

Hamilton County, Tennessee

Audit of Procurement Card (P-Card) Activity

October 2023



OFFICE OF THE COUNTY AUDITOR
455 NORTH HIGHLAND PARK AVENUE
CHATTANOOGA, TENNESSEE 37404

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COUNTY MAYOR

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HAMILTON COUNTY, TENNESSEE
OFFICE OF THE COUNTY AUDITOR

To: Weston Wamp, County Mayor
Jeff Eversole, Chair – Hamilton County Commission
Hamilton County Commissioners

From: Chris McCollough, County Auditor

Date: October 6, 2023

Subject: Audit of Procurement Card (P-Card) Activity

We performed an audit of the Hamilton County Procurement Card (P-Card) program for the statement periods December 26, 2021 through December 25, 2022. Our audit included a review of internal controls for P-Cards, compliance testing of the designed internal controls, and testing of expenditures. The following represents a summary of our audit procedures performed and conclusions reached.

BACKGROUND

In August 2003, the Hamilton County Board of Commissioners passed Resolution No. 803-46, which authorized Hamilton County to use county-issued P-Cards to pay for certain goods and services and contract with SunTrust Bank to administer the P-Card program. The program was re-bid in 2012, and SunTrust (now Truist Bank) was awarded the contract per Resolution 1112-6.

The county's P-Card program aims to develop a more efficient and effective purchase method for low-cost, high-volume items while maintaining adequate internal controls over the procurement process. Hamilton County's P-Card is issued by VISA and operates similarly to a standard credit card.

However, the county's P-Card is designed to have more internal controls than a standard credit card. The significant additional controls include:

- ability to limit uses of the card to certain merchant types;
- ability to limit single transactions by dollar amount;
- ability to limit monthly transactions by each cardholder by dollar amount;
- timely email notification to the cardholder and the cardholder's supervisory personnel, if applicable, of each use of the card;
- timely review of all receipts by an alternate employee; and
- monthly approval by the respective elected official, division administrator, or department director.

The following represents a summary of the use of the county's P-Cards during the statement periods December 26, 2021 through December 25, 2022:

No. of employee issued P-cards used during audit period	407
No. of vendors used	1,617
No. of P-card transactions	18,595
Total expenditures using P-cards	\$ 4,255,545

See **Exhibit I** for a summary of expenditures by department during the months audited and **Exhibit II** for a listing of the major vendors utilized.

The classifications of P-Cards available to county employees are as follows:

1. Level I - base card with limits of \$500 per single transaction and \$1,000 monthly spending without authorization for travel-related expenditures;
2. Level II - card with limits of \$1,000 per single transaction and \$3,000 monthly spending without authorization for travel-related expenditures;
3. Level III - card with limits of \$2,499 per single transaction and \$5,000 monthly spending with authorization for travel-related expenditures;
4. Level IV - card with limits of \$2,499 per single transaction and \$10,000 monthly spending with authorization for travel-related expenditures.

Note: One official requested that 26 of his employees retain base card limits of \$999 per single transaction and a monthly spending limit of \$5,000, with authorization for travel-related expenditures.

Overall, control of the P-Card program is centered in the Hamilton County Procurement Department, which is responsible for issuing P-Cards and conducting training to approved employees, maintaining documentation of all authorizations for issuances of P-Cards, and training for all department coordinators. The procurement department maintains documentation related to the P-Card program, which includes the 'Cardholder Enrollment Form' completed by the elected official, administrator, or director authorizing the procurement department to issue a P-Card to an employee; and the completed 'Cardholder Agreement – Procurement Card' form for all employees issued a P-Card.

Departmental control over the use of the P-Cards is vested in each department/division to the department coordinators. Department coordinators are responsible for reviewing all P-Card purchases for assigned cardholders, obtaining detailed support for all uses of the P-Card from the assigned cardholders, processing the expenditure through the county's P-Card computer application, and coordinating with the accounting department for the posting of the P-Card expenditure into the county's accounting system. After this review, P-Card expenditures must be approved monthly by the respective elected official, division administrator, or department director.

