Audit of the Procurement Card Program
Report # 08-23

Prepared by
Office of Inspector General

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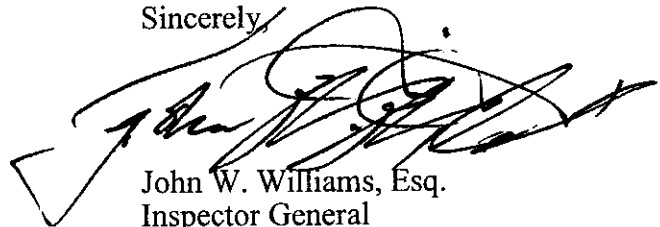# SOUTH FLORIDA WATER MANAGEMENT DISTRICT

June 11, 2009

Audit and Finance Committee Members:
Mr. Charles J. Dauray, Chair
Mr. Eric Buermann, Member
Mr. Michael Collins, Member

Re: Audit of the Procurement Card
Program - *Project No. 08-23*

This audit was performed pursuant to the Inspector General's authority set forth in Chapter 20.055, F.S. Enclosed is the subject report that was conducted at the request of Executive Management to determine whether there were adequate controls over the administration of the Procurement Card Program. This report was prepared by Tim Beirnes and Gary Bowen.

Sincerely,

John W. Williams, Esq.
Inspector General

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BACKGROUND

In accordance with the Office of Inspector General's Fiscal Year 2008 Audit Plan, we conducted an audit of the South Florida Water Management District's Procurement Card Program.

The South Florida Water Management District's Procurement Card Program is a credit card based method of acquiring goods and services. The Program is administered by the Procurement Division and has been implemented to provide cardholders with an efficient method of purchasing and paying for goods and services not exceeding $1,500. In addition to the per transaction maximum of $1,500, there is a $15,000 monthly aggregate maximum. The Program allows any cardholder to purchase approved goods and services from any approved vendor that accepts VISA credit cards. The program simplifies the purchase process by providing an efficient method for small purchase payments (the District issues just one payment each month for all Procurement Card Payments), thereby reducing purchase orders, petty cash, and requests for payments, and providing timelier purchase and receipt of goods. The goal of the program is to streamline purchases for small dollar, non-inventory, non-capital purchases.

The Procurement Division maintains the Procurement Card User's Manual which provides written procedures or instructions as to how the program works and delineates rules and responsibilities of each party involved in the process. In addition, the District's Procurement Card policies and procedures are codified under South Florida Water Management District Policies and Procedures Part II, Chapter 255, Article II Procurement Card, Section 255.21 – 255.31 of the Municode.

In August 2007, the Procurement Department commenced using Bank of America's Works procurement card management system (Works). Works is a web-based application designed to automate procurement card administration and payment processing. The application allows the District's Procurement Card Program administrators to view and update Bank of America's procurement card Works database, and allows District procurement cardholders to review and reconcile their purchases as soon as they are posted (in real time) to the application. The works application provides real-time procurement card administration, purchase request approval workflow, and post purchase reconciliation.

Works enables the card administrator to create and manage card profiles which specify the credit limit, cash advance limit (the profiles are set to disallow cash withdrawals for District cards) and transaction controls, including single transaction limits, approval (sign-off) limits, amount of discretionary funds available, and permitted Merchant Category Codes (MCC's), which limit the type of merchants from which cardholders may make purchases. Card administrators may also request new cards, request replacement cards, and deactivate cards.

The Works application card profiles are setup to facilitate the purchase request approval workflows. Generally, the maximum spending limits per card are $1500 for single purchases, and $15,000 for total monthly purchases. Stricter or looser individual cardholder's limits can be assigned through the user's profile. The Appendix B Procurement Card Program Profiles shows the available profiles and their assigned limits as setup by the District.

In addition to the dollar limits shown in the Appendix B table, the Works application also allows limits to be placed based on merchant category code groups (MCCG). These codes are set up in tables in the Works application and prevent purchases from merchants with codes that are "locked out". For example, the standard merchant category codes for florists, medical services, phone services, automated fuel dispensers, jewelry, restaurants, amusement parks, wire transfers, money orders, etc, are ineligible purchases using the District's procurement card and are locked out by the Works application, so that attempted purchases will be declined at the point of sale.

