



## OFFICE OF THE INSPECTOR GENERAL MANAGEMENT REVIEW

### *Division of Administration Purchasing Card (P-Card) Program*

AR-09-002

June 30, 2010

#### SUMMARY

The Department of Health (DOH), Office of the Inspector General (HIG) conducted a review of the Department's Purchasing Card (P-Card) Program within the Division of Administration for the fiscal year ended June 30, 2009. This program was instituted at DOH as part of the State of Florida's Purchasing Card Program.

The primary purpose of our review was to determine whether the Purchasing Card Administration (PCA) unit and the Central Purchasing Office had controls in place sufficient to effectively prevent inappropriate use of P-Card purchases by authorized cardholders and approvers within the Department.

We also wanted to determine whether or not there was a uniform policy/framework of controls and oversight of the P-Card program, in particular the purchase approval process within DOH.

Finally, we wanted to conduct testing to determine if there were indicators that might signify inappropriate use within the P-Card program.

To accomplish our objectives, we:

- Reviewed selected P-Card expenditure transactions within the Florida Accounting Information Resource (FLAIR) system by:

- Observing PCA personnel during the P-Card transaction approval process,
- Analyzing the aging of the P-Card transactions as they appear on report listings,
- Studying the P-Card reconciliation reports,
- Examining the P-Card report listings of cardholder purchasing limits and approvers authorization levels, and
- Inspecting the transactional data downloads provided by the Department of Financial Services (DFS) through PCA.
- Reviewed established State and DOH P-Card regulations and draft versions of proposed DOH P-Card policies;
- Participated in online training classes for cardholders and approvers; and,
- Developed a flowchart of the P-Card purchasing lifecycle.

In obtaining an understanding and documenting selected components of P-Card internal controls, we interviewed appropriate personnel at Central Office (CO), including those managing PCA and the Central Purchasing Office, along with several key personnel involved in P-Card processing at select County Health Departments (CHDs). We also reviewed applicable laws, rules, and DOH policies and procedures, as well as an Auditor General report related to P-Card use.

We documented our understanding with confirmation memos and tested selected controls to determine whether the controls were in place and working effectively.

Our methodology and fieldwork, which included limited testing, provided reasonable assurance of detecting fraud as it relates to the review objectives. During our project, including planning and fieldwork, nothing came to our attention to indicate the existence of fraud, illegal acts, or abuse.

Based on the results of our project, the following issues should receive additional review and corrective action by management within the PCA office:

- The *Purchasing Card Program User Guidelines* documentation has not been updated since July 2004,
- The FLAIR list of P-Card authorized approvers maintained by PCA was not updated in a timely manner,
- Neither the *Purchasing Card Program User Guidelines* documentation nor the draft policy (DOHP 56-44-07) address periodic review of P-Card cardholder purchasing limits,
- No process currently exists to ensure a criminal background check was performed on individuals prior to authorization by PCA as a P-Card cardholder or approver, and
- P-Cards may be obtained from PCA by DOH employees (typically P-Card liaisons) on behalf of P-Card cardholders without signature from the cardholder acknowledging receipt.

---

## INTRODUCTION

---

Section 20.055, *Florida Statutes*, charges DOH's HIG with the responsibility to provide a central point for coordination of activities that promote accountability, integrity, and efficiency in government. Audits and reviews are conducted to assess and evaluate internal controls necessary to ensure the appropriate oversight and accountability of operations within the Department.

This review was initiated as a result of a request from management, following an

internal investigation (*HIG 08-204*, dated March 10, 2009) conducted by the HIG staff. This investigation identified inappropriate P-Card usage by a CHD employee. Review fieldwork took place February through November 2009 at DOH headquarters in Tallahassee.

As part of our testing, we selected a set of four diverse CHDs throughout the State. Selections were made in an effort to include small, medium and large sized CHDs, some with and without membership in a consortium, as well as geographically diverse locations within Florida. As a result, our review included the CHDs from Bay, Collier, Duval and Hillsborough counties.

