

Internal Audit Department  
NeighborWorks® America

# **Audit Review of Purchase Card Administration**

Project Number: NW. PROC.PCARD.2018

# **Audit Review of Purchase Card Administration**

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7/11/2019

To: NeighborWorks America Audit Committee

Subject: **Audit Review of Purchase Card Administration**

Attached is our draft audit report for the Purchase Card Administration review. The audit fieldwork had been completed in October 2018 by a contracted consultant. Due to consultant challenges, senior management and staff personnel changes in Procurement; Internal Audit had an extended timeline in completing this report.

As a result, a number of observations have been superseded by management action which would be indicated in the main body of the report with an **Update** by Internal audit.

Please contact me with any questions you might have.

Thank you.

Frederick Udochi  
Chief Audit Executive

Attachment

cc: M. Rodriguez  
S. Rice  
R. Bond  
R. Simmons

**Function Responsibility and Internal Control Assessment  
Audit Review of Purchase Card Administration**

<b>Business Function Responsibility</b>	<b>Report Date</b>	<b>Period Covered</b>
Procurement	July 11, 2019	August 1, 2017 through July 31, 2018
<b>Assessment of Internal Control Structure</b>		
Effectiveness and Efficiency of Operations		<b>Generally Effective</b>
Reliability of Financial Reporting		<b>Not Applicable</b>
Compliance with Applicable Laws and Regulations		<b>GSA SmartPay Purchase Card Rules</b>

This report was reissued February 15, 2024 in accordance with a recommendation by the Government Accountability Office (GAO-23-105944, June 14, 2023).

<sup>1</sup> **Legend for Assessment of Internal Control Structure:** **1. Generally Effective:** The level and quality of the process is satisfactory. Some areas still need improvement. **2. Inadequate:** Level and quality of the process is insufficient for the processes or functions examined and require improvement in several areas. **3. Significant Weakness:** Level and quality of internal controls for the processes and functions reviewed are very low. Significant internal control improvements need to be made.

## Executive Summary of Observations, Recommendations, & Management Responses

Summarized Observation Risk Rating	Management Agreement with Observation (Yes/ No)	Internal Audit Recommendation Summary	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation	Estimated Date of Implementation (Month/Year)	Internal Audit Comments on Management Response
<p><b>Observation 1</b></p> <p><b>Approvals and Relevant Documentation either Not Obtained or Insufficient.</b></p> <p>We observed that a number of cardholders did not obtain approval of the monthly PCard statement from the assigned Approving Official</p> <p><b>Risk Rating:</b> (b) (5)</p>	<p><b>YES</b></p>	<p><b>Recommendation 1</b></p> <p>Procurement should periodically issue reminders to cardholders that PCard statements, must be signed by the assigned Approving Official. In addition, without signed statements the PCard reconciliations would not be processed for payment.</p>	<p><b>YES</b></p>	<p>The current iteration of the PCard manual states: 12. Pre-authorization of Purchases The PCard holder must obtain pre-authorization of purchases from the designated Approving Official for that PCard. The pre-approval must be in writing (email is acceptable until implementation of an on-line approach) and must contain the transaction detail information (i.e. Vendor name, purchase details, quantity, total amount of purchase, and business purpose). Blanket approvals for recurring transactions may be obtained in advance of these transactions. The current iteration of the PCard manual</p>	<p>12/31/2019</p>	<p>Internal Audit accepts Management's response</p>

Summarized Observation Risk Rating	Management Agreement with Observation (Yes/ No)	Internal Audit Recommendation Summary	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation	Estimated Date of Implementation (Month/Year)	Internal Audit Comments on Management Response
				<p>states the following regarding the reconciliation statements:</p> <p>1.1. Once this process is complete, the PCard holder must submit the reconciled statement to the Approving Official for review and approval. The document does not refer to an approving official signing the physical statement. This may have been an update in light of the fact that card statements are dependent upon USPS delivering the statement to staff person and the staff person subsequently connecting with an Approving Official that may or may not be in the same physical location. Approvals are now predominantly via email and saved with statements every month. Procurement has recently started a comprehensive</p>		

