Orange Purchasing Card Program policy and procedure manual (Purchasing Card Manual). Our review was made in accordance with professional standards established by the Institute of Internal Auditors for the purpose of evaluating the adequacy of internal controls in the areas noted above. We believe our review provides a reasonable basis for our opinion.

CEO/Purchasing is responsible for establishing and maintaining a system of internal controls over the issuance, termination and account modification of purchasing cards. County departments/agencies also share responsibility for maintaining a system of internal controls over the usage of purchasing cards. The objectives of an internal control system are to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly. County Accounting Procedure (CAP) No. S-2 – *Internal Control Systems* prescribes the policies and standards to be followed by departments/agencies in establishing and maintaining internal control systems. Our review enhances and complements, but does not substitute for, CEO/Purchasing's continuing emphasis on control activities and self-assessment of control risks.

Because of inherent limitations in any system of internal controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate. Accordingly, our review made for the limited purpose described above would not necessarily disclose all weaknesses in CEO/Purchasing's operating procedures, accounting practices and compliance with County policy.

Based upon our review, it is our opinion that internal controls are generally effective to ensure purchasing card issuances, terminations and account modifications are valid, adequately supported, properly authorized, and transactions are executed in compliance with requirements of the Purchasing Card Manual.

We did observe opportunities where internal controls and processes should be further enhanced as detailed in the Observations, Recommendations and Management Responses section of this report. A response from CEO/Purchasing has been included for each recommendation and the complete text of the responses has been appended to the report.

We also evaluated CEO/Purchasing's process for administering the purchasing card program. We used a Process Maturity Model (See Attachment B) to evaluate the development and maturity of the program. Our evaluation determined that the process maturity level of the program is between Stage 3 (Stabilized) and Stage 4 (Actively Managed), which demonstrates the process has developed well since it's implementation. In the departments/agencies we reviewed, users reported Satisfaction with CEO/Purchasing's process, which typically correlates with this stage of process maturity. Implementing the recommendations in this report will help move the process further up the maturity scale.

We want to express our appreciation for the level of courtesy and cooperation extended to us by the personnel of CEO/Purchasing during our review. If we can be of further assistance, please contact me directly or Eli Littner, Deputy Director at (714) 834-5899, or Michael Goodwin, Audit Manager at (714) 834-6066.

Respectfully submitted,

Dr. Peter Hughes, CPA
Director, Internal Audit

Attachment A: County Executive Office Management Response
Attachment B: Process Maturity Model Evaluation

Distribution: Pursuant to Audit Oversight Committee Procedure No. 1
Members, Board of Supervisors
Members, Audit Oversight Committee
Foreman, Grand Jury
Frederick A Branca, Interim Deputy CEO/CFO
Darlene J. Bloom, Clerk of the Board of Supervisors
Bill Rawlings, Director, CEO/Purchasing and Real Estate
Ellen Gordon, Administrative Manager, CEO/Purchasing and Real Estate

# OVERVIEW

## OBJECTIVE

The Internal Audit Department conducted a review of CEO/Purchasing for the purpose of evaluating internal controls and processes to determine whether they are functioning adequately in the area of purchasing card maintenance to ensure:

- CEO/Purchasing's management and oversight of the process was effective.
- Purchasing card issuances, terminations, account modifications and transactions are valid, adequately supported and executed in accordance with management's authorization.
- Purchasing card issuances, terminations, account modifications and transactions are executed in compliance with requirements of County of Orange Purchasing Card Program policy and procedure manual (Purchasing Card Manual).

## BACKGROUND

On August 12, 1997, the Board of Supervisors approved the County's participation in the State of California's Purchasing Card Program (also known as the CAL CARD Program) with a six-month pilot program. On September 22, 1998, the Board of Supervisors approved continuation and expansion of the State of California's Purchasing Card Program.

The County elected to participate in the State of California's Purchasing Card Program in order to streamline purchasing and accounts payable processing for small dollar purchases. The purchasing card eliminates the requirement for small dollar purchase orders and requires only one monthly payment to the bank for multiple purchases that previously required individual payments to multiple vendors.