The review was conducted by HIG Audit Unit staff members Leslie Eckhart, Management Review Specialist, and Tim Byrnes, Senior Management Analyst II, under the supervision of Michael J. Bennett, Certified Internal Auditor and Director of Auditing.

## **Prior Audits**

The Office of the Auditor General included the DOH P-Card Program in its Operational Audit in 2007, Report No 2007-110, titled *Department of Health, Selected Administrative Activities, Operational Audit*. This report disclosed:

- P-Card profiles were not always sufficiently documented,
- The Department did not have guidelines for establishing P-Card purchasing limits. Additionally, the Department lacked procedures to periodically review the purchasing limits of cardholders,
- Procedures for the reconciliation of P-Card transactions needed improvements, and
- The Department did not ensure P-Cards were timely canceled upon an employee's termination.

## BACKGROUND

Purchases made by state employees are generally monitored by their agency's purchasing management units. Payments for purchases can be made using a variety of methods. Our review focused on the P-Card method of purchasing.

DFS administers the overall State of Florida Purchasing Card Program. Each state agency is then tasked with developing their own P-Card program modeled after the DFS requirements.

As part of the DOH P-Card Program, cardholders must have their purchases authorized by a hierarchy of approvers:

- Level 1 – the cardholder;
- Level 2 – the unit's financial expenditure reconciler;
- Level 8 – the final review and approval by a Department financial specialist.

In order to consolidate administrative and financial functions, several CHDs have formed consortia, which consist of groups of CHDs in close proximity to one another. One of the financial functions within each consortium is the Level 8 approval process. Each consortium has designated one or more Level 8 approvers who will serve in this role for the P-Card cardholders of the CHDs within the consortium. The consortium concept has been most beneficial to smaller CHDs due to the pooling of resources. Meanwhile, some of the larger CHDs do not belong to a consortium and thus have their own Level 8 approver(s).

Within DOH, the P-Card Program is ultimately managed by two units that oversee different aspects of P-Card purchases:

### **PCA Unit**

- The PCA unit resides within the Bureau of Finance & Accounting, Division of Administration. PCA is responsible for the set-up, maintenance, and on-going

monitoring of all P-Card purchases, along with ensuring their compliance with the DOH **P-Card Program rules and regulations**. Monitoring of the P-Card program happens in the following ways:

- PCA is the Level 8 approver for all P-Card transactions within the CO Consortium<sup>1</sup>.
- In addition, PCA performs Compliance Reviews of the remaining 57 counties. These counties, some covered by other consortia, have their own designated Level 8 approvers outside of PCA.

### **Central Purchasing Office**

- Meanwhile, the Central Purchasing Office resides within the Bureau of General Services, Division of Administration. The Central Purchasing Office conducts monthly post audits for program offices and the CHDs that are members of the CO consortium. The Central Purchasing Office ensures appropriate State and Department **purchasing rules and regulations** are followed. P-Card purchases which exceed \$2,500 must be approved from the cardholder's supporting purchasing office and proper vendor quotes must be obtained prior to each purchase. These approvals and quotes must accompany the cardholder's monthly P-Card reconciliation.

Recently, PCA and the Central Purchasing Office units have begun to build stronger lines of communication with each other. Even though PCA and the Central Purchasing Office have their own distinct business reasons for reviewing P-Card documentation (one from the P-Card regulations standpoint and the other from the purchasing regulations standpoint), it is important they both work together to further enhance the overall P-Card program.

<sup>1</sup> CO Consortium consists of all headquarters (Tallahassee), program offices, all Children's Medical Services Area Offices, the A. G. Holley Hospital, and 10 select CHDs located near Tallahassee.

---

FINDINGS, RECOMMENDATIONS, AND  
MANAGEMENT'S RESPONSES AND CORRECTIVE  
ACTION PLANS

---

In general, we found that adequate controls exist and are being followed in regards to the Department's P-Card process. However, the following findings and recommendations address issues that should receive additional review by the PCA management.

