



Office of the Chief Internal Auditor

Special Report

*South Carolina Department of
Transportation Purchasing Card System Review*

May 3, 2011

Confidential Draft

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**Office of the Chief Internal Auditor
Purchasing Card System Review**

May 3, 2011

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Transmittal Letter

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OFFICE OF THE CHIEF INTERNAL AUDITOR

June 16, 2011

Commission of the South Carolina Department of Transportation

The Honorable Lawrence K. Grooms, Chairman
South Carolina Senate Transportation Committee

The Honorable Hugh K. Leatherman, Sr., Chairman
South Carolina Senate Finance Committee

The Honorable Phillip D. Owens, Chairman
South Carolina House Education and Public Works Committee

The Honorable Daniel T. Cooper, Chairman
South Carolina House Ways and Means Committee

Dear Gentlemen:

The Office of the Chief Internal Auditor has completed a Bank of America Works System (Procurement Card System) review as of May 3, 2011. In accordance with Section 57-1-360, we are transmitting to you this report on our review.

We conducted this special review in accordance with professional standards. Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our review objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our review objectives.

Please do not hesitate to contact us if you have any questions or comments.

Respectfully submitted,

Robert W. Wilkes, Jr., CPA
Chief Internal Auditor

Results and Recommendations

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OFFICE OF THE CHIEF INTERNAL AUDITOR

May 3, 2011

TO: Angela R. Feaster, Deputy Secretary of Finance and Administration

CC: Robert J. St. Onge, Jr., Secretary of Transportation
Clifton Parker, Audit Committee Chair

FROM: Office of the Chief Internal Auditor

SUBJECT: Enhancements to the P-Card (Bank of America Works) System

Joel Griggs, Audit Manager, with the Office of the Chief Internal Auditor (OCIA) reviewed the controls surrounding the Purchasing Card and the corresponding Bank of America Works System (Works) following an employee fraud of over \$53,000. There were several lapses in the internal control structure that allowed this fraud to go undetected in excess of one year. These internal control lapses involved the liaison's failure to notify management that the fraudster did not turn her receipts in for review. The liaison was afraid to report the fraudster because she was the liaison's supervisor. As a result, the OCIA is communicating additional steps to provide more oversight to the Purchasing Card system.

We found that SCDOT had 853 active purchasing cards as of April 7, 2011. A review of expenditures for January 2011 was used to document the number of cards used to purchase amounts within bracketed ranges.

Credit Card Expenditure Category	Number of Cardholders in each Category
No Usage	266
< \$100	87
>\$100 < \$500	168
>\$500 < \$1,000	78
>\$1,000 < \$5,000	184

>\$5,000 < \$10,000	58
< \$10,000	12
Total Number of Cards	853

Based on the analysis of this chart and comparing the functionality that the Works System has, we have the following recommendations to help prevent fraud:

- 1) The OCIA thinks that some of the Purchasing cards could be cancelled due to no or low usage. A review of the January 2011 statement disclosed that 521 (61.08%) cardholders spent less than \$500 that month. The OCIA recommends the utilization of cards be reviewed in hopes of lowering the number of active cards. SCDOT should consider issuing zero (-0-) limit cards where a cardholder can request incremental funds be added to the card to make certain purchases that are approved in advance by their manager.

- 2) The OCIA reviewed the cardholder profile for SCDOT cards within the Works System and noticed most employees are currently granted a credit limit of \$10,000. A review of the cardholder statements for the month of January 2011 disclosed that only 70 (8.21%) cardholders spent more than \$5,000 during the test month. The Office of the Chief Internal Auditor feels the large amount of fraud would have been reduced if the fraudster had not had such a high credit limit. Works has the ability to hold many, if not an unlimited number of cardholder profiles (credit limits). Administrators can also switch cardholders between the various profiles even on a temporary basis like during winter storms or other times of the year when card activity may be higher. By utilizing this feature within Works, our overall credit exposure risk could be reduced.

- 3) The discretionary funds that are assigned to an individual card should not be replenished until the supervisor has approved the transaction. Currently, these discretionary funds on the card are replenished immediately after the bill cut-off date each month. Within the Works System, discretionary funds can be replenished at cardholder sign-off, supervisory sign-off or final accounting sign-off. It is our recommendation that the replenishment of the credit limit occur after supervisory sign-off. Implementing this recommendation will require a change in the way transactions are processed and approved by both the cardholder and their supervisor/liaison. This recommendation would require that sign-off and approval take place in the Works System instead of manually. We recommend the receipts be stored electronically for supervisory review. Works is set up for the cardholder to sign-off on the purchase electronically including writing an explanation for the purchase and the ability to assign a General Ledger code to the transaction. Once the transaction is signed-off on by the cardholder, it is assigned to the cardholder's supervisor/liaison for approval. The supervisor/liaison can either approve the transaction or send it back to the cardholder for additional information. Once the supervisor/liaison approves the transaction it is sent to accounting for final sign-off.

