

OFFICE OF AUDITOR GENERAL



Procurement Card (P-Card)
Audit

June 19, 2008

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Procurement Card Executive Summary

OBJECTIVE

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

BACKGROUND

The P-Card 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 P-Card, liability for payment resides with the District. Payment is made through a wire transfer for the full amount of all District P-Cards on a monthly basis.

The District implemented the P-Card program in July 2006. In fiscal 2008, over 14,700 transactions were made through the P-Card program and over \$1.8 million was spent using P-Cards. These are transactions which would have otherwise gone through the requisition, purchase order, and invoicing process. Using the P-Card 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 P-Card. Management is considering increasing utilization of this program for added efficiencies.

SCOPE

We evaluated controls, policies and procedures surrounding the District's P-Card program. Cardholders were selected for testing to verify employee status, existence of required forms and agreements, accurate supervisor designation, attendance at P-Card 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 P-Card 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.

CONCLUSION

We identified operating deficiencies in administrative practices including monitoring, reporting, security, and compliance. Control weaknesses exist regarding prohibited transactions, split transactions, and duplicate payments. Additional opportunities exist in defining controls related to segregation of duties, access, audit trails and records retention. The P-Card control environment will be further stressed given the decrease in staffing. Even though the P-Card program has been functioning for several years, increased reliance on this program should only be considered pending remediation of the significant control design and operating deficiencies.



Procurement Card Summary of Recommendations

Rec #	Audit Recommendations
1.	<i>Cancel the P-Card Administrator's general purchase P-Card immediately.</i>
2.	<i>Evaluate and modify the user authority for all user groups able to modify transaction limits. Restrict access to cardholder maintenance for all user groups to the P-Card Administrator and designated back up personnel.</i>
3.	<i>Develop a procedure to monitor, approve and retain all the changes to cardholder maintenance in SDOL®.</i>
4.	<i>Perform regular monitoring of all cardholders to ensure only active District employees have access to P-Cards. Obtain regular notification of all employee terminations to facilitate the review.</i>
5.	<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. Periodically verify that the cost center for cardholders and their related supervisors are accurate.</i>
6.	<i>Review and approve all authorizing documentation for the P-Card to ensure accuracy and completeness. Delay the issuance of the P-Card until proper documentation and authorization exists.</i>
7.	<i>Monitor the cardholder reconciliations and the Supervisor approval to authorize P-Card 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.	<i>Develop and document monitoring procedures for supporting documentation. Determine the ramifications for violators of P-Card policies and consider suspension or cancellation of card privileges. Enforce P-Card Administration receipt requirements to substantiate purchases. Trend violations to determine repeat offenders.</i>
9.	<i>Trend and report violations of district policy regarding P-Card purchases to Senior Management. Define tolerance levels for the violation of P-Card procedures. Follow up on violations of P-Card purchases to ensure monies are recouped.</i>



**Procurement Card
Summary of Recommendations**

Rec #	Audit Recommendations
10.	<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>Secure all P-Card account information to help prevent unauthorized use of the P-Cards.</i>
12.	<i>Prohibit the payment of invoices utilizing the P-Card and document this limitation in the procedures manual. Monitor for invoice related items paid by the P-Card and ensure that duplicate payments do not exist.</i>
13.	<i>Develop a more thorough systematic process for reviewing inappropriate P-Card Transactions. Evaluate automation to facilitate the review process for detecting questionable purchases.</i>
14.	<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>Develop a record retention policy defining requirements for P-Card related documentation. Ensure the means of which the District stores its documentation is operational and reliable.</i>
16.	<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 P-Card owners with a table of specific contracted vendors that should be used.</i>
17.	<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 Action Plans**

OBSERVATION #1

General Purpose Card

The P-Card Administrator has a general purpose P-Card for the District. Although this card is not currently activated nor has it ever been used, the P-Card Administrator should not possess a P-Card 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 P-Card 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 MANAGEMENT RESPONSE

Cancel the P-Card Administrator's general purchase P-Card immediately.

Management Responses: Completed. It was recommended by legal that we have this card due to upgrade of PeopleSoft 8.4 to 8.9. The system was unusable for more than two weeks in July 2007. This was never used. The card was deactivated and destroyed in June 2008.

