



## **Audit of Procurement Card Transactions**

**Project #17-16**

**Prepared by**  
Office of the Inspector General

**J. Timothy Beirnes, CPA, Inspector General**  
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# SOUTH FLORIDA WATER MANAGEMENT DISTRICT

April 12, 2018

Governing Board Members:

Re: Audit of Procurement Card  
Transactions  
*Project No. 17-16*

This audit was performed pursuant to the Inspector General's authority set forth in Chapter 20.055, F.S. Our objective was to determine whether Procurement Card purchases were for District business, adequately supported by documentation, and properly recorded and classified in the accounting records. Dan Sooker and I prepared this report.

Sincerely,

A handwritten signature in blue ink, reading "J. Timothy Beirnes".

J. Timothy Beirnes, CPA  
Inspector General

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## **BACKGROUND**

In accordance with our Fiscal Year 2017 Audit Plan, the Office of Inspector General conducted an *Audit of Procurement Card (P-Card) Transactions*. The P-Card is a corporate liability VISA credit card issued by Bank of America and administered by the Procurement Bureau. The District receives a rebate based on the year's P-Card transaction volume.

The P-Card is a tool that offers an alternative to existing procurement processes, such as purchase orders, by providing an efficient method of purchasing and paying for low dollar goods and services. With supervisory approval, the P-Card is issued to District employees who are responsible for purchasing goods and services directly from vendors who accept the District's P-Card. The District authorized and activated 436 P-Cards but approximately 241 are routinely used. The District has an additional 157 P-Cards that are secured and not activated but ready for issue in the event of an emergency situation.

Prior to P-Cards, Procurement primarily issued purchase orders or contracts for needed goods and services, which were much more resource intensive than P-Cards. The P-Card program has resulted in significant savings due to reduced transaction processing costs.

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## **OBJECTIVE, SCOPE AND METHODOLOGY**

Our objective was to determine whether P-Card expenditures were for District business, adequately supported by documentation, and properly recorded and classified in the accounting records.

To accomplish our objectives, we performed the following:

- Reviewed P-Card procedures and other relevant guidance.
- Documented the internal control process over P-Card transactions.
- Reviewed P-Card transactions for compliance with District procedures and requirements.
- Interviewed District staff responsible for administering the P-Card program.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those 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.

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## **AUDIT RESULTS**

### **Executive Summary**

The District spent approximately \$3.7 million through 21,665 P-Card transactions during Fiscal Year 2017. Our review of the internal controls related to the P-Card program indicated that the system of internal controls appears adequate to ensure that P-Card transactions were for District business, adequately supported by receipts and paid invoices, and were properly recorded and classified in the accounting records. P-Card internal controls include codified procedures, a cardholder user manual, mandatory training, P-Card imbedded software features, P-Card Administrator's program review process, and external audits. However, we noted that instances of non-compliance with the system of internal controls increased when compared to our last audit completed in 2014.

Our testing found that the area needing the most improvement was cardholder signature and supervisory approval of P-Card statements. We recommend that the P-Card Administrator remind cardholders and supervisors, through e-mail or retraining, of the importance of signing and approving the P-Card statements within the 30-day requirement. We also found that supervisory approval of P-Card expenditures was routinely performed by the cardholder's immediate supervisor, which often was a Section Leader, Section Administrator or even a Senior Scientist. This level of approval does not comply with P-Card procedures, which requires the Division Director or Bureau Chief to review and sign the monthly P-Card statement. We believe that the cardholder's immediate supervisor is better positioned in many cases to provide approval and oversight. As a result, we recommend that the District amend its P-Card procedures and requirements to authorize Section Leaders, Section Administrators and other relevant supervisors to review and approve P-Card statements.

We found no inadvertent personal purchases by employees using a P-Card, which is an improvement from the nine instances reported in the 2014 P-Card audit. Our audit procedures included tracing P-Card transactions to general ledger accounts to determine that charges were properly coded and classified in the District accounting records. We found no coding errors; thus, the system of internal control over P-Card transaction coding and classification appears to be working as designed.

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According to the P-Card Administrator, she has conducted informal reviews of the P-Card Program to ensure that P-Card statements comply with District policy and guidelines. We recommend that the P-Card Administrator conduct formal P-Card internal audits in accordance with requirements described in the P-Card Program Manual.

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## **Conduct P-Card Statement Reviews in Accordance with P-Card Program Manual**

The District made 21,665 P-Card purchases costing approximately \$3.7 million for fiscal year 2017. The Field Operations and Land Management Division was by far the largest user. On average, the District's monthly P-Card bill is approximately \$308,000, which is usually paid before Procurement receives all the supporting documentation for cardholder expenditures. As a result of the voluminous number of P-Card transactions and this payment process, a strong system of internal controls over P-Card usage is essential to ensure compliance with P-Card procedures and requirements.

These procedures stipulate that before P-Cards are issued to employees, supervisory authorization and approval is required. P-Card transaction limits are determined by the P-Card user's supervisor, but the maximum threshold limit is \$1,500 per transaction and an aggregate of \$15,000 monthly per card. In addition, prior to receiving their P-Card, all new cardholders must attend training orientation, which provides information about the District's procedures and requirements relative to P-Card usage. Cardholders must also complete and sign the *South Florida Water Management District Procurement Cardholder Agreement* indicating that they will adhere to P-Card procedures.

P-Cards have imbedded features to further reduce the opportunity for misuse. They are programmed to prohibit purchases in certain merchant commodity codes, such as movie tickets, recreation facilities, cruise lines and many other areas that are typically personal rather than business type services. Attempted purchases of goods or services in a prohibited merchant commodity code or above the maximum thresholds are blocked at the point of sale. The P-Card programmed software can also detect split transactions that are intended to bypass imbedded controls over transaction maximums. P-Card restrictions also disallow cash advances, purchases of gasoline, food, telephone charges, donations, and gifts. Further, cardholders are prohibited from purchasing computer hardware and software unless authorized by Information Technology Bureau resource managers. Purchases of capital equipment and furniture costing more than \$1,000 and with a useful life of more than one year are disallowed. These types of purchases require the use of a purchase order.



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P-Card statements are sent directly to cardholders monthly. P-Card purchases made from the 5<sup>th</sup> of a month to the 4<sup>th</sup> of the following month are posted to monthly Bank of America credit card statements. P-Card statements are sent to cardholders by the 8<sup>th</sup> of the month. Cardholders must submit the P-Card monthly statement with supporting receipts within 30 days to the P-Card Administrator. Cardholders, through an e-mail attachment, send a monthly package to the P-Card Administrator, which includes the credit card statement, invoices/receipts, and all other supporting documentation for each transaction. Prior to submitting the package, supervisory review and approval of the monthly expenditures is required. Procurement maintains a file on all P-Card expenditures by user.

To verify that all credit card expenditures are accounted for and all cardholders have remitted support, the P-Card Administrator runs a monthly report of all statements, in which a credit card transaction was posted, using Bank of America's software program WORKS. This report is compared to the listing of credit cardholders that have remitted support for their expenditures incurred during the month to ensure completeness. The P-Card Administrator follows up with cardholders that are late remitting support. It should also be noted that the P-Card Administrator can review all credit card activities at any time using the WORKS program.

The P-Card program is also subject to both internal and external audits including the state of Florida Auditor General. According to the P-Card Program Manual, the P-Card Administrator is required to audit 25% of P-Card statements for accuracy and compliance with District procedures and to record cardholder non-compliance in an Excel spreadsheet. Our discussion with the P-Card Administrator revealed that an informal review is currently conducted when the P-Card statements are received. Deficiencies are communicated to cardholders when identified rather than recorded in an Excel spreadsheet that documents cardholder non-compliance and, if necessary, supports suspension or termination of card privileges. We recommend that the P-Card Administrator conduct formal internal audits in accordance with the P-Card Program Manual.

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## **Improve Compliance with P-Card Internal Controls**

Our audit of the District's P-Card process included a three-tier sample of P-Card transactions incurred during the period October 2016 through September 2017. We first conducted a limited review of all P-Card statements for unusual expenditures, i.e., personal type expenditures that may indicate non-business purposes, unusual vendors and transaction amounts. On a number of occasions, we traced the P-Card user to the District's organizational chart to determine whether the P-Card purchase of goods and services appeared to be within the user's area of responsibility. We also noted whether the cardholder and supervisor properly signed and dated the P-Card statements in accordance with the P-Card policy. We found numerous instances where the cardholder and supervisor did not sign the P-Card statement before submitting it to Procurement.

Secondly, for the months of November 2016, December 2016, June 2017 and September 2017, we tested for compliance with the P-card Program Manual requiring that the cardholder and supervisor approve the credit card statement within 30-days of receipt. We found instances of non-compliance where cardholder or supervisor sign off approval were either after the P-card Program Manual 30-day requirement or there was no supervisory signature indicating approval.

Thirdly, we randomly selected a sample of cardholders assigned to headquarters and offsite locations to conduct a detailed review of their monthly P-Card purchases. We reviewed a total of 831 credit card purchases that originated from 125 P-Cards, which represent approximately 4% of all P-Card transactions over the period under review. For these in-depth detailed reviews, we traced all statement expenditures to invoices and/or other supporting documentation to determine whether:

- Purchases were relevant to the employee's area of responsibility.
- Invoices were addressed to the field station or other District address.
- Purchases were supported by credit card receipts.

We compared the results of the audits completed in 2017 to 2014. The following table compares our testing results to the deficiencies noted in the 2014 audit of P-Card transactions:

<b>Non-Compliance with Policy and Procedures</b>	<b>2017 Audit Deficiencies</b>	<b>2014 Audit Deficiencies</b>
Missing Cardholder Signature and/or Date	40	5
Missing Supervisory Signature and/or Date	36	30
Receipt Discrepancy or Missing Receipt/Statement	12	11
Missing Business Purpose of Purchase	1	2
Personal Use	0	9
Paid Sales Tax	1	2
No Resource Manager Approval	0	5
Purchase Gasoline for District Vehicle	1	0
Other	0	2
<b>Non-Compliance Comparison between 2017 and 2014 Audits</b>	<b>91</b>	<b>66</b>
Supervisory Statement Review over 30 days*	124	-
<b>Total Instances of Non-Compliance</b>	<b>215</b>	<b>66</b>

\* Cardholders and Supervisors have 30-days after the P-Card statement is received to review and approve it. We performed a test to determine compliance with this requirement for the first time in Fiscal Year 2017, as such there is no comparative data from the 2014 P-Card audit.

