



SC&H

GROUP

*Expertise that Works*



# Planning Survey and Risk Assessment: Frederick County Public Schools Procurement Card Program

Frederick County Public Schools, Maryland

July 20, 2016

Report #16-07

# Table of Contents

I. Executive Summary .....	1
Background.....	1
Objectives .....	2
Scope .....	2
Methodology.....	2
Summary of Work.....	4
II. Summarized Findings.....	5
Condition 1 .....	5
Condition 2 .....	5
Condition 3 .....	5
Condition 4 .....	6
Condition 5 .....	6
Condition 6.....	6

# I. Executive Summary

## Background

SC&H has been engaged by the Frederick County Government (FCG, the County) Interagency Audit Authority (IIAA) to perform a planning survey and risk assessment of the processes and controls associated with Frederick County Public Schools (FCPS) Procurement Card (P-Card) function.

The purpose of the P-Card program is to provide authorized FCPS employees with a bank issued credit card that is used to make on-demand purchases of goods and services. The P-Card also assists in streamlining the procure-to-pay process. The use of P-Cards allows FCPS to:

- Reduce transaction costs
- Improve tracking/ monitoring of expenses
- Create efficiencies in the Purchasing and/ or Accounts Payable Departments
- Reduce or eliminate the need for petty cash

There are three types of P-Cards that can be issued: standard P-Cards, declining balance cards, and card-less vendor credit accounts. Standard P-Cards are traditional credit cards with single transaction and monthly spending limits that replenish each month, while declining balance cards have a preset spending limit and expire at the end of each fiscal year. The vendor credit accounts are with a large office supply company that does not issue plastic cards to account holders.

Prior to receiving a P-Card, each employee must successfully pass a test pertaining to the various P-Card program policies and procedures. Each cardholder requests a monthly and single transaction spending limit which is approved by his/ her designated approving official. The approving official is responsible for reviewing their subordinate cardholder's purchases to ensure they are in accordance with FCPS policy. These spending limitations are assigned to the cardholder's profile when the card is established and are automatically enforced by JP Morgan, FCPS's contracted third party vendor responsible for administering the P-Card function. JP Morgan provides FCPS with access to the PaymentNet system, which is used to manage P-Card accounts. PaymentNet P-Card spending data is uploaded to PeopleSoft, the FCPS accounting system. Additional parameters established within PaymentNet include prohibited purchases, such as tobacco and alcohol, as well as purchasing profiles that restrict cardholder transactions to vendors appropriate to the needs of his/ her position.

Cardholders are required to reconcile all transactions in PeopleSoft on an ongoing basis with a monthly deadline for completion. Cardholder spending is monitored by the employee's approving official. The approving official reviews and approves his/ her assigned cardholder's transactions within PeopleSoft, on a monthly basis. If an approving official is not also charged with oversight of the school or department budget, the cardholder must get additional transactional approval from his/ her designated budget specialist. Budget specialists provide additional review of transactions to ensure there are sufficient budgetary funds to support the purchase.

The P-Card program is administered by FCPS's P-Card Administrator and Assistant P-Card Administrator, who are both members of the FCPS Procurement Department. On a monthly basis, the Assistant P-Card Administrator conducts a transactional audit of P-Card purchases completed within the monthly credit billing cycle. This audit includes a review of all purchases made by new cardholders, cabinet members, and cardholders on the watch list. The watch list is a log of cardholders who have used their P-Card to make an accidental or inappropriate purchase. The Assistant P-Card Administrator also selects and reviews a random sample of 10% of all P-Card transactions made during the period. The P-

Card Administrator and Assistant P-Card Administrator are also responsible for all aspects of card issuance, account adjustments, and card terminations.

## Objectives

Internal Audit established three objectives for its survey of the FCPS P-Card function:

- Gain an understanding of FCPS's procurement card policies and procedures
- Perform an evaluation of risks and internal controls within the process
- Identify specific audit objectives to address the highest risk areas surrounding the program

## Scope

The survey process was initiated in March, 2016 and completed in April, 2016. The procedures performed focused on the policies and procedures in place at the time of this review.

## Methodology

In order to achieve the engagement's objectives, SC&H performed the project tasks described below.

### Knowledge Gathering, Process Discussions, and Documentation

SC&H obtained and reviewed all relevant P-Card policies and procedures. Additionally, SC&H conducted detailed discussions with key personnel for the various processes performed in the administration of the P-Card Program.

Through examination of the documentation provided and through discussions with key personnel, SC&H identified the following sub-processes that comprise the P-Card function:

- New Card Application/ Issuance
- Card Renewal
- Card Usage
- Adjustments
- Monthly Reconciliation
- Principal/ Upper Management Reconciliation
- Accidental/ Inappropriate Use
- Monthly Transactional Audit
- Department/ School Transfers
- Card Suspension/ Termination

SC&H created detailed flowchart visualizations (see **Appendix A**) that depict each process described above noting all responsible parties, in a step-by-step manner. Additionally, process narratives (see **Appendix B**) were created to provide greater detail pertaining to the procedures surrounding the Monthly Transactional Audit conducted by the Assistant P-Card Administrator.

### Identification and Assessment of Controls, Risks, and Gaps

Drawing upon our understanding of the procedures described above, SC&H identified the inherent risks within each sub-process, and the associated control points that have been incorporated to mitigate these perceived risks. The risks and controls have been indicated at the point of occurrence within each process in the flowchart documents. Risks were catalogued and mapped to their respective controls in order to show the associated mitigating activities. In performing this exercise, SC&H noted several risks for which limited control activity appears to exist; these are referred to as control gaps. These gaps are procedural

components where a control either does not currently exist or may benefit from process enhancements designed to mitigate the associated risks.

