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**CLARK COUNTY**  
WASHINGTON

**AUDITOR**  
**GREG KIMSEY**

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# **Audit of Clark County's Purchasing Card Program**

**Clark County Auditor's Office**  
**Report #13-03**

**July 29, 2013**

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## Executive Summary

The Clark County Purchasing Card (p-card) Program became operational in September of 2009. Its purpose was to implement the use of p-cards for small dollar transactions, immediate needs, or when purchase orders are not accepted by vendors. Using a p-card for these transactions instead of a purchase order can increase efficiencies and reduce costs.

This performance audit was undertaken to evaluate if the program is fulfilling its purpose and to determine if the controls in place are effective and adequate. The audit also looked at p-card transactions made during 2012 to see if they were completed in accordance with county policies.

### Conclusions

The p-card program includes several industry best practices. This design combined with a conservative approach to implementation, has resulted in the program generally being used appropriately and achieving its objectives. However, gaps in existing policy should be addressed and program oversight could be improved. In addition, significant opportunities exist for the program to expand, increasing the efficiencies and savings it provides across the county. The audit report offers recommendations designed to address these issues through:

- Updating Policy and Procedures – in particular those dealing with exceptions to existing policy;
- Strengthening Monitoring and Controls – by establishing monitoring reports and utilizing tools offered by the banking vendor; and
- Expanding the Use of the P-Card Program – by existing card holders, into new areas of the county, and also exploring emerging uses for p-cards.

### Management Comments

Management has generally agreed with the comments and recommendations in this report. Their complete response to this audit can be found in Appendix B: Management Comments.

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## Introduction

Purchase cards can help organizations improve efficiencies and lower the cost of the procurement process. The Clark County Purchasing Card (p-card) program became operational in September of 2009. Its purpose was to implement the use of p-cards for small dollar transactions, immediate needs, or when purchase orders are not accepted by vendors.

### Objectives, Scope, and Methodology

This performance audit was undertaken to evaluate if the p-card program is fulfilling its purpose and to determine if the controls in place are effective and adequate. Our audit also looked at all p-card transactions made during 2012 to see if they were completed in accordance with county policies.

We completed this audit by conducting interviews, surveying users, researching best practices, reviewing laws and policies, and analyzing financial data. This work was conducted between January and June of 2013. More information on this work is available in Appendix A: Audit Methodology.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We thank the staff in the Purchasing Department for their time, information, and cooperation during this audit process. Management has generally agreed with the comments and recommendations in this report. Their complete response to this audit can be found in Appendix B: Management Comments.

### Background

#### *P-Card Process*

Like many organizations, Clark County uses a purchase order (PO) based process to pay for goods and materials. The steps in this process are basically the same regardless of the dollar amount of the transaction. In other words, a \$25 dollar purchase generally takes the same staff time and resources to execute as a \$2,500 purchase. For very small dollar items, this can result in the process costing more than the goods being purchased. See figure 1 for a typical PO process.

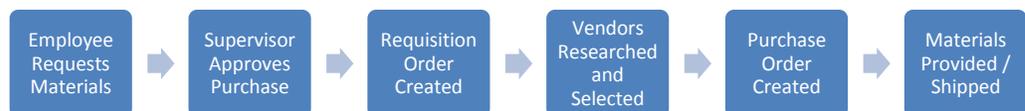


Figure 1: Typical Purchase Order Process

P-cards reduce the cost of purchasing by removing the need to create, approve, and process requisition and purchase orders. This is accomplished

by providing authority to the frontline employee to directly make certain purchases when needed. The result is a reduction in the number of personnel involved and the overall procurement cycle time. Industry studies estimate cost savings of \$63 to \$74 per transaction when a purchase is completed on a p-card as opposed to a PO. See figure 2 for a typical p-card purchase.



Figure 2: Typical P-Card Purchase Process

### ***A Conservative Approach to Implementation***

The changes made by moving from POs to p-cards can increase purchase process efficiency. However, they also remove some important controls and oversight. These functions are critical in limiting risk and must be replaced through policies and procedures.

Concern for those risks led to a conservative approach when the p-card program was implemented in Clark County. A single p-card was created for Equipment Services in September of 2009. By the end of 2012, eight additional p-cards had been setup in other areas of the county including Information Services, Facilities, Purchasing, Public Health and the Prosecuting Attorney's Office.