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				review of the approval process to include input from Finance, Internal Audit, and end users (PCard Holders and Approving Officials).		
<p><b>Observation 2</b></p> <p><b>Exceeding Authorized Purchase Limits</b></p> <p>We observed that 4 of the 33 cardholders had exceeded their monthly credit limits at least once during the period under review (12-month period) by approximately \$3,300 cumulatively. These excesses can however be attributable to the discrepancy in interpretation of monthly spending limits versus single purchase limits.</p> <p><b>Risk Rating:</b> (b) (5)</p>	<p><b>YES</b></p>	<p><b>Recommendation 2</b></p> <p>Procurement should develop procedures to review and ensure that cardholder transactions are made within their designated levels of authority i.e., the Letter of Delegation. In addition, Procurement should provide more clarity around the monthly spending limits versus single purchase limits.</p>	<p><b>YES</b></p>	<p>Currently, all cardholders have been brought into alignment with their respective DOA thresholds as a result of a collaboration with OGC. There was some misalignment between cardholders spending limits and their DOA thresholders. We also found that the current DOA request doesn't address purchase card spending limits, OGC and Procurement are reconciling the issues with an update to the DOA policy and request</p>	<p>12/31/2019</p>	<p>Internal Audit accepts Management's response</p>

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				<p>form to include PCard limits. Procurement currently preforms quarterly PCard transaction audits to insure all card holder transactions are complainant with all PCard policies and producers, we also check for other violations to include (split purchases, fraudulent purchases and another spurious purchasing actives).</p>		



Summarized Observation Risk Rating	Management Agreement with Observation (Yes/ No)	Internal Audit Recommendation Summary	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation	Estimated Date of Implementation (Month/Year)	Internal Audit Comments on Management Response
<p><b>Observation 3</b></p> <p><b>Inadequate Training/Lack of Documented Training Records for Cardholders and AO</b></p> <p>Internal Audit determined that 12 Purchase Cardholders and 10 Approving Officials had not completed their required Purchase Card training.</p> <p>Risk Rating: (b) (5)</p>	<p><b>YES</b></p>	<p><b>Recommendation 3</b></p> <p>Internal Audit strongly recommends that management conduct a training requirement review of all PCard holders and place an immediate suspension on the cards of Purchase cardholders and Approving Officials who have not undertaken and completed the required training.</p>	<p><b>YES</b></p>	<p>After initial review, it would appear the issue has been addressed in the previous PCard Policy update.</p> <p>PCards are not issued without having the required documentation.</p>	<p>12/31/2019</p>	<p>Internal Audit accepts Management's response</p>
<p><b>Observation 4</b></p> <p><b>Cancellation of the Purchase Card on Employee Termination</b></p> <p>Corporate policy requires that Cardholders who either voluntarily or involuntarily terminate their positions at the Corporation must return his or her card to the PCard Administrator or HR on their last day. This policy applies to both resigning and terminated employees without making any</p>	<p><b>YES</b></p>	<p><b>Recommendation 4</b></p> <p>We recommend that the Corporation revise current policy to distinguish between an employee who leaves voluntarily (or resigns) versus involuntarily (or terminated). Resigning staff should be allowed to keep their PCard up till the final day of resignation while terminated staff should be immediately made to hand over the PCard on termination. In both instances Human Resources should be made</p>	<p><b>YES</b></p>	<p>Policy is being updated to reflect the procedure for purchase cards to clearly distinguish between voluntary and involuntary separation. The policy will have a procedure around both.</p>	<p>12/31/2019</p>	<p>Internal Audit accepts Management's response</p>

Summarized Observation Risk Rating	Management Agreement with Observation (Yes/ No)	Internal Audit Recommendation Summary	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation	Estimated Date of Implementation (Month/Year)	Internal Audit Comments on Management Response
<p>distinction for the higher risk personnel.</p> <p>Risk Rating: (b) (5)</p>		<p>to have departments, Procurement inclusive; to sign off in either case on the departure of an employee.</p>				
<p><b>Observation 5</b></p> <p><b>PayPal Purchases</b></p> <p>From August 1, 2017 to July 31, 2018, cardholders paid PayPal merchants a total of approximately \$30,000. It is sometimes difficult to determine the business justification for such purchase card expenses via PayPal.</p> <p>Risk Rating: (b) (5)</p>	<p><b>YES</b></p>	<p><b>Recommendation 5</b></p> <p>We strongly recommend that the Corporation modifies the Administration Manual to prohibit cardholders from using PayPal merchant accounts when using the Corporate purchase card.</p>	<p><b>YES</b></p>	<p>There are no known uses of PayPal or any other Peer-to-peer payment methods used since the current PCard Administrator has assumed the role.</p> <p>The current policy is undergoing review and update to exclude Peer-to-Peer, explicitly PayPal, payment methods to acquire products and services.</p>	<p>12/31/19</p>	<p>Internal Audit accepts Management's response</p>

Summarized Observation Risk Rating	Management Agreement with Observation (Yes/ No)	Internal Audit Recommendation Summary	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation	Estimated Date of Implementation (Month/Year)	Internal Audit Comments on Management Response
<p><b>Observation 6</b></p> <p><b>Multiple Staple and FedEx Purchase Accounts</b></p> <p>We noted that there were multiple Staple and FedEx accounts opened by individual staff and divisions.</p> <p><b>Risk Rating:</b> (b) (5)</p>	<p><b>YES</b></p>	<p><b>Recommendation 6</b></p> <p>We recommend that the Corporation maintain a master Staples and FedEx Business Account/Card for cardholders to purchase office products, supplies or FedEx deliveries.</p>	<p><b>YES</b></p>	<p>We have master accounts with both Staples and FedEx that managed by admin services. This gives us the ability to take advantage of discounted pricing and also to search, track and monitor purchases and expenses as needed. Individual user access is available upon request to F&amp;A. This gives specific users the ability to make divisional purchases, set up limits and approvals, charge purchases directly to their division's budgets, and manage their divisional accounts.</p>	<p>N/A</p>	<p>Internal Audit accepts Management's response</p>

## Risk Rating Legend

### Risk Rating: High

A serious weakness which significantly impacts the Corporation from achieving its corporate objectives, financial results, statutory obligations or that may otherwise impair the Corporation's reputation.

### Risk Rating: Moderate

A control weakness which could potentially undermine the effectiveness of the existing system of internal controls and/or operational efficiency, integrity of reporting and should therefore be addressed.

### Risk Rating: Low

A weakness identified which does not seriously detract from the system of internal control and or operational effectiveness/efficiency, integrity of reporting but which should nonetheless be addressed by management.

<b>Management Responses to The Audit Review of: Purchase Card Administration</b>		
<b># Of Responses</b>	<b>Response</b>	<b>Recommendation #</b>
6	Agreement with the recommendation(s)	6
0	Disagreement with the recommendation(s)	0

## **Background**

Purchase cards (P-Cards) are issued to active and permanent employees of the Corporation with the approval of the Office of General Counsel (OGC) and the Procurement Department subject to varying levels of delegated authority. This review took place between August and October of 2018 of last year. It is important to note that since then the policies and procedures have been revised; current or recent events may have superseded some of the recommendations. Management may, in their response, indicate where this may have occurred.

## **Objective**

Internal Audit (IA) conducted a review of the internal controls related to the Purchase Card (P-Card) program to identify opportunities for enhancements and improvement.

## **Scope and Methodology**

The scope of the review focused on P-Card program activities and transactions between August 1, 2017, and July 31, 2018, which consisted of 5083 transactions. During this time, the Procurement Department managed 34 active P-Cards, which were issued to various NeighborWorks America employees and business units. Our sample methodology reflected the selection of a random sample set for each control activity based on control frequency and assessed control risk. To identify the P-Card program's control objectives and associated operating effectiveness of critical controls identified, our tests of operating effectiveness included the following:

- Performed inquiries with key personnel within the Procurement department.
- Inspected policies and procedures related to the P-Card program and procurement cycle.
- Inspected documented evidence indicating the performance of the control activity/process.
- Identified key controls relevant to the P-Card program.
- Performed tests of internal controls that included the following elements:
- Made inquiries of appropriate personnel responsible for the performance of the control activity.
- Followed the performance of the procedural steps for a specific control activity cycle.
- Inspected documented evidence indicating the performance of the control activity/process.
- Observed the application of a specific control activity.

Below are the observations and recommendations that resulted from the testing performed.

## **Observations and Recommendations**

### **Observation 1**

#### **Approvals and Relevant Documentation either Not Obtained or Insufficient.**

We observed that cardholders did not obtain approval of the monthly PCard statement from the assigned Approving Official. The NeighborWorks America Purchase Card manual states that a signed copy of the monthly statement by the Approving Official, or an email approving the total charges for the month must be submitted. IA found that the Approving Official did not sign 12 of the 26 transactions that were tested for operating effectiveness.

**Update:** Management has since the review made comprehensive changes to the administrative manual providing further clarification around pre-authorization and signatures.

#### **Recommendation 1**

Procurement should periodically issue reminders to cardholders that the assigned Approving Official must sign monthly Purchase Card statements before payment and that without the signed statements, payments would not be made. Additionally, since monthly statements provide signature lines on the end of the document, PCard guidelines should reflect that only signed statements will be allowed as evidence of the Approving Official's review and approval.

In addition, Procurement should ensure that relevant adequate and sufficient documentation is being provided for all PCard reconciliation submissions.

**Risk Rating:** (b) (5)

### **Observation 2**

#### **Exceeding Authorized Purchase Limits**

During our review of the 12-month period, Internal Audit noted that the Corporation had not established adequate controls over monthly credit card limits. We observed that 4 of the 33 cardholders had exceeded their monthly credit limits at least once during the period under review (12-month period) by approximately \$3,300 cumulatively. Of the four cardholders, three each exceeded their assigned monthly credit limits once during the period and the fourth exceeded by \$1,926 and \$2,121 on two separate occasions. Exceeding delegated levels of spending authority places the organization at financial risk and is a form of management override which weakens the internal control structure in place.

**Update** Internal Audit noted in subsequent discussions with management that there was a discrepancy between how the corporation interpreted monthly spending limits and single purchase limit for staff, which was for the most part responsible for authorized limits. Management is taking action to resolve these discrepancies.

## **Recommendation 2**

Procurement should develop procedures to review and ensure that cardholder transactions are made within their designated levels of authority i.e., the Letter of Delegation. These limits should only be approved by the Office of General Counsel. Exceeding limits should be strongly discouraged, and reviews should be undertaken to determine if the specified delegated level of authority needs to be reviewed upwards based on historical expenditure patterns. We recommend that management provides clarity around monthly limits and single purchase limits. Violators who exceed authority limits should have their accounts suspended.

We also recommend that the Purchase Card Program Administration should analyze cardholder monthly transaction volumes and (i) reduce the number of cardholders by eliminating those cardholders they believe no longer need purchase cards, and (ii) establish new monthly spending limits for remaining cardholders based on their historical patterns of expenditure.

**Risk Rating:** (b) (5)

## **Observation 3**

### **Inadequate Training/Lack of Documented Training Records for Cardholders and Approving Officials**

At the time of the completion of this report, Internal Audit determined that 12 Purchase Cardholders and 10 Approving Officials had not completed their required training. The NeighborWorks *Procedure Procedures PCard* guide, Section A. Purchase Card (PCard) Application Process Paragraph 2 states “The PCard holder and the Approving Official must each complete the GSA training” an online training certification program.