Another benefit by using this feature of the Works System is verification by other individuals such as the Card Reviewer to access data in real time and verify any discrepancies such as signing-off on transactions in a timely manner.

A further conceivable betterment is that the cardholder could assign the proper G/L code to items thus potentially doing away with some of the second cards that are assigned to certain employees. Also, this would allow better utilizations of budgets to identify potential problems with expenditures.

Another thought to bring more accountability in the repair and parts system would be to have cardholders identify the HMMS work order number(s) within the Works System. This would ensure that each of the parts purchased is charged out to a piece of equipment.

- 4) The Card Reviewer from the Headquarters Procurement Department should receive additional training on how to use the reporting that is available and learn to create some customized exception reporting to help in his review of card transactions.

In conclusion, the fraud was not detected in a timely manner due to an internal control breakdown of management not reviewing the transactions or being notified sooner that the fraudster had not been turning in her receipts. The OCIA feels that if the Works System was utilized more fully that some purchasing cards could be cancelled, overall credit exposure could be reduced, and notification of potential problems could be quicker and may be noticed by more people.

We would like to allow you fourteen days to provide a written response to our findings. This response is optional at your discretion.

If you would like to discuss these ideas further or need assistance in implementing any of these suggestions, please let us know. Joel Griggs of our staff has worked with the Works System previously and is familiar with the functionality and many controls in place within the Works system.

Department Response

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South Carolina
Department of Transportation

May 24, 2011

TO: Mr. Robin Wilkes, Jr., CPA, Chief Internal Auditor
Mr. Joel Griggs, Office of the Chief Internal Auditor

FROM: Angela R. Feaster, CGFO, Deputy Secretary Finance & Administration

SUBJECT: Enhancement to the P-Card (Bank of America Works) System

I appreciate your review and comments on the current procurement card internal control structure and use of the BofA Works System. I have shared the suggestions submitted on the May 3, 2011 letter with Mr. Mike Burk, Procurement Director and Mr. John Walsh, Deputy Secretary of Engineering.

We are in agreement that certain controls need to be tightened, while at the same time, allowing the use of the procurement card to continue as a payment tool for smaller purchases. One of the main advantages of the P-card is the elimination of the purchase orders/direct payment voucher processing time. All mechanisms for the purchase of supplies and services afford the opportunity for fraud and abuse and must rely on management review of those activities to make certain appropriate use is occurring.

SCDOT is already moving forward with review of the "low usage or zero usage P-cards" and reducing the number of active P-cards held by individuals as suggested in comment. We concur with reducing the purchasing limits on the cards that remain active to levels commiserate with procurement needs.

The use of a zero limit card or the Works System for the replenishment of discretionary funds does not preclude an individual from misusing the P-card nor ensure the purchases made are for SCDOT purposes. This is a management and review issue that should be enhanced with additional training of managers; changes to the P-card policies; and separation of the P-card liaison, approver responsibilities. SCDOT will reinforce existing policies and stress the separation of duties, management signoff and district review of P-card transactions on a periodic basis. Electronic signoff of the purchases in the P-card Works system may be an avenue that is considered as SCDOT moves to the statewide accounting system. However, a thorough review of the interactions of the two systems will have to occur.

Procurement Office reviewers' main purpose is to identify infractions of policy and procedure and offer subsequent training to rectify those problems. Any questionable or suspicious activities are escalated to the appropriate offices. Additional training of the reviewers is welcome if the OCIA could assist in this endeavor.

The Procurement and Finance Departments are aware that many features exist in the BofA Works system that could be of benefit to the card holder, liaison, managers, and



accounting. Any enhancements in the use of this system could also benefit other state agencies as this is a statewide program.

I encourage the OCIA to include annual audits of the P-card as well as other procurement methods employed by SCDOT to ensure proper use of our limited resources.

cc: Robert J. St. Onge, Jr. Secretary of Transportation
John V. Walsh, Deputy Secretary of Engineering
Mike Burk, Director of Procurement