



# Department of Rehabilitation and Correction Payment Card Audit

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**Audit Period: July 2011 through December 2011**



## Executive Summary

### Background

ORC §126.21(B): “In addition to the [Office of Budget and Management] director’s duties under division (A) of this section, the director may establish and administer one or more state payment card programs that permit or require state agencies to use a payment card to purchase equipment, materials, supplies, or services in accordance with guidelines issued by the director. The chief administrative officer of a state agency that uses a payment card for such purposes shall ensure that purchases made with the card are made in accordance with the guidelines issued by the director and do not exceed the unexpended, unencumbered, unobligated balance in the appropriation to be charged for the purchase. State agencies may participate in only those state payment card programs that the director establishes pursuant to this section.”

The State of Ohio’s Payment Card Program is designed to empower state employees to make purchases for goods and services below a specified dollar limit. The program allows employees to acquire goods and certain services as they are needed for operations without undue delay. It is designed primarily for the purchase of tangible materials, equipment, supplies and approved services that cost less than \$2,500. Use of the card is meant to simplify and streamline the acquisition process and lower overall transaction costs. In cases where the cardholder is reasonably sure that a competitive price is being obtained, neither phone nor written bids are required. Cardholders are expected to use good and reasonable judgment in these situations. 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 DRC to strengthen internal controls and improve business operations. These opportunities have been relayed to management. OIA would like to thank DRC 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 an assurance audit related to controls on the use of the payment card and the processes around monitoring and reconciliation of payment card transactions. This work was completed between January 2012 and March 2012. The scope of this audit included the following areas:

- Payment card issuance and cancellation
- Compliance with policies and procedures
- Operational effectiveness

The following summarizes the objectives of the review along with a conclusion on the effectiveness of management's internal controls.

Objective	Conclusion <sup>1</sup>
Evaluate the design and effectiveness of payment card issuance and cancellation process.	Well-Controlled
Evaluate the design and effectiveness of payment card usage in compliance with established policies and procedures.	Improvement Needed (See Observation 1)
Evaluate the operational effectiveness of the payment card administration.	Well-Controlled with Improvement Needed

<sup>1</sup> Refer to Appendix A for classification of audit objective conclusions.



## 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 on page 3.

### **Observation 1 – Timely Reconciliation and Payment Processing**

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

Payments must be processed within five business days of the date the transaction was entered into OAKS. The OAKS time/date stamp will identify the start of the five business days.

Reconciliation of invoices must be performed each time a transaction is processed for payment. Reconciliation consists of reviewing the transaction in OAKS, cardholder log, and the receipt to confirm that all match.

There are special circumstances when exceeding a limit can be authorized at the sole discretion of the Statewide Payment Card Administrator. Contact the Agency Card Administrator if you believe a temporary increase of the limit is justified.

During our review of payment card transactions made by the Department from July 1, 2011 through December 31, 2011, we noted the following errors:

- For 23/48 (48%) transactions tested, the reconciliation date noted on the payment card log was after the payment date for the transaction.
- For 39/48 (81%) transactions tested, the payment was not processed within five business days of the transaction being entered into OAKS. The payments ranged from one to 19 days beyond the five day limit.
- For 4/48 (8%) transactions tested, the purchase was split into multiple payments, in a possible attempt to stay within the employee's card limit.

Not processing payments within five business days of the date the transaction was entered into OAKS increases the risk of late payments and possible late fees. Not reconciling the transaction in OAKS to the cardholder log and vendor invoice prior to payment increases the risk of errors, possible misappropriation, or fraud. In addition, untimely reconciliation and payment processing, is considered noncompliance with the State of Ohio Payment Card Policies and Procedures Manual.



**Recommendation**

Revisit policies and procedures and emphasize to cardholders, reconcilers and approvers the importance of evidencing the reconciliation of transactions on the log and processing within the established time requirements. If possible, consider requiring institutions to submit payment card logs and supporting documentation electronically to the central office. In addition, employees using payment cards should be trained and/or reminded of the purchase limits and the process for requesting a temporary limit increase.

**Management Response**

DRC will emphasize to cardholders, reconcilers and approvers the importance of clearly documenting the reconciliation date of each transaction on the payment card logs prior to authorizing payment in OAKS. Additionally, the agency payment card administrator will evaluate the need for any increases in current individual payment card limits and will exercise the option to request a temporary limit increase from the State Payment Card Administrator when necessary. Because we have centralized payment for our Adult Parole Authority and Ohio Penal Industry cardholder's which are located throughout the state, it is difficult to make payment within five days. In a discussion with the Assistant State Payment Card Administrator, he advised that on average, it takes state agencies approximately fourteen days to process a transaction. DRC will continue to strive to minimize the processing time and will also explore the possibility of requiring payment card logs and associated documentation to be submitted electronically to assist with timely processing.

Risk*	Remediation Owner	Estimated Completion Date
<b>Moderate</b>	Chief, Division of Business Administration	April 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 Audit Objective Conclusions and Observations

### Classification of Audit Objective Conclusions

Conclusion	Description of Factors
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.
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.
Well-Controlled with Improvement Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.

### Classification of Audit Observations

Rating	Description of Factors	Reporting Level
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	State Audit Committee, Senior Management, Department Management
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.	State Audit Committee, Senior Management, Department Management
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Department Management, Senior Management (Optional), State Audit Committee (Not reported)