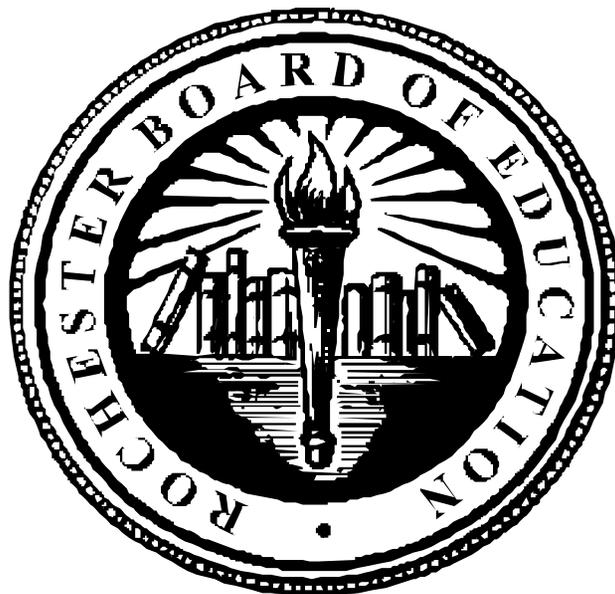


# OFFICE OF AUDITOR GENERAL



## Procurement Card FOLLOW UP

June 2012



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## **Procurement Card Executive Summary**

### **OBJECTIVE**

To assess the District's operating control environment for Procurement Card (PCard) activities and transactions.

### **BACKGROUND**

The PCard program allows District cardholders to purchase low dollar value goods and services utilizing a credit card in place of the requisition and purchase order process. Although the employee's name appears on the PCard, liability for payment resides with the District. Payment is made through a wire transfer for the full amount of all District PCards on a monthly basis.

The District implemented the PCard program in July 2006. In fiscal 2008, over 14,700 transactions were made through the PCard program and over \$1.8 million was spent using PCards. These are transactions which would have otherwise gone through the requisition, purchase order, and invoicing process. Using the PCard saves time and money for the District and its' employees because it reduces the number of purchase orders and checks issued. The NYS Comptroller recently noted the operating benefits gained through the use of the PCard. Management is considering increasing utilization of this program for added efficiencies.

### **SCOPE**

We evaluated controls, policies and procedures surrounding the District's PCard program. Cardholders were selected for testing to verify employee status, existence of required forms and agreements, accurate supervisor designation, attendance at PCard training, agreement between spending limits and authorized documentation. Selected transactions were tested for compliance with District policies. The online system that is utilized for the PCard program is JPMorgan Chase Smart Data Online (SDOL®). We evaluated user access and authority in SDOL® for reasonableness. Overall reconciliation and monitoring procedures were evaluated for effectiveness.



## **Procurement Card Executive Summary**

### **CONCLUSION**

Since our original audit, the District has changed its Procurement Card (PCard) service provider from JP Morgan Chase to M&T Bank. As result, PCard account administration and transaction reconciliations are now being performed within the CentreSuite Online Card Management system (CentreSuite). This system provides significantly stronger security, reporting and transaction approval controls that the prior system.

The implementation of CentreSuite addressed several of the internal control concerns identified in our prior audit. Additionally, controls related to segregation of duties, cardholder access and audit trails were improved. Automated operating procedures have been implemented to ensure user compliance in submitting timely authorized expense reporting. Under the CentreSuite environment, responsibility for maintaining detailed receipts and supporting documentation resides with each Cardholder and their supervisor. However, there is no process in place to verify that cardholders are complying with this requirement. Although improved card monitoring exist over the previous environment, controls for tracking and deactivating inactive PCard user accounts must still be improved.



## Procurement Card Summary of Recommendations

Rec #	Follow Up Status	Recommendations
1	<b>Completed</b>	<i>Cancel the PCard Administrator's general purchase PCard immediately.</i>
2	<b>Completed</b>	<i>Evaluate the user authority for all user groups able to modify transaction limits and modify access as deemed necessary. Restrict access to cardholder maintenance for all user groups to the PCard Administrator and designated back-up personnel.</i>
3	<b>Partially Completed</b>	<i>Develop a procedure to monitor and approve the changes to cardholder maintenance in SDOL®, at least quarterly to compensate for the limited 90 day audit trail period. Retain all changes and approvals of changes to cardholder maintenance in SDOL®.</i>
4	<b>Completed</b>	<i>Perform regular monitoring of all cardholders to ensure only active District employees have access to PCards. Obtain regular notification of all employee terminations to facilitate the review.</i>
5	<b>Partially Completed</b>	<i>Review all cardholder spending limits and supervisor assignments to ensure documentation exists to support what is actually granted in SDOL®. Obtain updated agreements and forms for those with discrepancies. Evaluate the spending limits on a regular basis to ensure reasonableness and consider obtaining an annual acknowledgement for all supervisors' responsibility for cardholders. In addition, periodically verify that the cost center for cardholders and their related supervisors are accurate.</i>
6	<b>Completed</b>	<i>Review and approve all authorizing documentation for the PCard to ensure accuracy and completeness. Delay the issuance of the PCard until proper documentation and authorization exists.</i>
7	<b>Completed</b>	<i>Monitor the cardholder reconciliations and the Supervisor approval to authorize PCard purchases. Notify violators who have not performed their review and escalate to the violators' manager, principal or department head. Trend violations to determine repeat offenders and consider suspension or cancellation of card privileges.</i>
8	<b>Partially Completed</b>	<i>Develop and document monitoring procedures for supporting documentation. Determine the ramifications for violators of PCard policies and consider suspension or cancellation of card privileges. Enforce PCard Administration receipt requirements to substantiate purchases. Trend violations to determine repeat offenders.</i>



## Procurement Card Summary of Recommendations

Rec #	Follow Up Status	Recommendations
9	<i>Completed</i>	<i>Trend and report violations of district policy regarding PCard purchases to Senior Management. Define tolerance levels for the violation of PCard procedures. Follow up on violations of PCard purchases to ensure monies are recouped, as appropriate.</i>
10	<i>Completed</i>	<i>Enforce the policy that split transactions are not allowed and develop written policies for any exceptions that may exist. Trend violations of the split transaction policy. Define disciplinary ramifications for those in violation of the policy.</i>
11	<i>Completed</i>	<i>Secure all PCard account information to help prevent unauthorized use of the PCards.</i>
12	<i>Completed</i>	<i>Prohibit the payment of invoices utilizing the PCard and document this limitation in the Procedures Manual. Monitor for invoice related items paid by the PCard and ensure that duplicate payments do not exist. Obtain a credit for the duplicate payment identified above.</i>
13	<i>Open</i>	<i>Develop a more thorough systematic process for reviewing inappropriate PCard Transactions. Evaluate automation to facilitate the review process for detecting questionable purchases.</i>
14	<i>Completed</i>	<i>Develop a monthly reconciliation process in which the total dollar amount billed for the month equals the total dollar amount in account statements and receipts received. Develop a monthly process where the ACH pay cycle is reconciled to the JPMorgan Chase account statement.</i>
15	<i>Completed</i>	<i>Develop a record retention policy defining requirements for PCard related documentation. Ensure the means of which the District stores its documentation is operational and reliable.</i>
16	<i>Completed</i>	<i>Develop and enforce a policy that cardholders should purchase from vendors that are on contract with the District to take full advantage of the contracted savings. Provide PCard owners with a table of specific contracted vendors that should be used.</i>
17	<i>Open</i>	<i>Obtain a copy of the Merchant Category Code exclusions the District has implemented. Monitor Merchant Category Codes on a regular basis and assess the exclusions for reasonableness and appropriateness for District needs. Retain the analysis for review.</i>



## Procurement Card Observations, Recommendations and Status

### **OBSERVATION #1**

#### **General Purpose Card**

The PCard Administrator has a general purpose PCard for the District. Although this card is not currently activated, nor has it ever been used, the PCard Administrator should not possess a PCard since the Administrator has the ability to activate the card and utilize it without independent monitoring. This represents a lack of segregation of controls. The PCard Administrator has the ability to activate and deactivate cards, change spending limits and mark purchases as reviewed, which could circumvent any potential oversight to prevent unauthorized purchases.

### **RECOMMENDATION and FOLLOW UP**

*Cancel the PCard Administrator's general purchase PCard immediately.*

#### **FOLLOW UP STATUS: COMPLETED**

RCSD does not maintain a general purpose PCard with M&T Bank.



## Procurement Card Observations, Recommendations and Status

### **OBSERVATION #2**

#### **User Access in Smart Data OnLine (SDOL®)**

During the audit, we noted inappropriate user access available to user groups assigned in SDOL®. The PCard Administrator and designated backup personnel should have exclusive authority to request new cards, change spending limits and other cardholder maintenance functions such as the activation or deactivation of cards and modifications to the SDOL® system.