CEO/Purchasing is the County's Program Coordinator and is responsible for overall program management. CEO/Purchasing developed the Purchasing Card Manual for departments/agencies to follow regarding purchasing card usage, and was instrumental in implementing the program and providing initial training to all departments/agencies. CEO/Purchasing is primarily responsible for administering card issuances, terminations and account changes, and for monitoring compliance through periodic reviews in departments/agencies.

The current contractor for the County's purchasing card program is U.S. Bank. The International Merchant Purchase Authorization Card (IMPAC) is the division within U.S. Bank responsible for the program.

Each department/agency enrolled in the program has at least one cardholder, one Approving Official, and one Billing Official. The Approving Official's primary role is to authorize payment for purchases made by a cardholder. The Billing Official's primary role is to receive cardholder statements of account, match those to Purchasing Card Payment Approval forms received from the Approving Official(s), and submit them to the Auditor-Controller for payment.

As of June 30, 2003, 24 County departments/agencies participate in the County's purchasing card program and there were 156 County purchasing cardholders. For the year ended June 30, 2003, the Auditor-Controller processed $2,965,808 in purchasing card payments to IMPAC.

**SCOPE**

Our review was limited to internal controls and processes over purchasing card maintenance done by CEO/Purchasing from July 1, 2002 to June 30, 2003. Our review included inquiry, auditor observation and testing of relevant documentation for the purpose of assessing the adequacy of internal controls over the processes in CEO/Purchasing. We considered the Purchasing Card Manual and best business practices in our evaluation of controls.

We also selected five departments/agencies to include in our review [Assessor, Housing & Community Services (H/CS) Special Programs, Integrated Waste Management Department, Orange County Public Library, and Public Defender.] At the departments/agencies, we reviewed internal controls and performed testing of transactions to determine compliance with the Purchasing Card Manual. We have reported the results of our department/agency reviews under separate reports to each department/agency.

**CONCLUSION**

It is our opinion that internal controls in CEO/Purchasing are generally effective to ensure purchasing card issuances, terminations and account modifications are valid, adequately supported, properly authorized, and transactions are executed in compliance with requirements of the Purchasing Card Manual. We also evaluated CEO/Purchasing's process for administering the purchasing card program. We used a Process Maturity Model (See Attachment B) to evaluate the development and maturity of the program. Our evaluation determined that the process maturity level of the program falls between Stage 3 (Stabilized) and Stage 4 (Actively Managed), which demonstrates the process has developed well since it's implementation. In the departments/agencies we reviewed, users reported Satisfaction with CEO/Purchasing's process, which typically correlates with this stage of process maturity. Implementing the recommendations in this report will help move the process further up the maturity scale.

We did note opportunities where internal controls should be further enhanced as detailed in the Observations, Recommendations and Management Responses section of this report.

## OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

### I. Authorization

Obtaining documented approval by an authorized individual is a key control objective in a purchasing card process to ensure transactions are executed in accordance with management's intent. The following are areas where authorization should be improved to achieve this control objective:

#### A. Cardholder Modifications

We noted that CEO/Purchasing processes cardholder modifications (limit changes, name changes, address changes, etc) based upon any type of communication they receive from departments/agencies (telephone, email, memo) and from various department/agency individuals. They did not require written approval from the Billing Official as required in Section X of the Purchasing Card Manual. By not requiring written approval from the Billing Official for cardholder modifications, there is increased risk that unauthorized card modifications could occur. CEO/Purchasing indicated they would like to revise the procedures to require the Approving Official to authorize cardholder modifications instead of the Billing Official.

**Recommendation No. I.A**

CEO/Purchasing ensure written approval is obtained from a designated individual (either Billing Official or Approving Official) when processing purchasing card modifications. If the Approving Official is to authorize modifications, CEO/Purchasing should revise the purchasing card policy and procedures to reflect the new requirement.

**CEO/Purchasing Response: Concur**

CEO/Purchasing believes that the authorized signature list recommended in Recommendation No. I.B below should also be used for department heads to designate individuals to authorize purchasing card modifications, e.g., limit changes, name and address changes, etc. CEO/Purchasing will develop the form, implement its usage, and revise the purchasing card policy and procedure to reflect the new requirement by June 30, 2004.