The User Manual also lists other unauthorized purchases using the procurement card including:

- Capital Equipment with a unit cost of $1000 or greater and a useful life of one year or longer,
- Split charges to avoid exceeding transaction limits,
- Cash Advances,
- Gas, fuel, or oil,
- Food,
- Airline tickets and or car rental (may be purchased by department travel coordinators and employees with special authorization,

- Telephone charges,

- Inventory items,

- Items available through the office supply contract (unless pre-approved),

- Any items of services available on a price agreement contract (unless pre-approved), and

- Vehicle repairs (unless pre-approved).

Other policy restrictions placed on procurement card usage include:

- The procurement card is for District business only, no personal use is allowed,

- The card may be used only by the approved cardholder, it is not transferable between cardholders, and

- Cardholders may not receive cash back for any refunds or exchanges. Refunds must be credited to the procurement card account.

The procurement card may be used for most purchases up to the limit of $1,500. It may be used in person, and for internet, telephone or fax purchases. Exceptions may be made to the policy restrictions based on circumstances, with appropriate approvals.

Procurement Card Statistics

Total Number of Cards Per Works	602
Emergency Cards – Works	170
Cardholders – Works	432
Average Single Transaction Amount	$196
Total Monthly Average Amount	$219,675
Average Number of Monthly Transactions	1,124

In summary, to ensure that procurement card transactions comply with District policies the Procurement Department employs several processes and controls. The Bank of America Works application enables the procurement card administrator to set cardholder spending limits, maintain a list of acceptable and unacceptable spending categories through the standard merchant category codes (effectively locks out

cardholder's ability to purchase most unauthorized purchases), and makes available management reports including cardholder information-only statements, and reports with suspicious transactions (including possible split transactions, sales tax paid, etc).

The Works application also facilitates the post purchase reconciliation process. Works uses a reconciliation process that ensures appropriate employees review and sign off on all payable documents produced by the application. This enables those employees to review the details of their transactions, modify editable details of their transactions, add comments to their transactions, and sign off on the reviewed transactions.

Procurement Department personnel review the Works reports monthly, including each cardholder activity statements along with purchase documentation (e.g. invoices) to ensure the transactions are authorized, properly documented, and consistent with District policy. Exceptions noted are scheduled and the cardholder is contacted by phone call or e-mail and requested to explain or correct the transactions.

The Works application has only been partially implemented. The remaining portion requires programming to properly interface the Works application with the District's accounts payable (SAP) application. The interface will enable Works to automatically upload procurement card transaction data into SAP, eliminating the necessity of manual input. The Information Technology Department is working with the Procurement Department to accomplish the necessary interface programming, which is in the development and testing phase.

The Program Administrators in the Procurement Department perform all the administrative and maintenance functions in the Works Application. These administrative functions are categorized as follows: a) Card Program Maintenance, b) User Group Administration, c) Reporting, and d) Administration of Policies and Settings. (See Appendix A – Administrative Functions in Works Application for details).

Objectives, Scope, and Methodology

The primary focus of this audit is to provide District management with reasonable assurance on the adequacy of the system of management controls in effect over the Procurement Card Program. Management is responsible for establishing and maintaining effective controls which include maintaining appropriate policies and procedures, monitoring program performance, and ensuring compliance with program requirements.

Specific audit objectives include:

- Determine that the Procurement Card Policies and Procedures are adequate and Comprehensive,
- Determine that internal controls for procurement card administration are reasonable to ensure compliance with the District's policies and procedures, and prevent procurement card abuse and misuse,
- Determine that card issuer billing reports are being reviewed or reconciled by both the cardholder and card representative and authorized employees approve procurement card charges,
- Determine that procedures for card deactivation are adequate and working properly,
- Determine that only active employees are cardholders, and
- Determine that only allowable purchases are made with procurement cards and no sales tax is paid for purchases, and no splitting occurs.

