

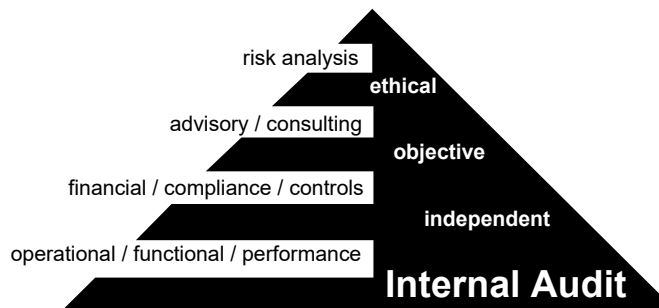
ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Purchasing Cards

Internal Audit Report No. 25-505

November 22, 2024



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Conclusion

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed an audit of purchasing cards. Based on the audit, controls to ensure transactions are valid, allowable, authorized, and in compliance with policies and procedures are generally adequate; however, one recommendation has been made to update policies and practices to better ensure compliance and avoid errors.

Background

The Purchasing Card Program (Program) was created to simplify the process for low-dollar procurements, allowing for immediate purchases directly from suppliers. A department manager within the Contracts Administration and Materials Management (CAMM) Department is responsible for management and administration of the Program, which is provided through an agreement with Bank of America. Bank of America provides OCTA access to the Works system, that reflects details of cardholder assignments and purchases and allows for electronic approval of transactions. The Purchasing Card User Guide Policies and Procedures Manual (Procedures) provides guidelines for card issuance, security, use, and monitoring.

The CAMM department manager, acting as the Purchasing Card Administrator (PCA), provides training to new cardholders and requires cardholders and approving officials to sign acknowledgements that they understand and will comply with Procedures. In addition, the PCA obtains signed reauthorization forms for every cardholder on an annual basis. The PCA also reviews summary reports of monthly purchasing card activity and selects a few cardholders for detailed review of transactions to ensure compliance with Procedures. Procedures include progressive steps to be taken by the PCA to address any violations identified during the monthly review.

Cardholders may purchase approved supplies and services up to a single transaction limit of \$5,000 total, including tax, freight, handling, or any associated cost per transaction, unless it is for travel-related services and the cardholder is designated as a Travel Coordinator. On a monthly basis, cardholders are required to log in to the Works system and generate a statement of all purchases during the month. The statement, along with individual receipts and supporting documentation for each transaction, is prepared and provided to the cardholder's managing official for review and approval. Managing officials are required to approve transactions in the Works system and signoff on the purchasing card signature page of the monthly purchasing card packet. Monthly purchasing card packets are due to be delivered to the Accounts Payable (AP) department no later than the 10th of the following month. AP staff are responsible for ensuring receipt of all monthly packets and verifying evidence of electronic and hard copy signature approval by managing officials.

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Objectives, Scope, and Methodology

The objective was to assess and test controls in place to ensure transactions are valid, allowable, authorized, and in compliance with Procedures.

According to Generally Accepted Government Auditing Standards (GAGAS), internal control is the system of processes that an entity's oversight body, management, and other personnel implement to provide reasonable assurance that the organization will achieve its operational, reporting, and compliance objectives. The five components are control environment, risk assessment, control activities, information and communication, and monitoring.¹ The components and principles that were evaluated as part of this audit are:

- Control Environment
 - OCTA demonstrates a commitment to integrity and ethical values.
 - OCTA demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
 - OCTA holds individuals accountable for their internal control responsibilities in the pursuit of objectives.
- Control Activities
 - OCTA selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
 - OCTA deploys control activities through policies that establish what is expected and procedures that put policies into action.

The methodology consisted of review of all transactions over the single transaction limit of \$5,000, testing a haphazard sample of purchasing card transactions from one monthly packet for each of 16 cardholders, testing a haphazard sample of ten cardholders for evidence of initial training and signed acknowledgement, testing a judgmental sample of ten cardholders assigned purchasing cards prior to August 2022 for evidence of signed annual reauthorization forms, and testing of a haphazard sample of six months for evidence of monthly reviews by the PCA and verification that violations were identified and handled in compliance with Procedures. Since the samples were non-statistical, any conclusions are limited to the sample items tested.

The scope was limited to purchasing card activities from September 1, 2022 through August 31, 2024.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

¹ See U.S. Government Accountability Office publication, "Standards for Internal Control in the Federal Government," available at <http://www.gao.gov/products/GAO-14-704G>, for more information.

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We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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Audit Comment, Recommendation, and Management Response

Procedure Enhancements

Enhancements to Procedures should be considered to ensure compliance and to avoid errors. In addition, AP staff should be reminded of the requirement to verify signature approval by authorized managers is reflected on all purchasing card packages.

Testing identified the following:

- Three instances whereby a cardholder's personal expense was charged to the OCTA purchasing card through a personal PayPal account. The employees acknowledged the errors and reimbursed OCTA for the charges when reconciling the purchasing card charges at month end. All three employees had previously used their personal PayPal account to make a business purchase and subsequently used the account for personal expenses.
- Six purchases that violated Procedures; because a blanket purchase order existed for the items purchased or because the cardholder was not authorized for the item type purchased.
- Seven purchases that were shipped to an employee's home address, rather than an OCTA address.
- Eleven purchasing card packets for one employee lacked approval by the cardholder's authorized manager. Several months later, during the audit, AP staff obtained approval for four of the packets from a manager not employed by OCTA at the time of purchasing card activity.

Recommendation 1:

Management should update Procedures to prohibit cardholders from using personal PayPal accounts for business purchases and require all items purchased to be delivered to an OCTA business address. Management should also follow up with the cardholders who purchased items in violation of Procedures. Finally, AP staff should be reminded that Procedures require verification of approval of purchasing card packages.

Management Response:

Management agrees with the recommendation. AP will confirm that each purchasing card package includes approval from the cardholder's authorized manager. If a package is missing proper authorization, the cardholder and purchasing card administrator will be notified, and the package will be returned to the cardholder. Once the package is complete, AP will initial the signature page to confirm its completion.

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Management will update the Purchasing Card Policies and Procedures document to prohibit purchasing card users from using and/or adding purchasing card payment information to personal accounts for online payments services such as PayPal or online retailers such as Amazon and require that items be delivered to an OCTA business address. Furthermore, the PCA will follow up with the individual cardholders that purchased items in violation of Procedures to advise them of findings and provide guidance to ensure there are no repeat occurrences.