#### B. Authorized Signature List

When a department requests new purchasing cards, the respective Approving Official must complete and sign a "Request for Procurement Card" form. We noted CEO/Purchasing does not maintain an authorized signature list of Approving Officials to verify signatures of individuals approving new purchasing cards. By not verifying the Approving Officials signature per the "Request for Procurement Card" form against an authorized signature list, there is increased risk that fraudulent or improper purchasing cards may be issued.

**Recommendation No. I.B**
CEO/Purchasing develop an authorized signature list of Approving Officials to which signatures per the "Request for Procurement Card" form are verified when processing the requests.

**CEO/Purchasing Response: Concur**
CEO/Purchasing will develop an authorized signature list, as noted above, that will include department head designees who may sign the Request for Procurement Card. The signature on the Request for Procurement Card will be verified against the signature on the authorized signature list prior to processing a request for a card. CEO/Purchasing will develop the form, implement its usage, revise the purchasing card policy and procedure to reflect the new requirement, and begin verifying signatures against the authorized signature list by June 30, 2004.

### C. Approval Verification

Before a department/agency issues a purchasing card to an employee, the employee must complete a "Request for Procurement Card" form, which both the cardholder and the Approving Official sign. We reviewed ten new card issuances and noted that, in four of the issuances, the applicable Approving Official did not sign the "Request for Procurement" card form. To ensure new cards are appropriately authorized, CEO/Purchasing needs to ensure all "Request for Procurement Card" forms are signed (not typed) by the applicable Approving Official.

**Recommendation No. I.C**
CEO/Purchasing ensure the applicable Approving Official signs all "Request for Procurement Card" forms.

**CEO/Purchasing Response: Concur**
Pending development and implementation of the authorized signature list noted above, CEO/Purchasing will begin immediately to ensure that all Request for Procurement Card forms are signed by the applicable approving official.

## II. Training

Section M of the Purchasing Card Manual states CEO/Purchasing is responsible for coordinating the training of all involved in the purchasing card program. CEO/Purchasing provided training for each department/agency when they enrolled in the purchasing card program.

**A. Training Policy**

Some current cardholders informed us that they have not received training on purchasing card usage. CEO/Purchasing provided initial training to departments/agencies; however, they indicated it is the responsibility of departments/agencies to provide training to new cardholders, Approving Officials, or Billing Officials. The Purchasing Card Manual does not state this requirement. The policy and procedures should be revised and communicated to departments/agencies. Not having adequate training increases the risk that purchasing cards may be used inappropriately.

**Recommendation No. II.A**

CEO/Purchasing ensure the Purchasing Card Manual is revised to reflect the current requirement for department/agency training of new cardholders, Approving Officials, and Billing Officials. Departments/agencies should be reminded of this requirement and ensure its staff receive training before granting their purchasing card responsibilities.

**CEO/Purchasing Response: Concur**

CEO/Purchasing will revise the Purchasing Card Manual to reflect agency/department training requirements and will issue a CEO/Purchasing Bulletin as a cover document to the revisions reminding agencies/departments that cardholders must receive agency/department-approved training prior to receiving a Cal Card. In addition, CEO/Purchasing will revise the Agreement between the County of Orange and I.M.P.A.C. Visa Cardholder form that is signed by the cardholder upon receipt of a Cal card to reflect that the employee has received Cal Card training on the requirements of the County purchasing card program prior to receiving the Cal Card. CEO/Purchasing will revise the Purchasing Card Manual, develop and issue the CEO/Purchasing Bulletin, and revise the agreement form by June 30, 2004.

**B. Issuance of New Purchasing Cards**

Upon receiving a new purchasing card from CEO/Purchasing, the cardholder must sign and complete a "Procurement Bank Card Program" form, which serves as an affidavit that the cardholder has received a copy of the procedures and understands key program procedures and policies.

