



June 16, 2017

Mr. Raymond Gonzales, Interim County Manager,  
4430 South Adams County Parkway  
Brighton, Colorado, 80601

**RE: Review of Procurement Card DRAFT Policy – Purchasing – 1045 for Adams County  
Colorado**

**To: Mr. Raymond Gonzales, County Manager:**

We are pleased to provide comment on the draft policy – purchasing – 1045 – for Adams County. We base our comments on best practices in the industry.

The Government Finance Officers Association (GFOA) issued a whitepaper in 2011 which provides the 'gold standard' of best practices on procurement cards (P-Cards) that is used by state and local governments across the United States<sup>i</sup>. Since that issuance, there have been other practices added to state and local government operations due to the ever-changing marketplace of procurement. These include, but not limited to, the use of smartphones for payment, discounting (Amazon Prime) and the issuance of Title 2, Part 200, Code of Federal Regulations *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*<sup>ii</sup>.

The GFOA focuses on the following areas in their best practices with regard to P-Cards. Based upon the GFOA whitepaper, there should be:

- A. Instructions on employee responsibility and written acknowledgments should be signed by the employee.
- B. Ongoing training of cardholders and supervisors.
- C. Spending and transaction limits for each cardholder both per transaction and on a monthly basis.
- D. Written requests for higher spending limits.
- E. Well-documented recordkeeping requirements, including review and approval processes.
- F. Clear guidelines on the appropriate uses of purchasing cards, including approved and unapproved Merchant Category Codes (MCC).
- G. Clear guidelines for making purchases by telephone and fax or over the Internet.
- H. Periodic audits for card activity and retention of sales receipts and documentation of purchases.
- I. Timely reconciliation by cardholders and supervisors.
- J. Procedures for handling disputes and unauthorized purchases.
- K. Procedures for card issuance and cancellation, lost or stolen cards, and employee termination.
- L. Segregation of duties for payment approvals, accounting, and reconciliations.
- M. Regular review of spending per vendor and merchant category codes<sup>iii</sup>.

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In addition, there are specific areas of focus that should be considered by the County, some of which are addressed in the draft policy (purchasing should be tax-exempt) and the aforementioned use of other devices which could lead to a P-Card purchase.

The ultimate goal of the County should be a final policy and procedure which reduces the potential instance of fraud, waste and abuse.

### **Overall Considerations**

The *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, (Uniform Guidance,) discusses in sections 67 and 320 provisions for **micro-purchases**. There's also an overall goal of consistent treatment of costs and cost principles, policies and procedures in section 401 of the Uniform Guidance with a goal of not unfairly benefitting or burdening the federal government. That said, there are also Colorado Statutes that the County must adhere to and follow.

Section 67 defines *Micro-purchase* as a purchase of supplies or services using simplified acquisition procedures, the aggregate amount of which does not exceed the micro-purchase threshold. Micro-purchase procedures comprise a subset of a non-federal entity's small purchase procedures. The non-Federal entity uses such procedures in order to expedite the completion of its lowest-dollar small purchase transactions and minimize the associated administrative burden and cost. **The micro-purchase threshold is set by the Federal Acquisition Regulation at 48 CFR Subpart 2.1 (Definitions). It is \$3,500 except as otherwise discussed in Subpart 2.1 of that regulation (relating to wage-rate determination,) but this threshold is periodically adjusted for inflation.** Section 320 requires to the extent practicable, the non-federal entity must distribute micro-purchases equitably among qualified suppliers. Micro-purchases may be awarded without soliciting competitive quotations if the non-Federal entity considers the price to be reasonable.

**We recommend the County consider clarifying its current policy by moving the Exceptions section of the policy to the front of the document or further expounding on this section in front of the policy so that P-card users understand there are different requirements for purchasing with federal dollars.** If the County were a State, section 317 of the Uniform Guidance requires a State to follow the same policies and procedures it uses for procurements from its non-federal funds. As the County is a subrecipient of federal funds, section 318 requires the County to use its own documented procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable federal law and the standards (in that section)<sup>iv</sup>.

If the County retains the \$5,000 per transaction limit, chances of fraud, waste and abuse will increase.

**We believe the reorganization of the Policy is appropriate and easily understood.** It is easy to understand the responsibilities of Elected Officials, Department Directors, Managers, Supervisors, P-Card Holders and the P-Card Administrator. We recommend an appendix with four columns (Policy Element, Elected Officials, P-Card Holders, P-Card Administrator) be attached for clarity for users and ease of updating.