Payment of the monthly P-Card bill is processed by the county's procurement card accountant, an accounting department employee. This employee is responsible for confirming that charges listed on the P-Card monthly billing are approved by the respective department coordinator and elected official, division administrator, or department director before authorizing payment for the total of the monthly charges.

The county's contract with Truist Bank (who administers the P-Card program) provides a rebate incentive paid to the county based on the volume of expenditures processed. The county received a rebate of \$53,147.51 (\$46,219.93 P-Card purchases, \$6,927.58 payable purchases) for expenditures processed through the P-Card program for calendar year 2022. See **Exhibit III** 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 review the internal control procedures over the issuance and use of P-Cards to ensure they are controlled, reported, and safeguarded against fraud, waste, and abuse;
- To verify that all P-Card expenditures followed state law, county procurement rules, and the County's Procurement Card Procedures Guide;
- To verify that all expenditures using P-Cards were valid expenditures for the use and benefit of Hamilton County; and
- To assess the effectiveness of the county's P-Card program in achieving efficiencies in the procurement of low-cost, high-volume items.

AUDIT PROCEDURES

Our audit procedures cover the P-Card statement periods from December 26, 2021 through December 25, 2022, and include the following:

1. Test of internal controls over the issuance and use of P-Cards, including tests of the effectiveness of controls built into the P-Cards, controls over the proper use by county employees and controls over the reporting of these transactions.
2. Detail tests of sampled transactions to ensure that:
 - a) the county limits issuance of P-Cards to employees properly authorized by appropriate personnel;
 - b) adequate support is maintained for all P-Card expenditures, included in the respective procurement card log, and reviewed adequately for program compliance by the appropriate personnel.
 - c) P-Card transactions for travel-related expenditures are adequately supported and detailed on the respective employee's travel expense report filed in the accounting department;
 - d) P-Card transactions are posted adequately into the county's general ledger system on a timely basis; and
 - e) P-Card transactions are included on the monthly billing, and proper payment for the P-Card transactions are remitted to the paying agent (Truist Bank) on a timely basis.
3. Tests of P-Card transactions during the audit period to ensure that no transactions contain:
 - a) duplicated charges;
 - b) chained/split purchases (i.e., transactions over the single-transaction card limits which split into multiple transactions to bypass the respective card's procurement limit);
 - c) disputed and/or fraudulent charges that were unresolved;
 - d) individual expenditures over the card's respective transaction limit; and
 - e) purchases that were not for the use and benefit of Hamilton County.
4. Review the P-Card program and verify that the rebate was computed correctly, deposited, and recorded in the county financial records timely.

AUDITORS' OPINION & FINDINGS

In our opinion:

- the county's P-Card program appears to be accomplishing its primary goals of (1) providing an efficient method for procurement of specific goods and services and (2) maintaining adequate internal controls over the purchase of lower-cost, high volume items; and
- P-Card transactions (including the issuance to authorized employees, purchases of goods and services using P-Cards, recording of activity in the county's financial records, payment of the monthly billing for P-Card expenditures, receipt of the rebates due, and compliance with guidelines) for the audit period were properly recorded in all material respects.

However, our examination noted certain violations and other controls that need improvement in the P-card program. These exceptions and our recommendations are as follows:

Fuel Purchases

Observation – Using a P-Card to purchase fuel is allowed for county vehicles if the vehicle is outside the State of Tennessee or under special circumstances. During our audit, it was noted that an employee purchased fuel using their P-Card instead of the fuel card assigned to the county vehicle at a location in Tennessee. We expanded our sample of fuel purchases and found a total of one-hundred thirty (130) transactions totaling \$7,103.12 in which fuel was purchased in Tennessee. These transactions include Federal and State taxes that would not be included if the drivers had used the designated fuel card issued to the car. It is important that when operating a county vehicle, fuel must be purchased using the fuel card designated to that vehicle. In 2019, the county established a fuel card program to purchase fuel for county-owned vehicles.

Recommendation – The procurement department should send an email reminding cardholders to use their fuel card when making fuel purchases because purchases with their P-card are not tax-exempt. Repeat offenders will have restrictions placed on their P-Card to prevent the purchase of fuel out of the State of Tennessee. In addition, this distinction needs to be integrated as part of the P-Card training process

Management Response –We do remind cardholders during training that the P-Card is not to be used for fuel. We will do another mandatory training for repeat offenders.