Our review found some cardholders received their purchasing cards and signed the "Procurement Bank Card Program" form <u>without</u> having received training and a copy of the Purchasing Card Manual. CEO/Purchasing indicated they will revise the Request for Procurement Card form to include a statement that the employee has received training and a copy of the Purchasing Card Manual.

**Recommendation No. II.B**

CEO/Purchasing ensure that new cardholders receive training are given a copy of the Purchasing Card Manual prior to issuance of purchasing cards.

**CEO/Purchasing Response: Concur**
By June 30, 2004, CEO/Purchasing will revise the Agreement Between the County of Orange and I.M.P.A.C. Visa Cardholder form to replace Item #1 in the cardholder's affidavit as follows: "1. I have received a copy of the County of Orange Purchasing Card Program Policies and Procedures and agree to abide by them when using the U.S. Bank I.M.P.A.C. Visa Purchasing Card."

## III. Purchasing Card Manual

The Purchasing Card Manual was established in July 1999 and has had several subsequent revisions. We reviewed the current Purchasing Card Manual and used it in performing our review. We noted the following areas where the Purchasing Card Manual should be revised or enhanced to reflect current program requirements and to clarify certain issues.

The Purchasing Card Manual:

- Does not address whether various food purchases are allowable, such as food purchases for employees, and food purchases for external groups. We reviewed transactions of five departments/agencies and found several food purchases for employees, and some food purchases for external groups (such as the Orange County Workforce Investment Board, which includes mostly non-County employees). One option to address this issue is to reference other County or department/agency policies on the allowance and non-allowance of food purchases.

- Does not clearly define the County's single purchase limit. CEO/Purchasing informed us the limit was $5,000; however, we noted two cardholders who had $6,000 single purchase limits.

- Does not describe the procedure to follow when requesting new cards and obtaining new cards from CEO/Purchasing.

- Does not state the requirement for departments/agencies to provide training.

- Does not establish a timeframe for departments/agencies to notify CEO/Purchasing about terminations or transfers of employees in the program.

- Includes an outdated reference to a former CEO/Purchasing employee.

**Recommendation No. III.A**
CEO/Purchasing modify the Purchasing Card Manual to include references to other County policies and/or procedures on the allowance or disallowance of specific purchases, such as food purchases, and to direct any questions relative to the permissibility of payment for specific purchases to the Auditor/Controller Claims Unit. In addition, CEO/Purchasing should modify its procedures to define the single purchase limit, describe the procedure to follow when requesting and obtaining new cards, department/agency training requirements, and ensure all references to CEO/Purchasing employees are current.

**CEO/Purchasing Response: Concur**
CEO/Purchasing will revise the Purchasing Card Manual per the recommendation above by June 30, 2004.

## IV. Review of Reports Received from U.S. Bank

We were informed that CEO/Purchasing neither reviews, nor retains, reports received from U.S. Bank, such as the "Cardholder Alter List" report and the "New Account Report." These reports are critical because they show new cardholders and any account modifications, such as changes in authorized spending limits.

One individual in CEO/Purchasing is responsible for inputting new cardholder information, cardholder modifications, and cardholder terminations into U.S. Bank's Customer Automation and Reporting Environment (CARE) system. Ideally, another individual should review and verify the U.S. Bank Reports to documentation maintained in CEO/Purchasing that shows department/agency authorization of the new cardholders and account modifications. The "Cardholder Alter List" report should be reviewed to ensure only authorized purchasing card modifications are processed, and the "New Account Report" should be reviewed to ensure new cards are properly issued to authorized personnel. This review should be documented in writing and reports should be retained.

**Recommendation No. IV**
CEO/Purchasing ensure an independent person reviews U.S. Bank reports showing new card issuances and card modifications to ensure all modifications and new card issuances were properly authorized. These reports should be retained for four years, in accordance with the County's *Record Retention Schedule*.

**CEO/Purchasing Response: Concur**
Effective immediately CEO/Purchasing will begin retaining the Cardholder Alter List and the New Account Report and will assign an individual, other than the one responsible for inputting the information in U.S. Bank's Customer Automation and Reporting Environment system, to reconcile these reports with authorized purchasing card modifications and the authorized requests for Cal Cards, respectively.