### ***The P-Card Program***

Clark County's p-card program was established with US Bank through their contract with Washington State and the Western States Contracting Alliance. 275 government organizations in the state use this contract including cities, counties, state agencies, colleges, school districts, and special purpose districts.

Under the contract, p-card accounts are opened based on the credit worthiness of the county and the county is responsible for all charges on those accounts. Disputed charges must be reported within 60 days of the transaction, otherwise the county is liable for all payments.

The county is also responsible for oversight of its program. This includes establishing limits and restrictions on purchases. County policy P-300 documents these items, along with the process for departments to request and obtain p-cards. The policy also assigns the Purchasing Manager as the Program Administrator (Administrator). US Bank provides an online access portal for the Administrator to manage the p-card accounts and settings.

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## Audit Results

### P-Card Program is Being Utilized as Intended and Generally Achieving its Objectives

The Clark County p-card program was established to improve operations and increase the options for paying vendors with a focus on small dollar transactions. According to county Policy P-300:

*The “purpose of the P-Card (sic) program is to establish a more efficient, cost-effective method of purchasing and paying for small dollar purchases. The p-card program allows the user to obtain needed goods and materials quickly, eliminates the need to prepare a purchase order and process individual vendor payments for small dollar amounts.”*

The policy also establishes a ceiling of \$2,500 per transaction for these small dollar purchases.

#### Transactions In Line With Expectations

In 2012 there were 2,346 purchases made by the nine<sup>1</sup> p-cards in the program. Almost all of these transactions were under the \$2,500 limit and the overall average value per transaction was \$317. This indicates that p-cards are typically being used to purchase the intended small dollar value items.

The types of purchases made fall in line with expectations as well. The most common vendors being paid by p-card relates to the maintenance of vehicles and equipment (see figure 3). These transactions can involve several small dollar items and may be necessary on short notice or at remote locations, making p-cards convenient. County policy specifically cites these kinds of operational needs in determining department eligibility for p-cards.

2012 Most Common Types of Vendors	
Category	# of Purchases (out of 2,346)
Auto / Car / Truck	1039
Equip	109
Hydraulic	100
Tire	91
Machine	73
Amazon	53

Figure 3: Common Types of Vendors

#### Improvements in Operational Flexibility and Process Efficiencies

Survey responses<sup>2</sup> from p-card users and their supervisors show that the program has had a positive impact on their operations. A large majority believe p-cards have made the process to purchase small dollar items simpler (80 percent), and given them more flexibility in purchasing (93 percent). Most have also seen some reduction in the time to get materials (73 percent). These responses indicate the p-card program is generally achieving its objectives.

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<sup>1</sup> Seven p-cards were issued prior to 2012 and two were issued in September 2012.

<sup>2</sup> 15 of 21 employees responded; 9 p-card users and 6 supervisors.

### ***Financial Rebates Small But Appropriate Given Spend Volume***

Financial rebates are typically considered another benefit of p-card programs. US Bank provides two rebates through which the county can receive monies back. The volume rebate is fixed at 0.793 percent of the total dollar amount of the purchases in the quarter. The other rebate varies based on the average number of days between a transaction and the date the county makes payment to U.S. Bank.

Since the p-card program began in 2009, the quarterly spend volume for Clark County has averaged \$106,211. The total quarterly rebate has averaged \$1,082, or just over 1 percent of spend volume. These volume and rebate levels seem appropriate given the conservative approach to implementation of the p-card program.

### **P-Card Use Generally Complies With County Policy, However The Policy Is Incomplete and Does Not Address Exceptions**

In addition to setting a limit of \$2,500 on any single transaction, policy P-300 outlines several other restrictions for p-card use. For example, several items are explicitly listed as ineligible for purchase on a p-card. Establishing and communicating these restrictions is a best practice for p-card programs. The items prohibited for purchase on a p-card by Clark County policy are:

- Personal Use
- Payment of taxes or fines
- Gasoline
- Food or beverages
- Gifts (e.g., flowers, cards, awards)
- Weapons
- Maintenance Agreements
- Pharmaceuticals / prescription drugs
- Controlled items (supplies available from central stores)
- Cash Advances
- Rents
- Auto rental
- Alcoholic beverages
- Gift certificates or gift cards
- Jewelry
- Radioactive / hazardous materials
- Services (labor, temporary staffing)
- Travel (air-fare, lodging, etc.)