Circumventing P-Card Transaction Limits (Chaining Transactions)

Observation – The county established controls over P-card transactions, which are intended to limit individual transactions to the dollar amount assigned to each card (transaction limits are \$500, \$1,000, and \$2,499, depending on the card type). During our audit, we noted five (5) purchases in

which the P-card transaction limit was bypassed by splitting a transaction costing above the single-transaction limit into multiple transactions. Although the P-Card training discusses chaining, nothing exists in P-Card policy prohibiting chaining and splitting transactions to avoid single-transaction limits.

Recommendation – We recommend that procurement add this restriction for splitting and chaining transactions to the P-Card Policies and Procedures Guide. Also, we suggest improvements in the controls with P-Card coordinators to help identify transaction limit violations. Additionally, policy needs to be updated to establish penalties for repeat offenders.

Management Response – We will update the P-Card Policies and Procedures Guide by September 30, 2023, and add another mandatory training for repeat offenders.

Disallowed Purchases

Observation – We found one (1) transaction where an employee purchased flowers for the death of a non-employee. In addition, an employee purchased a gift card using their P-Card, which is disallowed. The Hamilton County Employee Handbook (page 39, section 521) and the P-Card policy and procedures (page 6, section 3.12) each state that such purchases are not authorized in county policy.

Recommendation – The procurement card administrator should send out an email periodically to all cardholders as a reminder of what does and does not constitute an allowable purchase under P-Card policy.

Management Response – We will send out email reminders and do another mandatory training for repeat offenders if needed.

Documentation for Unusual Purchases

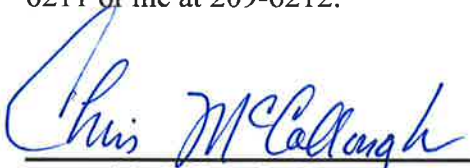
Observation – In our sample, we noted purchases that seemed unusual to the needs of each of the respective departments (example: tents and chocolates). Due to the nature of the purchases, the departments were asked to describe what the items were used for.

Recommendation – We recommend that the cardholder be required to include a description and purpose of unusual items purchased by each department. The procurement department needs to update the policy to incorporate this requirement to note unusual items purchased by the departments.

Management Response – P-Card training includes examples of unusual purchases that require additional explanation for their purpose. I will email a reminder to all coordinators and cardholders that receipts or invoices should state the intent of the purchase.

Also, we recommend that the procurement card administrator issue an email reminding all cardholders and department coordinators of the policies and procedures guide Section 5 – summary of responsibilities of key personnel.

We appreciate the help of the procurement department staff in assisting us during our audit. If there are any questions regarding this report, please call Austin Durall, Audit Manager, at 209-6211 or me at 209-6212.



Chris McCollough, County Auditor

Staff Assigned to Audit

Austin Durall, Audit Manager
Maricela Madera, Staff Auditor

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Claire McVay, Chief of Staff
Lee Brouner, CFO
Vonda Patrick, Deputy CFO
Jerald Carpenter, Director of Procurement & Fleet Management
Jamie Davis, Procurement Card Administrator
Rhonda Waters, Procurement Card Program Manager

Hamilton County, Tennessee
Summary of P-Card Expenditures by Department
Twelve Month Period December 26, 2021 through December 25, 2022

Count	Department	Total Purchases	No. of Trans.
1	Assessor of Property	\$ 7,167	53
2	Chief of Staff	28,837	97
3	Circuit Court Judges	16,384	215
4	Clerk & Master	3,061	59
5	County Attorney	13,333	111
6	County Auditor	13,823	81
7	County Board of Commissioners	18,826	100
8	County Clerk	27,221	183
9	County Election Commission	79,564	307
10	County Mayor	46,254	351
11	Criminal Court Clerk	13,307	47
12	Criminal/Sessions Court Judges	39,693	237
13	District Attorney	21,582	111
14	Economic Community Development	12,063	103
15	Emergency Management	137,264	472
16	Engineering	43,851	263
17	Finance Division	807,766	748
18	Finance Division	58,178	224
19	General Services Division	180,673	600
20	Hamilton Co Alternative Sentencing Programs Dept	35,128	259
21	Health Division	428,574	3,258
22	Human Resources Division	34,788	260
23	Juvenile Court	64,401	374
24	Juvenile Court Clerk	3,683	29
25	Maintenance	329,129	1,971
26	Parks & Recreation	356,256	1,548
27	Public Defenders Office	15,384	52
28	Public Works	907,926	3,438
29	Sheriff	317,213	1,743
30	Trustee	13,872	96
31	Various County Administrators (3)	4,579	39
32	Various County Elected Officials (13)	100,843	708
33	WWTA	74,928	458
TOTALS		\$ 4,255,545	18,595

