OBM | Office of Internal Audit

Department of Health

Payment Card Audit

Audit Period: December 2011 through May 2012

Results Summary:

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

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 Ohio Department of Health (ODH) had 1,188 payment card transactions, totaling approximately $387,483.

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

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 to ensure the transaction in OAKS, the cardholder log, and the receipt all match. If all three source items do not match, a dispute must be filed. Additionally, 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 December 2011 through May 2012, revealed the following errors:

- 4 of 10 (40%) transactions tested appear to have been split into multiple payments to bypass the $2,500 per transaction limit rule, while another transaction appears to have been made on one payment, but exceeded the cardholder's purchasing threshold. (Note: The selected sample of 10 was targeted for transactions that could meet this criteria utilizing audit software.)

- For 3 of 25 (12%) transactions tested, there was no signature or date to indicate a reconciliation had been performed. For an additional 14 (56%) transactions, the reconciler did not include the date when the reconciliation was performed, therefore, there is no evidence the payment card log reconciliation was performed prior to payment of the payment card invoice.

- For 2 of 25 (8%) transactions tested, the supporting documentation (i.e., card log and receipts) did not agree with the amount listed in OAKS. For one of these transactions (4%), no dispute or credit appeared to be filed with the bank or in OAKS.

- For 1 of 25 (4%) transactions tested, the payment card log does not contain appropriate detail of the purchase. In this instance, the description of the purchase is simply "SUPPLIES", though the additional supporting documentation establishes that the transaction was made up of computer speakers and HD webcams.

Additionally, the Department currently does not have policies and procedures in place over the purchasing of assets with the state payment cards. During our testing, it was noted that IT equipment qualifying as a 'secured asset' was purchased with the payment card. It was not readily apparent whether this item was added to the state inventory listing and whether it is monitored by ODH to ensure sensitive data is not removed from ODH.

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. Furthermore, lack of policies and procedures governing the purchase of assets with the payment card increases the risk that sensitive equipment and data could be removed without agency awareness, as well as increase the risk the agency's inventory listing is incomplete.

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. Establish and implement payment card policies and procedures surrounding asset and IT equipment to ensure the items are properly tagged as assets and monitored. Additionally, reinforce the importance of the reconciler role and responsibility to document evidence of his/her review to ensure it was completed prior to payment being made.

Management Response
The payment card process is a manual system without any electronic mechanism that automatically provides checks and balances. To increase control and mitigate risk, ODH proposes implementing the changes below by December 31, 2012.

1. Mandatory training through Ohio Train for cardholders, their immediate supervisors and OFA reconcilers on the appropriate use of payment cards. Training would be required on an annual or biannual basis. Each cardholder must submit a copy of their certificate to the Payment Card Administrator which will be kept in their payment card file.

2. Develop an OFA Advisory that provides written instructions and expectations. The advisory will be shared with Program fiscal staff and Bureau Chiefs

3. Meet with Program fiscal liaisons to discuss observations and request that they evaluate whether additional staff need payment cards to meet the Program's procurement needs.

4. Identify a payment card report that can be utilized for additional monitoring and establish quarterly meetings with Program fiscal liaison for areas with recurring problems.

5. Revoke payment card privileges for repeat offenders who misuse their payment card or fail to follow established policies and procedures.

6. Develop a policy that addresses using the payment card for asset purchases. ODH will allow the use of payment card for asset purchases with written approval from appropriate Program staff, OMIS (for computer-related purchases), and the Payment Card Administrator.

Risk*	Remediation Owner	Estimated Completion Date
High	Payment Card Administrator	December 2012

Observation 2 – Payment Card Efficiencies

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

From December 2011 through May 2012, 2,614 vouchers individually valued at $2,500 or less, totaling approximately $1,248,158, were paid using the traditional voucher process. These vouchers appear eligible to be transacted using payment cards. The majority of these transactions primarily relate to payments for: medical and office supplies, messenger/courier services, freight, and wireless telecommunication services.

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

ODH will review the voucher spreadsheet provided by OIA to assess whether it is more beneficial to use the payment card based on certain account codes. ODH will complete the review by December 31, 2012.

In addition, ODH will review all purchase order requests at or below $2,500 to determine if the payment card could be used. If yes, the transaction will be returned to the requestor instructing them to use the payment card.   ODH will implement this process by October 1, 2012.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Payment Card Administrator	December 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
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