## V. Information Technology Access Controls

CEO/Purchasing enters new cardholder information, cardholder modifications, and cardholder terminations into U.S. Bank's Customer Automation and Reporting Environment (CARE) system. We found that only one employee had CARE system access, but was allowing another employee to gain access to the system by utilizing the employee's unique user identification and password. Each CARE system user should be assigned a unique user identification and password to ensure accountability is established for the transactions processed.

**Recommendation No. V**

CEO/Purchasing ensure each CARE system user is assigned a unique user identification and password, and that unique identifications and passwords are not shared between employees.

**CEO/Purchasing Response: Concur**

Effective immediately CEO/Purchasing will request authorization from U.S. Bank to establish a user identification and password for additional individuals and will ensure that unique identifications and passwords are not shared between employees.

## VI. Review of Cardholder Status and Maintaining List of Cal Cards

CEO/Purchasing maintains a "Cal Cards" list of all cardholders, Approving Officials, and Billing Officials. The list also shows single purchase limits and 30-day limits. Our review of the June 30, 2003 list found four individuals whose current status was not correct: two deactivated cardholders were on the list, one current cardholder was not on the list, and one Approving Official had retired and was still on the list.

We also noted that CEO/Purchasing does not have a process to periodically verify the list to ensure it is current, and that only current County employees within the assigned department/agency maintain purchasing cards or are acting as Billing and Approving Officials. Terminated or transferred employees could possess a card, increasing the risk of fraudulent or unauthorized purchases. CEO/Purchasing should ensure it has a process to periodically verify the status of employees in the purchasing card program and ensure its Cal Card list is updated accordingly.

**Recommendation No. VI**

CEO/Purchasing develop a process to periodically verify that only current County employees within the assigned department/agency maintain purchasing cards and ensure its Cal Card list is current.

**CEO/Purchasing Response: Concur**

CEO/Purchasing will develop a process to periodically verify that only current County employees within the assigned department/agency maintain purchasing cards and ensure its Cal Card list is current by June 30, 2004.

## ATTACHMENT A: County Executive Office Management Response

County of Orange

MEMO

**DATE:** April 21, 2004

**TO:** Peter Hughes, Director
Internal Audit Department

**FROM:** Frederick A. Branca, Interim Deputy CEO/CFO
County Executive Office

**SUBJECT:** Draft Report on Department Control Review of Purchasing Cards

Attached is CEO/Purchasing's revised response to your report dated December 12, 2003. A response to your Recommendation IIB, which was inadvertently left out of our initial response, is included in the attached. In addition, the dates for implementation of the recommendations have been changed from March 31, 2004, to June 30, 2004. If you have any questions or wish to discuss our response, please contact Ellen Gordon at 834-7184 or ellen.gordon@ocgov.com.

Attachment

cc: William Rawlings
Ellen Gordon
Tony Bernard

EG C:\Documents and Settings\ceodlv\Local Settings\Temporary Internet Files\OLK4\Response to Internal Audit-Feb 2004-Cover Memo2-FAB.doc

**DRAFT REPORT ON DEPARTMENT CONTROL REVIEW OF PURCHASING CARD PROGRAM**
**CEO/PURCHASING RESPONSE**

**Recommendation No. I.A**
CEO/Purchasing ensure written approval is obtained from a designated individual (either Billing Official or Approving Official) when processing purchasing card modifications. If the Approving Official is to authorize modifications, CEO/Purchasing should revise the purchasing card policy and procedures to reflect the new requirement.

**CEO/Purchasing Response**: Concur
CEO/Purchasing believes that the authorized signature list recommended in Recommendation No. I.B below should also be used for department heads to designate individuals to authorize purchasing card modifications, e.g., limit changes, name and address changes, etc. CEO/Purchasing will develop the form, implement its usage, and revise the purchasing card policy and procedure to reflect the new requirement by June 30, 2004.

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INTERNAL AUDIT DEPARTMENT
2004 APR 29 AM 9:53

**Recommendation No. I.B**
CEO/Purchasing develop an authorized signature list of Approving Officials to which signatures per the "Request for Procurement Card" form are verified when processing the requests.