All PCard Supervisors and the PCard Administrator have the ability to perform cardholder maintenance which includes changing spending limits. These changes can be made, and were made as part of our testing, without the PCard Administrator's knowledge. We were able to change one cardholder's spending limit to \$100,000 without any repercussions. JPMorgan Chase does not provide any notification to the PCard Administrator when spending limits are increased. The potential exists for a PCard Supervisor to provide a cardholder with spending limits that are in excess of the desired card monitoring controls. It also allows a Supervisor to avoid the scrutiny of the normal purchasing process for spending that exceeds planned low dollar value purchases.

Prior to completion of the PCard Audit, the company administrator (info only) user authority was changed to "print only" after the PCard Administrator was informed of the excessive access, but the PCard Supervisor role still maintains unnecessary access which is inappropriate based on their responsibilities.

### **RECOMMENDATION and FOLLOW UP**

*Evaluate the user authority for all user groups able to modify transaction limits and modify access as deemed necessary. Restrict access to cardholder maintenance for all user groups to the PCard Administrator and designated back-up personnel.*

#### **FOLLOW UP STATUS: COMPLETED**

The CentreSuite system has stronger user access controls than the previously utilized in the Smart Data system. System security profiles appropriately restrict access to create and change PCard account limits to the PCard unit members.



## Procurement Card Observations, Recommendations and Status

### OBSERVATION #3

#### **Audit Trail for Cardholder Maintenance**

The Smart Data OnLine (SDOL) ® cardholder maintenance function includes changes to all cardholder information including cardholder's personal information, spending limits, location of cardholder, PCard deactivation and new card requests. These changes to cardholder maintenance are not monitored or approved, nor are they retained for future reference. The audit trail in SDOL® for cardholder maintenance is available for only the last 90 days online. An audit trail should be available for all changes to cardholder information that can be reviewed as needed. Visibility to changes made to cardholder maintenance enables oversight and minimizes the likelihood of unauthorized changes.

### RECOMMENDATION and FOLLOW UP

*Develop a procedure to monitor and approve the changes to cardholder maintenance in SDOL®, at least quarterly to compensate for the limited 90 day audit trail period. Retain all changes and approvals of changes to cardholder maintenance in SDOL®.*

#### **FOLLOW UP STATUS: Partially Completed**

The CentreSuite system maintains an audit trail which tracks and reports all cardholder account changes performed. This information is periodically reviewed by management. The CentreSuite security controls effectively ensure that only authorized persons are able to make changes to PCard accounts. However, we noted that one PCard approver was only copied on the email request but did not document their approval.

**Responsibility:** Gary Smith, Director of Procurement & Supply

**Due Date:** October 2012



## Procurement Card Observations, Recommendations and Status

### OBSERVATION #4

#### Terminated Employees

There is a lack of assurance that terminated employees' PCards are deactivated. A policy exists where an employee must cut their card in half and return it to their PCard Supervisor upon termination of employment or in the event of a job transfer. The PCard Supervisor is responsible for submitting this cut card to the PCard Administrator with a memo requesting deactivation. The PCard Administrator is responsible for deactivating the cardholder's account in SDOL®.

There are no procedures in place to ensure that all terminated employees have turned in their card or that all cardholders are active employees at the proper job location. A procedure should be in place to ensure there are no terminated employees with access to PCards. This should include notification to the PCard Administrator of cardholders who have ceased employment with the District. Without having assurance that all terminated employees have turned in their PCard, the District runs the risk of terminated employees making unauthorized purchases which could go undetected.

### RECOMMENDATION and FOLLOW UP

*Perform regular monitoring of all cardholders to ensure only active District employees have access to PCards. Obtain regular notification of all employee terminations to facilitate the review.*

#### **FOLLOW UP STATUS: COMPLETED**

A process for identifying terminated and transferred PCard holders within PeopleSoft (PS) Human Resources (HR) Module is in place. We recommend that active PCards in CentreSuite periodically be reconciled to PCard holders reported in PS HR Module to ensure that all accounts are reported in PS HR.

A review of all PCard holders in CentreSuite found that some terminated cardholders had account activity that occurred after the employees' termination date. Majority of these accounts were closed however, one accounts was still being used 11 months after the cardholder was terminated. When informed of the violation, Purchasing rendered the accounts inactive.



