



Lewis County

Purchase Cards

2024M-41 | July 2024

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Report Highlights

Lewis County

Audit Objective

Determine whether Lewis County's (County) purchase card charges were properly approved, supported and for appropriate purposes.

Key Findings

We reviewed 366 purchase card charges totaling \$229,635 and determined the charges were for appropriate purposes; however, charges were not properly approved and supported and did not follow County policies. For example:

- Although prior approval is required by the County's purchase card policy, 238 online purchases totaling \$189,852 did not have supporting documentation uploaded into the financial system that showed the department heads' approval prior to the purchases being made.
- Although the County's procurement policy required verbal or written quotes, 52 charges totaling \$142,684 did not have evidence of verbal or written quotes.
- The County could have potentially saved approximately \$4,800 in travel expenses and sales tax.

Additionally, the third-party purchase card vendor directly withdraws the monthly payments from the County's bank account without the County Treasurer's (Treasurer) authorization. This puts County funds at unnecessary risk.

Key Recommendations

- Approve online purchases prior to the purchases being made.
- Obtain verbal/written quotes, as required by the County's procurement policy.
- Do not allow the purchase card vendor to directly withdraw monthly payments from the County's bank account.

County officials agreed with our findings and recommendations and have initiated, or indicated they planned to initiate, corrective action. Appendix B includes our comment to an issue raised in the County's response.

Audit Period

January 1, 2022 – February 14, 2024

Background

The County encompasses 17 towns and eight villages.

The County is governed by a Board of Legislators (Board) composed of 10 elected Legislators, one of whom serves as the Chairperson. The Legislators are responsible for the general oversight of the County's financial affairs and safeguarding County resources. The Board-appointed County Manager is the chief administrative officer and is responsible for managing the overall administration of County government at the Board's direction.

The Purchasing Director oversees the use of the County's purchase cards and is responsible for approving purchases. The County's claims auditor and deputy claims auditor are responsible for ensuring claims are properly supported and for appropriate purposes. The Treasurer is responsible for disbursing County funds.

Quick Facts

Number of Purchase Cards	29
Purchase Card Charges (3/10/22 – 11/14/23)	
Amount	\$616,177
Number of Charges	1,301

Purchase Cards

A purchase card is similar to a credit card and can be used to make electronic payments for a variety of goods and services. However, the account balance must be paid in full each month. The County has 29 purchase cards that are assigned to employees who work across 24 County departments.

What Are Approved, Supported and Appropriate Purchase Card Charges?

An approved, supported and appropriate purchase card charge is a transaction that is for goods and services that serves the purpose of a county and complies with a county's written policies. According to the County's purchase card policy:

- The purchase card is not intended to avoid or bypass the procurement requirements and card users should follow the Board-adopted procurement policy. For example, the County's procurement policy requires three verbal or written quotes for purchases of materials, supplies and equipment between \$501 and \$19,999.
- Purchases transacted on the Internet require department head approval prior to completing an online purchase.
- After a purchase has been made using the purchase card, all supporting documentation, such as original receipts, should be uploaded into the County's financial system.
- The department head and the County Manager will approve all purchase card transactions within the financial system.
- Sales tax is not to be paid.
- Purchase cards cannot be used for insurance payments.

A proper claims audit ensures every claim, including purchase card transactions, is subjected to an independent, thorough and deliberate review to determine that the claim is properly supported by itemized invoices or receipts, and that the goods and services were actually for an appropriate county purpose.

Purchase Card Charges Were for Appropriate Purposes but Did Not Always Follow County Policies

We reviewed 366 purchase card charges during our audit period¹ totaling \$229,635 and determined all charges were for appropriate County purposes. However, purchase card charges were not always properly approved or

¹ See Appendix C for more information on our sampling methodology.

adequately supported, and purchases were made that did not follow the County's policies.² For example:

- None of the 366 charges reviewed were approved as required by the County Manager. Although the purchase card policy requires the County Manager to approve all purchase card transactions the current practice is for the Purchasing Director to do so. The County Manager told us the Purchasing Director was hired after the Board adopted the purchase card policy and the policy should have been updated to reflect this change. When the purchase card policy is not periodically reviewed and updated as necessary to reflect the expected practices and controls, officials and staff are less likely to know the policy and follow the required procedures.
- 238 online purchases totaling \$189,852 did not have adequate supporting documentation in the financial system indicating the department heads' approval of the purchase prior to the purchase card being used. While the department heads approved most of the charges after the purchases were made, employees were not required to follow the Board's purchase card policy, which requires department head approval prior to using the purchase card for online purchases. In addition, one claim totaling \$325 had no department head approval. We also determined 13 charges totaling \$12,382 were not reviewed and approved by the County claims auditor or deputy claims auditor prior to payment. Additionally, the claims auditor and deputy claims auditor approved four charges which they initiated, totaling \$2,987. When charges are paid before the claims auditor's approval or the claims auditor approves charges they submit, there is an increased risk that inaccurate or improper payments could occur.
- 55 charges totaling \$156,111 required three verbal or written quotes, according to the County's procurement policy. Fifty-two charges (95 percent) totaling \$142,684 did not have evidence of the minimum required number of quotes uploaded into the financial system, as required. During our audit fieldwork, the Purchasing Director was able to provide evidence of quotes for 35 charges totaling \$122,011. However, he was unable to provide quotes for the remaining 17 charges totaling \$20,673, which included purchases for items such as work attire, floor mats and a windshield replacement for a Sheriff's vehicle. The Purchasing Director acknowledged that quotes were not always obtained as required. Additionally, he told us one purchase of heat pumps, totaling \$2,023, was from a sole source (i.e., only able to be purchased by a single vendor); however, he was unable to provide documentation showing no competition was available and that it was actually

² Some purchase card purchases are in multiple categories of exceptions such as not supported, not approved and did not follow the County's procurement policy.

a sole source. Because County officials did not always seek competition or document the reasons why they did not seek competition for these charges, they cannot be sure that the goods and services were procured in the most prudent and economical manner and in taxpayers' best interests.

- 43 charges totaling \$16,274 were for hotel expenses. The County could have potentially saved approximately \$4,340 on 30 of these charges if officials and employees had requested and were able to use the General Services Administrative (GSA) daily lodging rates instead of the rates offered by the vendors. The GSA is a federal agency that establishes per diem rates³ for meal and lodging expenditures relating to government travel. These rates are used by the federal government and other government entities, including New York State.⁴ County officials acknowledged they were unaware of GSA lodging rates and did not require employees to actively seek these rates when traveling. By adopting GSA lodging rates as the general maximum amounts allowable, the Board could save money and reduce the risk that employees could incur extravagant or unnecessary hotel expenses.

Additionally, the purchase card policy requires County employees to submit a trip request form and obtain approval from the department head and County Manager prior to travel for conferences, events, and training. However, the County's policies and procedures do not provide guidance on who should review and approve travel requests for the County Manager and Legislators. We determined that three trips, two for the County Manager and one for a Legislator, did not have a trip request form completed or approved. Furthermore, one trip request form for an employee was approved after the travel had already taken place. While the travel and hotel expenses were for appropriate County purposes, the lack of an approval process for some officials and granting approval after the travel has occurred creates an opportunity for questionable or possibly fraudulent expenses to occur.

- 28 charges included \$504 in sales tax that the County is exempt from paying. The Treasurer told us that employees did not always provide vendors with a tax-exempt form when using purchase cards. Paying sales tax unnecessarily is a form of wasteful spending that could be easily avoided by requiring employees to comply with County policies and to submit the proper forms when making purchases.
- 27 charges totaling \$12,942 did not have adequate supporting documentation such as an itemized receipt in the financial system. For example, the original supporting documentation for two charges totaling

3 A per diem is a daily allowance given to an individual per day to cover expenses when traveling for work.

4 Federal rates are readily available at the GSA website (<https://www.gsa.gov/travel/plan-book/per-diem-rates?gsaredirect=portalcontent104877>) and are usually updated at least once a year.

\$8,103 included packaging slips but no itemized receipts. We followed up with the Purchasing Director, who was able to provide supporting documentation for 14 charges, totaling \$12,202. Although we were able to verify the remaining 13 charges were for appropriate County purposes, approving charges for payment without adequate supporting documentation increases the risk that improper charges could be made and not detected and corrected.

- Two charges totaling \$5,642 were made to an insurance vendor despite the purchase card policy restricting card holders from using the purchase card to make payments to insurance agencies. County officials told us they were unaware that the purchase card policy had a specific restriction on using the card for insurance payments.

Additionally, we determined that the County's purchase card vendor automatically electronically debits (withdraws) the monthly payments due from the County's general fund bank account. These automatic payments occur with no direct approval from the Treasurer to initiate these payments. There are no provisions in law allowing a third party to directly access County funds. Instead, all electronic payments must be initiated by the Treasurer. On average, the County's general fund bank account had a balance of \$10 million at the time the vendor withdrew each payment placing the County's cash at unnecessary risk. The Treasurer told us County officials did not consider the potential risks and exposure of allowing the third-party vendor to access the County's bank account when selecting the auto-debit option because the vendor is a well-known, reputable financial institution. However, if the County's banking information falls into the wrong hands (e.g., an individual gaining unauthorized access to the County's bank account through the third-party vendor), the County could fall victim to severe financial fraud.

Although all charges reviewed were for appropriate County purposes, we identified missed opportunities on the County's part to save money and opportunities for officials to strengthen the County's policies and procedures. When purchase card use is not closely controlled and monitored or officials are allowed to circumvent existing policies, there is an increased risk that inappropriate and wasteful spending may occur.

What Do We Recommend?

The Board should:

1. Update the purchase card policy to indicate the Purchasing Director must approve all purchases if it is the Board's intention to continue the current practice. Periodically review and update the policy, as appropriate.

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2. Update the purchase card policy to establish an approval process for the County Manager and Legislators trip requests prior to travel.
 3. Consider adopting GSA per diem rates as the maximum amounts allowed for lodging.

The Purchasing Director should:

4. Ensure purchases follow the County's procurement policy and that quotes are obtained and uploaded into the financial system, as required. In addition, ensure documentation of the justification for using a sole source provider is uploaded into the financial system, when applicable.
5. Ensure all card users are providing the appropriate tax-exempt forms to vendors.
6. Ensure all supporting documentation, such as itemized receipts and pre-approval for online purchases, are uploaded in the financial system prior to approving the purchase card charge.
7. Ensure purchase card charges are made in compliance with the purchase card policy and purchase cards are not used to pay insurance agencies.

The claims auditor and deputy claims auditor should:

8. Ensure all purchase card charges are approved by the respective department head and contain supporting documentation, such as an itemized receipt, prior to approving them for payment.
9. Ensure all purchase card charges are audited prior to payment. In addition, the claims auditors should not approve charges which they initiated.

The department heads should:

10. Document approval for online purchases before the purchases are initiated and upload this support into the financial system.

The Treasurer should:

11. Immediately discontinue allowing the purchase card vendor access to the County's bank account to electronically withdraw cash for payment on the purchase card account. Any electronic payments to third parties should be authorized and initiated by the Treasurer.

Appendix A: Response From County Officials



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July 2, 2024

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor
Albany, NY 12236

Re: OSC Audit Written Response

To Whom it May Concern,

On behalf of the Lewis County Board of Legislators, I would like to thank the Office of the State Comptroller (OSC) for working collaboratively with our staff and elected officials to review and refine the purchasing process in Lewis County. Together with Lewis County staff, OSC representatives worked intensively for nearly three months to review internal county operations. After a complete review, we are proud to report that the County's internal control mechanisms held up well under this close scrutiny. Every dollar reviewed by the OSC staff during the review period was deemed appropriate for government use, and zero instances of fraud were identified.

See
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This was Lewis County's first OSC audit in many years. We appreciate the effort and time commitment this audit involved. The OSC staff was very upfront and informative throughout the process. They were easy to work with and provided beneficial information and guidance.