Responsibility: Brian O'Connor, P-Card Administrator, Gary Smith, Director of Procurement & Supply

Due Date: Completed, June 2008



Procurement Card Observations, Recommendations and Action Plans

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 P-Card 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 P-Card Supervisors and the P-Card 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 P-Card 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 P-Card Administrator when spending limits are increased. The potential exists for a P-Card 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 P-Card Audit, the company administrator (info only) user authority was changed to "print only" after the P-Card Administrator was informed of the excessive access, but the P-Card Supervisor role still maintains unnecessary access which is inappropriate based on their responsibilities.

RECOMMENDATION and MANAGEMENT RESPONSE

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 P-Card Administrator and designated back up personnel.

Management Responses: Agree with this finding. This was possible due to incorrect set-up within JP Morgan SmartData by P-Card Administrator. The ability to change the cardholders spending limit by the cardholder was corrected as soon as this became known. The ability to correct the ability of the Supervisor to change spending limits will be completed by November 30.

Responsibility: Brian O'Connor, P-Card Administrator, Gary Smith, Director of Procurement & Supply

Due Date: November 30, 2008



Procurement Card Observations, Recommendations and Action Plans

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, P-Card 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 MANAGEMENT RESPONSE

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®.

Management Responses: There is an Audit Summary in JP Morgan Chase that provides a summary of account maintenance requests for up to a 30-day period. The last 90 days are available but we can only view 30 days at a time. The Director of Purchasing has investigated this report and is requesting it be run monthly to review all maintenance including changes to cardholders. This will be reviewed and filed.

Responsibility: Gary Smith, Director of Procurement & Supply

Due Date: January 31, 2009



Procurement Card Observations, Recommendations and Action Plans

OBSERVATION #4

Terminated Employees

There is a lack of assurance that terminated employees' P-Cards are deactivated. A policy exists where an employee must cut their card in half and return it to their P-Card Supervisor upon termination of employment or in the event of a job transfer. The P-Card Supervisor is responsible for submitting this cut card to the P-Card Administrator with a memo requesting deactivation. The P-Card 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 P-Cards. This should include notification to the P-Card Administrator of cardholders who have ceased employment with the District. Without having assurance that all terminated employees have turned in their P-Card, the District runs the risk of terminated employees making unauthorized purchases which could go undetected.

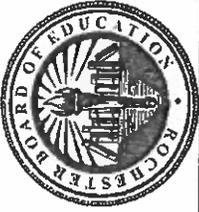
RECOMMENDATION and MANAGEMENT RESPONSE

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

Management Responses: Purchasing receives reports from Payroll that do not quite meet the needs required. Research has already been done by the new P-Card Administrator on reports that are available or can be developed from Payroll and Budget listing termination of employees. Additionally the P-Card Administrator will work with Human Capital Initiative to encourage a system where a record may be kept on file so that immediate notification of termination can be sent to the P-Card Administrator. The P-Card Administrator will then inactivate the terminated employee's P-Card as soon as information is available.

Responsibility: Brian O'Connor, P-Card Administrator, Gary Smith, Director of Procurement & Supply

Due Date: January 31, 2009



Procurement Card Observations, Recommendations and Action Plans

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 P-Card Supervisor assigned when the P-Card was initiated did not align with the P-Card 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 P-Card 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 MANAGEMENT RESPONSE

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.

Management Responses: Purchasing has kept files on all P-Card holders and supervisors since the inception of the program. The paperwork is nearly all in order. The P-Card Administrator will make this a project to review all files of current cardholders and supervisors to make sure the paperwork is in order. Any universal changes made to system records will be kept in a master file documenting the date and nature of the change. Individual changes made to any profile will be documented in the cardholders existing file.

Responsibility: Brian O'Connor, P-Card Administrator, Gary Smith, Director of Procurement & Supply

Due Date: January 31, 2009



Procurement Card Observations, Recommendations and Action Plans

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 P-Card 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 P-Card Supervisor agreement (in some instances the cardholder signed this form)
- Instance where one individual recommended self for card
- Updated forms for changes in P-Card Supervisor were not completed
- P-Card Designation of Key Personnel form was not always completed by the P-Card Administrator (card approval section) causing a lack of documentation of P-Card Administrator review and approval of P-Card
- Incomplete forms

Missing or incomplete authorization documentation creates the risk for possible inappropriate issuance or misuse of P-Cards. 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 P-Card Administrator should complete the P-Card Designation of Key Personnel form to provide documentation of the review and approval of the P-Card.