**FINDING 1** – *The Purchasing Card Program User Guidelines documentation has not been updated since July 2004. A draft policy (DOHP 56-44-07) has been in the development stage for sometime but was not finalized as of the conclusion of our fieldwork.*

It is important that the Department have an updated policy for the P-Card program that provides clear guidance and direction to all administrators, cardholders and approvers. Up-to-date policies and procedures provide management with the means to hold cardholders accountable for appropriate P-Card usage. Additionally, published written procedures help avoid inconsistencies in the way P-Cards are used and processed.

It is our understanding that *DOHP 56-44-07* is to be an updated version of the original *Purchasing Card Program User Guidelines* document, which was last updated in July 2004. However, as of the end of our fieldwork, the draft version of this document was still being reviewed and revised by PCA and not yet published to all DOH employees.

Several P-Card procedural changes have been instituted since July 2004. For example, two of these changes include policy memorandums *FM08-11* and *FM09-10* discussed below.

The DOH Financial Memorandum, *Purchasing Card FM08-11*, dated December 21, 2007, implemented "a new process that

removes FLAIR approval from the cardholder." Included in this new process was the use of scanners to copy the receipts related to P-Card purchases for use by approvers in reviewing transactions prior to authorization. As a result of this new regulation, the scanning of receipts is currently only required of cardholders located in units where PCA is designated as the Level 8 approver.

Additionally, the DOH Financial Memorandum, *Purchasing Card FM09-10*, dated June 11, 2009, stated, "Effective July 1, 2009, purchasing cardholders are required to secure their supervisor's or higher approval for their purchasing card purchases. Evidence of this approval must be submitted with the P-Card receipt or on the face of the receipt."

While these memorandums are official "policy" changes to the process, the lack of an officially updated and released policy for the P-Card program leaves open the opportunity for continued use of inappropriate procedures. New cardholders, approvers, and those with questions would typically seek out the published *Purchasing Card Program User Guidelines*, as PCA encourages CHD employees and staff to do during onsite compliance reviews. However, these guidelines would not contain the additional regulations or procedures that have been instituted through the Financial Memorandums.

**RECOMMENDATIONS:**

We recommend that PCA:

- Finalize the changes to, and publish, *DOHP 56-44-07* in a timely manner, incorporating all the procedural changes since July 2004.
- Consider adding a summary of the major changes as part of the notification process and encourage all administrators, cardholders, and approvers to read the new policy once published.

**MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN:**

## 1a - Concur.

1. Finalize DOHP 56-44-10 and send for review/comment.
2. Obtain SSG signature and implement.
3. Review and update the policy every two years.

*Anticipated completion date:*

October 30, 2010

1b - Concur. PCA developed the Approver Report for management to review and submit changes. Provide to management and the purchasing card liaisons.

1. Notify appropriate staff when policy is approved.

*Anticipated completion date:*

October 30, 2010

**FINDING 2 – The FLAIR list of P-Card authorized approvers maintained by PCA is not updated timely.**

It is critical the Department have an accurate list of current P-Card approvers to ensure P-Card purchases are approved by authorized personnel, which helps mitigate the possibility of misuse or fraud. This list is maintained within the FLAIR P-Card Module.

Approver privileges are established and maintained in accordance with the authorization levels specified on the most recent *P-Card Approver Profile* documentation for each P-Card approver as submitted to PCA. Therefore, it is important that PCA receive a timely, updated *P-Card Approver Profile* from supervisors and managers when there are changes to personnel or job duties that affect approver status.

When performing their compliance audits of P-Card transactions, PCA uses a *Purchasing Card Audit Checklist*. This checklist contains

a line item for verifying the accuracy of the *P-Card Approver Profile* documents.

During compliance reviews conducted by PCA, the FLAIR list of P-Card authorized approvers is compared against *P-Card Approver Profile* documentation. Any discrepancies found must be corrected immediately by the unit being reviewed. Management in the reviewed unit is reminded to keep their *P-Card Cardholder Profile* and *P-Card Approver Profile* documents current with PCA.

During testing, we discovered that one CHD had two former employees still listed as Level 2 approvers. The employment of one of these approvers had ended four months prior to our test while the other employee's service had ended two years earlier.

