



A Report
to the
Board of
Supervisors

*Maricopa County
Internal Audit
Department*

Ross L. Tate
County Auditor

Countywide Review

Continuous Monitoring

*Monitoring of procurement card
activities and merchant credit
transactions*

November ■ 2005

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The **County Auditor** is appointed by the Board of Supervisors. The mission of the Internal Audit Department is to provide objective, accurate and meaningful information about County operations so the Board of Supervisors can make informed decisions to better serve County citizens.

Audit Team Members

Susan Adams, Senior IT Auditor
Tom Fraser, IT Auditor

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Our reports can be found in electronic format at:
www.maricopa.gov/internal_audit



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November 29, 2005

Max W. Wilson, Chairman, Board of Supervisors
Fulton Brock, Supervisor, District I
Don Stapley, Supervisor, District II
Andrew Kunasek, Supervisor, District III
Mary Rose Wilcox, Supervisor, District V

We have completed our FY 2004-05 Continuous Monitoring activities. This review was performed in accordance with the annual audit plan approved by the Board of Supervisors. Continuous monitoring is performed annually to deter abuse and increase management's awareness of risks associated with electronic procurement, point-of-sale transactions, and vendor/employee conflict of interest.

The highlights of this report include:

- \$5,775 in fuel was purchased on a terminated employee's purchase card
- \$4,667 in potential lost and unrecoverable revenue resulted from inappropriate credit card refunds
- Review of inappropriate dual status employee/vendor relations yielded no exceptions

Within this report, you will find an executive summary and specific information on the areas reviewed. We appreciate the excellent cooperation provided by County management and staff in providing the data needed for this review. If you have any questions, or wish to discuss the information presented in this report, please contact Susan Adams at 506-1587.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate
County Auditor

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Executive Summary

Procurement Card Management (Page 4)

Eighteen active P-cards were matched to now terminated employees. Non-compliance with the County's P-card policy resulted in four of those active accounts being used to purchase fuel totaling \$5,775 (112 transactions) since the employee's termination date in July 2004. Although it was determined that the \$5,775 was spent for County purposes, the potential for unauthorized purchases existed. Materials Management should reconcile active GE Capital cardholder accounts to current employee records on a frequent basis to ensure terminated employees' P-cards are closed at the time of termination.

Point-of-Sale Transactions (Page 5)

Continuous monitoring of electronic merchant credit card transactions allows us to identify and investigate instances where credit or charge back transactions are not appropriate. While the MIHS Business Office control weaknesses resulted in an inappropriate \$4,667 refund to a customer's credit card, County departments, overall, appear to have effective controls over the credit card processing cycle to ensure the appropriateness of all refund (credit) transactions.

Vendor/Employee Conflict of Interest (Page 8)

IA did not identify any occurrences of inappropriate dual status employee/vendor relationships. Our review identified 110 vendors who are also County employees. A sample comparison of employee reported County work hours against a sampling of vendor time billed did not yield any exceptions.

Procurement Card Transactions (Page 9)

During the past eight years, the volume of procurement card (P-card) transactions has grown to over \$23 million annually. Consequently, the risk of potential fraud, waste, or abuse has increased. Department management should ensure that proper controls are in place to mitigate the increased risk.

Introduction

Background

Fiscal year 2005 is the third year that Internal Audit included continuous monitoring in its annual audit plan. Continuous monitoring enables us to look at issues and financial transactions on a Countywide level, without performing an audit of specific departments.

Continuous monitoring began in response to a January 2000 audit of the County's financial system. The audit, performed in conjunction with Deloitte and Touche, LLP, identified areas within the County open for potential abuse. As a result, we began monitoring these areas for large data variances or inconsistencies.

Continuous monitoring allows us to identify inaccurate or inappropriate transactions by collecting and analyzing data from a 12-month period, and identifying significant variances. Variances are investigated at the department level to determine the cause, and ultimately, the effect.

We use a powerful software program called Audit Command Language (ACL) to analyze transactions and identify problems. ACL allows 100 percent of the transactions, for a given period, to be reviewed instead of reviewing a small sample.

For this year's audit, we considered three areas for continuous monitoring:

- Procurement Cards (P-cards)
- Vendor/Employee conflict of interests
- Merchant terminal credit card credit transactions

Scope and Methodology

The objectives of our continuous monitoring efforts were to:

- Determine whether appropriate internal controls are established to ensure P-cards are used only for authorized purposes
- Determine if only current employees have active P-card status, through verification of active P-card holders against County personnel records
- Identify potential inappropriate P-card transactions through reviews of P-card activity
- Identify employees inappropriately being paid as vendors
- Identify inappropriate or fictitious credits via County established merchant terminals

This audit was performed in accordance with generally accepted government auditing standards.