Hamilton County, Tennessee

Major P-Card Vendors (Total Purchases > \$40,000)

Twelve Month Period December 26, 2021 through December 25, 2022

Count	Department	Total Purchases	No. of Trans.
1	Amazon.com	\$ 287,282	2742
2	Gulf States Distributing	181,944	12
3	Goodyear Commercial Tire	162,882	25
4	Quill Corporation	100,984	528
5	Baker Donelson	92,209	3
6	Staples	88,678	590
7	Cos Business Product	86,305	207
8	Lowes	85,111	649
9	Esri (Environmental Systems Research Institute)	83,556	2
10	The Home Depot	66,068	462
11	Wal-Mart	61,481	589
12	Qpr Incorporated	51,573	68
13	Elders Ace Hardware	50,063	773
14	Redwood Toxicology Labora	46,668	22
15	Lee-Smith Inc	46,047	164
16	Times Free Press	43,494	135
	All others (1,660 vendors)	2,721,199	11,624
TOTALS		\$ 4,255,545	18,595

NOTE: The above represents a list of sixteen (16) vendors from which Hamilton County procured the most goods and services (36%) using P-cards during the twelve month period of December 26, 2021 through December 25, 2022.

Hamilton County, Tennessee
P-Card Rebates
Calendar Years 2005 through 2022

Rebate Year	Year Paid	P-Card Rebates	Payable Rebates	Total
2005	2006	\$ 13,962	\$ -	\$ 13,962
2006	2007	15,117	-	15,117
2007	2008	15,047	-	15,047
2008	2009	15,055	-	15,055
2009	2010	13,356	-	13,356
2010	2011	13,542	-	13,542
2011	2012	13,119	-	13,119
2012	2013	13,490	-	13,490
2013	2014	38,024	10,017	48,041
2014	2015	41,367	16,146	57,513
2015	2016	58,878	28,716	87,594
2016	2017	40,969	27,662	68,631
2017	2018	43,337	23,013	66,350
2018	2019	46,406	12,376	58,782
2019	2020	44,677	11,988	56,665
2020	2021	46,202	9,478	55,680
2021	2022	43,321	10,605	53,926
2022	2023	46,220	6,927	53,147
TOTAL		<u><u>\$ 562,088</u></u>	<u><u>\$ 156,928</u></u>	<u><u>\$ 719,017</u></u>

NOTE: Effective May 2013, the County established a credit account with Truist Bank allowing P-Card payments to be made to certain frequently used vendors. This account not only eliminated costly processing of paper checks, but also increased the revenue rebates to the County as shown above.

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COUNTY MAYOR

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HAMILTON COUNTY, TENNESSEE
OFFICE OF THE COUNTY AUDITOR

To: Mayor Weston Wamp
Hamilton County Commissioners

From: Chris McCollough *CM*

Date: October 9, 2023

Subject: Audit of Procurement Card (P-Card) Activity

Enclosed is a copy of our audit report on procurement card expenditures. Our audit covered the twelve month period of December 26, 2021 through December 25, 2022, and primarily focused on the County's internal controls and operating procedures for controlling and accounting for expenditures using P-cards.

If you have any questions regarding our audit procedures and/or conclusions, feel free to call Austin Durall, Audit Manager at 209-6211 or me at 209-6211.

copy: Claire McVay, Chief of Staff
Lee Brouner, Chief Finance Officer
Vonda Patrick, Deputy Chief Finance Officers
Jerald Carpenter, Director of Procurement & Fleet Management
Jamie Davis, Procurement Card Administrator
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