To accomplish these audit objectives, we performed procedures which included interviewing staff, reviewing management controls and testing a sample of procurement card transactions and supporting documentation to assess compliance with the District's policies and procedures. We also designed tests to evaluate whether the Cardholders, Procurement Card Representatives, Procurement Card Administrators, and Accounts Payable staff are adequately fulfilling their responsibilities as required by District policy set forth in the Procurement Card Program User's Manual. In addition, we performed tests to determine the adequacy of controls and procedures over procurement card issuance, card security, cardholder termination, payment of invoices, and disputed charges.

Our audit was conducted in accordance with Generally Accepted Government Auditing Standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

Executive Summary

Overall, our audit revealed that the internal controls for the administration of the Procurement Card Program are adequate and reasonable to ensure compliance with the District's policies and procedures, and the program has been working well. However, we have made a few recommendations to further strengthen internal controls over the program. We found that the Works application provides a number of control features which have been setup to complement the District's policies and procedures. These features include procurement card management (requesting, activating and deactivating procurement cards), defined credit limits (single transactions and monthly aggregate amounts), automatic blocking of certain prohibited purchases, and standard and customized reports to monitor and analyze spending for compliance with District policies.

We noted that several District employees had Works administrative rights, and were also issued procurement cards. This arrangement lacked proper division of duties since administrative rights to Works would allow the individual to increase their own credit limit, unblock merchant categories, order additional cards, etc.

Our audit also revealed that procedures and controls are in place to reasonably prevent and/or detect inappropriate procurement use. These procedures and controls include transaction limits set up in the Works application (general limits of $1,500 per transaction, and $15,000 credit limit, blocked merchant category codes). Also, certain merchant codes (or goods and services types) are blocked such as cash advances, fuel, food, capital equipment, etc.

Our review of a sample of monthly cardholder statements revealed that billing reports are being reconciled and reviewed by both the cardholder and card representative. In addition, we noted that the Procurement Department had implemented procedures to review a sample of the monthly cardholder activity and card issuer billing reports for policy violations and card misuse, and to ensure the required approvals and signatures were obtained. As of March 2008, the Department began to review 100% of the cardholder activity each month. These procedures have been effective in detecting instances of procurement card abuse in several instances.

We found that the procurement cards for terminated employees were not always deactivated on a timely manner. We compared a list of terminated employees from January 2007 through June 2008 and noted eleven former employees were not removed from the Works active cardholder's listing.

We also noted that there are 170 procurement cards issued in the name of "Emergency Card". These cards have been distributed throughout the District's facilities for use in the event of an emergency. In Works, these cards are in active status and have credit limits of $5,000 overall, and $1500 per single transaction. The records maintained by the Procurement Department includes a list of the cards assigned to specific locations, however, there are no signed receipts, cardholder agreements, etc., to establish responsibility for the safeguarding and use of the emergency cards. In addition, there are no written procedures related specifically to the use of the emergency cards.

The Procurement Department has implemented procedures to perform a continuous review of monthly procurement card activity and the detailed statements. However, no written procedures have been developed to provide guidance on the scope and methodology to be used in the review.

We also found that there were discrepancies in the Merchant Category Codes which should have been set up in the Works User Profile to block certain transactions. There were sixteen merchant codes which were listed in the User's Manual as being blocked, but were not set up in the Works Profile. In addition, there were twenty-three codes entered as being blocked in the Works Profile that were not listed in the User's Manual as being blocked.

Segregation of Duties Relating to Program Administrators Needs Strengthening

The Works application was implemented in August 2007 with a total of seven users given Program Administrator rights. Four of these users were also issued procurement cards. The Works access authority provided to procurement card program administrators enables the user to perform all administrative and card maintenance tasks in the application including setting card profiles, credit limits, approval levels, transaction controls, allowable merchant category codes, etc. (See Appendix A – Administrative Functions in Works Application). Employees who are issued procurement cards should not also have administrative rights within the card management application. Proper segregation of duties between procurement administrators and card holders acts as a preventive control to mitigate the risk of unauthorized procurement card transactions, and circumvention of District policies and procedures.

Recommendation

1. **Employees holding Bank of America Works application program administrator rights should not be issued procurement cards.**

   Management Response:
   Procurement concurs with this recommendation.
   All Procurement Cards issued to employees assigned Bank of America Works application program administrator rights were deactivated and cancelled on July 24, 2008.