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Issue 1 Procurement Card Management

Summary

Eighteen active P-cards were matched to now terminated employees. Non-compliance with the County's P-card policy resulted in four of those active accounts being used to purchase fuel totaling \$5,775 (112 transactions) since the employee's termination date in July 2004. Although it was determined that the \$5,775 was spent for County purposes, the potential for unauthorized purchases existed. Materials Management should reconcile active GE Capital cardholder accounts to current employee records on a frequent basis to ensure terminated employees' P-cards are closed at the time of termination.

County Policy

Administrative Policy A2609 establishes the Maricopa County Procurement policy which requires agencies to control the use of Procurement Cards (P-card) assigned to and used by select County employees. Procurement through the P-card is required to comply with established County Procurement Policies.

Departmental Usage Reviews

Our review of the County's 1,464 active P-cards as of June 15, 2005, identified 18 P-cards that were not canceled at the time the employees were terminated from County employment. Four of the 18 cards had activity after the employees' termination dates. The four active accounts were used in 112 fuel transactions totaling \$5,775.

Materials Management's information indicates that the accounts were closed at the time of the employees' terminations but GE Capital was not notified to cancel the cards. Although the terminated employees did not physically possess the cards and the \$5,775 was determined to have been spent for County purposes, they could still potentially use the active card numbers to make purchases. Materials Management believes that the exceptions were caused by a communication breakdown. During our review, Materials Management contacted GE Capital and the 18 identified P-cards were canceled.

Risks

Non-authorized use of P-cards increases the risks associated with fraudulent or inappropriate transactions and limits the County's ability to identify and recover any non-compliant purchases made.

Recommendation

Materials Management should:

- A. Reconcile active GE Capital cardholder accounts to current employee records on a more frequent basis.
- B. Strengthen controls to ensure terminated employees' P-cards are closed at the time of termination.

Issue 2 Point-of-Sale Transactions

Summary

Continuous monitoring of electronic merchant credit card transactions allows us to identify and investigate instances where credit or charge back transactions are not appropriate. While the MIHS Business Office control weaknesses resulted in an inappropriate \$4,667 refund to a customer's credit card, County departments, overall, appear to have effective controls over the credit card processing cycle to ensure the appropriateness of all refund (credit) transactions.

Recommended Controls

The state and local government committee of the American Institute of Certified Public Accountants (AICPA) recommends forty safeguards and procedural controls over cash receipts. Four significant controls that also apply to credit card transaction processing are:

- Duties of cash collection, receipts, deposit preparation, and recording should be adequately segregated
- Procedures should be specific to ensure that collections and disbursements are recorded accurately and promptly
- Controls should exist over the collection and recording of cash receipts
- A mechanism should exist to account for receipts and balance them to collections daily

Electronic Transactions

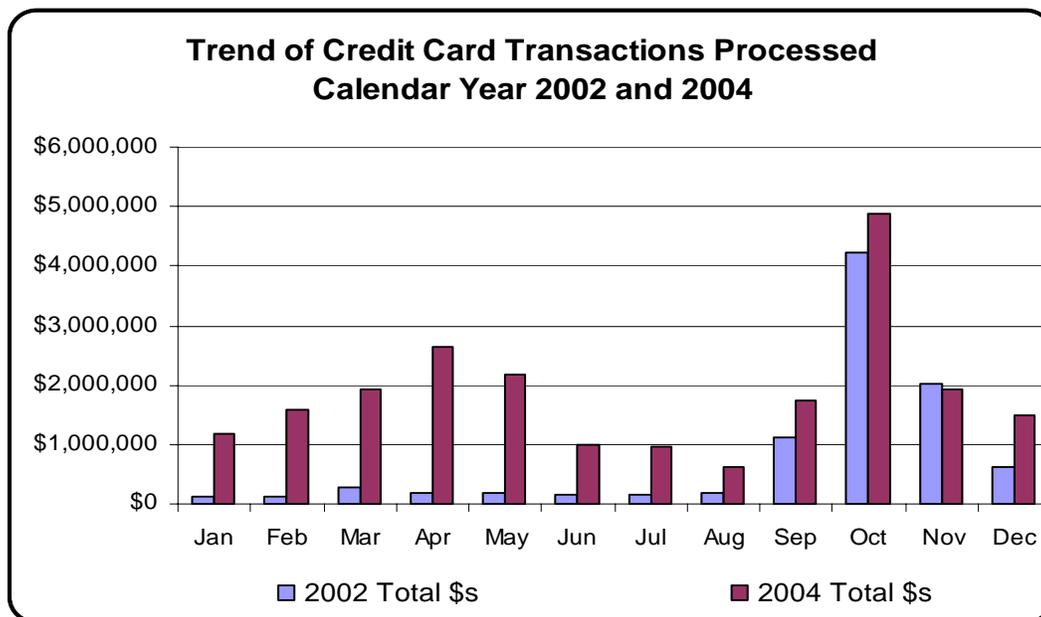
Most County agencies that generate operational revenues (fines & fees) offer the public the convenience of credit card or debit card payment. Continuous monitoring of electronic transactions allows us to investigate instances where credit or charge back transactions are not appropriate. We use data analysis audit software to analyze every electronic transaction processed, identify credits without offsetting debits, determine the validity of issued credits, and to identify negative trends.