RECOMMENDATION and MANAGEMENT RESPONSE

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

Management Responses: Purchasing has kept files on all P-Card holders and supervisors since the inception of the program. The paperwork is nearly all in order. The P-Card Administrator will make this a project to review all files of current cardholders and supervisors to make sure the paperwork is in order. P-Cards will not be issued unless proper paperwork is completed. Moving forward all files will have proper paperwork and file information should match authority granted in the system.

Responsibility: Brian O'Connor, P-Card Administrator, Gary Smith, Director of Procurement & Supply **Due Date:** March 31, 2009



Procurement Card Observations, Recommendations and Action Plans

OBSERVATION #7

Cardholder Reconciliation and P-Card Supervisor Approval

A lack of enforcement for the cardholder reconciliation and P-Card 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 P-Card 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 P-Card Supervisor review.

All cardholder reconciliations and Supervisor approval of purchases are, required to be completed by the 12th of every month. The P-Card Receipt Reviewer is responsible for ensuring the P-Card 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 P-Card 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 MANAGEMENT RESPONSE

Monitor the cardholder reconciliations and the Supervisor approval for authorizing P-Card 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.

Management Responses: This procedure will be reviewed. There are automatic emails in place to remind cardholders and supervisors of their responsibilities. The P-Card Administrator will review this process and set up metrics and monthly summaries that are consistent with procedure. Regarding non-compliance, this is from the P-Card manual (revised 11/08) as follows::

XV. VIOLATIONS OF PROCEDURES AND CONSEQUENCES

A. Violations

Violations of procedures shall be defined as:

- **Proof of Purchase Documentation**

Failure of the Cardholder to provide the Proof of Purchase Documentation as required in Section XII A.



Procurement Card Observations, Recommendations and Action Plans

• **Reconciliation Procedures**

Failure of either the Cardholder or the P-Card Supervisor to complete reconciliation in Smart Data OnLine® (SDOL®) by the 12th of each month.

• **Unauthorized / Unofficial Use**

Unauthorized or Unofficial use of the P-Card by the Cardholder or use of the P-Card by persons other than the Cardholder

B. Consequences

Consequences for violating P-Card procedures, depending on the severity, intent and/or repetition of violations, are:

- Personal liability for full amount to the District.
- Immediate suspension or cancellation of card privileges as deemed appropriate by the P-Card Administrator.
- Disciplinary action under applicable District administrative procedures.
- Suspension of card privileges until Cardholder attends a remedial training session.

In Order to reactivate a suspended card or to reissue a new card that has been cancelled one must:

First Offense – To the P-Card Administrator submits all outstanding receipts and obtains written permission from one's supervisor.

Second Offense - To the P-Card Administrator submits all outstanding receipts and obtains written permission from one's supervisor and his/her chief.

Third Offense - To the P-Card Administrator submits all outstanding receipts and obtains written permission from one's Supervisor, his/her Chief and the Superintendent of Schools.

NOTE: At anytime when Fraud is determined to exist, the District will prosecute to the fullest extent of the law.

Responsibility: Brian O'Connor, P-Card Administrator, Gary Smith, Director of Procurement & Supply

Due Date: March 31, 2009



Procurement Card Observations, Recommendations and Action Plans

OBSERVATION #8

Supporting Documentation

According to the P-Card procedures manual, the original itemized sales receipt must be submitted to the P-Card Administration for all P-Card transactions. P-Card 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. P-Card 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 P-Card 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 P-Card purchases. P-Card 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 P-Card purchases could result in the purchase of items which are prohibited by the District and could potentially go undetected.

RECOMMENDATION and MANAGEMENT RESPONSE

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

Management Responses: This procedure will be reviewed. There are automatic emails in place to remind cardholders and supervisors of their responsibilities. P-Card Administrator will review to set up process that is consistent with procedure. See Observation #7.