## Procurement Card Observations, Recommendations and Status

### OBSERVATION #5

#### Alignment of Data

Information in cardholder files did not align with the information in Smart Data OnLine®. The information in SDOL® should be supported by the information in the cardholder's files to ensure proper authorization and accuracy of approved assignments and limits. There were many occurrences in which the PCard Supervisor assigned when the PCard was initiated did not align with the PCard Supervisor that was assigned in SDOL®. There were also instances where the spending limit recorded in the cardholder file did not agree with the actual spending limit the cardholder maintained in SDOL®.

The availability of a report to assist in the monitoring of spending limits of all cardholders is not readily available in SDOL®. The spending limits and supervisor assignments agreed upon at inception of the card should coincide with the actual available limit and supervisor assignment. If there is a change in either the spending limit or the assignment of a PCard supervisor, that change should be documented and maintained in the cardholder file for future reference. Spending and transaction limits should be regularly monitored to ensure reasonableness. Without proper review and documentation of spending limits and supervisor assignments, the risk of overspending by the cardholder exists.

### RECOMMENDATION and FOLLOW UP

*Review all cardholder spending limits and supervisor assignments to ensure documentation exists to support what is actually granted in SDOL®. Obtain updated agreements and forms for those with discrepancies. Evaluate the spending limits on a regular basis to ensure reasonableness and consider obtaining an annual acknowledgement for all supervisors' responsibility for cardholders. In addition, periodically verify that the cost center for cardholders and their related supervisors are accurate.*

#### **FOLLOW UP STATUS: Partially Completed**

Purchasing obtained updated PCard Supervisor forms in 2010, as a part of the conversion to M&T CentreSuite. The forms were not dated to indicate when the update was last performed. Based on our testing, we noted exceptions in which CentreSuite data did not align with authorized supporting documentation in the PCard holder's file. PCard spending limits are reviewed for propriety on a quarterly basis, but documentation to substantiate the review is not retained. Automated functionality exists within CentreSuite to temporarily allow credit limit changes, which should be explored to help automate resetting account limits.

**Responsibility:** Brian O'Connor, PCard Administrator; Gary Smith, Director of Procurement & Supply **Due Date:** October 2012



## Procurement Card Observations, Recommendations and Status

### OBSERVATION #6

#### Compliance

##### *Forms and Agreements*

During testing of cardholder files it was noted that required forms and agreements were not always properly executed. Some of the documentation required for obtaining a PCard where incomplete or improperly completed. The following is a list of issues noted in our sample selected for testing:

- Missing required forms and signatures (from department head/principal)
- Incorrect signature on the PCard Supervisor agreement (in some instances the cardholder signed this form)
- Instance where one individual recommended self for card
- Updated forms for changes in PCard Supervisor were not completed
- PCard Designation of Key Personnel form was not always completed by the PCard Administrator (card approval section) causing a lack of documentation of PCard Administrator review and approval of PCard
- Incomplete forms

Missing or incomplete authorization documentation creates the risk for possible inappropriate issuance or misuse of PCards. All forms should be included in the cardholders' files, with all pertinent information completed including the existence of all required signatures. These forms should be updated for any changes. The PCard Administrator should complete the PCard Designation of Key Personnel form to provide documentation of the review and approval of the PCard.



## Procurement Card Observations, Recommendations and Status

### **RECOMMENDATION and FOLLOW UP**

*Review and approve all authorizing documentation for the PCard to ensure accuracy and completeness. Delay the issuance of the PCard until proper documentation and authorization exists.*

### **FOLLOW UP STATUS: COMPLETED**

Management has procedures in place to ensure required forms are completed prior to account creation and card issuance. However, these procedures do not clearly define who may qualify as a department head for authorizing a PCard account. Purchasing should align PCard designation approval with established budget code assignments, as these users bear the fiscal responsibility for the associated expenditures.

Upon conversion to M&T, accounts were created for all cardholders present in the Chase PCard system. Some of these cards were never issued to the card holder due to job changes, terminations or card holder choice to opt out. These cards were never activated but were not closed. According to M&T, these cards can be activated at any time, thus this practice exposes the District to the risk of unauthorized PCard use. When informed of this risk, management closed the accounts and destroyed the related cards. Our procedures also found five accounts without assigned approvers that had been activated. When informed of the matter, management reviewed and closed two accounts and assigned approvers to the remaining accounts.



