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# Purchasing Card (P-Card) Expenditures

July 2016

*Internal Audit Report Authorized by the  
Maricopa County Board of Supervisors*

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## Report Highlights

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Office of Procurement Services (OPS) will review P-Card system procedures annually and update as needed.

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OPS will ensure that the Merchant Category Code blocking feature is effectively utilized.

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OPS will clarify P-Card policy pertaining to purchases of negotiable items; Juvenile Probation Department (JPD) will strengthen controls over gift card purchases.

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Incentive payments (rebates) appear accurate.

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**Objectives** To determine that County Purchasing Card (P-Card) transactions are appropriate and in compliance with County policy.

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**Scope** Our audit scope encompassed fiscal year (FY) 2015 P-Card transactions at four agencies with P-Card expenditures of \$600,000 or more (Equipment Services, Facilities Management, Office of Procurement Services, and Department of Transportation).

We also reviewed a small number of transactions at five additional agencies (Air Quality, Juvenile Probation, Library District, Parks & Recreation, and Public Health).

In addition, we reviewed the Merchant Category Code blocking feature, as well as incentive payments (rebates) for calendar year (CY) 2014.

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**Standards** This audit was approved by the Board of Supervisors and was conducted in conformance with International Standards for the Professional Practice of Internal Auditing. The specific areas reviewed were selected through a formal risk-assessment process.

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**Auditors** Carla Harris, Audit Manager, CPA, CIA, CFE  
Tim Lockinger, Senior Auditor  
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This report is intended primarily for the information and use of the County Board of Supervisors, County leadership, and other County stakeholders. However, this report is a public record and its distribution is not limited.

We have reviewed this information with the directors for all agencies reviewed. The OPS Action Plan was approved by Kevin Tyne, Chief Procurement Officer, on 7/12/16. The JPD Action Plan was approved by Eric Meaux, Chief Juvenile Probation Officer, on 7/18/16.

If you have any questions about this report, please contact Carla Harris, Audit Manager, at 602-506-6092.

**Audit Results**

**Issue #1: Compliance with Policies & Procedures**

**Observation:** We reviewed 126 P-Card transactions totaling \$306,989, involving 9 County agencies and 31 cardholders. The summary results are:

- No inappropriate purchases were noted.
- Four cardholders exceeded approved monthly credit limits because the automatic system control to decline “over-the-limit” transactions was not activated. According to the Office of Procurement Services (OPS), the system control was activated in February 2016.
- Various administrative exceptions were identified, such as missing documentation and missing/late approvals. None was considered significant.

<b>Conclusion #1A:</b> No inappropriate P-Card transactions were identified.	
<b>Recommendation</b>	<b>Action Plan</b>
None	N/A
<b>Conclusion #1B:</b> Four cardholders exceeded their monthly credit limits because the available system control was not implemented until February 2016.	
<b>Recommendation</b>	<b>OPS Action Plan</b>
<b>1B-1</b> OPS should work with the P-Card vendor, at least annually, to ensure that available system controls have been activated and are operating as intended. OPS should document review.	Concur – completed OPS has addressed this issue with US Bank. US Bank made system changes in order to apply the ‘hard-stop’ functionality to monthly card limits. Once imposed, the feature remains in effect until superseded by a request. OPS will perform an administrative review of the P-Card program configuration annually and validate that the functionality remains active.

**Issue #2: Merchant Category Code Blocking**

**Observation:** Merchant Category Code (MCC) blocking has not been fully implemented, as 66 of 91 (73%) MCCs that appear to be inconsistent with County policy/business needs have not been blocked.

The P-Card system offered by the County's P-Card vendor allows for the automatic blocking of purchases at certain merchants based upon the merchant's category code. The current listing contains 323 MCCs. While OPS has blocked 25 "high risk" MCCs recommended by the P-Card vendor, we identified an additional 66 MCCs that appear to be inconsistent with County policy/business needs.