Responsibility: Brian O'Connor, P-Card Administrator, Gary Smith, Director of Procurement & Supply

Due Date: March 31, 2009



Procurement Card Observations, Recommendations and Action Plans

OBSERVATION #9

Prohibited Transactions

Purchases are being made with P-Cards which do not follow District policy. Included in the P-Card procedures manual is a prohibited list of vendors and uses of the P-Card. 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 P-Card for any of the prohibited vendors or uses as defined in the P-Card procedures manual. These purchases should be made through the purchasing process.

It was also noted that not all P-Card 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 P-Card 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 P-Card 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 P-Card procedures. There should be a clearly defined policy regarding tolerance levels for violations of P-Card policy. Not following District policy regarding P-Card purchases could result in violations of awarded bids and the District not getting preferred pricing.

RECOMMENDATION and MANAGEMENT RESPONSE

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

Management Responses: There is weekly monitoring of P-Card transactions by Purchasing (Sr. Buyer) and email notifications are sent to P-Card holders for explanation and action to correct a transaction that may not adhere to policy. Metrics and reports will be reviewed to monitor trending. P-Card Administrator will notify Supervisors of frequent offenders and implement appropriate consequences.

Responsibility: John Burke, Sr. Buyer, Gary Smith, Director of Procurement & Supply

Due Date: January 31, 2009



Procurement Card Observations, Recommendations and Action Plans

OBSERVATION #10

Split Transactions

Split transactions were made using the P-Card 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 P-Card 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 MANAGEMENT RESPONSE

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.

Management Responses: There is weekly monitoring of P-Card transactions by Purchasing and email notification is sent to P-Card holders for explanation and action to correct a transaction that may not adhere to policy. Several P-Card holders have had their card deactivated due to splitting of transactions. The Purchasing manual will be updated to clarify the acceptable usage for Staples and Grainger.

Responsibility: Brian O'Connor, P-Card Administrator, Gary Smith, Director of Procurement & Supply

Due Date: January 31, 2009



**Procurement Card
Observations, Recommendations and Action Plans**

OBSERVATION #11

Security of Account Information

It was observed during our audit testing that P-Card statements are kept unlocked at the P-Card 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 P-Card 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 P-Card by unauthorized users. This includes online purchases or purchases over the phone where the physical card isn't needed.

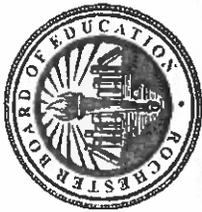
RECOMMENDATION and MANAGEMENT RESPONSE

Secure all P-Card account information to help prevent unauthorized use of the P-Cards.

Management Responses: This is not a high risk as not all numbers are exposed (i.e. expiration date, security code). With the renovation on the 1st floor - better security will be afforded Purchasing and the P-Card Administration area. Statements will be locked on a nightly basis.

Responsibility: Brian O'Connor, P-Card Administrator, Gary Smith, Director of Procurement & Supply

Due Date: November 30, 2008



Procurement Card Observations, Recommendations and Action Plans

OBSERVATION #12

Duplicate Payment

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

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

RECOMMENDATION and MANAGEMENT RESPONSE

Prohibit the payment of invoices utilizing the P-Card and document this limitation in the procedures manual. Monitor for invoice related items paid by the P-Card and ensure that duplicate payments do not exist. Obtain a credit for the duplicate payment identified above.

Management Responses: To the knowledge of Purchasing this has happened only once with more than 20,000 transactions. It is common legal practice that a vendor not invoice when receiving payment via credit card. This is as much an A/P and cardholder issue to not pay on claims voucher if a P-Card has been used for a particular transaction. The P-Card manual has been updated to indicate improper use to pay an invoice and is a part of the training. The one transaction (\$13.85) that was double paid by the P-Card and check is under investigation.

Responsibility: Cerri Cupples, Supervisor of Accounting, Gary Smith, Director of Procurement & Supply

Due Date: March 31, 2009



Procurement Card Observations, Recommendations and Action Plans

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

RECOMMENDATION and MANAGEMENT RESPONSE

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

Management Responses: The Sr. Buyer (P-Card Transaction Reviewer) does review all transactions on a weekly basis and send emails if it appears there may be a transaction the goes against policy. This will continue. Purchasing is taking action to benchmark what other municipalities do to monitor transactions and will evaluate the need to change the process.

