

Leslie Wilks Garcia, M.Jur., CPA, CFE  
*First Assistant County Auditor*



Glenn Holloway, CPA, CIA, CFE  
*Chief Assistant County Auditor – Audit Division*

Sharon Brantley Smith, MBA, CIA, CFE  
*Chief Assistant County Auditor – Harris Health*

**MICHAEL POST, CPA, CIA  
HARRIS COUNTY AUDITOR**

January 7, 2025

Dear Paige McInnis, Purchasing Agent:

The Harris County Auditor's Office Audit Division has completed an audit of the Purchase Card processes. The results of our audit are included in the attached report.

We appreciate the time and attention provided by your team. Please expect an email request to complete our Post Engagement Survey. We look forward to your feedback. If you have any questions, please contact me or Glenn Holloway, Chief Assistant County Auditor, 713-274-5673.

Sincerely,

A handwritten signature in blue ink that reads "Michael Post".

Michael Post  
County Auditor

Attachment

Report Copies:

District Judges

County Judge Lina Hidalgo

Commissioners:

Lesley Briones

Rodney Ellis

Adrian Garcia

Tom Ramsey

Christian Menefee

Juanita Patterson

Lytrina Bob



INTERNAL AUDIT REPORT  
**PURCHASE CARD PROCESSES**  
JANUARY 7, 2025

## Executive Summary

### OVERALL CONCLUSION

Overall, the operating effectiveness of the internal controls related to the purchase card processes were found to be effective. However, opportunities for improvement were identified in the areas of purchase card transactions review, account reconciliation, single purchase limit, and sales tax processing. The observations were discussed with the Purchase Card Administrator, and management action plans were developed which will address the observations identified by June 1, 2025.

### SCOPE AND OBJECTIVE

The scope of the audit period was October 1, 2023, through February 29, 2024. The audit objective was to evaluate the design and operating effectiveness of internal controls for purchase card (p-card) processes including, but not limited to:

- Issuing p-cards,
- P-card utilization,
- Record retention and p-card account reconciliations,
- Purchase returns, account credits and disputes, and
- Cardholders' transfers and separation from Harris County.

### SUMMARY OF AUDIT OBSERVATIONS

The following observations were identified:

- Department Card Administrators were not reviewing, approving, and reconciling p-card transactions timely.
- Single purchase limit application control was not established in CitiManager.
- The process of sales tax removal on tax-exempt transactions was inefficient.

The audit observations, management's action plan to address the observations, and background information regarding this audit are discussed in more detail on the following pages. Each audit observation is ranked based on the likelihood and impact of the residual risk to Harris County.

## AUDIT OBSERVATIONS

### **OBSERVATION #1: Review of purchase card transactions and reconciliations were not being performed timely [MODERATE]**

**What is the Observation:** Review, approval, and reconciliation of purchase card (p-card) transactions were not being performed timely by the Department Card Administrators (DCAs). The following exceptions were identified:

- 27 out of 45 (60%) p-card transactions tested were neither reviewed and approved nor disputed by assigned DCAs within 5 business days after the statement cutoff date, with an average time delay of 41 days.
- 4 out of 14 (29%) monthly reconciliations selected for testing had open items that were ranging from 5 to 8 months past due.

**Why it Happened:** The DCAs are not following up with the respective cardholders in a timely manner to obtain appropriate information for reviewing and approving transactions.

**Why it Matters:** P-card transactions that are not reviewed, approved, and reconciled timely could lead to unauthorized transactions and may impact returns, disputes, credits, and interest charged by the bank.

**What is Expected:** The Harris County Purchase Card Policies and Procedures Manual, Section 11.6, *Late Reconciliations* states, “Reconciliation is the review and submission of all required supporting documents for each transaction made by the Cardholder. Cardholder will review transactions and attach required supporting documentation as needed. Once Cardholder approves the transactions, it will be submitted to the Department Card Administrator for their review and approval. Department Card Administrator must complete timely review to ensure Reconciliation is completed.”

Additionally, the Harris County Purchase Card Policies and Procedures Manual, Section 2.4 *Department Card Administrator* states, “The Department Card Administrator shall review and approve purchase card transactions and supporting documentation. Reallocate charges if necessary. All reviews must be completed as quickly as possible and within ten (10) business days of the transaction date. After statement cutoff date, review must be completed within 3-5 business days.”

#### **What Action(s) are Suggested:**

- a) Provide comprehensive re-training for all current and future DCAs on the Harris County Purchase Card Policy and Procedures Manual, particularly focusing on the timeliness of their reviews, approvals, and reconciliations.
- b) Develop a procedure to review accounts for any past due reconciliations. The procedure should include provision to escalate to management instances of noncompliance with the policy.

### **MANAGEMENT’S ACTION PLAN**

**Responsible Party:** Paige McInnis, Purchasing Agent

The audit report noted that several cardholders have not been completing their procurement card reconciliations in a timely manner. Procurement is aware of this finding, and the following actions have been implemented to reduce the risks associated with untimely reconciliations:



1. **Running Regular Reports:** A new system report has been implemented to track the status of procurement card reconciliations. This report is run on a weekly basis by the P-Card Administrator to identify cardholders with overdue reconciliations.
2. **Notification to Cardholders:** Cardholders receive reminders regarding past-due reconciliations, emphasizing the importance of completing this task promptly.
3. **Accountability Measures:** Department heads, supervisors, and Department Card Administrators (DCAs) are informed of any overdue reconciliations within their teams. This ensures that management is aware of delays and can address issues at the department level. A follow-up procedure has been established to escalate cases of continued non-compliance, which includes suspension of card privileges and mandatory additional training as needed.
4. **Training & Guidance:** A brief training session will be offered to all cardholders and DCAs on the procurement card reconciliation process. This will reinforce deadlines, the importance of timely submission, and how to access and use the tracking tools. A "Frequently Asked Questions" (FAQ) document is being developed to address common questions and ensure clarity on expectations.
5. **Monitoring & Reporting:** Monthly reports will be reviewed to ensure that reconciliations are completed on time. Any outstanding issues will be flagged for follow-up.

**Targeted Completion Date:** Completed. The measures outlined are already in place and are part of an ongoing effort by the P-Card Administrator to maintain program compliance. The Purchasing Agent and P-Card Administrator have begun to monitor the impact of these measures. The effectiveness of these actions will be reviewed by January 30, 2025, and adjustments will be made as necessary to ensure ongoing compliance. By implementing these actions, we anticipate a significant reduction in late procurement card reconciliations. This will improve financial reporting accuracy, enhance compliance with county policies, and reduce audit findings related to this issue in the future.



## **OBSERVATION #2: Purchase card single purchase limits [MODERATE]**

**What is the Observation:** Two transactions exceeded the single purchase transaction limit of \$4,999.99 and did not have the required approvals for exceeding the allowable spending limit.

**Why it Happened:** A system application control for limit checks was not activated in cardholder accounts within the CitiManager portal to provide a single purchase spend ceiling. Consequently, single purchase transactions did not have an upper limit enabled for the predetermined value of \$4,999.99 as specified in the Harris County Purchase Card Policies and Procedures Manual.

**Why it Matters:** Transactions that exceed the single purchase limit of \$4,999.99 and do not have the required approvals may lead to excessive department spend on the p-card accounts.

**What is Expected:** The Harris County Purchase Card Policies and Procedures Manual, Section 2.10 *Single Purchase Limit* states, “A transaction limit is the dollar limitation of purchasing authority assigned to the Cardholder for each charge made with the purchase card. A single transaction/charge may include multiple items, but the total transaction cannot exceed the limit. The transaction limit for each Cardholder is determined by the Department Card Administrator and Purchasing Agent. Standard single purchasing limit is \$4,999.99. Any request for a single spending limit of more than \$4,999.99 shall require the approval of the Department Card Administrator, Purchase Card Administrator and Purchasing Agent.”

**What Action(s) are Suggested:** Activate CitiManager’s single purchase transaction limit function of \$4,999.99 for all p-card accounts to comply with the policy.