Testing also revealed another employee whose approval level was listed as a Level 2 (approver). However, we determined that the employee's job duties had changed approximately two years earlier and a Level 1 (cardholder) status was currently appropriate for that person.

Additionally, in *HIG Investigative Report 08-204*, dated March 10, 2009, it was noted that two former employees at another CHD had not been timely removed from the list of P-Card approvers.

Encouraging timely receipt of changes to *P-Card Approver Profile* documentation from Department management allows PCA to maintain up-to-date approver security levels within the FLAIR P-Card module.

It should be noted that PCA management has recently created an *Approver's Report*. Their plan is to send this report each quarter to P-Card liaisons for review and request that PCA be notified of any changes needed.

**RECOMMENDATIONS:**

We recommend that PCA:

- Continue to develop, test, and implement methods for Department management to verify their list of P-Card approvers on an established, regular basis.
- Request the addition of a line-item be added to all employee departure checklists to remind supervisors and managers to update the *P-Card Approver Profile* as well as the *P-Card Cardholder Profile*, if applicable, and forward the documentation to PCA on a timely basis.
- Add language to the draft policy (*DOHP 56-44-07*) to clarify that management is responsible to timely notify PCA of any approver status changes.

**MANAGEMENT’S RESPONSE AND CORRECTIVE ACTION PLAN:**

2a - Concur. PCA developed the Approver Report for management to review and submit changes. This is sent quarterly to management and the purchasing card liaisons.

*Anticipated completion date:*  
Completed.

2b - Concur. Updated the Employee Exit/Relocation Checklist to include this information.

*Anticipated completion date:*  
Completed.

- 2c – Concur.
1. Add to draft DOHP 56-44-10.
  2. Notify appropriate staff when policy is approved.

*Anticipated completion date:*  
October 30, 2010

**FINDING 3** – *Neither the Purchasing Card Program User Guidelines documentation nor the draft policy (DOHP 56-44-07) address periodic review of P-Card cardholder purchasing limits.*

Purchasing limits are established by management for each P-Card cardholder as a control to help protect the Department from misuse or fraudulent activity. Purchasing limits are typically based upon historical spending activity of the unit and/or expected needs of the cardholder.

Once established, it is important that management also periodically review and make adjustments to cardholder purchasing limits based upon changing spending habits of the unit or responsibilities of the cardholder.

Our research indicated that currently there is no credit limit review process in place to periodically re-evaluate cardholder needs and reset purchasing limits. Based upon our review of documentation, the *Purchasing Card Program User Guidelines* and the draft policy (*DOHP 56-44-07*) do not address any periodic review of P-Card purchasing limits.

P-Card purchasing limits are established at both the single transaction level and at the monthly expenditure level. Purchasing limits for P-Cards are established by a cardholder’s supervisor or manager at the time the cardholder is first authorized for P-Card use. PCA’s *Guidelines for Establishing Credit Limits for Purchasing Cards* gives guidance to supervisors and managers for the initial establishment of purchasing limits.

Although there are no required periodic reviews of P-Card purchasing limits after initial set-up, the purchasing limits can be exceeded temporarily with special authorization from the cardholders’ supervisor or manager when unusual needs arise. These special authorizations are reversed after a specific time period which is

determined for each individual instance by PCA.

During our review, we conducted limited testing of cardholders' actual P-Card usage to determine how closely their established purchasing limits matched their actual purchasing behavior. We selected P-Card purchases during the 2008-2009 fiscal year (FY 2008-09) for 43 cardholders who had the highest established purchasing limits. These cardholders consisted of individuals who had a single-transaction purchasing limit of \$50,000 and above and/or a monthly purchasing limit of \$140,000 and above.

Results of this testing showed that only 18 of the 43 cardholders made an individual purchase during the entire fiscal year that cost at least half of their single transaction purchasing limit. Thus, over 58% of the top 43 cardholders with the highest purchasing limits did not spend more than half of their authorized single transaction purchasing limit during FY 2008-09.

Meanwhile, testing of the same 43 cardholders showed that only 14 cardholders made monthly purchases that exceeded 50% of their monthly purchasing limit during FY 2008-09. Thus over 67% of the cardholders did not exceed even half of their monthly purchasing limit during a full year.