Responsibility: Brian O'Connor, P-Card Administrator, Gary Smith, Director of Procurement & Supply

Due Date: January 31, 2009



Procurement Card Observations, Recommendations and Action Plans

OBSERVATION #14

Reconciliations

Reconciliation procedures and practices to ensure completeness and accuracy are lacking throughout the P-Card 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 P-Card 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 P-Card 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 P-Card 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 P-Card Transaction Reviewer obtains would have ensured completeness of the report the P-Card 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 MANAGEMENT RESPONSE

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.

Management Responses: Accounts Payable maintains the back-end portion of P-Card processing, as the dollar amount/transactions uploaded into PeopleSoft from the JPMorgan Chase file feed are compared to the amount of the JPMorgan Chase account statement. P-Card transactions are not posted to the general ledger until the transactions uploaded are reviewed by the Accounts Payable Supervisor who ensures the vouchers have cleared the budget check and document tolerance system process. This review is completed using the PeopleSoft queries RCSD_BUDGET_LINE_ERROR_PCARD and RCSD_RECYCLED_VOUCHERS.



Procurement Card Observations, Recommendations and Action Plans

The Accounts Payable Supervisor then reconciles the P-Card transactions to the JPMorgan Chase account statement before the ACH pay cycle is created by comparing the ACH payment selection/pay cycle details to the JPMorgan Chase account statement. A P-Card reconciliation coversheet is prepared showing the total of the ACH pay cycle which equals the amount on the JPMorgan Chase account statement. A payment register report for the ACH pay cycle is also created for supportive documentation for the P-Card reconciliation.

The Director of Purchasing and P-Card Administrator has communicated with JPMorgan Chase to write a report that will be used to track any variances in terms of dollars spent and number of cardholder users each month. This will be reviewed and filed. There will be a monthly reconciliation to the JP Morgan chase reports matching cardholders and dollars. Variances will be tracked.

Responsibility: Brian O' Connor, P-Card Administrator, Cerri Cupples, Supervisor of Accounting

Due Date: March 31, 2009



Procurement Card Observations, Recommendations and Action Plans

OBSERVATION #15

Storage and Record Retention

The District lacks a record retention policy for P-Card 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 P-Cards and the means of storage should be operational and reliable.

RECOMMENDATION and MANAGEMENT RESPONSE

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

Management Responses: We recognize the need to update our storage system and have requested funding to purchase a new computer scanner for the storage of our records. The scanning of the 2007-2008 P-Card statements and documentation which has been stored in boxes will be scanned and accessible online, pending approval and funding of the new scanner system (cost is approximately \$8,000). The 2008-2009 and future years' P-Card documentation will also be accessible online.

Responsibility: Cerri Cupples, Supervisor of Accounting

Due Date: January 31, 2009



Procurement Card Observations, Recommendations and Action Plans

OBSERVATION #16

Contracted Vendors

The capability exists to purchase with a P-Card 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 P-Card, a listing of vendors the District has contracts with is provided to all cardholders and P-Card 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 P-Card 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.

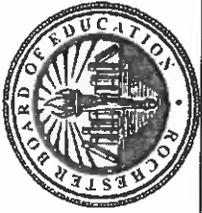
RECOMMENDATION and MANAGEMENT RESPONSE

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 P-Card owners with a table of specific contracted vendors that should be used.

Management Responses: As a part of training, individuals are given the most current list of RCSD contracts and are informed that all contractors do take the P-Card. The manual will change the language to be more definitive.

Responsibility: Brian O'Connor, P-Card Administrator, Gary Smith, Director of Procurement & Supply

Due Date: January 31, 2009



Procurement Card Observations, Recommendations and Action Plans

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 P-Card 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 P-Card; 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 P-Card 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 MANAGEMENT RESPONSE

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.

Management Responses: The MCC Code exclusions were updated as recently as June 2008. This will be reviewed on an annual basis.

Responsibility: Brian O'Connor, P-Card Administrator, Gary Smith, Director of Procurement & Supply

Due Date: June 30, 2009