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HAMILTON COUNTY, TENNESSEE

OFFICE OF THE COUNTY AUDITOR

To: Weston Wamp, County Mayor
Hamilton County Commissioners
Dr. Justin Robertson, Superintendent – Hamilton County Schools
Hamilton County School Board members

From: Chris McCollough, County Auditor

Date: March 12, 2024

Subject: Hamilton County Schools (HCS) - Audit of Procurement Card (P-Card) Activity

We completed an audit of the HCS P-Card Program activity from January 1, 2023 through December 31, 2023. Our audit procedures included an assessment of internal controls over the issuance, use, and accounting for P-Card transactions, as well as testing for compliance with internal controls. Below is additional information related to the HCS P-Card Program and a summary of our audit objectives, procedures, and conclusions.

BACKGROUND

On March 1, 2019, HCS entered into a contract with Truist Bank to administer P-Card services. The initial contract covered March 1, 2019 through February 28, 2022; an amendment was signed February 7, 2022 extending the contract for an additional three-year term. The HCS began active use of P-Cards in August 2019.

The primary purpose for establishing HCS P-Card Program was to create an efficient, well-controlled, and cost-effective method for purchasing and paying for small dollar transactions. The HCS P-Card is issued by MasterCard and operates similarly to a standard credit card. However, the HCS P-Card is designed with more internal controls than a standard credit card. Some of the additional controls include:

- A designated P-Card Administrator to oversee the operations of the entire Program;
- Over 20 designated P-Card Coordinators to review and approve daily transactions;
- Ability to limit the use of the card to certain merchant types;

- Ability to limit single transactions by dollar amount;
- Ability to limit monthly transactions by dollar amount for each cardholder;
- Timely review and approval of all receipts by an alternate employee; and
- Review and approval of the monthly cardholder statement issued by Truist.

The following is a summary of the use of HCS P-Cards during the period January 1, 2023, through December 31, 2023:

➤ Number of active P-Card users	159
➤ Number of vendors used *	527
➤ Number of P-Card transactions	4,417
➤ Total P-Card expenditures	\$ 5,598,612

*See **Exhibit 1** for a listing of top vendors utilized based on purchases.

HCS use the following P-Card spending profile limits:

- \$500 per single transaction and \$1,000 monthly;
- \$1,000 per single transaction and \$3,000 monthly;
- \$2,500 per single transaction and \$7,500 monthly; and
- \$2,500 per single transaction and \$10,000 monthly.

The only exception to the P-Card spending profile limits above are for cards assigned to Purchasing and Information Technology. The Purchasing card has a \$250,000 single transaction limit and a \$500,000 monthly limit, while the Information Technology card has a \$25,000 single and monthly transaction limit.

Overall, control of the P-Card Program is centralized in the Procurement Department under the direction of the P-Card Administrator. Key responsibilities include maintaining the HCS P-Card Procedures Guide, conducting training for approved cardholders and P-Card Coordinators, issuing all P-Cards, and maintaining documentation of all P-Card authorizations. Documentation includes the Cardholder Enrollment Form and the Cardholder Agreement Form for all employees issued a P-Card.

Departmental control over P-Card use is the responsibility of departmental management and the assigned P-Card Coordinators. The department manager, director, or administrator is responsible

for approving which employees receive a P-Card. The P-Card Coordinators are responsible for reviewing and approving P-Card purchases, verifying that supporting documentation is uploaded to the Munis ERP general ledger accounting system, reconciling receipts to the monthly bank statement, and acting as liaisons with the accounting and purchasing departments.

The HCS P-Card Accountant processes payment to Truist for the monthly P-Card bill. This employee is responsible for confirming that all charges included on the monthly P-Card invoice were approved according to established procedures.

The contract with Truist provides an annual rebate incentive to be paid to HCS based on the total dollar amount of purchases processed via the P-Card Program. In February 2024, HCS received \$78,787 in rebate incentives for calendar year 2023. See **Exhibit II** for a list of P-Card rebates earned each year through the P-card program.

AUDIT OBJECTIVES

The objectives of our audit procedures were to:

- Assess whether internal control procedures over the issuance and use of P-Cards were adequately designed and functioning as intended to safeguard against fraud, waste, and abuse;
- Verify that all purchases using P-Cards were made following the HCS Procurement Rules and P-Card Procedures Guide; and
- Confirm that all purchases using P-Cards appeared to be appropriate expenditures for the use and benefit of HCS.

