

P-Cards

Attestation Engagement-Review



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I. Introduction and Scope

The use of a credit card even in personal finance carries with it some inherent risks. After all, payments are not actually made right away at the time of the transaction. Instead, a debt ultimately accrues up until the balance is paid off with real cash. The credit card company therefore essentially loans the cardholder money on a very short term basis of usually a month, with interest applied on the account if isn't made whole by that deadline. Importantly, as a commercial card program, no interest is applied to the County. Payments are expected monthly.

Still, the notion of governments using credit cards and accordingly obligating taxpayers presents numerous concerns. While the quickness of paying vendor invoices may appear to be an advantage to alternative forms of accounts payable (AP), the lack of proper checks and balances before processing a credit card gives reason to restrain their usage. Indeed, if perhaps unintentional mistakes are made by a cardholder—such as realizing that lack of budget available or inappropriately paying sales tax, from which the County in particular is exempt (Clay County Ordinance 37.09)—tedious work ensues whereby the transaction has to be corrected, voided, and/or reversed, if possible. A better procedure would be to ensure everything is correct before sending or approving for payment—which is done by purchase orders (POs) in standard AP.

The relevance to Clay County is how the utilization of government credit cards or “P-Cards” for short has basically skyrocketed since the program’s inception in 2005. As news stories have highlighted, too, questionable uses of such P-Cards for things like attorney fees and utility bills can make citizens less trusting of their government. That is because P-Card reports seem to lack as much transparency as other County expenditures done by POs and subsequent checks or Automated Clearing House (ACH)/Electronic Funds Transfer (EFT). In fact, P-Card transactions cannot be found on the County’s Transparency Portal (. The Auditor’s Office decided, though, to go ahead and put that information on its own webpage (<https://www.claycountymo.gov/departments/auditor>).

Consequently, as far as the scope for this audit, a Review sort of Attestation Engagement is justified on County P-Cards. This type of audit under the Generally Accepted Government Auditing Standards (GAGAS) requires the auditor to arrive at conclusions based on adequate and sufficient evidence. No opinions are provided by the auditor in this form of audit. So, findings with the necessary criteria, conditions, causes, and effects have neither recommendations nor management responses.

A Review was selected as the information needed for “fieldwork”, albeit this is a rather intangible subject, exists in an already accessible manner through our accounting software. With potential revenue shortfalls from the COVID-19 crisis and changing employee schedules as well, a less bothersome approach for County staff was desired. Furthermore, the County is currently under two different audits at the moment—namely from the State Auditor’s Office and our annual financial statement Single Audit done by an outside independent external accounting firm.

This reality segues into the additional underlying context for Clay County government as a whole. The aforementioned State Audit continues despite an initial legal challenge from the Commission majority and Administration. Courts ruled in favor of the State Auditor’s legitimacy to perform wide-ranging performance audits and not just narrow financial ones. That decision is on appeal and subpoenas are being disputed. Hence, this audit will aim to not overstep on any work by the State Auditor’s Office, although no report has as of yet been released specifically about P-Cards.

II. Background and Audit Plan

As referenced before, the P-Card program for Clay County began in 2005. According to the earliest manual version available we could find from then, the intent behind P-Cards was to:

- “improve efficiency in processing low dollar purchases
- Reduce the cost of high volume, low dollar amount transactions—this program helps reduce the check requests, petty cash, and low dollar purchase orders
- Provide an efficient method of purchasing and paying for commodities and services
- The program is NOT intended to avoid or bypass appropriate payment or purchasing procedures, but to complement the existing processes”

Unfortunately this relatively good manual verbiage was never officially adopted by the County Commission. It is simply updated as needed per the P-Card Administrator’s wishes. Today that authority is within the Finance and Purchasing Departments. The manual no longer has the above cited language. Capital items are purchased, high dollar spending takes place, and numerous other inconsistencies with the original purpose happen.

As a result, as this audit will point out, credit limits by individual card holders have soared. The Audit Plan will cover those credit limit amounts and the liability as well as budgetary implications from them. Next, the audit addresses the amount of cards in force. We will apply a specific lens on the issue of individual cardholders versus recently issued department-wide cards. Such cards are also virtual and not physical plastic. The controls associated with such cards will then logically be scrutinized.

