



Audit of Procurement Card Transactions

Project #15-03

Prepared by
Office of the Inspector General

J. Timothy Beirnes, CPA, Inspector General
Daniel Sooker, CPA, Chief Investigator



SOUTH FLORIDA WATER MANAGEMENT DISTRICT

July 16, 2015

Governing Board Members:

Re: Audit of Procurement Card
Transactions
Project No. 15-03

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 appropriate 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, which appears to read "J. Timothy Beirnes".

J. Timothy Beirnes, CPA
Inspector General

TABLE OF CONTENTS

BACKGROUND	1
OBJECTIVE, SCOPE, AND METHODOLOGY	2
AUDIT RESULTS.....	3
Executive Summary	3
Adequate Internal Controls over P-Card Transactions	5
Sample of P-Card Transactions.....	7
P-Card General Ledger Account Coding	10
Recommendations.....	11

BACKGROUND

In accordance with our Fiscal Year 2015 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 is administered by the Procurement Bureau. The District receives a 1.4% cash rebate on all P-Card purchases.

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 card is issued to District employees who are responsible for purchasing goods and services directly from vendors that accept the District's P-Card. The District authorized and activated 400 P-Cards but approximately 170 are routinely used. The District has an additional 175 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. Procurement staff estimates that the P-Card program has resulted in significant savings from reduced transaction processing costs.

OBJECTIVE, SCOPE AND METHODOLOGY

Our objective was to determine whether P-Card transactions were appropriately used 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.

AUDIT RESULTS

Executive Summary

The District spent approximately \$3.1 million through 19,528 P-Card transactions during calendar year 2014. 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 only, adequately supported by receipts and 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 continuous review process, and external audits. We found that compliance with P-Card procedures and requirements has improved when compared to the prior year external audit results. However, P-Card transaction testing revealed some cardholder non-compliance with these procedures and requirements.

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. We also noted that supervisory approval of P-Card expenditures was performed by the cardholder's immediate supervisor, which often times was a Section Leader, Section Administrator or even a Senior Scientist. This level of approval does not comply with P-Card procedures and requirements, which require the Division Director, Bureau Director or 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 noted that documentation supporting the business purpose of a \$299 purchase was not obtained before an employee separated from the District. We recommend that the District obtain all support for P-Card purchases as part of the separation process and add this as a step in the *Separation of Employment Checklist*.

We found nine instances where employees inadvertently used the P-Card for personal business and immediately reimbursed the District for their personal expenditures when they

became aware of the error. We also found where the P-Card Administrator cancelled one employee's P-Card privilege for making personal purchases in subsequent billing cycles.

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. Our testing revealed just two coding errors; thus, the system of internal control over P-Card transaction coding and classification appears to be working as designed.

Adequate Internal Controls over P-Card Transactions

For calendar year 2014, the District made 19,528 P-Card purchases costing approximately \$3.1 million. The Field Operations and Land Management Division was by far the largest user. On average, the District's monthly credit card bill is approximately \$250,000, which is paid before Procurement receives 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 and requirements stipulate that before P-Cards are issued to employees, supervisory authorization and approval is required. 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 procedure requirements.

The P-Card also has imbedded features to further reduce the opportunity for misuse. The P-Cards 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. P-Card transaction limits are also determined by the P-Card user's supervisor but the maximum threshold limits is \$1,500 per transaction and an aggregate of \$15,000 monthly per card. The P-Card programmed software can also detect split transactions, which may be intended to bypass imbedded controls over transaction maximums. Attempted purchases of goods or services in a prohibited merchant commodity code or above the maximum thresholds are blocked at the point of sale.

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 type of purchases require the use of a purchase order.

P-Card statements are sent directly to cardholders monthly. P-Card transactions occurring from the 5th of a month to the 4th of the following month are posted to monthly Bank of America credit card statements. P-Card statements are sent to cardholders by the 8th of the month. Cardholders then have until the 20th of the month to submit supporting documentation for their credit card transactions 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. On a monthly basis, the P-Card Administrator reviews approximately 30% of P-Card transactions. The P-Card program also undergoes an annual external audit. For the period January 2013 through December 2013, the external audit examined 67% of the 17,469 P-Card transactions and found 90 minor deficiencies. The deficiencies identified in the external audit included missing statements, signatures and receipts, sales tax payments (the District is tax exempt) and missing resource manager approval. The P-Card Administrator's reviews have found similar deficiencies.

The State of Florida Auditor General also reviewed the District's P-Card program last year but did not issue a report. However, they conveyed to the District that in their opinion the number of credit cards appeared high. The P-Card Administrator responded that the District is an emergency response organization and may need these P-Cards available in the event of an emergency situation.

Sample of P-Card Transactions

Our audit of the District's P-Card process included a three tier sample of P-Card transactions incurred during the period December 2013 through November 2014. 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. In some instances, we traced the P-Card user to the District's organizational chart to determine whether the P-Card purchase appeared relevant considering the cardholder's area of responsibility. We conducted further examination of the underlying support for transactions that appeared to indicate a possible personal expenditure. We also reviewed all P-Card transactions for purchases that required resource manager approval.

