



Department of Agriculture Payment Card Audit

Audit Period: January through June 2014

Results Summary:

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

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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. The payment card process electronically invoices payments, which lowers the amount of time spent processing invoices for payment. From January through June 2014, the Ohio Department of Agriculture (AGR) had 3,596 payment card transactions (554 vouchers), totaling approximately \$1,177,000.

During the audit, OIA identified opportunities for AGR to strengthen internal controls and improve business operations. OIA conforms to the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank AGR 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 controls over the payment card process. This work was completed between July and September 2014. The scope of this audit was limited to the payment card process in place during January through June 2014. The audit objectives included:

- Evaluate the design and effectiveness of controls over the agency payment card onboarding and cancellation process.
- Evaluate the design and effectiveness of controls over the agency's payment card usage in compliance with established policies and procedures.
- Evaluate the design and effectiveness of controls over asset management with the payment card.

NOTE: OIA also performed procedures to recommend payment card efficiencies for the agency.

Detailed Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed moderate, there were no high risk observations. 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 – Asset Management

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.

Each division has one employee who is responsible for purchasing fixed assets with a state payment card. During interviews, it was stated that depending on the type of asset purchased, the employee who purchased the asset may also receive the asset, apply an asset tag, and also enter the asset into the OAKS Asset Management module. During testing of agency payment card transactions, six asset purchases were identified. None of these six assets were recorded in the OAKS Asset Management module. Additionally, the agency's documented Asset Management Directive is outdated, and does not include guidance on who can purchase fixed assets with their payment cards, or methods for ensuring fixed assets purchased with payment cards are recorded in the OAKS Asset Management module.

Lack of segregation of duties increases the risk of asset misappropriation and inaccurate inventory records.

Recommendation

Update policies and procedures over the asset purchasing, receiving, tagging, and asset management process. 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. Identify divisions that lack segregation of duties between purchasing, maintaining custody of, recording and paying for an asset and work with division leadership to alleviate any weaknesses.

Management Response

After talking with OIA and then discussing procedures with several divisions we are going to implement the following process which we will put into updated policies for both asset management and payment card. AGR has a number of one person offices, with that in mind we are going to pair up divisions to work together to maintain a separation of duties for buying, receiving and tagging of an asset. All computers regardless of which division buys them are delivered to IT, where they are tagged and all the appropriate software per agency and Department of Administrative Services policy are installed. Also, AGR will ensure those assets identified by OIA are recorded in the asset system.



Risk*	Remediation Owner	Estimated Completion Date
Moderate	Todd Dickson, Grants Coordinator Admin	January 2015



Observation 2 – Payment Card Cancellation

Upon a cardholder's separation from the agency or transfer to another department, the assigned payment card should be collected and destroyed, and the account deactivated in a timely manner.

Comparisons were made between US Bank transaction data, employee transfer and separation data, and Cardholder Information forms used to cancel payment cards. See the following table:

Cardholder	Separation Date	Last Transaction Date	Pcard Cancellation Date
Marsha Perge	10/19/13*	1/23/14	3/24/14
Diane Conley	6/5/14	7/11/14	7/7/14
Erin Ireland	6/5/14	7/1/14	7/7/14

*Separation Date not available: used ending date of most recent pay period employed, per Ohio Transparency

As seen in the above table, two cardholders separated from the agency during the audit period, and their cards were each cancelled 32 days after their separation date. Per the agency's Payment Card Administrator (PCA), cards are typically held for up to two weeks after employee separation, in order to allow all pending transactions time to post. One cardholder separated from the agency prior to the audit period; however, US Bank data indicated that the payment card was used more than 3 months following the employee's separation then consequently reversed the next day. Additionally, the Cardholder Information form to cancel the account was signed by the agency's PCA more than 5 months following the employee's separation.

Failure to collect and cancel payment cards from employees who no longer have an operational need for possessing a card or who separate from the agency increases the risk of cards being lost, stolen, or used inappropriately.

Recommendation

Research the payment card transaction that occurred after the cardholder's separation date to determine the reason for its use and to eliminate any suspicion of fraud. Document the results and, if warranted, consider reviewing the employee's payment card transactions while employed with agency to verify that the payment card was not inappropriately used. Consider coordinating with the agency's Human Resources (HR) department to ensure that HR is aware of which employees have been assigned a payment card, and that the PCA is aware when a cardholder leaves the agency or transfers to a new position. Ensure that all payment cards that are no longer operationally necessary are collected and destroyed and that the paperwork to cancel the account is submitted in a timely manner. Consider performing a periodic review to ensure that



payment card cancellations have been properly executed.

Management Response

AGR will research the payment card transaction that occurred after the cardholder’s separation date and will provide OIA with the results. Additionally, it is AGR’s intent to use this audit to help update our outdated payment card policy. With that in mind, we will set a standard that if an employee has set a date for separation from the agency that their payment card needs turned into the payment card administrator or assistant payment card administrator, two weeks before that date with their final payment card log and all receipts attached. For employees who are fired or separate without notice, we will cancel the cards within 24-48 hours and have provided our human resources division with a list of current payment card holders so that we can be assured of timely notice. After looking at some of these transactions, we are also going to institute a policy of having the Office of Budget and Management do a ‘voluntary’ close on the payment card while someone is out on disability leave, reactivating it to full status when/if the individual returns to work.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Cathy Dodson, Chief Financial Officer	December 2014

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