## Procurement Card Observations, Recommendations and Status

### **OBSERVATION #7**

#### *Cardholder Reconciliation and PCard Supervisor Approval*

A lack of enforcement for the cardholder reconciliation and PCard Supervisor review and approval exists. During audit testing, it was noted that many cardholders were not current on their reconciliation between the bank statement and SDOL®. It was also noted that PCard Supervisors were behind on their approval of their assigned cardholder's purchases. There does not appear to be any procedures in place to monitor or enforce the PCard Supervisor review.

All cardholder reconciliations and Supervisor approval of purchases are, required to be completed by the 12<sup>th</sup> of every month. The PCard Receipt Reviewer is responsible for ensuring the PCard reconciliation is completed prior to posting all charges to the general ledger and must notify the cardholder regarding the violation of reconciliation procedures. Delinquency of cardholder reconciliation and PCard Supervisor review and approval may cause inappropriate purchases to go undetected, potential account misclassifications and possible lapse in time for disputed purchases. JPMorgan Chase only allows 60 days for the notification of disputes. After that point, the District must assume responsibility for handling disputed items.

### **RECOMMENDATION and FOLLOW UP**

*Monitor the cardholder reconciliations and the Supervisor approval for authorizing PCard purchases. Notify violators who have not performed their review and escalate to the violators' manager, principal or department head. Trend violations to determine repeat offenders and consider suspension or cancellation of card privileges.*

#### **FOLLOW UP STATUS: COMPLETED**

Adequate procedures are in place to ensure that PCard accounts are reconciled and approved monthly. Procedures also ensure that account privileges for violators are suspended until the non-compliance issue has been escalated to the cardholder's supervisor. The PCard Unit monitors violators for trends and patterns. Consequences are imposed for violating PCard procedures depending on the severity, intent and/or repetition of violation.



## Procurement Card Observations, Recommendations and Status

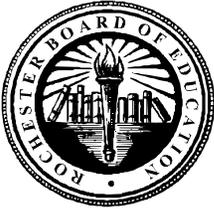
### **OBSERVATION #8**

#### *Supporting Documentation*

According to the PCard procedures manual, the original itemized sales receipt must be submitted to the PCard Administration for all PCard transactions. PCard Administration is responsible for ensuring all sales receipts are provided and attached to the account statement for each cardholder and is to notify the cardholder of violation of proof of purchase documentation. PCard Administration's follow up requests were not retained; therefore it was difficult to verify that monitoring exists.

Delinquent receipt of account statements and supporting documentation are not being trended to determine frequent violators. It was noted during audit testing that some of the supporting documentation received for PCard purchases was missing or unsuitable. In the sample of transactions tested for our audit, we noted a packing slip, a non-itemized receipt, a partial receipt, and a photocopied receipt was provided and accepted as supporting documentation. In some cases, no receipt was provided.

The original itemized sales receipt should be provided for all PCard purchases. PCard Administration should be contacting the cardholder to obtain the acceptable form of documentation. Follow up requests for supporting documentation should be retained. Violations of policy should be trended to determine repeat offenders. Failure to obtain original itemized receipts for PCard purchases could result in the purchase of items which are prohibited by the District and could potentially go undetected.



## Procurement Card Observations, Recommendations and Status

### RECOMMENDATION and FOLLOW UP

*Develop and document monitoring procedures for supporting documentation. Determine the ramifications for violators of PCard policies and consider suspension or cancellation of card privileges. Enforce PCard Administration receipt requirements to substantiate purchases. Trend violations to determine repeat offenders.*

#### **FOLLOW UP STATUS: Partially Completed**

Documented procedures have been communicated and implemented that require cardholders to retain PCard transaction receipts for six years plus the current year. While the CentreSuite system provides a greater level of transaction detail, this level of detailed information is not reported by all vendors and limits the completeness of monitoring controls. Additionally, Management does not enforce its cardholder receipt process and lacks monitoring procedures to ensure that transaction receipts are being retained by cardholders for the required time frame. Occasionally, receipt violations are identified as result of the transaction review process. These violations are tracked and reviewed by the PCard Unit for trends and assignment of consequences in accordance with established PCard procedures.

Management has implemented procedure to perform a surprise review of PCard documentation. When the PCard Administrator or Senior Buyer visits a school, they verify that receipts exist for the PCard. A more formalized review process is required to fully minimize this risk.