While this test does not convey that the purchasing limits for all individuals who failed to exceed 50% of either their single transaction purchasing limit or their monthly purchasing limit should definitely be reduced, it does indicate that management should periodically review the spending habits of their employees who have been issued a P-Card and consider adjusting these limits when appropriate. It is reasonable that one year's worth of data may not necessarily warrant taking action. However, management's periodic review of each individual cardholder on a case-by-case basis would help ensure purchasing limits are reasonable and based upon each cardholder's unique spending habits and the needs of the unit.

It is important to note that PCA management recently indicated they are currently developing and testing a database with cardholder name, purchasing limits, and allowable vendor codes (MCC block) which will be updated on a quarterly basis. PCA plans to send this report quarterly to DOH managers and liaisons. This, coupled with a review by management of P-Card data from FLAIR, would allow for management to evaluate and adjust purchasing limits on a periodic basis.

**RECOMMENDATION:**

We recommend that PCA establish a policy requiring Department management to review the purchasing limits of all P-Card cardholders on a periodic basis. This requirement should be included in the new policy currently being developed.

**MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN:**

3 – Concur. PCA provides this information to management and purchasing card liaisons for review semi annually.

*Anticipated completion date:*  
Completed.

**FINDING 4** – *No process currently exists to ensure a criminal background check was performed on individuals prior to authorization by PCA as a P-Card cardholder or approver.*

DOHP 60-5-08 requires employees who serve in positions of "special trust, responsibility, or sensitive location" to go through a criminal background screening process. This process helps ensure that individuals who are assigned into positions that come into contact with critical or sensitive information are screened to determine if the individual has any historical incidents that would question their integrity in handling such responsibility.

While the policy does not require all Department employees to be criminal background screened, it is left to the discretion of each supervisor to determine which positions fit the definition of an employee of “special trust, responsibility, or sensitive location.”

DOHP 60-5-08, VII., (A)(2), lists categories of individuals who would require a criminal background screening, one of which is a category for “financial” employees who “handle money or perform tasks that involve financial trust.”

The policy further states that it is the responsibility of the supervisor to update any position description for an employee that reflects a designation that the position is classified as “sensitive” and would, therefore, require a criminal background screening.

According to PCA management, they currently do not verify with the DOH Bureau of Human Resources Management (HRM) staff that a criminal background check has been completed on an individual seeking to be a P-Card holder or approver. Instead, they assume that any necessary pre-employment criminal background check has already been completed and they obtain a signed attestation from the employee that the employee will abide by all State and DOH purchasing guidelines and rules.

Since PCA is responsible for the P-Card program, it is important they communicate with HRM and validate that position descriptions have been properly designated as “sensitive” and criminal background checks have been performed on any individual seeking to become a P-Card cardholder or approver. This should be verified prior to authorizing the individual to become a P-Card cardholder or approver, as well for current cardholders and approvers.

Validating that all employees who seek access to P-Card transactions have been properly criminal background screened is an important control for PCA to help ensure the

integrity of the P-Card program and help mitigate potential fraud and abuse.

#### **RECOMMENDATIONS:**

We recommend that PCA:

- Enhance their procedures to require validation with HRM that criminal background checks have been performed for all individuals having or seeking status as a P-Card cardholder or approver.
- Withhold approval for any individual who has not been properly criminal background screened. PCA management should communicate the reasons for the delay with the employee’s supervisor and instruct the supervisor on the steps necessary to be taken for approval to be granted.

#### **MANAGEMENT’S RESPONSE AND CORRECTIVE ACTION PLAN:**

4a – Concur. PCA is working with central office human resource management and the county health departments human resource management offices on the new requirements and process.

1. Cardholder Profile and Approver forms have been updated to include the background screening dates.

*Anticipated completion date:*

Completed.

2. Add to draft DOHP 56-44-10.
3. Notify appropriate staff when policy is approved

*Anticipated completion date:*

October 30, 2010

4b – Concur. PCA and the servicing human resource offices will coordinate the implementation of the new background screening requirement.