During 2001 the County began using PaymenTech LLC for department credit and debit card acceptance and processing. PaymenTech is able to process American Express, Visa, MasterCard, Discover, and bank debit card transactions. Transactions are deposited directly into the County's Bank One account. The following County departments use PaymenTech to process credit card transactions:

- Adult Probation
- Animal Control
- Clerk of the Court
- Justice Courts
- Juvenile Probation
- Library District
- Parks & Recreation
- Planning & Development
- Public Health
- Recorder
- Treasurer

PaymenTech offers an online reporting service that provides timely access to credit card account and transaction information. The online reporting module offers a variety of account management tools that include account reconciliation, reporting, research, auditing, and trend analysis. We found that several County departments have access to the electronic merchant data, but are not currently monitoring their transactions.

The following graph illustrates the growth trend of electronic merchant transactions between 2002 and 2004 determined via downloads from the PaymenTech reporting system. Fluctuations in volume are consistent with the County’s business cycle and the increase in County departments utilizing the service.



Our testing of credits and charge backs resulted in several potential exceptions. “Net” negative balances on individual card numbers indicated credits issued without corresponding debits, which may not be appropriate. The identified credit transactions were investigated via PaymenTech’s credit card history to determine the nature and appropriateness of credit transactions. Based on auditor judgment, transactions that merited further review were researched via support documentation and other internally generated data. The following is a summary of the data tested and monitoring results:

2004 Point of Sale Activity

Transaction Type	Transaction Count	Transaction Amount	Average Transaction
Debit	146,306	\$36,243,277	\$247.73
Credit	1,199	(\$67,950)	(\$56.68)
Total	147,505	\$36,175,327	\$245.25

Credits without offsetting Debits (CWOD)

We found 183 CWOD transactions, totaling \$50,050 that could not be traced to off-setting debits within the scope of this review. Additional testing was performed on CWODs in excess of \$200 and the results are presented in the following table:

Credits w/o Offsetting Debits (CWOD)

Description	Transaction Count	Percent of CWOD Total	Transaction Amount	Percent Transaction Dollars
CWOD transactions that could not be traced to offsetting debits	13	30%	\$14,210	36%
CWOD transactions that could be traced to offsetting debits	26	59%	\$18,416	47%
CWOD transactions, debits exceeded credits	5	11%	\$6,938	17%
Total CWOD transactions tested	44	100%	\$39,564	100%

Transaction Testing Results

All 13 exceptions noted above (\$14,210) were processed by the MIHS Business Office. We verified one large transaction of \$4,667 to be an inappropriate refund to a customer's credit card; the rest of the credits in question were too old to be researched and recovered.

Recommendation

None, for information only.

A copy of this report was sent to MIHS for their consideration.

Issue 3 Vendor/Employee Conflict of Interest

Summary

No occurrences of inappropriate dual status employee/vendor relationships were identified. Our review identified 110 vendors who are also County employees. A sample comparison of employee-reported County work hours against a sampling of vendor time billed did not yield any exceptions.

Established Standards

County policy does not specifically prohibit employees from becoming vendors. However, Maricopa County Code of Ethics indicates, in part, that any conflict of interest should be made known to an immediate supervisor or in an official record. In addition, Maricopa County Employee Merit Rule 11 Section 11.02 states “...*Employees shall not engage in outside employment or other outside activity which is not compatible with the full and proper discharge of duties and responsibilities of their County employment, or which tends to impair their capacity to perform their County duties and responsibilities in an acceptable manner.*” Merit rules also prohibit employees from being paid for time not worked.