Second, we conducted a detailed review of all P-Card purchases made by a sample of employees stationed at both headquarters and offsite locations. Third, we randomly selected another sample of employees and conducted a detailed review of their monthly P-Card purchases. In total, we reviewed in detail 3,184 credit card purchases, which represent approximately 16% 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:

- The statements were properly signed and approved by the cardholders and their supervisors.
- 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 invoices and/or credit card receipts.

The following table compares our testing results to the deficiencies uncovered in the prior year’s external audit of P-Card transactions.

Non-Compliance with Procedures and Requirements	IG Audit	Prior Year External Audit
Missing Cardholder Signature	5	0
Missing Supervisory Signature	26	6
Improper Supervisory Level Sign Off	4	0
Receipt Discrepancy or Missing Receipt/Statement	11	39
Missing Business Purpose of Purchase	2	22
Personal Use	9	4
Paid Sales Tax	2	17
No Resource Manager Approval	5	1
Split Purchases	0	1
Other	2	0
Total Non-Compliance	66	90

Overall, compliance with District procedures and requirements relating to the P-Card program has improved from the prior year. We found that the number of non-compliance instances uncovered during our audit has decreased when compared to last year. The non-compliance total of 66 instances represents approximately 0.3% of the sample of P-Card purchases.

Our testing found that the most significant area needing improvement was cardholder and supervisory signatures and approvals. Missing cardholder and supervisory signatures, which is an important part of the internal control process spiked up considerably from the prior year. These signatures establish ownership of the P-Card charges and approval by the cardholder’s supervisor. We noted that part of the problem was caused by new field station staff being unfamiliar with documenting the monthly P-Card charges. 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 found five transactions totaling \$2,093, where written resource manager approvals were not obtain from the Information Technology Bureau and the General Services Section for purchases of computer equipment and office furniture, respectively. Written

authorization for these types of purchases is required by the District's *P-Card Usage Manual*, which governs P-Card usage.

We noted that 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, Bureau Director or 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 times better positioned to provide oversight of P-Card expenditures than the cardholder's Division Director, Bureau Director or Chief. We should also denote that compensating internal controls exist, 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, Bureau Director or Chief.

Receipt documentation was markedly improved from the prior year. We noted that receipt compliance issues decreased from 39 to 11 instances. Cardholders have also done a better job of communicating the business purpose of their P-Card purchases. However, we found one transaction where the cardholder spent \$1,200 on car washes, which appeared unusual and believe an additional explanation of the transaction should have been included on the receipt. Our discussion with the cardholder revealed that she had purchased 60 car washes for the Orlando Service Center's fleet. We also noted that a cardholder spent \$3,892 on lodging at the Key West Vacation Rental, which we later learned was for District staff diver training. A notation on the receipt for these purchases would have been helpful in understanding the business purpose of these transactions. We also found that cardholder awareness of the District's sales tax exemption has improved, which has resulted in a decrease in the number of non-compliance instances to two and thus, a reduction in avoidable cash payments.

We found nine instances where employees inadvertently used the P-Card for personal business. We noted that in all instances the employees immediately reimbursed the District for

their personal expenditures when they became aware of the situation. We also noted that the P-Card Administrator cancelled one employee's P-Card privileges after he made additional personal purchases in subsequent months.

The table also includes a P-Card transaction, in which a hotel overcharged the cardholder \$20 for an overnight stay in July 2014 and committed to issuing a credit for the overage. However, we found that a refund for the overcharge has not been credited to the cardholder's P-Card account, which in our view indicates a lack of follow-up by the cardholder. Our review of the P-Card statement of a former employee revealed that there was an unsupported expenditure of \$299 that was incurred during the billing period, just prior to separation. Documentation, such as a credit card receipt or invoice, supporting the business purpose of the purchase was not obtained before the employee separated from the District. We recommend that in addition to cancelling the P-Card when an employee separates from the District all support for P-Card purchases should be obtained as part of the separation process and added as a step in the *Separation of Employment Checklist* prior to making any final payments to the employee.

P-Card General Ledger Account Coding

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 SAP general ledger accounts from a Bank of America program a budget analyst, who has been assigned responsibility to the cardholders 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 the budget analyst and the cardholder, if necessary.

Our audit procedures included tracing 92 P-Card purchases to general ledger accounts to determine that charges were properly coded and classified in the District accounting records. Our testing revealed just two coding errors thus; we conclude that the system of internal control over P-Card transaction coding and classification appears to be working as designed.

Recommendations

1. **Reeducate cardholders regarding the importance of signing the P-Card statements and obtaining required supervisory and resource manager approvals.**

Management Response: Concur

Responsible Division: Procurement Bureau

Estimated Completion: Completed April 22, 2015

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

Management Response: Concur

Responsible Division: Procurement Bureau

Estimated Completion: July 30, 2015

3. **Amend the *Separation of Employment Checklist* to ensure that all support for P-Card purchases is obtained prior to employee separation from the District and making any final payments.**

Management Response: Concur

Responsible Division: Procurement Bureau

Estimated Completion: Completed June 9, 2015