## **MANAGEMENT’S ACTION PLAN**

**Responsible Party:** Paige McInnis, Purchasing Agent

An audit finding identified that some procurement card (P-Card) holders have been exceeding the approved single transaction limit, which violates the P-Card program policy. The issue has already been addressed, and the following measures have been implemented to prevent future occurrences.

### **Actions Taken:**

1. **Implementation of Restriction on Purchases Over \$4,999.99:**
  - The P-Card Administrator has worked with Citibank to implement a restriction on all procurement cards that prevents transactions exceeding \$4,999.99.
  - Effective immediately, any attempted purchase over this threshold will be automatically declined at the point of sale. This system restriction ensures that cardholders cannot exceed the approved single transaction limit.
2. **Communication and Training:**
  - All P-Card holders are aware of this restriction, which is outlined in both the P-Card training and the P-Card manual. The communication emphasizes the importance of adhering to transaction limits.
  - The P-Card Administrator will conduct refresher training sessions for all cardholders and Department Card Administrators (DCAs) to reinforce proper purchasing practices and provide further clarity on transaction limits.



3. **Monitoring and Reporting:**

- A monthly report will be generated to track P-Card usage and ensure that no transactions exceed the \$4,999.99 threshold without prior approval.
- If any issues arise, the P-Card Manager will follow up directly with cardholders to resolve the situation and ensure compliance.

4. **Accountability:**

- Department heads and supervisors will be notified of any incidents where cardholders attempt to exceed the transaction limit. This ensures management is informed and can address at the department level.
- Repeated violations will be addressed through additional training or other corrective measures, as necessary.

**Targeted Completion Date:** Completed. The system restriction on transactions over \$4,999.99 has already been implemented, and compliance is actively being monitored.



### **OBSERVATION #3: Inefficient process of manual sales tax removal:** **[MODERATE]**

**What is the Observation:** Of 69 transactions reviewed, 45 (65% of the transactions) in the total amount of \$3,425.08 mistakenly included sales tax in the PeopleSoft/STARS accounting data. Harris County Auditor's Office Accounts Payable specialist identified the sales tax in PeopleSoft/STARS while processing the transactions for disbursement and corrected them with manual reversing entries.

**Why it Happened:** PeopleSoft/STARS data mistakenly included sales tax charges on purchases from various merchants. The supporting merchant invoices did not include sales tax charges on the tax-exempt transactions. The monthly Citi Summary of Account Activity statements also did not include the sales tax charges for those transactions. Per inquiry with the Harris County Universal Services, the sales tax charges are added to transactions in the accounting transmission file by the merchant bank.

**Why it Matters:** Since Harris County is exempt from Texas state sales tax, inaccurate accounting data may lead to the sales tax being processed and paid resulting in overpayment of goods and services and financial loss to the County. Additionally, the existence of erroneous charges in the accounting data presents an administrative burden to identify and manually correct the exceptions.

**What is Expected:** Per Harris County Purchase Card Policies and Procedures Manual, Section 4.4. *Making a Purchase*, "Harris County is exempt from sales taxes. Assure that sales taxes are not added to the purchase." Purchase card accounting transaction data that is used to process purchase card transactions should be accurate without exception.

**What Action(s) are Suggested:** The purchase card implementation team and Harris County Universal Services should collaborate to inspect the erroneous sales tax accounting data in PeopleSoft/STARS, determine the root cause of the problem, and provide a systematic solution to eliminate the manual process of removing sales tax charges.

### **MANAGEMENT'S ACTION PLAN**

**Responsible Party:** Paige McInnis, Purchasing Agent

An audit finding highlighted the inefficiency of the manual process for removing sales tax from procurement card (P-Card) transactions. This issue involves multiple departments, including Procurement and Universal Services. It is essential to address the inefficiencies while understanding that the root cause is not solely a Harris County issue.

#### **Actions Taken:**

##### **1. Collaboration Across Departments:**

- Procurement: Procurement has been working with Accounts Payable (AP) and Universal Services to streamline and standardize the process for identifying and removing sales tax from P-Card transactions. Additionally, we will update the current P-Card manual to include explicit requirements for Department Card Administrators to reconcile the invoices with the amounts listed on the Citi Card bank statement in addition to the information interfaced in PeopleSoft. This will help identify and address discrepancies, ensuring that all amounts charged or billed are accurate between the invoice and the amount charged by Citibank. Lastly, procedures for addressing and resolving any discrepancies identified during the reconciliation process will be outlined.