Testing Overview

The automated query and sampling performed to identify all County vendors who were also employees yielded approximately 650 initial matches. Upon further review of additional address information in the employee and vendor data, we narrowed the initial query results to approximately 110 matches for review. We did not identify any cases where employees were performing outside services on County time. The typical situation involved occasional services performed outside the normal times and scope of the employees’ duties. For example, court employees performing court-reporting duties are paid as an independent contractor.

Recommendation

None, for information only.

Issue 4 P-Card Transactions

Summary

During the past eight years, the volume of procurement card (P-card) transactions has grown to over \$23 million annually. Consequently, the risk of potential fraud, waste, or abuse has increased. Department management should ensure proper controls are in place to mitigate increased risks.

County Policy

Administrative Policy A2609 establishes procurement rules that require agencies to control the use of P-cards assigned to County employees. Employees utilizing P-cards for purchases are required to comply with established County Procurement Policies.

County Procurement Practices

With the introduction of the County's P-card program in 1998, Material's Management established P-card use controls and a monitoring program to validate compliance with the controls. During the past eight years, the volume of P-card transactions has grown to over \$23 million a year.

With the use of computer aided audit techniques (CAATs), we were able to review all 131,792 transactions, totaling \$23,405,417 in purchases, during calendar year 2004. P-card activity data was examined by merchant name, transaction dollar value, Merchant Category Code (MCC), and employee to identify transactions of unusual nature, high-dollar, or repetitive transactions or activity trends ("structured" transactions). Our review noted no significant exceptions or negative trends.

Based on recent fraudulent P-card activity identified at the County Solid Waste Department, we expanded our review to examine purchases from 88 vendors we deemed as high-risk vendors due to the potential for P-card holders to make inappropriate purchases from those vendors. We identified 4436 high-risk transactions, totaling \$2,590,876, associated with 49 County departments and 196 employees.

In order to validate the legitimacy and appropriateness of the identified transactions, we physically inspected supporting documentation maintained by the P-card holder. Our review noted that most departments are adequately monitoring P-card purchase activity and only minor exceptions to established procurement policies were identified.

Exposure

As P-card transactions continue to increase in the County, the risk of potential fraud, waste, or abuse has increased. Greater reliance is placed upon department management to implement adequate controls to ensure P-card purchases comply with County policy.

Recommendation

None, for information only.

Department Response



Maricopa County

Materials Management

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Phoenix, Arizona 85003-2494
Phone: (602) 506-3967
Fax: (602) 258-1573

Memo To: Ross Tate, County Auditor

From: Walter Weglarz, Deputy Materials Management Director *WEN 11/22/05*

Re: Materials Management Department Response - Monitoring of Procurement Card Activity and Merchant Credit Transactions – Dated November 2005

Date: November 22, 2005

Attached is Materials Management's response to the above subject audit. I am responding to these audit recommendations in the absence of our director. Please contact me at 506-3312 if you have any questions.

Cc: Wes Baysinger, Director
Robert Schoepe, P-Card Manager
Susan Adams, Internal Audit

Departmental Response to Recommendations

Clarification regarding recommendation Issue 1, A and B were requested and provided on November 15, 2005. Departmental Responses will be provided based on the updated recommendations.

Recommendation Issue 1

- A. "The recommendation is to compare our list of cardholders against the GE list to confirm that the lists match. In addition, the recommendation is that we do this on some regularly scheduled basis, e.g. quarterly.

Response to Recommendation A

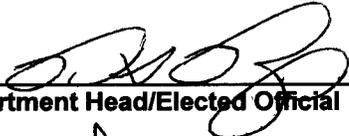
Materials Management concurs with this recommendation. The Procurement Card Administration list of cardholders was reconciled to the GE system list of cardholders on November 18, 2005. Reconciliation between sources will be completed twice a year. One reconciliation will correspond to the fiscal year close when the majority of changes occur to both sources and the second reconciliation will correspond to the calendar year close for a mid-year confirmation report.

- B. Strengthen controls to ensure terminated employees' P-cards are closed at the time of termination.

Response to Recommendation B

Materials Management concurs with this recommendation. Materials Management will pursue cooperation with Human Resources regarding data sharing procedures that would prove most efficient to accomplishing the confirmation of an employee/cardholders employment status. Cancellation of a card is currently addressed in the Procurement Card policy. A list of terminated cardholders from another source outside of the using department provided to the Procurement Card Administration on a regular basis should provide the additional control to confirm the cardholders' employment status. Development of these procedures will begin immediately and the procedures are scheduled to be operational for the new fiscal year.

Approved By :


Department Head/Elected Official

11-22-05
Date


Chief Officer

11/22/05
Date


County Administrative Officer

11/28/05
Date