   Responsible Department:
   Procurement Department

   Estimated Completion:
   Completed

Procurement Cards of Terminated Employees Need to be Promptly Deactivated

The District's policy requires the Procurement Card Representative to retrieve procurement cards from terminated employees, and to cut the card in half and send it to the Procurement Card Administrator. The District, however, did not have an effective procedure to timely notify the Procurement Department of terminated employees so that the cardholder application could be updated and the card de-activated. We noted eleven former employees terminated between April 2007 and May 2008, that were shown with active cards on the cardholder application. Failure to ensure procurement cards are retrieved from terminated employees and deactivated presents the risk of their inappropriate and/or fraudulent use, and leave the District liable for the amounts charged. It is therefore imperative that the Procurement Department be notified immediately upon the termination of an employee assigned a procurement card so that the card may be promptly deactivated.

Recommendation

2. **Procedures should be implemented to immediately notify the procurement card administrator upon termination of an employee so that the card may be promptly deactivated.**

Management Response:

Procurement concurs with this recommendation.

Effective June 2, 2008, Human Resources, as part of its employment separation process, promptly notifies the procurement card administrator of any employee leaving the District, and the procurement card administrator deactivates their procurement card immediately.

Responsible Department:

Human Resources

Estimated Completion:

Complete

Responsibility for Emergency Cards Needs to be Established

There are 170 procurement cards issued to the name "Emergency Card". These cards are active, have a credit limit of $5,000, with a $1,500 single purchase limit, and have been distributed throughout the District's service centers and field stations to be used in case of an emergency. The records maintained by the Procurement Department include a list of the cards assigned to specific locations; however, there are no signed receipts, cardholder agreements, etc., to establish responsibility and accountability for the custody and use of the emergency cards.

Cardholders are responsible for meeting the requirements for the use of the card as documented in the cardholder agreement and the procurement card requisition. In the case of the emergency cards, there are no individual cardholders responsible for the cards.

Individual responsibility for the cards has not been established, and therefore, the cards may be susceptible to misuse. Although any unauthorized use of the card may be eventually detected, the controls and procedures currently in place would not be effective in preventing a loss to the District. Also it may be difficult, if not impossible, to identify the person responsible for unauthorized purchases using the emergency cards.

Recommendation

3. **Responsibility and accountability should be established by assigning the cards to one or more individuals at each facility.**

   Management Response:
   Procurement concurs with this recommendation.
   On July 1, 2008, all emergency procurement cards were deactivated in Works. Accountability will be further defined and communicated to the Field Station and/or Service Center Directors.

   Responsible Department:
   Procurement Department

Estimated Completion:

March 30, 2009

Written Procedures Needed for Emergency Cards

The District's *Procurement Card Program User's Manual* does not contain any procedures guiding the use of emergency cards.

The purpose of the User's Manual and the procedures written in Article II Procurement Card Section 255 is to establish a set of procedures for use of the procurement cards. The written procedures cover use of procurement cards under normal conditions, but are silent regarding the use of the "emergency cards". The lack of clear procedures for the use of the cards may lead to confusion and misuse of the cards.

The procedures for the emergency cards at a minimum should include the physical security and periodic physical inventory of the cards, the conditions under which the cards are authorized to be used, the responsibilities of the personnel using the cards, items eligible for purchase under the emergency conditions (if different from normal conditions), any special instructions or processes which must be followed because of the nature of the emergency, etc.

Recommendation

4.   **Include procedures covering emergency cards in the User's Manual and the Article II Procurement Card Procedures.**

Management Response:

Procurement concurs with this recommendation.

Staff will add written emergency card usage procedures to the User's Manual. Written procedures will also be added to the Procurement Manual.

Responsible Department:

Procurement Department

Estimated Completion:

March 30, 2009

Update to Written Procedures Needed for Monthly Statement Reviews

The District has contracted with outside firms in the past to perform an audit analysis on a sample of employee procurement card statements to determine that documentation is complete, includes copies of receipts, descriptions of items purchased, and, authorization and approval signatures. In March, 2008 a full-time employee was hired in the Procurement Department, in part, to perform a continuous review of the monthly employee statements.   These reviews have proven effective in providing assurance of compliance to policies and in identifying and correcting policy violations. However, we noted that there are no written procedures covering the continuous review performed.   Written procedures can be effective in providing guidelines to ensure compliance and proper management of the program.