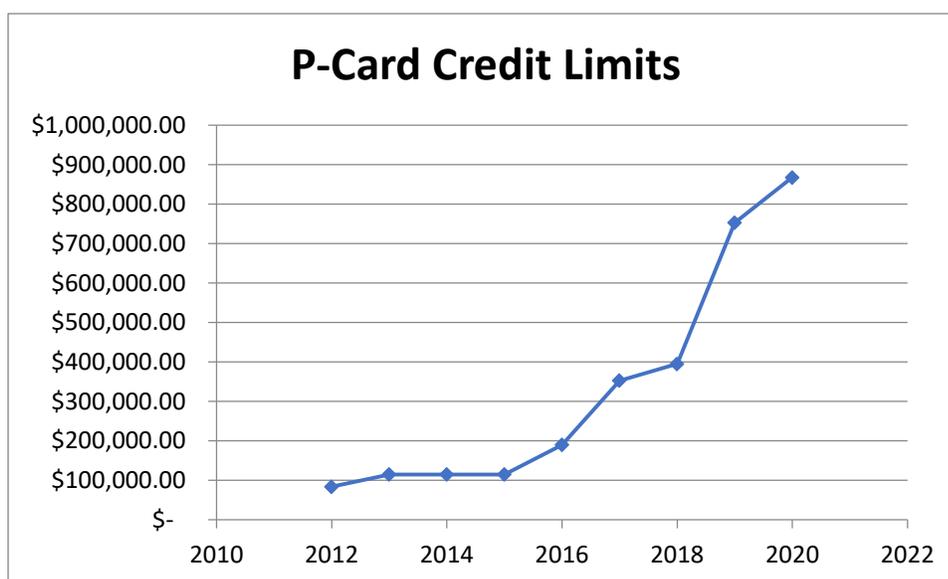
We further aim to explore what types of payments are made via P-Card and how that has changed since 2005. We will tie or compare this to the P-Card manual along with its related reconciler’s manual. Such transformation of the spending patterns leads to an analysis of single bill figures throughout all years. Plus, we can discern how much was spent by P-Card in total each year and run their contrasting statistics.

Finally, there will be a high level discussion concerning the benefits versus costs applicable to P-Cards. We will strive to mention the rewards or points set up with P-Cards from the current provider bank, UMB. By way of extra background, the County’s present bank for its overall treasury operations is Commerce Bank. This raises the question of if a better deal could be had by leveraging our relationship with Commerce for added purchasing power or economies of scale. Of note, however, UMB was the County’s former bank for overall treasury operations and not just P-Cards today. Moreover, they are the current trustee bank for the County’s \$52 million in 2018 Certificates of Participation (COPs). They are also trustee for the County’s 2011 COPs. Whereas, Commerce is the trustee bank for other County debt—both 2004 and 2014 Leasehold Revenue Bonds from the Clay County Public Building Authority. None of the other debt exceeds \$1 million.

III. Audit

- **Total County P-Card Credit Limits**

What used to be low dollar payments for business travel or comparatively cheap purchases, that might not warrant a check from a Purchase Order, have over time morphed into high dollar transactions since the program started in 2005. The graph below does better justice at explaining such trends:



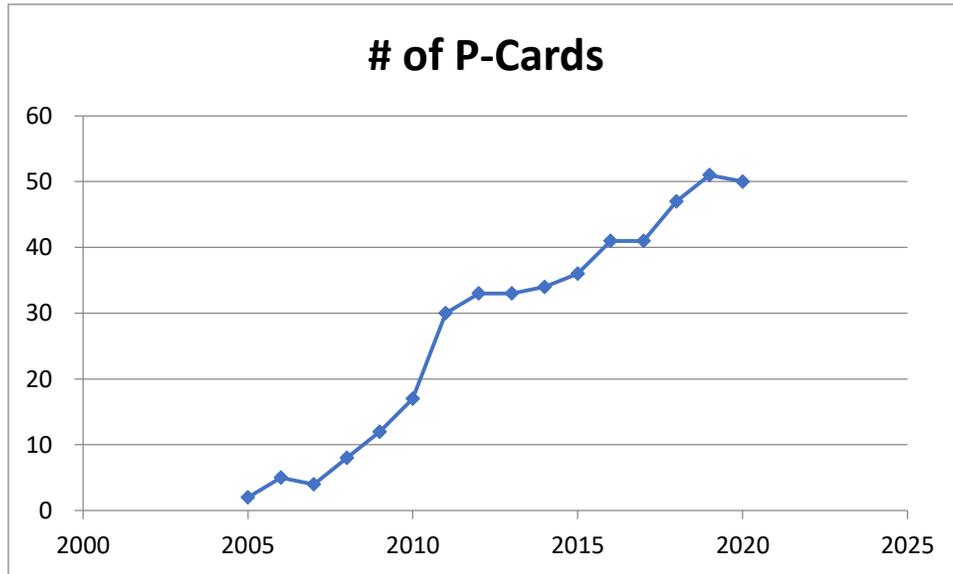
Notably, this dataset does not go back to the 2005 origin. It also depicts 2020 limits of all cardholders year-to-date (YTD). The rationale for that choice was how the change in the County’s official bank from UMB to Commerce for overall treasury operations in turn affected how P-Card limits become encumbered or reserved for adequate budget available. Since UMB is our P-Card provider, previously POs were actually created for each P-Card purchase against the specific budget account line. Today, though, P-Card charges are imported from UMB into the County’s accounting system on a monthly basis for a wire payment from Commerce back to UMB.