**Responsibility:** Brian O'Connor, PCard Administrator; Gary Smith, Director of Procurement & Supply

**Due Date:** October 2012



## Procurement Card Observations, Recommendations and Status

### **OBSERVATION #9**

#### *Prohibited Transactions*

Purchases are being made with PCards which do not follow District policy. Included in the PCard procedures manual is a prohibited list of vendors and uses of the PCard. During our audit testing, we noted there were purchases made to prohibited vendors including wholesale clubs, Staples retail store and other office supply stores which are all on the prohibited vendor and uses list. Under no circumstances should a cardholder make a purchase using the PCard for any of the prohibited vendors or uses as defined in the PCard procedures manual. These purchases should be made through the purchasing process.

It was also noted that not all PCard purchases made were tax exempt. Sales tax should not be charged to the District. Any sales tax charged should be promptly refunded back to the cardholder's account. There were some instances in which the sales tax was questioned by the PCard Transaction Reviewer and the cardholder was instructed to obtain a credit for the tax, but the credit for the tax was never received.

There is no trending regarding the prohibited uses of the PCard to identify frequent abusers nor is there any follow through for remediation. Also, there are no defined tolerance levels regarding violations of District policy. This information could aid in determining the appropriate consequences for violating the District's PCard procedures. There should be a clearly defined policy regarding tolerance levels for violations of PCard policy. Not following District policy regarding PCard purchases could result in violations of awarded bids and the District not getting preferred pricing.

### **RECOMMENDATION and FOLLOW UP**

*Trend and report violations of district policy regarding PCard purchases to Senior Management. Define tolerance levels for the violation of PCard procedures. Follow up on violations of PCard purchases to ensure monies are recouped, as appropriate.*

#### **FOLLOW UP STATUS: COMPLETED**

PCard violations are tracked cumulatively and evaluated monthly by the PCard Unit. Resolutions resulting in reimbursement to the District are tracked by the PCard Administrator to ensure funds are recouped. Consequences for violating PCard procedures have been defined depending on the severity, intent and/or repetition of the violations. A summary report of all PCard violations is reported to the Chief Financial Officer, Claims Auditor and Office of Auditor General.



## Procurement Card Observations, Recommendations and Status

### **OBSERVATION #10**

#### *Split Transactions*

Split transactions were made using the PCard to circumvent spending limit controls. Under no circumstances should a purchase be split into multiple transactions to avoid spending limit controls. Specific purchases that are in excess of the established spending limits should be acquired through the traditional purchasing process. As part of the PCard Transaction Reviewer's job responsibilities, split transactions should be identified weekly and the cardholder should be questioned. Based on the testing performed, it was determined that not all split transactions were questioned.

It was noted during the audit that split transactions have been allowed for Staples and Grainger because secretaries are making purchases for multiple teachers at these vendors and because they are contracted Direct Connect vendors. This policy is not in writing. Allowing exceptions to policies without documenting those exceptions circumvents compliance with documented procedures.

### **RECOMMENDATION and FOLLOW UP**

*Enforce the policy that split transactions are not allowed and develop written policies for any exceptions that may exist. Trend violations of the split transaction policy. Define disciplinary ramifications for those in violation of the policy.*

#### **FOLLOW UP STATUS: COMPLETED**

Documented procedures prohibiting split transactions exist and are monitored weekly by the transaction reviewer to ensure compliance. Split transaction violations identified are tracked and reviewed by the PCard Unit for trends and assignment of consequences in accordance with established PCard procedures.



## Procurement Card Observations, Recommendations and Status

### **OBSERVATION #11**

#### **Security of Account Information**

It was observed during our audit testing that PCard statements are kept unlocked at the PCard Receipt Reviewer's desk in a box or on the desk. This purchasing area is not secured and account information and expiration dates could be obtained by unauthorized parties. All PCard account data should be locked in a secure location with access only given to appropriate personnel. Without securing account data, including account numbers and expiration dates, purchases could be made to the PCard by unauthorized users. This includes online purchases or purchases over the phone where the physical card isn't needed.

### **RECOMMENDATION and FOLLOW UP**

*Secure all PCard account information to help prevent unauthorized use of the PCards.*

#### **FOLLOW UP STATUS: COMPLETED**

Physical PCard documentation is maintained within the Purchasing Department in locked file cabinets. Additionally, the CentreSuite software reasonably masks PCard account numbers to protect against unauthorized use of PCard accounts. However, CentreSuite account statement PDF reports show the full account number. Management should consider requesting this information be restricted from reports.