AUDIT PROCEDURES

Our audit procedures covered P-Card transactions from January 1, 2023, through December 31, 2023, and included the following:

- An assessment of internal controls over the issuance and use of P-Cards, including tests of the effectiveness of the internal controls built into the P-Card Program, controls over the proper use of P-Cards by HCS employees, and controls over reporting of transactions.
- Detailed tests of a sample of transactions to verify:
 - P-Cards were issued solely to authorized employees;
 - Adequate support is maintained for all P-Card purchases and is uploaded to the Munis ERP general ledger system;

- Purchases are reviewed and approved following HCS P-Card Procedures Guide;
 - P-Card transactions are posted to HCS general ledger on a timely basis; and
 - P-Card transactions are included on the monthly bill from Truist, and timely payment to Truist is made monthly.
- Analysis of all P-Card transactions during the audit period to verify that no transactions represented:
 - Duplicate charges;
 - Chained/split purchases (i.e., transactions in excess of the single transaction card limits that were split into multiple transactions in order to bypass the respective cardholder's spending limit);
 - Individual purchases in excess of the card's respective transaction limit;
 - Charges that included unexplained sales taxes or foreign transaction fees;
 - Disputed or fraudulent charges that were unresolved; and
 - Purchases that were not for the use and benefit of HCS.
 - Review HCS internal process for verifying the accuracy of the rebate earned and paid by Truist.

AUDITORS' CONCLUSION

Based upon audit procedures performed, the HCS P-Card Program appears to be accomplishing its primary objectives of (1) providing a convenient and efficient method for the purchase of certain goods and services, and (2) maintaining internal controls that promote adherence to HCS Purchasing Guidelines. Internal controls appear to function as intended to safeguard against significant fraud, waste, and abuse.

P-Card transactions (including card issuance to authorized employees, purchases of goods and services, recording of activity in the financial records, payment of monthly billing to Truist, receipt of rebate due, and compliance with guidelines) for the audit period were properly recorded in all material respects.

However, our examination found a few violations of P-Card procedures, which were all found to be corrected by the HCS P-Card Administrator Allison Coulter prior to our audit. We appreciate her diligent oversight of this program, in addition to assisting us during our work.

If you have any questions regarding this report, contact Austin Durall at 209-6211 or me at 209-6212.

Chris McCollough, County Auditor

Staff Assigned to Audit

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Mary Ellen Heuton, Chief Financial Officer, HCS

Kim Myers, Director of Accounting, HCS

Allison Coulter, Purchase Card Administrator and Vendor Manager, HCS

Lindsay Cepero, Director of Procurement, HCS

**Hamilton County Schools
 Top Spend Vendors (Total Purchases > \$40,000)
 Twelve Month Period January 1, 2023 through December 31, 2023**

Rank	Vendor	Total Purchases	# of Trans.
1	Republic Services	535,609	8
2	The Trane Company	412,084	59
3	Wholesale Supply Group	367,857	37
4	Rg & Associates	356,024	31
5	Chattanooga Electric	340,484	42
6	Motorola Solutions	250,571	10
7	Inline Electric Supply	220,282	25
8	Beeler Impression	208,574	47
9	W J O'Neil Company	162,365	1
10	Ixl School Subscript	157,500	1
11	Fastenal Company	103,859	22
12	Mid South Electrical	102,390	12
13	Ferguson Ent	82,808	35
14	Agparts Worldwide Inc	82,459	4
15	Pearson Education	80,623	13
16	Home Depot	79,839	427
17	Pye Barker	79,407	29
18	Kenny Pipe & Supply	63,627	21
19	Zonar	62,699	7
20	Icims, Inc.	62,603	1
21	Raptor Technologies	60,860	2
22	Dixie Industrial	60,539	28
23	Breeding Insulation Co.	60,507	4
24	Batteries + Bulbs	56,950	24
25	Virco Inc.	56,085	2
26	Wal-Mart	54,454	376
27	Western Psychological	51,270	9
28	Chattanooga Fire Inc.	49,631	15
	Sub-Total	<u>\$ 4,261,962</u>	<u>1,292</u>
	All Others Vendors	1,336,650	3,125
	Grand Total	<u>\$ 5,598,612</u>	<u>4,417</u>

NOTE: The above list represents all vendors from which the HCDE purchased over \$40,000 of goods and services via the P-Card Program during the period January 1, 2023 through December 31, 2023. The total purchases from these 28 vendors account for 76% of the total P-Card spend for the period.

**Hamilton County Schools
P-Card Rebates History
Calendar Years 2019 through 2023**

Rebate Year	Year Paid	P-Card Rebates
2019	2020	\$ 5,203
2020	2021	31,036
2021	2022	54,205
2022	2023	82,966
2023	2024	78,787
	TOTAL	<u><u>\$ 252,197</u></u>