While no authority is granted to anyone to alter the list of prohibited items, policy does allow the Administrator to periodically adjust the single transaction limit.

Another best practice is establishing an aggregate dollar limit based on the monthly billing cycle. Policy P-300 includes this tool, however the dollar figure is undefined and listed as "\$xxxx". In practice the Administrator does set a limit on each p-card via the US Bank online portal. Typically a \$10,000 limit is in effect. Still, defining the default amount in the policy would help to ensure alignment with other Clark County policies regarding purchasing authority.

Our analysis determined that only one of the 2,346 p-card purchases made during 2012 was non-compliant with these limits and restrictions<sup>3</sup>. This particular purchase was made to obtain gift cards. Although it was for legitimate business needs and completed with the approval of the Administrator, this transaction still violated county policy regarding items prohibited for purchase on a p-card.

### ***Inconsistent Procedures and Practices Regarding Exceptions***

We also identified over one hundred other transactions requiring further review as potential violations. These transactions fell into three classifications:

1. *Single Transactions* – These are individual transactions whose dollar amount exceeded the \$2,500 single transaction limit.
2. *Split Transactions* – These are two or more transactions made to the same vendor within a short timeframe of each other, and whose cumulative dollar value exceeds the single transaction limit. For example a \$1,200 purchase and a \$1,800 purchase to one vendor on the same day could indicate someone trying to circumvent the \$2,500 limit.
3. *Duplicate Transactions* – These are two or more transactions which are essentially identical: made to the same vendor on the same day and for the same dollar amount. This could indicate a number of issues including incorrect charges, department errors, or even fraud.

According to the Administrator the purchases we identified were made under exceptions he granted to the departments involved. Some of the exceptions granted by the Administrator were given to accommodate operational needs. For example, separating the purchase of several computers into multiple transactions makes tracking and allocating the cost of each individual computer much easier for the department.

County policy does not address exceptions and there is no established procedure for requesting or granting them. The current practice involves communication by telephone and / or via email exchanges. However, there is no log or consistent historical record of these events. As such, the exceptions could not be verified to ensure all of the identified transactions did not violate policy.

Making these accommodations in consideration of the operational needs of departments improves their ability to use tools like the p-card. Nevertheless, best practices are to document, track, and verify all exceptions. Addressing exceptions and processes in policy would be prudent.

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<sup>3</sup> Detailed descriptions of items purchased are not always provided by vendors electronically to the bank. This analysis was conducted by evaluating merchant names for prohibited item key words.

## Program Controls and Monitoring Can be Improved

Several best practices for internal controls were designed into the p-card program. Preventative and detective controls are each addressed as is monitoring. Preventative controls prevent misuse or prohibited transactions from occurring while detective controls identify those that have already occurred. Monitoring is a management quality control activity usually designed to evaluate how well controls are performing.

### *Effective Detective Controls Identify Compromised Accounts*

During 2012, detective controls identified suspicious activity on two Clark County p-card accounts which had been compromised<sup>4</sup>. The first account was compromised in late July of 2012. It was detected when the county employee responsible for the p-card noticed unfamiliar charges while reviewing their statement. The other account was compromised in November of 2012. In this case, US Bank detected the suspicious activity and contacted the county employee. The layers of transaction review between the bank and the county provide strong detective controls and are an industry best practice.

Both compromised p-card accounts were handled according to county policy and per the contract with US Bank. The accounts were closed and all disputed charges reversed. New accounts were then opened and cards issued. The county did not experience any financial loss from either incident. And while no analysis is guaranteed to detect fraud, tests can be completed to detect indicators of potential fraud. Our analysis did not identify any significant indicators of additional fraud.

The fraudulent transactions made on the compromised accounts were small and outside the United States. Due to this, US Bank performed no investigation to determine how the accounts were compromised. However, our analysis of the fraudulent charges shows that some preventative controls were not as effective as they could have been.