## Procurement Card Observations, Recommendations and Status

### **OBSERVATION #12**

#### **Duplicate Payment**

Inappropriate use of a PCard to pay an invoice caused a duplicate payment to be made. An invoice was paid with a PCard, but this invoice had actually already been paid by a check through the accounts payable process prior to the PCard payment.

There is no written policy in the PCard Procedures Manual that prohibits the payment of invoices with the PCard. Purchases made by PCard should be for only those items included on the allowable items list in the PCard Procedures Manual. All payments of invoices should only be made through the accounts payable process. Payment of invoices with the PCard could cause duplicate payments to be made by both PCard and AP.

### **RECOMMENDATION and FOLLOW UP**

*Prohibit the payment of invoices utilizing the PCard and document this limitation in the Procedures Manual. Monitor for invoice related items paid by the PCard and ensure that duplicate payments do not exist. Obtain a credit for the duplicate payment identified above.*

#### **FOLLOW UP STATUS: COMPLETED**

Documented PCard and Accounts Payable procedures are in place to prohibit the payment of invoices with PCards. Accounts Payable Confirming Order monitoring controls and weekly PCard transaction reviews ensure that procedures are complied with and that duplicate payments are detected.



## Procurement Card Observations, Recommendations and Status

### OBSERVATION #13

#### Manual Process

The transaction review process is manual and exception reporting is not available, nor does the capability for the downloading of information exist. The PCard Transaction Reviewer is responsible for reviewing all PCard transactions and inquires about the nature of any purchase that appears questionable. This is a manual process with no ability to download information to perform analytical review. There is no exception reporting available to help ensure all potential violations are identified.

Although many of the purchases that were tested during our audit were questioned by the PCard Transaction Reviewer, there were some prohibited or questionable transactions that were not addressed. The PCard Transaction Reviewer is responsible for reviewing all PCard transactions and should inquire about the nature of any purchases that appear unusual. Inadequate reporting exists to manage the PCard program. Exception reporting and download capabilities would assist in the analysis of PCard transactions. The current manual transaction review process increases the chances of missing potential prohibited transactions.

### RECOMMENDATION and FOLLOW UP

*Develop a more thorough systematic process for reviewing inappropriate PCard Transactions. Evaluate automation to facilitate the review process for detecting questionable purchases.*

#### **FOLLOW UP STATUS: OPEN**

The CentreSuite system's automated transaction tracking provides Excel download capabilities that have improved the efficiency and effectiveness of the detail transaction review process. However, this review process is not deemed comprehensive because not all vendors report the level 3 detail and tax data that is needed for review. Management should establish monitoring procedures for non-level 3 vendors.

**Responsibility:** Brian O'Connor, PCard Administrator; Gary Smith, Director of Procurement & Supply

**Due Date:** October 2012



## Procurement Card Observations, Recommendations and Status

### **OBSERVATION #14**

#### **Reconciliations**

Reconciliation procedures and practices to ensure completeness and accuracy are lacking throughout the PCard process which results in ineffective monitoring. Reconciliation is performed between the account statement and the JPMorgan Chase file feed by the Accounts Payable Supervisor. This reconciliation includes verifying the dollar balance on the JPMorgan file feed to the balance on the JPMorgan account statement. The Accounts Payable Supervisor also verifies the J.P. Morgan file feed to the billing cycle total the PCard Transaction Reviewer provides. No documentation exists for either of these reconciliations. The District's ACH pay cycle is not reconciled to the JPMorgan file feed to ensure completeness.

The monthly cardholder report the PCard Receipt Reviewer utilizes to ensure all cardholders have turned in their account statement and receipts is not reconciled to the billing total that is submitted to Accounts Payable. Therefore, there is a lack of assurance that the account statements received equal the billing cycle total. It came to our attention that the report the PCard Receipt Reviewer was utilizing to track the statements received was not all inclusive because it did not include all cardholders with activity in that month. A monthly reconciliation between this report and the total the PCard Transaction Reviewer obtains would have ensured completeness of the report the PCard Receipt Reviewer was utilizing. In this situation, because comprehensive reconciliation controls were not in place, management was not able to discern that all account statements were being received, ultimately creating a false sense of assurance.

#### **RECOMMENDATION and FOLLOW UP**

*Develop a monthly reconciliation process in which the total dollar amount billed for the month equals the total dollar amount in account statements and receipts received. Develop a monthly process where the ACH pay cycle is reconciled to the JPMorgan Chase account statement.*

#### **FOLLOW UP STATUS: COMPLETED**

The Director of Purchasing validates the total amount billed for PCard activity to the total amount expended by cardholders. The verified amount is communicated to Claims Audit, Accounts Payable and City of Rochester to ensure accuracy in payment processing.



