



## Department of Youth Services

### State Payment Card Audit

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**Audit Period: July 2011 through February 2012**

### Results Summary:

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

Report number: 2012-DYS-01

Issuance date: June 21, 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.

During the audit, OIA identified opportunities for the Department of Youth Services (DYS) to strengthen internal controls and improve business operations. A summary, along with detailed observations, have been provided. OIA would like to thank DHS 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 March and May 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 process.
- Evaluate the design and effectiveness of payment card usage in compliance with established policies and procedures.
- Evaluate the operational effectiveness 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.



## Observation 1 – Payment Card Processing

The State of Ohio Payment Card Policies and Procedures Manual states in part, that:

Reconciliation of invoices must be performed each time a transaction is processed for payment; and there are special circumstances when exceeding a limit can be authorized at the sole discretion of the Statewide Payment Card Administrator.

A review of payment card transactions made by the Department from July 2011 through February 2012, revealed the following errors:

- 11 of 25 (44%) transactions tested appear to have been split into multiple payments to bypass the \$2,500 per transaction limit rule. Another transaction appears to have exceeded the cardholder's purchasing threshold. (Note: The selected sample of 25 was targeted for transactions that could meet this criteria utilizing audit software.)
- Three of 25 (12%) transactions tested lacked documentation or evidence that the cardholder's supervisor had approved the purchase. For another transaction, it appears the cardholder has proxy approver rights to approve her own transactions in OAKS. Although the agency subsequently provided evidence the cardholder had not approved this transaction, the cardholder should not have had the ability to approve her own transactions for payment.
- For two of 25 (8%) transactions tested, the supporting documentation (i.e., card log and receipts) was not available or did not agree with the amount listed in OAKS, nor did it appear a dispute was filed.
- For one of 25 (4%) transaction tested, it appears the same transaction, totaling \$93, was processed twice on the same voucher to the same vendor. (Note: The selected sample of 25 was targeted for transactions that could meet this criteria utilizing audit software.)

Lack of approvals, bypassing payment card rules, and inadequate payment processing is considered noncompliance with the State of Ohio Payment Card Manual and increases the risk of fraud, waste, and abuse.

### Recommendation

Continue to train and/or remind agency payment card holders and supervisors/approvers of the payment card rules, including: maintaining adequate documentation to support the purchases, supervisory approvals, purchase limits, and the process for requesting a temporary limit increase. Additionally, evaluate the conflicting/duplicate transactions identified and file a dispute with the bank if appropriate.



**Management Response**

DYS had taken a number of immediate and direct action steps as it relates to this audit. DYS has removed the payment card for the cardholder with proxy to approve her own transactions. This was connected to the audit finding, but also due to some reorganizing of staff roles within DYS. DYS conducted a 100% audit testing for payment card transactions for the audit period. The testing was to identify transactions in which a payment cardholder approved his/her own transactions. It was pulled from a report DYS developed prior to this audit review. The evidence reflects that there were no transactions where the payment cardholder approved his/her own transactions. The report has been provided to the Office of Internal Audit.

DYS also notified each of the affected business offices in this observation about the findings and reminded them of the State policy and procedure manual for the Pcard program. For record-keeping purposes, all payment card transactions will be filed within OAKS (7/1/12). DYS provided in-service training for the Payment Card program in August 2011. Another in-service training will be held by August 1, 2012. An email notification will be distributed by June 18, 2012 concerning the training and will also include a top 17 list of reminders. A portion of the list will include findings from this observation.

Risk*	Remediation Owner	Estimated Completion Date
<b>High</b>	DYS Payment Card Administrator	September 2012

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