1. Develop a process to handle negative reports based on the guidelines in DOHP 60-5-08.
2. Add to draft DOHP 56-44-10.

3. Notify appropriate staff when policy is approved

*Anticipated completion date:*

October 30, 2010

**FINDING 5** – *P-Cards may be obtained from PCA by DOH employees (typically P-Card liaisons) on behalf of P-Card cardholders without signature from the cardholder acknowledging receipt.*

We learned during the course of this review that when a P-Card for a DOH cardholder expired and a renewal P-Card was issued, PCA notified the unit's administrative personnel that the new P-Card was available for pick-up. It was determined that these administrative employee(s) were designated by PCA as P-Card "liaisons" and, therefore, could pick up renewal P-Cards on behalf of the cardholders within their unit. Additionally, when P-Card liaisons or cardholders have picked up renewed P-Cards, they were not required to sign a confirmation for their receipt of the P-Card. Observation of the employee's DOH I.D. badge was the only verification obtained by PCA to release the P-Card.

The PCA procedures for releasing initial P-Cards and renewals are as follows:

- The P-Card liaisons are P-Card approvers at the work unit level;
- A cardholder can email the P-Card Administrator to designate an alternate person to pick up their P-Card from PCA on their behalf if their liaison is not available;
- Due to the close proximity, CO cardholders and liaisons can pick-up P-Cards directly from the PCA unit;
- The PCA Administrator verifies the person picking up an initial or renewal P-Card by sight verification of their DOH I.D. badge;
- For outside of CO, PCA includes P-Card issues and renewals within parcels of warrants being shipped from the CO Finance & Accounting unit to area

offices' financial units, which sign for the parcels;

- The area office P-Card liaisons receive the issued or renewed P-Card from their financial unit and are responsible for getting them into the possession of the cardholder whose name appears on each card;
- Currently, there are inconsistencies in the use of written confirmation that document the cardholder's receipt of a P-Card, whether it is collected by another on their behalf or a liaison or themselves. Some PCA staff require the cardholder to sign for the receipt of a P-Card while others do not.

Allowing P-Cards to be picked up without a confirmation or attestation of receipt by the cardholder increases the likelihood the Department could be subjected to fraud and/or misuse of the P-Card while limiting the accountability since there is no evidence the cardholder ever took possession of the card.

**RECOMMENDATIONS:**

We recommend that PCA:

- Include the definition of the "liaisons" and the P-Card pick-up procedures in the draft policy (*DOHP-56-44-07*).
- Require that individuals picking up a P-Card from PCA on behalf of a cardholder sign that they received the card in question.
- Establish a process to obtain an acknowledgement of final receipt from all cardholders, even those that are located outside of the headquarters at the time the cardholder takes possession of the P-Card. PCA should maintain these cardholder acknowledgements on file until their next renewal, at which time a new acknowledgement would be obtained.

**MANAGEMENT’S RESPONSE AND CORRECTIVE ACTION PLAN:**

**CLOSING COMMENTS**

- 5a – Concur.
1. Add to draft DOHP 56-44-10.
  2. Notify appropriate staff when policy is approved.

We would like to thank the management and staff of the Division of Administration, Bureau of Finance & Accounting and Bureau of General Services for providing their cooperation and assistance to us during the course of this review.

*Anticipated completion date:*  
October 30, 2010

- 5b – Concur. PCA established a process for cardholders and liaison.

*Anticipated completion date:*  
Completed.

- 5c – Concur. PCA established a notification process with the purchasing card liaisons outside of central office.

*Anticipated completion date:*  
Completed.

**COMPLIANCE WITH GENERALLY ACCEPTED GOVERNMENT MANAGEMENT REVIEWING STANDARDS**

This performance review was conducted in accordance with Section 20.055(5)(a), *Florida Statutes*, and as recommended by *Quality Standards for Inspections, Evaluations and Reviews by Offices of Inspector General*<sup>2</sup>. Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence that provides 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.

<sup>2</sup> As included with in the *Principles and Standards for Offices of Inspectors General*, Association of Inspectors General, 2004 revision.