<b>Conclusion #2A:</b> The Merchant Category Code (MCC) blocking feature has not been fully implemented.	
<b>Recommendation</b>	<b>OPS Action Plan</b>
<b>2A-1</b> OPS should ensure that the MCC blocking control feature is effectively utilized by reviewing all MCCs at least annually, and as new MCCs are added. Written procedures for conducting this review should be developed.	<p>Concur – in progress</p> <p>The County currently utilizes US Bank's recommended high risk MCC blocking list. OPS is currently reviewing active MCC codes and will make adjustments to appropriately safeguard the County. OPS will include MCC review in its administrative program review to be conducted annually and will evaluate new MCC codes as added.</p> <p>Target Date: 8/01/2016</p>

**Issue #3: Gift Cards**

**Observation:** During FY 2015, the Juvenile Probation Department (JPD) used the County P-Card to purchase 701 gift cards totaling \$23,301 (which included \$381 in fees). We found that:

- Controls were not in place to ensure that purchases made using gift cards were properly accounted for.
- Gift cards totaling \$17,305 (unaudited) have reportedly been in stock since the Drug Court Incentives Program ended in April 2015. JPD received approval to repurpose the gift cards to the Graduated Responses Program on March 14, 2016.
- Gift cards were used to provide approved food/refreshments at employee recognition events (the expenditure exceeded the approved amount by \$87 for transaction fees).
- Seventeen gift cards totaling \$1,792 were purchased in FY 2016, after the policy was revised to prohibit such purchases.
- The County P-Card Policy was revised in July 2015 to prohibit all purchases of negotiable tender. However, negotiable tender is not defined. Additionally, OPS reports there are some allowable exceptions that are not addressed in the policy.

<b>Conclusion #3A:</b> County policy regarding the acceptable use of P-Cards for purchasing gift cards and other negotiable tender should be clarified.	
<b>Recommendation</b>	<b>OPS Action Plan</b>
<b>3A-1</b> OPS should clarify the language in the P-Card Policy pertaining to purchases of negotiable tender, including gift cards and other negotiable instruments. Allowable purchases and approval requirements should be clearly identified, if applicable.	<p>Concur – in progress</p> <p>OPS is currently drafting language to update the current policy to ensure clarity and to define “negotiable tender,” as well as any allowable exceptions to the policy and requirements for approval, reconciliation, and tracking any exceptions.</p> <p>Target Date: 8/01/2016</p>
<b>Conclusion #3B:</b> Controls over gift cards purchased by JPD need strengthening.	
<b>Recommendations</b>	<b>JPD Action Plan</b>
<b>3B-1</b> JPD should take a complete inventory of all gift cards on hand, and ensure that all gift cards are accounted for and used appropriately.	<p>Concur – in progress</p> <p>The inventory of all gift cards was completed on July 7, 2016, and 3,586 cards totaling \$23,970.93 are accounted for. Gift cards originally intended for use by the Juvenile Drug Court incentives program have been reauthorized for use as probation incentives, which are managed under JPD Policy <u>III.A(38) Graduated Incentives and Responses</u>.</p> <p>Controls over gift cards will be strengthened by storage in the Admin safe. Requests for incentive cards will be forwarded through the chain of command.</p> <p>Target Date: 12/31/2016</p>

Recommendations	JPD Action Plan
<p><b>3B-2</b> JPD should develop procedures to help ensure compliance with County policy regarding the purchase and accountability of negotiable tender.</p>	<p>Concur – in progress</p> <p>Procedures for the procurement and issuance of youth incentives that require the purchase of negotiable tender will be documented within Judicial Branch Procurement policies and the JPD Policy <u>III.A(38) Graduated Incentives and Responses</u>.</p> <p>Approved food purchases for employee recognition events will no longer be funded through the purchase of negotiable tender or gift cards. Key personnel will be authorized to make purchase of approved food expenses directly from vendor(s) using the P-Card.</p> <p>Target Date: 12/31/2016</p>

**Issue #4: Incentive Payments (Rebate)**

**Observation:** P-Card rebates for CY 2014 totaled \$533,959, and appear to have been properly calculated in accordance with the Procurement Card Services Contract.

<p><b>Conclusion #4A:</b> Incentive payments for CY 2014 totaling \$533,959 appear to have been properly calculated.</p>	
Recommendation	OPS Action Plan
None	N/A