As such, the total credit card limits are now permanently encumbered separately in the budget by a few large POs. This protects the County from liability to ensure we can make good on the maximum limit available. The ramification, of course, is that, as this overall credit limit grows, so too does the impact on the budget. Indeed, historically the “P-Card Reserve” was separately budgeted in a transparent way for all to see. Today, that line has disappeared, so the Auditor’s office (per being Accounting Officer under Revised Statute of Missouri, RSMo, 50.530 as well as Auditor duties in RSMo 55.160) has to find somewhere to encumber the limits.

Conclusion: Increasing P-Card limits only serve to incessantly reduce available budget for the County. This is due to different banks and the requirement to protect the County from a liability and contractual standpoint.

- **Total Number of Issued County P-Cards in Force**

It naturally makes sense for a linear relationship that as credit limits have grown, so too have the total number of active P-Cards being used across County government. The sheer sum itself poses worries as the risk for fraud, stolen cards, lost cards, and so forth only rises with every new issued card. Once again, the visual tells the story best:



This range does include the beginning of 2005, but 2020 data are just YTD. Obviously numbers fluctuate throughout any given year as new employees apply for P-Cards and employees who leave turn them in and they get inactivated. What’s interesting from the listing of all cards is that 6, or 12% right now, are described as “department” cards not necessarily assigned to any particular individual. They have the highest credit limits by far, with a standard one for individuals starting at just \$2,500. Together department card limits come out at \$550,000 for the status quo or 63% of the County’s whole credit limit combined. Those departments include Facilities, Finance, Human Resources, Risk Mitigation (part of HR), Public Services, and Records Requests (part of Public Services). Their limits as of this writing are as follows:

Department	Credit Limit
Facilities	\$ 85,000.00
Finance	\$ 50,000.00
HR	\$ 200,000.00
Risk Mitigation	\$ 150,000.00
Public Services	\$ 50,000.00
Records Requests	\$ 15,000.00
Total	\$ 550,000.00

The problem with that concept of a department card is how the P-Card manual outlines “cardholder” individual responsibilities, and training for new users speaks to the same idea. In addition, the P-Card user application has fields for a person’s SSN and other identification or contact information. Granted, so-called “Expenditure Authorities” are in charge of approving the payments once imported into the accounting system. Such approval is still after the fact of the charge itself. Bear in mind that these department cards are virtual without a physical plastic card. Department staff thereby enters charges and not necessarily the Expenditure Authority. While there is no real tangible card, and to be fair then perhaps reducing chances of getting misplaced, the multiple user notion might outweigh the positives.

Conclusion: The number of outstanding or active P-Cards for Clay County has increased in line with their respective limits. Department cards do not readily conform to the P-Card manual’s guidelines and are the main cause behind the County’s entire credit limit expansion.

- **Types of Payments and Total Spending by P-Card**

This is a nice segue into the reasons behind these jumps in credit limits and cards in force. As discussed in the introduction, our insights into P-Card usage history display outlier years where total spending jumped dramatically. For instance, 2017 stands out with a 224.5% hike from 2016 or \$657,436.58—total spent of \$950,217.87. In looking at the P-Card invoices that year, the change is easily attributable to paying utility bills. As a matter of fact, utilities made up some \$426,547.62 of 2017’s total or 44.9%. This likely occurred due to an incident with a late payment to KCP&L (now Evergy) that year, but the option of ACH through a PO obviates the convenience of remitting by P-Card.