## Procurement Card Observations, Recommendations and Status

### **OBSERVATION #15**

#### **Storage and Record Retention**

The District lacks a record retention policy for PCard documentation. This information has been kept indefinitely on microfiche, which is not a current or efficient form of data storage. The scanner to the microfiche machine is broken and the supporting documentation for the monthly billing cycle has been stored in boxes in the accounting department. These boxes of account statements and supporting documentation go back for over one year without being scanned to the microfiche. To ensure the availability of records when needed, a clear written record retention policy should exist for all aspects of PCards and the means of storage should be operational and reliable.

### **RECOMMENDATION and FOLLOW UP**

*Develop a record retention policy defining requirements for PCard related documentation. Ensure the means of which the District stores its documentation is operational and reliable.*

#### **FOLLOW UP STATUS: COMPLETED**

Purchasing has documented and implemented PCard record retention procedures. Cardholders are required to retain receipts and supporting expense documentation for six year plus the current year. Such records shall be retained on the work site even after an employee transfers or separates from the District. PCard record retention procedures are in alignment with NYSED record retention mandates.



## Procurement Card Observations, Recommendations and Status

### **OBSERVATION #16**

#### **Contracted Vendors**

The capability exists to purchase with a PCard from a non-contracted vendor when a contracted vendor exists for the purchase. There is no assurance that cardholders are purchasing from contracted vendors and taking advantage of preferred pricing. Purchases to non-contracted vendors are not prevented. During the training that is required prior to issuance of the PCard, a listing of vendors the District has contracts with is provided to all cardholders and PCard Supervisors. Based on testing performed, it was noted that there were items purchased from vendors that could have potentially been purchased from contract vendors, but were not.

In the PCard procedures manual, it states that the District “strongly encourages” purchasing from vendors that are on contract with the District to take full advantage of the contracted savings. This policy is not definitive enough and does not require cardholders to purchase from contracted vendors. Cardholders should purchase from vendors that are on contract with the District to take full advantage of the contracted savings.

### **RECOMMENDATION and FOLLOW UP**

*Develop and enforce a policy that cardholders should purchase from vendors that are on contract with the District to take full advantage of the contracted savings. Provide PCard owners with a table of specific contracted vendors that should be used.*

#### **FOLLOW UP STATUS: COMPLETED**

Documented procedures are in place to inform cardholders that purchases must be made from District contract vendors that carry the item. Violations are identified via the PCard transaction review process and reviewed by the PCard Unit for patterns and assignment of consequences in accordance with established PCard procedures.



## Procurement Card Observations, Recommendations and Status

### **OBSERVATION #17**

#### **Merchant Category Codes**

The District does not possess, nor does it periodically monitor the listing of acceptable Merchant Category Codes (MCC). During our review, the most recent list available was from September 2006, but per the PCard Administrator, this list had been modified. MCCs are merchant industry codes that identify the type of business that the merchant is classified under. Exclusion of these codes can restrict cardholders from certain types of merchants that are deemed disallowed per the card administrator. For instance, travel expenses are prohibited on the PCard; therefore all travel MCCs should be disallowed.

There appears to be MCCs which should be excluded from the groups based on the prohibited list in the PCard procedures manual, but are not. For example, wholesale clubs are prohibited to be purchased from, but the code is not part of the exclusion. There have been purchases made at these wholesale clubs which could have been prevented if they were part of the exclusion.

MCCs should be monitored regularly and exclusions should be assessed for reasonableness and appropriateness for the District.

### **RECOMMENDATION and FOLLOW UP**

*Obtain a copy of the Merchant Category Code exclusions the District has implemented. Monitor Merchant Category Codes on a regular basis and assess the exclusions for reasonableness and appropriateness for District needs. Retain the analysis for review.*

#### **FOLLOW UP STATUS: OPEN**

All PCard holders are appropriately assigned to District established MCC groups that were reviewed in May 2010 and are modified as needed. Management maintains current list of MCC exclusions. However, some allowed MCC codes that did not appear to intuitively align with District operations. We recommend that management document its reasoning for allowing MCC codes that do not intuitively align with District operations.

**Responsibility:** Brian O'Connor, PCard Administrator; Gary Smith, Director of Procurement & Supply

**Due Date:** October 2012