### *Key Preventative Control Is Not as Effective as it Could Be*

Merchant Category Code (MCC) blocking is considered a best practice and is included in policy P-300. The MCC is an industry standard code number assigned to a business when it first signs up to accept VISA credit cards. The MCC assigned is determined by the goods or services primarily offered by the business. For example, businesses who mainly sell auto parts are assigned an MCC of 5533.

MCC blocking is the practice of preventing certain transactions from processing based on the MCC of the business involved. US Bank provides this service to the county. As there are over two hundred of MCCs, US Bank has grouped them to assist in managing this control. They also offer the option to build custom lists of MCCs to be blocked.

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<sup>4</sup> Another compromised p-card account was discovered in July of 2013.

Currently the Administrator utilizes the generic MCC groups provided by US Bank to manage these settings. While this eases management, it also increases the risk that purchases prohibited by policy will be processed. Indeed, some of the fraudulent charges on the compromised p-card accounts were processed at businesses normally prohibited by policy. The MCC numbers of these businesses would normally be blocked and transactions declined. However, they had been opened as part of a group when an exception was granted for a legitimate purchase.

Developing a list of blocked MCCs specific to Clark County could improve this key preventative control. It would also provide assurance that p-card account settings align with the prohibited items policy.

### ***Program Monitoring is Insufficient***

Policy P-300 outlines program monitoring as well. Accounts Payable (AP) is required to review all p-card transaction supporting documentation submitted by the departments (i.e., receipts, etc.), for compliance with p-card policies. Any issues are reported to the Administrator via email for further review.

Policy also requires the Administrator to monitor the program using a variety of activity and usage reports. However, reports are not currently being used. Not all of the p-card transaction information is easily accessible in the county's Financial Management System (FMS), so internal reports have not been developed. For example, detailed descriptions are required on physical receipts but not always provided electronically by vendors or consistently entered by cardholders. And though pre-built reports are available from US Bank, they have not been explored or utilized.

For overall monitoring the Administrator relies on the paperwork review completed by the department supervisors and AP. This is insufficient for two reasons:

1. *Supervisor Review is a Detective Control* – This review is conducted to ensure proper p-card use in a single department. It is not a comprehensive monitoring tool which will test and report program issues.
2. *AP Review is Limited to Monitoring for Prohibited Purchases* – The informal process and lack of consistent documentation or tracking of exceptions prevents AP from being able to effectively monitor for limit violations. They do not know if or when transactions are conducted under approved higher limits. Therefore, this review is only effective in monitoring for prohibited purchases.

The result is that no one is actively monitoring the effectiveness of program controls over limit violations including split or duplicate transactions. The Administrator should consider working with Application Services to improve the data available in FMS for p-card transactions. This would allow the county to follow best practices for monitoring, including the use of software to complete transaction data analysis, test controls, and report the results.

## Opportunities Exist to Increase the Use of Existing P-Cards and to Expand the P-Card Program

Improving preventative and detective controls, as well as program monitoring, would provide additional assurance and facilitate growth in the use of p-cards. Our analysis found that employees who already have a p-card could significantly increase their use. Also, several other areas across the county could immediately benefit from having a p-card as well.

### *Existing P-Cards Used Less Than Half of the Time*

Policy P-300 encourages the use of p-cards whenever possible within the established guidelines. However, those with p-cards in 2012 used them on about 42 percent of the possible transactions. Figure 4 shows purchases completed with purchase orders (POs), but eligible for purchase on a p-card<sup>5</sup> by departments who had a p-card in 2012.

Existing P-Cards: 2012 Eligible and Actual P-Card Purchases			
	<i>Eligible for P-Card Purchase</i>	<i>Purchased on P-Card</i>	<i>%</i>
Purchases	5,578	2,346	42%
Dollar Amount	\$2.06 Million	\$690,195	34%

Figure 4: Existing Cards: 2012 Eligible and Actual P-Card Purchases

Although survey responses indicate p-cards have increased flexibility and simplified processes, some departments have been reluctant to fully implement them. Some of their concerns deal with the amount of required paperwork and oversight. Two survey respondents stated they would like to see improvements made to the invoice approval process.

Operational issues have emerged for some departments using p-cards. Examples include needing to separate transactions to ease cost allocation and having to manually enter p-card data into other software systems.