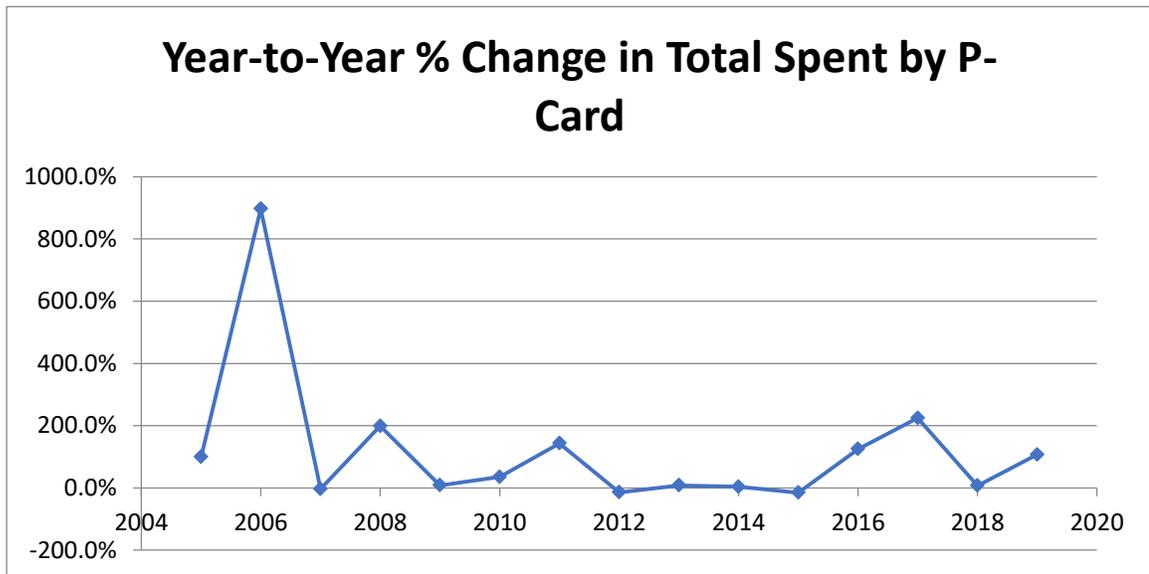
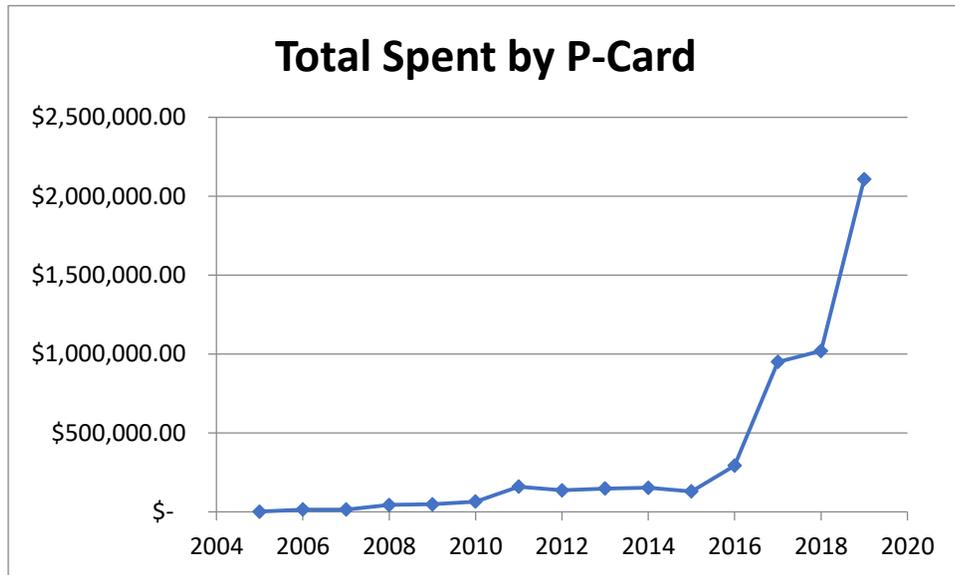
While there was a tremendous percentage climb in 2006, that was clearly from an increase in using the P-Card program more after the first year in 2005. The small numbers then went from \$1,551.61 in 2005 to \$15,505.61 in 2006, or an 896.8% increase but only \$13,950.00. The transition in number of cards also was a mere 2 to 5 from 2005-2006. We had more causal and statistically significant discoveries based on dollar increases than percentage. When smoothed for total average changes per year, we found a positive 121.7% and \$151,124.06. We excluded YTD data for 2020 since the year isn’t complete to give a good comparison.