Process Documentation Review

After identifying the controls present in the P-Card related processes, SC&H independently obtained, and reviewed, P-Card process documentation from PeopleSoft in order to gain a more comprehensive understanding of the control design. Additional documentation was obtained from FCPS personnel to further confirm this understanding.

## Summary of Work

While the preliminary survey process did not include detailed testing of the system of internal controls in place, we did note a number of risks within the processes. Additionally, areas where controls may be ineffective or absent were also noted. In consideration of these observations, we suggest that the P-Card program be examined in further detail. This examination should include testing the effectiveness of the noted controls and their compliance with the current internal policies and procedures. This review will result in recommendations to incorporate and strengthen controls, where necessary. Testing objectives may include, but are not limited to, the following:

- Evaluate and test P-Card transactions on a sample basis, identifying instances where FCPS P-Card policies and procedures were not followed, and identifying where controls may have been lacking or circumvented
- Evaluate and test whether quotes for goods or services exceeding \$12,500 were appropriately obtained
- Analyze P-Card transactions to identify whether P-Card purchases are also being submitted for personal expense reimbursement by employees
- Ensure terminated employee P-Cards are appropriately deactivated in a timely manner
- Examine the Procurement Department P-Card auditing and administration procedures to evaluate whether P-Card transactions are appropriately tested and reconciled on a monthly basis

This review will result in recommendations to incorporate efficiencies, strengthen controls, and provide overall process enhancements for P-Card administration.

SC&H Group



Matthew Simons, CPA, CIA  
Principal

## II. Summarized Findings

Based on the procedures performed, with the exception of the conditions noted below, the P-Card program appears to be operationally sound. From our limited review, it appears that there are opportunities to address control gaps, enhance the processes, and strengthen the internal control environment. These opportunities are noted in the following conditions, which represent risks or control gaps within the P-Card program. Each condition describes the current state of the process, and the associated risk or gap noted by SC&H.

### Condition 1

There is currently no requirement for approving officials to take a test certifying their understanding of the P-Card policies and procedures. All employees who wish to obtain a P-Card must complete a test certifying their understanding of the P-Card policies and procedures established by FCPS. P-Cards will not be issued unless a passing score is obtained. This test is only required for cardholders, not for approving officials.

#### **Risk**

Approving officials may not be aware of purchasing and transaction review requirements. This can result in incomplete or inadequate review of P-card purchases, increasing the risk of inappropriate P-Card purchases.

### Condition 2

There is limited control activity in place to identify or prevent P-Card purchases in excess of \$12,500 before, or after, card usage in order to ensure formal bids are obtained. FCPS's established Procurement procedures require formal bids for goods or services exceeding \$12,500. The current control environment restricts purchases for cardholders to predetermined single purchase and monthly spending limits, reducing the total volume of purchases that exceed \$12,500. In addition, all temporary or permanent P-Card spending limits in excess of \$5,000 require the approval of the Purchasing Manager. Further, high dollar transactions are examined during the monthly audit procedures, however this review focuses on the identification of sensitive assets (i.e. electronic devices), rather than the appropriateness of the individual purchase.

#### **Risk**

Cardholders may intentionally or unintentionally circumvent FCPS's procurement policy by using P-Cards to make high-dollar purchases without soliciting bids or quotes. As a result, FCPS may pay more than necessary for goods or services exceeding \$12,500.

### Condition 3

Receipts for goods or services purchased using the P-Card may also be submitted as a personal expense reimbursement by the employee, resulting in a duplicate payment. P-Card transactions and expense reimbursement requests are processed by separate responsibility areas within Procurement, but are not cross-referenced to identify duplicate transactions. Additionally, receipts may be submitted in original hard copy form or as electronic/scanned documents.

#### **Risk**

The risk of misappropriation of funds exists within the process due to the potential of an inappropriate, duplicate payment by FCPS to the cardholder. The use of scanned receipts facilitates the opportunity for an employee to submit duplicate reimbursement requests. In addition to normal business transactions,

there is an opportunity for an employee to request reimbursement through the payroll function for per diem despite having purchased meals and/ or lodging using the P-Card.

#### Condition 4

There is no process in place to penalize, or hold accountable, cardholders with multiple instances of P-Card misuse. Currently, upon identification, Procurement notifies the cardholders and their approving officials of a purchase that requires reimbursement to FCPS due to accidental or inappropriate usage. Cardholders are required to obtain reimbursement from the vendor, return the item, or personally reimburse FCPS, depending upon the type of misuse. Additionally, cardholders found to have misused their P-Card are subject to an audit of 100% of their transactions for a period of three months following the occurrence.

#### **Risk**

Cardholders who have misused their cards may not be effectively penalized, potentially resulting in continued misuse of their P-Card. Consistent misuse increases the risk of inappropriate purchases being processed undetected. Additionally, inappropriate spending can temporarily restrict funds while reimbursement is pending.

#### Condition 5

Cardholders with temporarily suspended accounts are responsible for notifying Procurement when their P-Card needs to be reactivated, and may request their card be reactivated earlier than is appropriate.

#### **Risk**

The risk of misappropriation of funds exists within the process due to the potential of an inappropriate, unauthorized purchase by a cardholder who preemptively reactivates their P-Card. Approving officials are required to review and approve all transactions, but a purchase made with a prematurely reactivated P-Card may not be detected until after the transaction had been completed and the item has been delivered.

#### Condition 6

FCPS P-Card policies and procedures do not require cardholders to review department/ school budgets prior to card usage.

#### **Risk**

Cardholders may purchase an item with their P-Card when there isn't enough money in the school/ department budget to cover the cost of the good or service. This may result in the school/ department exceeding their budget, or having to use money delegated to other areas to support the purchase.