**The County should consider annual recertification for P-Card holders through the use of updated best practices provided by the P-Card administrator.** Principle B of GFOA uses the word "ongoing" to describe the best practices involving training. Section 3.1 of the draft policy requires Elected Officials, Department Directors, Managers or Supervisors to attend mandatory supervisory P-Card training with management responsibilities. Section 4.1 of the draft policy requires P-Card holders to be trained before receiving P-Cards. It also states training for Elected Officials is 'highly recommended.' This appears to be counter to Section 3.1 and should be clarified. In all cases, given the level and rapidity of change in

the industry, it would serve the County well to have required annual training for all holders as a condition of holding the P-Card. Most Administrators provide this on-line.

**Spending limits** are included in the draft policy in accordance with GFOA principle C. However, there are purchase limits (\$5,000 per item per section 8.1) and a monthly limit of \$10,000. One would presume the per item limit of \$5,000 per item is per day. The County should consider lowering these amounts per the previous discussion on the threshold.

**As part of the appendix previously discussed, recordkeeping requirements for each could be consolidated into one place in accordance with GFOA principles E and H.** Records should be kept for audit purposes by each level of responsibility at each step of the lifecycle of P-Cards – application, approval, training, delivery, purchases, reconciliation, approval / non-approval, termination and securing or recertification. Records should be kept and secured in accordance with Colorado statutes. Section 4.6 discusses submittal, but not retention.

**In accordance with GFOA principle F, the draft policy somewhat includes clear guidelines on the appropriate uses of purchasing cards, including the approved and unapproved Merchant Category Codes.** The draft policy does not include MCC codes, but few do. Section 4.9 also includes references to sub-sections starting at 4.8.X which are typographical errors. There is also a good reference in 6.1 to GSA per diem rates. However, the County should consider establishing MCC limits with the P-Card Administrator as to time and distance from the County. For example, the Director of Finance could be alerted when a P-Card is attempted to be used after standard business hours, or outside of the County or for particular MCC codes that are unauthorized.

**We recommend specific guidelines for making purchases by telephone, fax, over the Internet or by smartphone / device in accordance with GFOA principle G.** These provisions were conspicuously absent in the draft policy. Given the level of hacking and the proliferation of identifiable information over such devices and transferred in an unsecure manner, we believe this is an important issue.

**We recommend a specific prohibition against the splitting of charges.** This is somewhat in accordance with GFOA principle J. Charge splitting is best exemplified by filling of a gas tank of a department of public works vehicle, then filling gas cans to be used in personal vehicles and then charging on the P-Card. Splitting of transactions also circumvents the limits (\$4,500 in one charge, \$2,000 in another). Only in reconciliation could a supervisor notice an inordinate amount of fuel or repeated charges on the same day.

**We recommend stronger language for termination procedures.** This is in accordance with GFOA principle K. Cancellation, lost or stolen cards or in the case of termination can usually be handled immediately online with the P-Card administrator by the supervisor. We believe this should be considered to lower the potential for fraud, waste and abuse.

**Sections 3.3 to 3.6 have good detail of segregation of duties for payment approvals, accounting and reconciliations in accordance with GFOA principle L.** However, we recommend additional language requiring that approval cannot be made by the person using the card. This is counter to section 3.5 which allows Elected Officials to approve expense reports. But we believe the Finance Director's role could be strengthened in this area, unless it is the Finance Director's card charges which are being approved. In such cases, the County Manager should approve the charges.

We recommend the County perform a regular review of spending per vendor and MCCs. This will delineate any potential fraud, waste and abuse, including, but not limited to repeated purchases at the same vendor. This is in accordance with the provisions of Section 320 of the Uniform Guidance as discussed previously.

Section 7 has a good list of prohibitions. We recommend the following additions:

- Theater tickets for entertainment purposes
- Airline club fees, social clubs, purchasing clubs or airline memberships
- Transportation of all kinds without approval of the County Manager and County Director of Finance.
- Cash advances and traveler's checks
- Prescription drugs and controlled substances (or cannabis in Colorado)
- Gambling of all types (lottery, casinos etc).
- Hazardous materials
- Any purchase where there is a potential for using rewards points for personal purchases. (For example, the purchase of an Amazon Prime membership falls under rewards programs and is not an allowable expense because this membership is not limited).

#### Conclusion

We would be pleased to consult with you at any time on specific recommendations and practices. We thank you for this opportunity.



Eide Bailly LLP

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<sup>i</sup> <http://gfoa.org/purchasing-card-programs>

<sup>ii</sup> <https://www.federalregister.gov/documents/2013/12/26/2013-30465/uniform-administrative-requirements-cost-principles-and-audit-requirements-for-federal-awards>

<sup>iii</sup> GFOA.

<sup>iv</sup> Uniform Guidance, Sections 317-320.