- Universal Services: Universal Services is assisting by ensuring that all merchant setups and transaction processing methods are in line with Harris County policies to prevent unnecessary sales tax charges to be inadvertently included in the final Citibank statement.
2. **Root Cause and Complexity:**
    - The issue of sales tax removal is not easily fixable, as it primarily stems from how merchants, third parties, and credit card processors handle transactions. Harris County and the cardholders do not have full control over how merchants process transactions or apply sales tax. This complexity makes a straightforward solution challenging between all responsible parties and the interface between Citibank and the merchants and ultimately into PeopleSoft
  3. **Sales Tax Exemption Process:**
    - If cardholders do not use the sales tax-exempt form when making a purchase, they are required to seek a refund from the vendor for the sales tax charged.
    - Procurement and AP teams make every effort to ensure that unnecessary sales taxes are not paid, and work with cardholders to resolve these issues when they arise.
  4. **Ongoing Process Improvements:**
    - Dispute Management: In cases where sales tax is incorrectly charged, the P-Card Administrator works closely with CitiBank to ensure the charges are disputed and resolved. Once resolved, the credit will be applied, and the cardholder will reconcile the amount accordingly.
  5. **Communication and Training:**
    - All P-Card holders and DCAs will continue to be educated on the importance of following proper procedures when making purchases, including providing sales tax exemption forms to merchants. The training emphasizes the need to avoid transactions that may result in sales tax charges, where applicable.
    - Additionally, Procurement, Universal Services, and AP will continue to communicate with merchants and third-party processors to ensure proper setup and reduce the incidence of erroneous sales tax charges.
  6. **Monitoring and Reporting:**
    - The system is configured to identify transactions with sales tax. The P-Card Administrator and AP will continue to monitor these transactions and identify any patterns or recurring issues that need to be addressed.
    - AP will continue to follow up on flagged transactions, working closely with cardholders and merchants to resolve any disputes regarding sales tax charges.

**Targeted Completion Date:** Ongoing effort as this issue is complex and cannot be resolved immediately due to its external nature (involving third-party merchants and processors). All involved departments will continue working collaboratively and monitoring this issue. We will reassess the observation on June 1, 2025, at which point we will either determine a solution or accept the risk for continued ongoing monitoring.





## BACKGROUND

The Harris County Purchase Card Program (P-Card Program) was implemented in October 2023 as a replacement of MyWallet Program. At the time of the engagement and as part of an ongoing implementation program, Purchasing had activated 168 cards in the P-Card Program for cardholders in 32 Harris County departments. The goal is to transition from the current pilot program to full deployment of the P-Card Program across all participating Harris County departments by October 31, 2025.

The P-Card Program is designed to improve efficiency and timeliness of the purchasing process and to reduce costs in processing lower dollar purchases from vendors. The Program allows cardholders to purchase approved commodities, travel expenses, and services directly from vendors. It is intended to enhance the procurement process. By utilizing the purchase card for lower dollar, routine purchases, Harris County employees can help optimize the purchase-to-pay cycle by streamlining the purchasing process, controlling the spending, reducing administrative costs, and improving days payable outstanding.

Cardholders, Department Card Administrators, and Purchase Card Administrators can self-manage the program in a secure, online environment with CitiManager. CitiManager allows one to review transactions and allocate and reconcile charges and accounts through the tool. Additionally, Administrators can manage cardholder access and card profiles. They may also set credit limits and accounting codes among many capabilities.

## ACCOUNTABILITY

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing (Standards). The Standards require that we comply with the Code of Ethics and obtain reasonable assurance that significant risks to the activity are minimized to an acceptable level.

As the engagement's scope did not include a detailed examination of all transactions, there is a risk that fraud, errors, or omissions were not detected during this engagement. The official, therefore, retains the responsibility for the accuracy and completeness of their financial records and for ensuring sufficient controls are in place to detect and prevent fraud, errors, or omissions.