**CEO/Purchasing Response**: Concur
CEO/Purchasing will develop an authorized signature list, as noted above, that will include department head designees who may sign the Request for Procurement Card. The signature on the Request for Procurement Card will be verified against the signature on the authorized signature list prior to processing a request for a card. CEO/Purchasing will develop the form, implement its usage, revise the purchasing card policy and procedure to reflect the new requirement, and begin verifying signatures against the authorized signature list by June 30, 2004.

**Recommendation No. I.C**
CEO/Purchasing ensure the applicable Approving Official signs all "Request for Procurement Card" forms.

**CEO/Purchasing Response**: Concur
Pending development and implementation of the authorized signature list noted above, CEO/Purchasing will begin immediately to ensure that all Request for Procurement Card forms are signed by the applicable approving official.

EG C:\Documents and Settings\egordon.PURCHASING\My Documents\Purchasing\Card\Response to Internal Audit-Apr 04.doc

**Recommendation No. II.A**
CEO/Purchasing ensure the Purchasing Card Manual is revised to reflect the current requirement for department/agency training of new cardholders, Approving Officials, and Billing Officials. Departments/agencies should be reminded of this requirement and ensure its staff receive training before granting their purchasing card responsibilities.

**CEO/Purchasing Response**: Concur
CEO/Purchasing will revise the Purchasing Card Manual to reflect agency/department training requirements and will issue a CEO/Purchasing Bulletin as a cover document to the revisions reminding agencies/departments that cardholders must receive agency/ department-provided training prior to receiving a Cal Card. In addition, CEO/Purchasing will revise the Agreement between the County of Orange and I.M.P.A.C. Visa Cardholder form that is signed by the cardholder upon receipt of a Cal Card to reflect that the employee has received Cal Card training on the requirements of the County purchasing card program prior to receiving the Cal Card. CEO/Purchasing will revise the Purchasing Card Manual, develop and issue the CEO/Purchasing Bulletin, and revise the agreement form by June 30, 2004.

**Recommendation No. II.B**
CEO/Purchasing ensure that new cardholders receive training are given a copy of the Purchasing Card Manual prior to issuance of purchasing cards.

**CEO/Purchasing Response**: Concur
By June 30, 2004, CEO/Purchasing will revise the Agreement Between the County of Orange and I.M.P.A.C. Visa Cardholder form to replace Item #1 in the cardholder's affidavit as follows: "1. I have received a copy of the County of Orange Purchasing Card Program Policies and Procedures and agree to abide by them when using the U.S. Bank I.M.P.A.C. Visa Purchasing Card."

**Recommendation No. III.A**
CEO/Purchasing modify the Purchasing Card Manual to include references to other County policies and/or procedures on the allowance or disallowance of specific purchases, such as food purchases, and to direct any questions relative to the permissibility of payment for specific purchases to the Auditor/Controller Claims Unit. In addition, CEO/Purchasing should modify its procedures to define the single purchase limit, describe the procedure to follow when requesting and obtaining new cards, department/agency training requirements, and ensure all reference to CEO/Purchasing employees are current.

**CEO/Purchasing Response**: Concur
CEO/Purchasing will revise the Purchasing Card Manual per the recommendation above by June 30, 2004.

**Recommendation No. IV**
CEO/Purchasing ensure an independent person review U.S. Bank reports showing new card issuances and card modifications to ensure all modifications and new card issuances were properly authorized. These reports should be retained for four years, in accordance with the County's *Record Retention Schedule*.

**CEO/Purchasing Response**: Concur
Effective immediately CEO/Purchasing will begin retaining the Cardholder Alter List and the New Account Report and will assign an individual, other than the one responsible for inputting the information in U.S. Bank's Customer Automation and Reporting Environment system, to reconcile these reports with authorized purchasing card modifications and the authorized requests for Cal Cards, respectively.

**Recommendation No. V**
CEO/Purchasing ensure each CARE system user is assigned a unique user identification and password, and that unique identifications and passwords are not shared between employees.

**CEO/Purchasing Response**: Concur
Effective immediately CEO/Purchasing will request authorization from U.S. Bank to establish a user identification and password for additional individuals and will ensure that unique identifications and passwords are not shared between employees.