One way to address some of these concerns would be through expanded training. Policy P-300 requires initial training for the supervisor and cardholder prior to receiving a card. It also mandates they attend any other subsequent training required by the Administrator, although only the initial training is currently offered. Holding annual refresher training is a best practice that could help departments become more comfortable with processes. Indeed, 26 percent of survey respondents felt they needed more training. This event could also serve as a venue for sharing problems, solutions, and program feedback for future improvements. Including members of Financial Services and Application Services could help lead to resolutions of operational and technical issues as well.

### *Large Number of Transactions Across County Could Be Completed on P-Card*

For the county as a whole in 2012, about 25 percent of eligible purchases were made on a p-card. Figure 5 shows purchases completed by PO across

<sup>5</sup> Eligible for purchase on a p-card means items not on the prohibited list and not requiring an exception (below \$2,500).

the county in 2012, including departments with and without p-cards, but eligible for p-card purchase. Approximately 7,200 purchases completed with POs across the county in 2012 could have been completed with a p-card.

Entire County: 2012 Eligible and Actual P-Card Purchases			
	<i>Eligible for P-Card Purchase</i>	<i>Purchased on P-Card</i>	<i>%</i>
Purchases	9,546	2,346	25%
Dollar Amount	\$3.59 Million	\$690,195	19%

Figure 5: Entire County: 2012 Eligible and Actual P-Card Purchases

The conservative approach to implementing the p-card program has reduced risk and kept the size of transactions manageable. However, it may have also restricted the benefits to the county by limiting the growth of the program.

The Administrator could pursue these opportunities by proactively approaching departments with large numbers of p-card eligible purchases being completed by PO. Encouraging them to request and use p-cards to complete these purchases aligns with county policy and could yield significant savings.

#### ***Emerging Uses for P-Cards Outside of Clark County***

Innovative organizations are also finding new ways to increase the value provided by their p-cards programs. For example, in 2011 the City of Walla Walla's AP department began to pay some invoices with a p-card instead of issuing paper checks. The AP manager reviews all department p-card expenditures just like any other department. Benefits they claim from this change include:

- Reduced costs in printing and mailing checks
- Enhanced internal controls
- Improved expenditure reporting
- Increased financial rebates
- Fewer 1099s to create and mail

The last benefit listed points to another emerging use of p-cards: as a payment method for services as well as goods. Services are currently a prohibited p-card item under policy P-300. This is due in part to the extra work that was necessary to accommodate 1099 reporting requirements of the Federal Internal Revenue Service (IRS). However, changes to IRS section 6050w in 2010 made banks / merchant acquirers responsible for preparing and issuing these forms.

Evaluating these emerging p-card uses for application in the county could identify additional savings.

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## Recommendations

The Clark County Purchasing Card Program was designed based on several industry best practices. This design combined with a conservative approach to implementation, has resulted in the program generally being utilized appropriately and achieving its objectives. However, gaps in existing policy should be addressed and program oversight could be improved. In addition, significant opportunities exist for the program to increase the efficiencies and savings it provides across the county.

The following recommendations address each of these areas.

### Update Policies and Procedures

**We recommend** the Program Administrator work with the Director of General Services and the BOCC to update existing policies and procedures including:

- The aggregate billing limit and reconciliation variables in Policy P-300
- New policies for inclusion in P-300 regarding policy exceptions covering:
  - Authority / scope of authority
  - Requirements for requesting, granting (based on real business needs), and tracking exceptions

### Strengthen Controls and Monitoring

**We recommend** the Program Administrator strengthen controls and monitoring. This could include:

- Building a model for each department requesting a p-card including:
  - Business need for p-card
  - Creation of custom MCC group (preventative control)
  - Establish department exceptions based on business need:
    - Limits
    - Split purchases
    - Prohibited purchases
- Using available US Bank reports and/or creating reports to monitor the program for:
  - MCC codes / prohibited purchases
    - Working with Application Services to identify necessary data and setup queries to retrieve it from FMS
    - Searching merchant name and detail field for key words
  - Split / duplicate transactions
  - Limits
  - Tracking exceptions
    - Compare to other reports to verify those granted and identify transactions needing further investigation
  - Working with Financial Services to create sampling guidelines for auditing of department documentation packets

