



# Department of Veterans Services

## Payment Card Audit

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**Audit Period: January through August 2012**

### Results Summary:

Objective	Conclusion
Issuance and Cancellation Process	Well-Controlled
Usage and Compliance with Policies & Procedures	Well-Controlled with Improvement Needed
Payment Card Efficiencies	Well-Controlled with Improvement Needed

**Report number: 2013- DVS-01**

**Issuance date: December 13, 2012**

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## **Executive Summary**

### **Background**

The State of Ohio's Payment Card Program is designed to empower state employees to make purchases for goods and services below a specified amount, as they are needed for operations, 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 December 2011 through May 2012, the Department of Veterans Services (DVS) had 2,798 payment card transactions, totaling approximately \$817,887.

During the audit, the Office of Internal Audit (OIA) identified opportunities for DVS to strengthen internal controls and improve business operations. A summary, along with detailed observations, have been provided. OIA would like to thank DVS 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**

OIA staff was engaged to perform assurance work related to the payment card process. This work was completed between October and November 2012. The scope of this audit was limited to the payment card process. The following detailed audit objectives included:

- Evaluate the design and effectiveness of payment card issuance and cancellation processes.
- Evaluate the design and effectiveness of payment card usage in compliance with established policies and procedures.
- Evaluate the operational efficiencies of the payment card administration.

### **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, the low risk observations were considered as part of the audit objective conclusions above.



## Observation 1 – Payment Card Efficiencies

The payment card program is designed to simplify and streamline the acquisition process and lower transaction costs.

From January 2012 through August 2012, 4,821 vouchers, totaling \$1,941,367.01 were paid using the traditional voucher process. The majority of these vouchers were individually valued at \$2,500 or less; however, 54 utility vouchers individually valued at \$2,510 to \$62,895, were also included in the total due to the Department having several payment cards approved for utility payment use. These vouchers appear eligible to be transacted using payment cards. These transactions primarily relate to payments for: utilities, food, medication, shipping/courier expenses, laboratory tests/results, and office supplies.

Not utilizing the payment card program to its fullest extent increases business transaction overhead and costs. The use of payment cards would be more efficient for purchasing and would also offer the Department cost savings compared to the traditional voucher process.

### Recommendation

Periodically review expenditures made using the traditional voucher process that meet the payment card usage criteria to determine if training would facilitate the expanded use of payment cards where appropriate.

### Management Response

There are several factors that should be taken into consideration when deciding whether to use a pay card or traditional voucher processing. A significant factor favoring the use of traditional processing is that pay cards cannot be used to pay for items ordered on a purchase order (without significant manual adjustment). Purchase orders allow us to effectively document purchasing terms and specifications with vendors and allow us to encumber funds, thus providing improved financial controls and reporting.

As always, there is a balance between controls and efficiency. With the increased cost of voucher processing associated with our movement to Shared Services on November 1, we have in recent months starting to shift from voucher processing to pay cards when it is possible and reasonable to do so. We already are experiencing more pay card transactions as a result of these efforts and expect that more transactions will be paid in this method in the future.

To the end that the State wishes to expand the use of pay cards in the future, it would be very beneficial if OAKS could be modified to allow pay cards to be used to pay for items ordered on a Purchase Order and have the paid amount reduced from the PO in a manner similar to voucher processing today. OBM-Internal Audit support in this effort would be greatly appreciated.



Risk*	Remediation Owner	Estimated Completion Date
Moderate	Fiscal/Purchasing Departments	March 2013

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
<b>Well-Controlled</b>	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
<b>Well-Controlled with Improvement Needed</b>	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
<b>Improvement Needed</b>	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.
<b>Major Improvement Needed</b>	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
<b>Low</b>	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
<b>Moderate</b>	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
<b>High</b>	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