After completing their scope of work review, the OSC decided to focus their performance audit on our Purchase Card (P Card) transactions. P Cards are a recent change that allows county departments to utilize a credit card to make purchases for their day-to-day activities. Many counties in NYS have started to use P Cards over the last ten years. Lewis County initiated our purchase card program in March 2022, after developing a Purchasing Card Policy & Procedures to guide their use and seeking Board of Legislative approval for this new payment method.

As noted in the OSC's report, there are a few opportunities for the County to refine our purchasing policies. Within the last three years, the County has greatly increased the sophistication of our purchasing process. The addition of a Purchasing Director in 2022, and the addition of P Card purchases that same year meant new policies and procedures had only recently been implemented. Considering these changes in our processes, this area of County operations is an obvious place for the OSC to focus this review.

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Lewis County is an equal opportunity provider and employer. Complaints of discrimination should be made known to the Lewis County Board of Legislators.

We agree with the OSC's suggestions and have already taken steps to revise our policies to reflect the recommendations provided. The Lewis County Board of Legislators shares the OSC's commitment to ensuring every tax dollar is spent appropriately and documented accordingly. Lewis County has a strong track record of meticulous internal control, and we are eager to refine our policies to better serve these goals.

We thank the staff and management from the Office of The State Comptroller for their cooperative approach to this process.

Sincerely,

Lawrence Dolhof
Chair, Lewis County Board of Legislators

Cc: Rebecca Wilcox, Chief of Municipal Audits (also send via email)
[REDACTED], Audit Manager (send via email)

Appendix B: OSC Comment on the County's Response

Note 1

The audit objective focused on whether purchase card charges were properly approved, supported and for appropriate purposes. The audit team assessed the risk of fraud occurring that is significant within the context of this audit objective, as required by generally accepted government auditing standards. Therefore, these audit results cannot be used to conclude there is no fraud, theft or professional misconduct in the County's operations.

Appendix C: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. We obtained an understanding of internal controls that we deemed significant within the context of the audit objective and assessed those controls. Information related to the scope of our work on internal controls, as well as the work performed in our audit procedures to achieve the audit objective and obtain valid audit evidence, included the following:

- We interviewed County officials, including the County Manager, Treasurer, Purchasing Director and claims auditors and reviewed written policies and procedures to gain an understanding of the County's use and monitoring of purchases cards.
- We reviewed the third-party purchase card vendor transaction list to identify all purchase card charges from March 10, 2022 (when card use began) through November 14, 2023. We identified a population of 1,301 charges totaling \$616,177. Using our professional judgment, we selected a sample of 366 charges totaling \$229,635 to review against the County's written policy requirements to determine whether charges were properly approved, adequately supported, and for appropriate County purposes. Our sample included five months (November and December of 2022 and May, June, and November of 2023) without expectations of greater or lesser results. In addition, we selected charges that posed a higher risk for improper purchases such as unknown vendors, even dollar amounts, and charges from vendors that sell goods that could be purchased for personal use.
- From the sample selected, we identified 55 charges totaling \$156,111 that were subject to verbal or written quotes per County policy. We reviewed the related supporting documentation to determine whether officials obtained quotes as required by the County's procurement policy or used other competitive methods (e.g., State contracts).
- We reviewed 43 charges totaling \$16,274 for hotel expenses to determine whether savings for travel expenses could have been achieved by the County. In addition, we determined whether a trip request form was completed and approved prior to travel.
- We reviewed the 366 charges for the inclusion of sales tax that the County is exempt from paying.
- We reviewed general fund bank statements to identify the amount of purchase card payments to the third-party purchase card vendor from April 2022 through December 2023. We compared each payment to purchase card statements to determine whether the third-party vendor withdrew the exact amount due. In addition, we calculated the average dollar amount of the general fund's bank balance for those months when the third-party vendor withdrew its payment.

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

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make the CAP available for public review in the County Clerk's office.

Appendix D: Resources and Services

Regional Office Directory

www.osc.ny.gov/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.ny.gov/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.ny.gov/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.ny.gov/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.ny.gov/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.ny.gov/files/local-government/publications/pdf/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.ny.gov/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

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Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

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