Overall, instances of non-compliance with District procedures and requirements relating to the P-Card program has increased when compared to our prior audit. Our testing found that the most significant area needing improvement was cardholder and supervisory signatures and approvals. Missing cardholder and supervisory signatures and dates, which are an important part of the internal control process spiked up considerably from the prior audit. These signatures establish ownership of the P-Card charges and approval by the cardholder's supervisor. This deficiency is a significant internal control weakness; however, our review of the P-Card statement and documentation with missing signatures indicated that charges were for District business and adequately supported.

We also reviewed 944 P-Card statements from November 2016, December 2016, June 2017 and September 2017 for compliance with the P-Card Policy requiring that the cardholder and supervisor to approve the P-Card statement within 30 days of receipt. We found 124 instances, in which the P-Card statement was not signed and approved by the cardholder and supervisor within

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the 30-day limitation, representing a 13% deficiency rate. This deficiency is also a significant internal control weakness particularly since the District wire transfers payment of the P-Card bill between the 20<sup>th</sup> and 30<sup>th</sup> of the month. Accordingly, the P-Card payment is made before final review of all the statements is completed; thus, identifying P-Card statement deficiencies as soon as possible is essential.

Similar to the 2014 audit, supervisory approval of P-Card expenditures was often performed by the cardholder's immediate supervisor. We found numerous instances, in which, the supervisor approving P-Card expenditures was a Section Leader, Section Administrator or even a Senior Scientist. This level of approval does not comply with the P-Card procedures and requirements, which require the Division Director or Bureau Chief to review and sign the monthly P-Card Statement. In our view, the cardholder's immediate supervisor, which may be a Section Leader, Section Administrator or Senior Scientist, is often better positioned to provide oversight of P-Card expenditures than the cardholder's Division Director or Bureau Chief. It should be noted that there are compensating internal controls, including P-Card Administrator and external audits to further ensure appropriate P-Card use. Accordingly, we recommend that Procurement amend the P-Card procedures and requirements to authorize Section Leaders, Section Administrators or other relevant supervisors to conduct P-Card statement review and approval. However, responsibility for issuing cards to staff should remain with the employee's Division Director or Bureau Chief.

District cardholders were reasonably thorough in documenting receipts for purchases. We noted only 12 instances of deficient credit card purchase documentation. We also found one transaction where the business purpose of an unusual \$1,100 expenditure should have been included with the purchase documentation. Our discussion with the cardholder revealed that this expenditure was related to training. A notation on the receipt for this purchase would have clarified the business purpose of this expenditure. We also found that cardholder awareness of the District's sales tax exemption has improved. Our testing noted only one instance of sales tax payment compared to two in the 2014 audit.

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**Internal Controls over P-Card General Ledger  
Account Coding is Working as Designed**

P-Card transactions are initially coded to general ledger accounts by the cardholders and reviewed by their supervisors. However, prior to electronically downloading the P-Card expenditures to general ledger accounts from a Bank of America program a budget analyst, who has been assigned responsibility to the cardholder's area, performs a final review of the P-Card expenditure to ensure that budgeted funds are available in the account charged and that they are accurately coded. SAP programs also perform audit tests of the P-Card charge data as an additional internal control over the coding process. P-Card transactions with coding errors are electronically posted to a general ledger suspense account and corrected by budget analysts and the cardholder, if necessary.

Our audit procedures included tracing 60 P-Card purchases to general ledger accounts to determine that charges were properly coded and classified in the District accounting records. Our testing revealed no misclassifications; thus, it appears that the system of internal control over P-Card transaction coding and classification is working as designed.

**Recommendations**

- 1. Conduct Procurement Bureau audits of the P-Card Program in accordance with requirements described in the P-Card Program Manual.**

**Management Response:** Agree. Random audits will be conducted monthly.

**Responsible Division:** Administrative Services- Procurement Bureau

**Estimated Completion:** April 30, 2018

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2. **Re-train cardholders to sign and date P-Card statements and obtain supervisory approvals within the 30-day requirement.**

**Management Response:** Agree. Cardholders will be reminded that P-Card statements require supervisory approval.

**Responsible Division:** Administrative Services- Procurement Bureau

**Estimated Completion:** April 30, 2018

3. **Amend P-Card procedures to authorize Section Leaders, Section Administrators and other appropriate supervisors to review and sign off on P-Card statements.**

**Management Response:** Agree. Procurement will revise the P-Card User's Manual to include signature approval for Section Leaders, Section Administrators and other appropriate supervisors to review and approve P-Card statements.

**Responsible Division:** Administrative Services- Procurement Bureau

**Estimated Completion:** April 30, 2018