## Expand Use of P-Card Program

**We recommend** the Program Administrator work to expand the use of existing p-cards and the p-card program. This could include:

- Developing recommended targets for utilization rate of p-card program such as:
  - Eligible transactions vs. those completed via p-card
- Proactively approaching departments with large number of eligible purchases being completed by PO
- Working with the Director of General Services and the BOCC to implement policy mandating use of p-cards for transactions under a certain dollar amount.
- Creating required annual refresher training (best practice) to:
  - Review policies and procedures, changes, etc.
  - Hold round tables for departments to discuss and share experiences, uses, and give feedback
  - Teach departments how to identify p-card eligible purchases currently being done by PO
- Working with Application Services and related departments to:
  - Improve communication of p-card data between FMS and other software such as Public Work's FASTER system
  - Develop easier methods to allocate costs
- Working with Financial Services to explore using p-cards to:
  - Pay invoices in Accounts Payable
  - Pay for services
    - Confirm tax filing implications

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## Appendix A: Audit Methodology

### Audit Objectives

1. Determine if the controls over the p-card program are adequate and effective.
2. Determine whether purchase cards have been used according to policies and procedures.
3. Determine if the p-card program is effective and fulfilling its purpose.

### Scope

Work was primarily conducted in the Purchasing Department within General Services. However, surveys included all cardholders and their listed supervisor. Financial Services was also consulted as part of the assessment of financial transaction data. This audit includes analysis of all p-card transactions invoiced in 2012 for compliance with policies as well as utilization of the program.

### Methodology

To gain an understanding of the p-card program, we interviewed the Program Administrator, Accounting Manager, and surveyed program users. We also researched and reviewed county policies and the contract with US Bank. To identify key internal controls, a flowchart was created to outline the typical p-card transaction process in the county from the purchase through payment. Industry studies and best practices were also identified and compared to existing policies and procedures.

In assessing compliance with county policy and procedures, queries were run in the County's Financial Management System (FMS) which identified a total of 2,536 p-card transactions (purchases and credits) for 2012. A total of 67,710 other invoiced transactions, not including p-card transactions, were also identified for 2012. Assessments were performed on this data to test the total number of transactions, dollar amount, date range, and to identify potential missing or duplicate data. The data was determined to be sufficiently reliable for use in this audit.

2,346 P-card purchases were identified in the 2012 transactions and analyzed for compliance with county policy. This included comparisons to policy limits and performing keyword analysis to identify potentially prohibited purchases. Statistical analysis was also conducted to establish typical p-card purchases and vendors. Finally, single and two digit Benford's analyses were completed to evaluate these transactions for indicators of fraud.

Auditor judgment was used to manually filter the other invoiced 2012 transactions down to just those purchases completed with a purchase order (PO) but eligible for purchase on a p-card. This resulted in identifying approximately 7,200 p-card eligible purchases which were completed by PO in 2012. These results were compared to the number of p-card purchases actually completed to determine how much p-cards and the program were utilized.

Spreadsheets containing rebate data were downloaded from the Washington State Department of Enterprise Services website. Statistical analysis was performed to determine typical rebate percentages and numerical averages. This information was combined with results from the user survey, transaction analysis, and interviews, to determine if the program was effective achieving its objectives.

### **Limitations**

Due to inconsistent amounts of detailed descriptions on p-card transactions within FMS, keyword analysis was limited to the merchant name only.

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## Appendix B: Management Comments

General Services and the Purchasing Department provided the written comments below.



### MEMORANDUM

Date: July 24, 2013

To: Larry Stafford

From: Michael Westerman, CPPO

RE: Clark County P-Card Audit

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General Service and Purchasing appreciates the audit report and recommendations to improve the program and expand its use. Purchasing will update the following areas:

- Policies and Procedures will be corrected to eliminate conflicting language and align the program with Purchasing Policies to allow the Purchasing department flexibility to support card users with their procurement requirements.
- The Purchasing manager will work with US Bank to create custom MCC codes and block all foreign transactions.
- The Purchasing Manager will work with Applications Services to increase the accessibility in FMS to the data provided by US Bank that will allow additional query and reporting options. This will also improve the transaction review and approval process.
- We will train card users to document the transaction line for every exception request and approval during the reconciliation process.
- We will continue to review opportunities to expand program use.