



Ohio Department of Insurance Payment Card Transaction Review Audit

Audit Period: April through June 2016

Results Summary:

Objective	Conclusion
Payment Card Transactions	Improvement Needed

* Please refer to Appendix A for classification of audit objective conclusions.



Executive Summary

Background

The State of Ohio's Payment Card Program is designed to make purchases for goods and services below a specified amount without undue delay. Use of the card is meant to simplify and streamline the acquisition process and lower overall transaction costs. In addition to the payment card, the program has an electronic invoicing and payment process, which lowers the amount of time spent processing invoices for payment. From April through June 2016, the Ohio Department of Insurance (ODI) had 132 payment card transactions totaling \$44,817.

During the audit, OIA identified opportunities for ODI to strengthen internal controls and improve business operations. OIA conforms with the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank ODI staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

Scope and Objectives

Through the utilization of automation and data analysis, OIA staff was engaged to perform an assurance audit over payment card transactions during the period April through June 2016. This work was completed August through September 2016. The objective of the review was to evaluate the effectiveness of payment card transaction controls through data analysis.

Detailed Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, there were no low risk observations for this engagement.



Observation 1 – Payment Card Administration

Adequate internal controls establish a segregation of duties to prevent asset misappropriation or financial misstatement. Incompatible duties may include: custody of assets, authorization to purchase or approve asset transactions, and recording or reporting related to these transactions. Procedures should prevent one employee from having incompatible duties.

During the period April through June 2016, seven ODI employees used state payment cards to make purchases of assets and non-assets. During review of payment card transactions, it was noted that the ODI employee responsible for receiving purchased items (custody of assets) is also authorized to make payment card purchases. The employee is also responsible for applying asset tags and entering assets into the OAKS Asset Management module (recording or reporting).

Lack of segregation of duties increases the risk of asset misappropriation, inaccurate inventory records, theft, waste, and abuse.

Recommendation

Update existing policies and procedures over purchasing, receiving, tagging and asset management processes. Such procedures should facilitate appropriate segregation of duties in the asset management process and include steps for recording and tagging of all assets purchased, periodic reviews of agency purchases, and ensure all assets purchased have been captured and recorded within the OAKS Asset Management module (if applicable).

Segregate purchasing from receiving duties. If segregating duties causes a disruption in the agency's operations, develop and implement a compensating control. For example, require a detailed supervisory review of the employee's payment card transactions to ensure each purchase was appropriately authorized and that every good or service purchased was received. Maintain documentation of the results and resolutions of supervisory reviews.

Management Response

The agency has checks and balances in place for all payment card transactions. The employee who performs asset management duties for the agency is only authorized to pay for purchases that have been approved and reviewed by appropriate personnel in the department. The employee does not make the purchases. Each purchase made via a payment card has to be accompanied by a log signed off by a supervisor and/or the payment card administrator. A supervisor conducts a detailed review of the employee's payment card transactions to ensure each purchase was appropriately authorized and that every good or service purchased was received. The log along with invoices is attached to the associated voucher for OBM's review.

Additionally, payment card transactions are reviewed in OAKS against the logs on a daily basis.



Payment reconciliations are performed at the end of each month that covers payment card transactions. This review process has been in place for years. Also, during the annual State Audit, monthly reconciliation sheets are selected by the on-site auditors for review.

Risk	Remediation Owner	Estimated Completion Date
Moderate	Chief Administrative Officer	Not Applicable

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

* Refer to Appendix A for classification of audit observations.



Appendix A – Classification of Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
Well-Controlled with Improvement Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Improvement Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Major Improvement Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
Moderate	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee