

MEMORANDUM

Date: July 19, 2012

To: Edward G. McEachron, Director, Division of Administration

From: James D. Boyd, C.P.A., M.B.A., Inspector General

Subject: Interim Report related to Office of Inspector General Project
No. A-1112DOH-020 - *Use of DOH's Purchasing Card, A Continuous Audit
Project – May 2012*

Background

We identified the Purchasing Card (P-Card) process as a component of the continuous audit cycle. Continuous audits provide regular testing of controls and risks and result in timely notification of gaps and weaknesses to allow immediate follow-up and remediation. The scope of these audits is very narrow and the audits are performed on an ongoing basis.

Scope and Objective

The scope of this project is to periodically analyze current P-Card data as it becomes available throughout the life of the audit. The length of the audit began with April 2012 data and will continue on a monthly basis for at least six months, but no longer than one year.

The objective of this continuous audit engagement is to identify whether sufficient key controls over DOH's P-Card are in place so that the P-Cards are used in accordance with applicable DOH policy.

While this project relies heavily on P-Card data from the Florida Accounting Information Resource (FLAIR), it was not within the scope of this audit to test the validity or integrity of the underlying data.

What we analyzed for May 2012

We analyzed data related to all P-Card transactions statewide at DOH for the month of May 2012.

We analyzed the data from the following perspectives:

- Transactions by individual P-Card user (cardholder), including cardholders with the highest number of transactions and with large transaction amounts;
- Transactions by merchant, and by amount charged;
- Credit transactions;
- Cardholder transactions after card expiration date;

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- Cardholder limits;
- Possible transactions split by cardholders to circumvent cardholder limits;
- Cardholders with single transactions greater than the per-charge limit;
- Cardholders with total transactions greater than the maximum amount allowed to be charged on the card;
- Charges to types of businesses with inappropriate Standard Industry Classification (SIC) codes;
- Transactions by cardholders restricted to travel were only with travel-related merchants;
- Transactions with a charge date occurring on a weekend or holiday date;
- Comparing cardholders to DOH employees to identify possible cardholders who are not DOH employees or that no longer work for DOH.

We requested the P-Card Administrator to review documentation for additional analysis on certain transactions.

There were 2,440 active cardholders at DOH statewide as of June 4, 2012. There were 1,287 cardholders that used their card during the month of May 2012, creating 16,014 transactions. The average number of transactions per cardholder was 12.

What we found

We identified to the P-Card Administrator that:

- A series of split purchases appeared to be made by a cardholder to override the maximum amount allowed on a single charge. A large purchase of computers was required to be made by the cardholder. On one day, a purchase of \$59,989 was split into three separate orders, each under \$25,000, circumventing the \$25,000 maximum single charge limit set for the cardholder. Several days later, another large purchase of computers for \$33,236 was split into two separate orders, each under \$25,000, also circumventing the same limit.

We were able to identify this issue because we analyzed data by cardholder name over a series of dates.

- There were four cardholders with single charge amounts greater than the maximum charge limit. The P-Card Administrator subsequently explained the cause was that merchants were forcing transactions by using the previous authorization code and then changing the amount due. The P-Card Administrator also explained DOH does not have any control over merchants forcing transactions, and that the Department of Financial Services will contact Bank of America.

We were able to identify this issue because we compared cardholder transactions data to cardholder limits data.

- The control used to prevent inappropriate types of purchases by cardholders restricted to purchases for car commodities and repairs was not sufficient. We examined data for purchases by cardholders restricted only to car commodities and repairs. We identified that each of the three cardholders restricted to these types of transactions made charges to types of businesses with Standard Industry Classification (SIC) codes to which the DOHMAINT Block Group was not assigned.

An SIC code is assigned to each type of merchant. DOH can then restrict cardholders to certain types of purchases for which the cardholder is approved. This is accomplished by assigning “blocks” to other types of merchant SIC codes for which the cardholder is not approved and to SIC codes that are not appropriate for any DOH cardholder. The DOHMAINT Block Group is assigned to other types of merchant SIC codes so that cardholders approved only to make purchases related to car commodities and repairs are prevented from making other types of purchases, including purchases for travel or gas.

The intent of establishing the DOHMAINT Block Group was tied to the restriction on specific commodities purchases for vehicle maintenance in DOHP 56-44-11, *Purchasing Card Guidelines*, that explains, “The expenditure may be placed on the purchasing card to support state vehicles only. CHDs that use county vehicles as part of their motor pool must have an agreement in place with the local board of county commissioners establishing that the cost maintenance is the responsibility of the CHD, thus making the county vehicle repairs a state liability by contract if the card is used to pay for repairs on county vehicles.”

The range of SIC codes to which DOHMAINT has been assigned was not sufficient to prevent such cardholders restricted to this Block Group from making other types of purchases, including such things as veterinary services, cable and television services, service stations, and travel. The intent of the DOHMAINT was to specifically prevent purchases of gas and travel.

Because the control is not sufficient, we identified purchases such as hotel stays, postage stamps, medical equipment, and parking made by cardholders assigned the DOHMAINT Block Group.

We were able to identify this issue because we analyzed the data for SIC codes. We then compared cardholder transactions data to the SIC codes assigned to the DOHMAINT Block Group.

Pursuant to our inquiries the P-Card Administrator explained that as of July 4, 2012 the DOHMAINT Block Group was eliminated. The cardholders that were assigned this Block Group have been assigned the DOHBLOCK Block Group that restricts the cardholders to purchases of commodities and travel only, with no gasoline privileges.

- There were cardholders that no longer work for DOH. The office where each cardholder worked had not timely notified the P-Card Administrator so that the P-Card could be cancelled.

We were able to identify this issue because we compared cardholder names to DOH employees.

Supplemental Information

Section 20.055(2), *Florida Statutes*, charges each Office of Inspector General responsibility to provide a central point for coordination of activities that promote accountability, integrity, and efficiency in government.

We are conducting this audit engagement in conformance with *International Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors, as provided by Section 20.055(5)(a), *Florida Statutes*, and as recommended by Quality Standards for Audits by Offices of Inspector General (*Principles and Standards for Offices of Inspectors General*, Association of Inspectors General).

The audit is being conducted by Office of Inspector General audit staff Mark H. Boehmer, Certified Public Accountant, under the supervision of Michael J. Bennett, Certified Internal Auditor, Director of Auditing.

Closing Remarks

We would like to thank the Division of Administration's Bureau of Finance & Accounting, Purchasing Card Administrator and her staff for providing their cooperation and assistance to us during the course of this audit.

We intend to publish our next interim report addressing June 2012 data no later than August 15, 2012.

JDB/mhb

cc: Kristina L. Wiggins, Deputy Secretary for Health
Lynn Robinson, Acting Chief, Bureau of Finance and Accounting
Lisa Punausuia, Purchasing Card Administrator