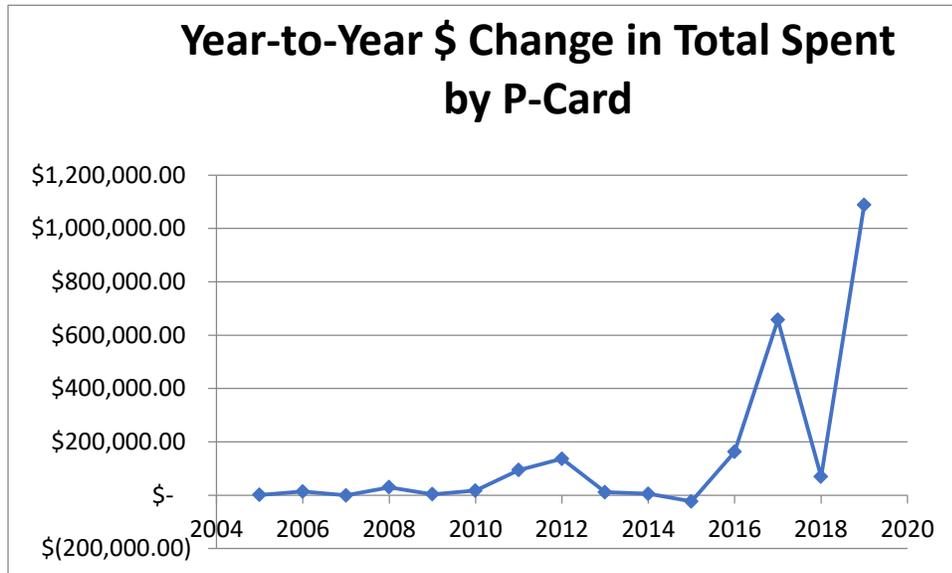
Beyond that, another point of attention is 2019 when spending by P-Card moved up \$1,087,727.09 and 106.7% from 2018—total spent of \$2,107,142.40. The invoices show the cause was due to legal bills as numerous lawsuits happened that year, among which the County lost to the Sheriff for cutting the detention budget and to the State Auditor as before mentioned. For example, the largest P-Card invoice from 2019 and ever was for \$99,999.00 on the Risk Mitigation card to Husch Blackwell, LLP. That is the greatest per transaction limit available under the acting agreement, Exhibit A, with UMB.

What is peculiar about that, however, is how contracted bills were not allowed by the P-Card reconciler manual before 2019. The probable reason is how P-Cards were initially set up for those low-dollar payments under the threshold for vendors required to be bid out. Under County Ordinance 37.22, all purchases with any vendor over \$6,000 in 90 days must be bid out and contracted. Utilities are an exception also with Ordinance 37.22(A). As a reminder, the P-Card manual and reconciler manual both have not been approved by the Commission but are at the discretion of the P-Card Administrator’s determinations.

Conclusion: Utilities bills and legal fees have thus far been the primary drivers of significant variations in P-Card spending trends since 2005. Those recent developments do not appear entirely in keeping with the P-Card program's intent or are they the only way to efficiently pay.

Viewed pictorially, the data are as follows:





- Pros vs. Cons of Using a Different Bank for P-Cards**

Taken altogether, the County has spent \$4,937,958.27 via P-Card from 2005-2019, so not including YTD 2020 numbers. That equates to roughly \$329,197.22 on average per year, but recent trends suggest a higher future average. Which begs the question, what is the County getting in return? A credit card does offer a more expedient form of payment, albeit without as stringent checks and balances up front. Yet, as consumers are aware, credit card companies often offer some sort of rewards program for using their product.