**Recommendation No. VI**
CEO/Purchasing develop a process to periodically verify that only current County employees within the assigned department/agency maintain purchasing cards and ensure its Cal Card list is current.

**CEO/Purchasing Response**: Concur
CEO/Purchasing will develop a process to periodically verify that only current County employees within the assigned department/agency maintain purchasing cards and ensure its Cal Card list is current by June 30, 2004.

# ATTACHMENT B: Process Maturity Model Evaluation

## Process Maturity Model

We utilized a Process Maturity Model (PMM) to evaluate where the current Purchasing Card Program process is in its maturity life cycle in order to establish priorities for process enhancements required to attain higher levels of business process maturity. The Process Maturity Model is based on the Capability Maturity Model (CMM) developed by the Carnegie Mellon University's Software Engineering Institute.

Like CMM and its focus on technology development, the PMM defines stages of business process development. These business processes typically progress through five distinct stages of maturity over the course of their life cycle. Some business processes may even regress from higher levels of maturity and slide downward due to management inattention, lack of awareness, or inadequate resources. Our PMM measures the five stages of business process maturity. The first stage describes a process in its infancy and the fifth and final stage describes a process that is fully matured, robust, responsive, flexible, adaptable, and collaborative. The Process Maturity Model identifies and defines the following five stages of process maturity.

**Stage 1: Initializing**
A Stage 1 process has little, if any, defined or documented standards, criteria or guidelines. Standards that are established are typically vague and general in nature and allow considerable latitude in interpretation. Performance measures are not used nor is the process tracked, monitored or actively managed. Consequently, the outcomes tend to be viewed by users as ad hoc, sporadic and subjective in nature with user frustration usually running high.

**Stage 2: Repeatable**
A Stage 2 process has standards and criteria that are partially defined, documented and communicated. Standards have some degree of specificity and enable users to somewhat predict the outcomes. Routines exist more than defined processes. The absence of clear objective criteria still contributes to some users' confusion, frustration, and dissatisfaction.

**Stage 3: Stabilized**
A Stage 3 process has objective standards and criteria that are becoming well defined, documented and communicated. Management is aware of performance measures and uses them to encourage consistent, predictable, and equitable outcomes. Users are adhering to guidance and their perceptions of the process tend to be favorable.

**Stage 4: Actively Managed**
A Stage 4 process has well defined objective criteria and standards that are clearly documented, adhered to and communicated. The process has well defined and comprehensive performance measures to monitor and ensure consistent and predictable results. User satisfaction is generally high.

**Stage 5: Strategically Managed**
A Stage 5 process has all the components of a Stage 4 process. The key difference is the built-in capacity to improve the services and results on an on-going basis. Process performance is regularly and routinely analyzed to identify bottlenecks and defects and to determine their root causes. The regular use of user surveys is designed into the process to ensure the results support the entities' strategic plans. Changes in process are well thought-out and discussed with users prior to implementation. Steering or advisory committees provide on-going oversight that balance competing and even conflicting objectives. Processes are transparent, well defined, supported, and, where appropriate, formal and objective "appeal" processes exist and provide balanced and timely resolution of conflicts.

User satisfaction typically correlates well with the stages of maturity. That is, users will typically be highly frustrated and dissatisfied with a process that is in its initializing stage because it is not meeting their needs. Users will typically be satisfied and happy with a process that is in the fifth stage of maturity, the strategically managed stage, because it is optimizing their needs.

**Process Components**
In evaluating the purchasing card process administered by CEO/Purchasing, we identified five components that should exist in the process to aid in our understanding of the strengths and weaknesses of the process. Those components we examined are as follows:

- **Process and Procedures:**
  We reviewed the County of Orange Purchasing Card Program policy and procedure manual (Purchasing Card Manual), how well the procedures were defined, how the policy and procedures were communicated to the users, and whether the process is applied consistently across the user groups. We also looked at how well the roles and responsibilities of the various parties were defined.