Of approximately \$907,000, from August 1, 2017, to July 31, 2018, purchase card transactions, roughly \$165, 820 (18 percent) were made by cardholders for whom there was no documented evidence of required initial or refresher purchase card training. The current online training does not cover other policy items such as:

- ✓ Authorized usage limits and Merchant Category Code access.
- ✓ Review of the card statement and submission to the Approving Official
- ✓ Policies upon separation
- ✓ List of prohibited purchases, such as alcohol, personal memberships
- ✓ IT approval requirement

### **Recommendation 3**

Internal Audit strongly recommends that management review the training records of all purchase cardholders and place an immediate suspension the cards of Purchase cardholders and Approving Officials who have not undertaken and completed the required training. First and Second warnings should be issued with a third going in as a disciplinary action to the Human Resource file.

Procurement should develop a formal NeighborWorks America Purchase Card training course and set up a plan to roll out the training to all cardholders promptly. In addition, Procurement should set up a process that ensures completion of the GSA training before the PCard is issued to the cardholder. Training should be completed by each cardholder and Approving Official within 30 days.

**Risk Rating:** (b) (5)

### **Observation 4**

#### **Cancellation of the Purchase Card on Employee Termination**

Corporate policy requires that Cardholders who either voluntarily or involuntarily terminate their positions at the Corporation must return his or her card to the PCard Administrator or HR. Currently, the card is not required to be submitted until the day the person leaves the organization in both instances. This provides the employee with the use of the PCard until their last day of employment. The practice allows for the increased risk of misuse or fraud because the cardholder can make unauthorized purchases that will not be detected or verified by the AO until after person no longer works for the organization. This policy applies to both resigning and terminated employees without making any distinction for the higher risk personnel.

### **Recommendation 4**

We recommend that the Corporation revise current policy to distinguish between an employee who leaves voluntarily (or resigns) versus involuntarily (or terminated). Resigning staff should be allowed to keep their PCard up till the final day of resignation while terminated staff should be immediately made to hand over the PCard on termination. In both instances Human Resources should be made to have departments, Procurement inclusive; to sign off in either case on the departure of an employee. This process should ensure that there are no outstanding reconciliations on the account and that the PCard has been turned in to the appropriate personnel who would be the Purchase Card Program Administrator.

**Risk Rating:** (b) (5)

### **Observation 5**

#### **PayPal Purchases**



From August 1, 2017 to July 31, 2018, cardholders paid PayPal merchants a total of approximately \$30,000. It is sometimes difficult to determine the business justification for such expenses. permitting PayPal purchases creates an environment that allows for easier misuse or fraud of the PCard since it is difficult to determine if the transaction represented a legitimate purchase. In addition, the multitude of PayPal accounts opened does not allow for effective monitoring of expenditures.

#### **Recommendation 5**

We strongly recommend that the Corporation modifies the Administration Manual to prohibit cardholders from using PayPal merchant accounts when using the Corporate purchase card.

**Risk Rating:** (b) (5)

#### **Observation 6**

##### **Multiple Staple and FedEx Purchase Accounts**

From August 1, 2017 to July 31, 2018, cardholders spent approximately \$40,000, (291 transactions) at Staples for office products/supplies. In the same period cardholders also spent approximately \$46,000, (2237 transactions) for FedEx delivery services. We noted that there were multiple Staple and FedEx accounts opened. This practice does not allow for effective monitoring nor for the benefits of discounts when maintained.

#### **Recommendation 6**

We recommend that the Corporation maintain a master Staples and FedEx Business Account/Card for cardholders to purchase office products, supplies or FedEx deliveries. A master Staples card comes with the benefit of earning rewards for example the Staples Business Account offers 5% back in rewards on every account purchase in store and online. Other benefits include, free next day shipping on orders over \$49.99 and deferred 6, 12, or 18-month special financing plans. The establishment of a FedEx Business account also takes advantage of savings and other business account benefits

**Risk Rating:** (b) (5)