Recommendation

5.   **Update written procedures to address the Procurement Department's review of monthly statements to include required attributes audited, exception handling and follow-up procedures**.

    Management Response:

    Procurement concurs with this recommendation.

    Procurement will develop written procedures for Monthly procurement card statement reviews.

    Responsible Department:

    Procurement Department

    Estimated Completion:

    March 30, 2009

Merchant Category Codes Need Review and Updating

Each supplier who accepts VISA credit and or procurement cards is assigned a Merchant Category Code (MCC), which identifies the type of goods or services they provide. The Works application has the capability of locking out procurement card purchases for specified MCC's. The blocked MCC's are set up in the administrative card profiles that are assigned to each procurement card based on the types of purchases management allows for the individual cardholder. The blocked codes are set up in three groupings, namely, MCC Group Works, MCC Group - IT, and MCC Group – Fuel.

The Procurement Card User's Manual has a section on Merchant Category Codes, which lists the approved spending categories and the blocked categories. Our review focused on the blocked codes, since they are the codes which are entered into the user profiles. We identified sixteen codes listed in the User Manual as being blocked, that were not blocked in the Works profile. In addition, there were 23 codes entered as blocked in the Works profile that were not listed in the User's Manual as those that should be blocked.

Recommendation:

6.   Review and update the merchant category codes regarding those that should be blocked and ensure that the User Manual and Works blocked codes are consistent.

Management Response:

Procurement concurs with this recommendation.

Procurement will review and update the merchant category codes and ensure that any code that should be blocked is blocked. Procurement will also ensure that the blocked codes in the User Manual and the Works software program are consistent.

Responsible Department:

Procurement Department

Estimated Completion:

April 30, 2009

APPENDIX A

ADMINISTRATIVE FUNCTIONS IN WORKS APPLICATION

Card Program Maintenance allows the administrator to:

- Request/activate/ deactivate purchasing cards
- Create/edit/delete card profiles
- Edit the District's credit limits

User/ Group Administration function allows the administrator to:

- Create/edit/delete users and groups
- Manage group officials
- Send e-mail messages to users
- Reset user passwords
- Move a user to a different group
- Assign roles to users
- Manage group approval policies
- Assign GL authorization profiles to users or groups
- Create/delete and manage authority levels and signature limits

Reporting function allows an administrator to:

- Generate spending analysis reports, memo statements, and audit reports
- Create/ edit / delete spend monitors
- Access / export the dashboard summary and company reports
- Create company wide report templates

Administration of Policies and Settings allows an administrator to:

- Generate company wide automated announcements
- Set purchase request settings
- Set transaction and reimbursement settings
- Maintain GL controls
- Set program controls
- Set up password policy
- Set up email policy

APPENDIX B

PROCUREMENT CARD PROGRAM PROFILES

Profile Name	Transaction Limit	Credit Limit
Allow MCCG Override	$ 1,500	$15,000
Allow one time over limit*	$50,000	$50,000
Annette Carter – No MCCG blocks: $15k and $7.5k	$ 7,500	$15,000
CL-1	$ 1,500	$15,000
CL-2	$ 1,500	$10,000
CL-3	$ 1,500	$ 5,000
CL-4	$ 1,500	$ 500
Fuel Allow	$ 1,500	$15,000
IT - $1,500, $500	$ 500	$ 1,500
IT - $10,000, $1,500	$ 1,500	$10,000
IT - $15,000, $1,500	$ 1,500	$15,000
IT - $ 5,000, $1,500	$ 1,500	$ 5,000
Paul Dumars	$ 5,000	$20,000
Suspend	$ 1	$ 1

Allow one-time over limit profile is setup for special circumstances when it is considered necessary to purchase an item exceeding the normal transaction limit of $1,500. Cardholder must have the written approval of their Division Director and the Procurement Department Director. The card administrator temporarily changes the cardholder's profile to allow a one-time transaction up to $50,000. The Works application can be set to automatically revert to the original profile the next day. This feature is provided to accommodate emergency situations.