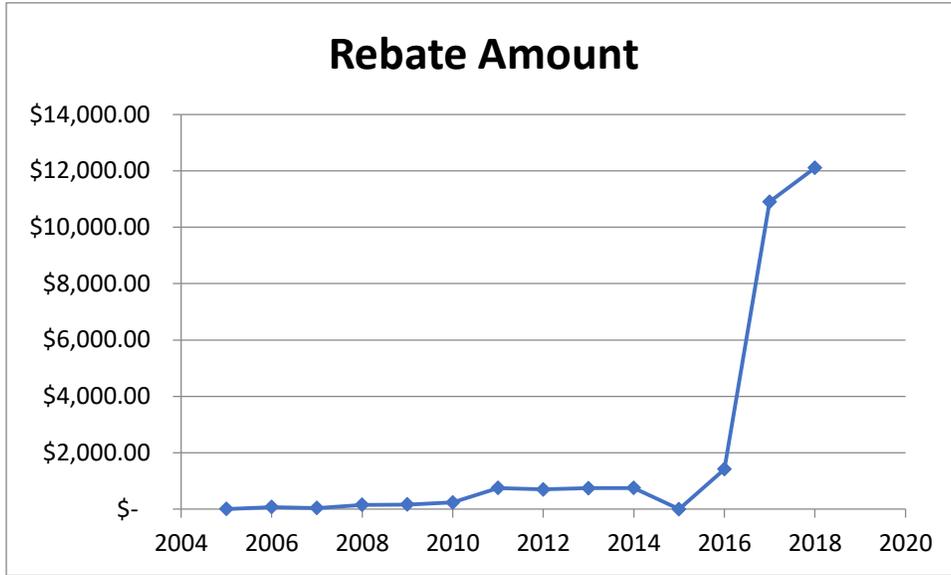
For Clay County’s agreement with UMB, a larger volume per year raises the tier at which we are rebated. The latest renewal agreement regarding rebate levels, done by Official Action 2018-41, bumped up that rate to 1.05%. Here is the existing tier schedule:

From	To	30 day pay
\$ 250,000.00	\$ 499,999.00	0.80%
\$ 500,000.00	\$ 749,999.00	0.85%
\$ 750,000.00	\$ 999,999.00	0.95%
\$ 1,000,000.00	\$ 2,999,999.00	1.05%
\$ 3,000,000.00	\$ 5,999,999.00	1.10%
\$ 6,000,000.00	\$ 9,999,999.00	1.15%
\$ 10,000,000.00	\$ 14,999,999.00	1.18%
\$ 15,000,000.00	>15,000,000.00	1.20%

Over time since 2005, the County has brought in some \$28,041.79 in annual reward rebates. That calculates out at 0.57% of overall P-Card spending from 2005-2019. Yet it must be disclaimed that oddly no record was discovered of a rebate for 2015. Also, the County has not received its 2019 rebate so far this year. Typically that check does come by this month. There has been a change that our office is aware of, though, wherein the “control” account is no longer being used. Instead, wires from Commerce back to UMB are directly applied to the individual card accounts.

We do not have credible enough evidence to suggest, however, that is the reason behind the delay in the rebate for 2019.

Here are the rebate trends in graph format:



Conclusion: The County has historically earned more from rebates the more it spends by P-Card. It is questionable if that offsets the potential risk from using government credit cards more frequently and heavily as well as if the return is sufficient.

Overall Rating for this Audit



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Exhibit B-continued Fees and Revenue Sharing

REVENUE SHARING OR REBATE PROGRAM

UMB Bank is offering a rebate on qualified sales volume (sales, less refunds), payable on an annual basis without reserves or minimum volume guarantees for prompt payments. The payment of a rebate may be affected by late payments. This rebate is effective immediately at the beginning of the program implementation for all qualified sales volume the rebate levels are listed in the table below. There is no minimum level requirement to qualify for a rebate.

Standard B

Level	From	To	30 day pay
A	\$250,000	\$499,999	.80%
B	\$500,000	\$749,999	.85%
C	\$750,000	\$999,999	.95%
D	\$1,000,000	\$2,999,999	1.05%
E	\$3,000,000	\$5,999,999	1.10%
F	\$6,000,000	\$9,999,999	1.15%
G	\$10,000,000	\$14,999,999,	1.18%
H	\$15,000,000	+	1.20%

* Additional Rebate Levels may be available as volume levels increase

Rebates on transactions qualifying as large ticket transactions may be reduced to 50 basis points.

Rebates in the proposal are guaranteed for the term of the agreement, unless substantial changes are imposed in applicable bankcard interchange reimbursement rates set by Visa Inc, et al. While such change is unlikely, if it occurred it would equally affect all issuers and would be outside of the control of the Issuer Banks.