- **Tracking and Documentation:**
  We reviewed CEO/Purchasing's administration of the purchasing card program. This primarily involved their role in administering and tracking new card issuances, new cardholder information, cardholder modifications, and cardholder terminations.

- **Responsiveness:**
  We examined how responsive CEO/Purchasing has been to the needs of its customers, how helpful and accessible CEO/Purchasing staff is in addressing questions regarding the process, and how responsive the current process is in fulfilling business goals and objectives of the departments/agencies.

- **Training:**
  We inquired about the training CEO/Purchasing provided to departments/agencies when they enrolled in the purchasing card program and the process to ensure new employees involved in the program are adequately trained before assuming their purchasing card responsibilities.

- **Monitoring:**
  We briefly reviewed CEO/Purchasing's process for monitoring compliance with the Purchasing Card Manual. We also evaluated CEO/Purchasing's process of verifying the status of cardholders, Billing Officials and Approving Officials, and maintaining a master list of all employees in the purchasing card program.

**Summary of Audit Observations of the Process Components**
Below is a summary of the observations found based on our review. Our observations are categorized by the five components identified above. A detailed discussion of each observation is in the Observations and Recommendations section of this report.

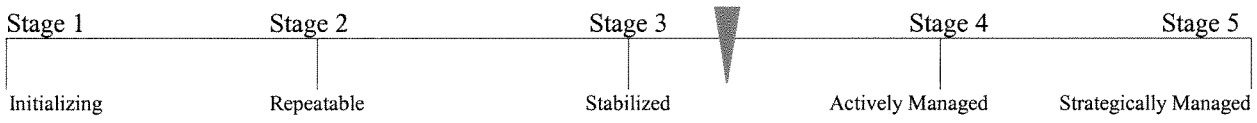
| *Process Component* | *Description* | *Report Detail* |
|---|---|---|
| Process and Procedures | • Ensure authorizations for new card issuances and card modifications are based on written documentation from only authorized individuals.<br>• Revise Purchasing Card Manual to reflect current practices.<br>• Ensure back-up employee responsible for inputting into the CARE system has his or her own unique user ID and password. | Report Items I.A – I.C<br>Report Item III<br>Report Item V |
| Tracking and Documentation | • Ensure new cardholders receive training and the Purchasing Card Manual prior to issuance of purchasing cards. | Report Item II.B |
| Responsiveness | • No issues identified. CEO/Purchasing has been responsive to department/agency needs. | - |
| Training | • Ensure the Purchasing Card Manual is revised to indicate department/agency responsibility for providing training to new purchasing card staff. | Report Item II.A |
| Monitoring | • Ensure an independent person reviews and verifies reports (New Account Report, Cardholder Alter List) received from U.S. Bank for proper authorization.<br>• Develop a process to periodically verify only current County employees appropriately maintain purchasing cards and ensure the accuracy and completeness of the Cal Card list. | Report Item IV<br>Report Item VI |

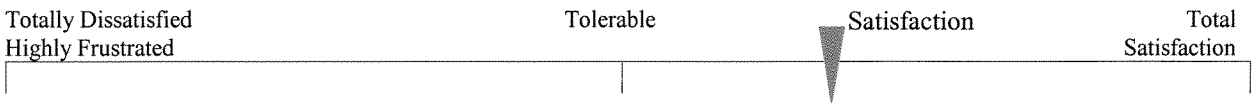
## Assessment of the Purchasing Card Process Using a Process Maturity Model

We rated CEO/Purchasing's process for administering the purchasing card program between Stage 3 – Stabilized and Stage 4 – Actively Managed. In addition, user satisfaction based on the departments included in our review was rated in the area of Satisfaction, which was expected given the maturity assessment of the process. The graphs below depict our assessment of the purchasing card process maturity and reported user satisfaction.

In our assessments of business processes, we recommend a stage three (Stabilized) maturity level as a minimum level for those processes we believe are critical and have large, widespread impact on the operations of the County. Our recommendations based on the audit observations would, if implemented, help CEO/Purchasing achieve Stage 4 (Actively Managed) maturity for the purchasing card process.

**PROCESS MATURITY**




**REPORTED USER SATISFACTION**