Internal Audit Report

SCDOT Purchasing Card Activity

Justina Heath

2022

SOUTH CAROLINA OFFICE OF THE STATE AUDITOR

1. Executive Summary

Objective

Management's objective with the purchasing card (P-Card) activity is to ensure that the Agency is in compliance with the State policies and procedures with regards to the administration of P-Cards. Our objective is to provide assurance that internal controls are adequately designed and operating effectively to manage risks that may hinder the achievement of Management's objectives.

Background

The Procurement Department operates as part of South Carolina Department of Transportation's Office of Finance and Administration, serving as a support unit to SCDOT. One of its main functions is the administration of the Agency's P-Card program.

The State of South Carolina P-Card is a charge card designed to enable authorized, full-time State of South Carolina employees to make purchases of supplies, materials and services for State business use. The P-Card program streamlines payments by eliminating the administrative burdens and costs associated with traditional payment methods. It is the Cardholder's responsibility to ensure that the card is used within stated guidelines of the SCDOT P-Card Policy as well as SCDOT's Policies and Procedures relating to the expenditure of SCDOT funds.

In November 2019, the State Fiscal Accountability Authority issued an independent procurement audit report for the period April 1, 2011, through June 30, 2018. As part of SCDOT's Response to the Procurement Audit Report, Internal Audit Services agreed to provide monitoring for one year and an annual P-Card risk and control assessment. This report serves to provide reporting on the both the monitoring review and the annual audit of the P-Card activity within SCDOT, as performed by Internal Audit Services.

Results

In our opinion, controls are adequately designed and operating effectively for the Agency to achieve its goals. Risk exposure is determined to be Medium-Low. No observations Medium or greater were observed.

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2. Forward

Authorization

The South Carolina Office of the State Auditor established the Internal Audit Services division (IAS) pursuant to SC Code Section 57-1-360 as revised by Act 275 of the 2016 legislative session. IAS is an independent, objective assurance and consulting function designed to add value and improve the operations of the South Carolina Department of Transportation (SCDOT). IAS helps SCDOT to achieve its objectives by bringing a systematic, disciplined approach to evaluating the effectiveness of risk management, internal control, and governance processes and by advising on best practices.

Statement of Independence

To ensure independence, IAS reports administratively and functionally to the State Auditor while working collaboratively with SCDOT leadership in developing an audit plan that appropriately aligns with SCDOT's mission and business objectives and reflects business risks and other priorities.

Report Distribution

This report is intended for the information and use of the SCDOT Commission, SCDOT leadership, the Chairman of the Senate Transportation Committee, the Chairman of the Senate Finance Committee, the Chairman of the House of Representatives Education and Public Works Committee, and the Chairman of the House of Representatives Ways and Means Committee. However, this report is a matter of public record and its distribution is not limited.

Acknowledgement

We wish to thank members of management and staff in the Procurement Division for their cooperation in assessing risks and developing actions to improve internal controls and enhance operating performance.

Lead Auditor

Justina Heath
Manager

Reviewer

Mark LaBruyere
Director of Internal Audit Services

SOUTH CAROLINA OFFICE OF THE STATE AUDITOR
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3. Internal Auditor's Report

April 18, 2022

Ms. Christy A. Hall, Secretary of Transportation
and
Members of the Commission
South Carolina Department of Transportation
Columbia, South Carolina

We have completed risk and control assessment of the South Carolina Department of Transportation's (SCDOT's) Purchasing Card Activity. The objective of this assessment was to contribute to the improvement of risk management by evaluating SCDOT's exposure to risks and the controls designed by Management to manage those risks. Our engagement included two aspects:

- Facilitation of Management's assessment of risks associated with the purchasing card activity
- Independent assessment of the design and effectiveness of internal controls to determine whether those controls effectively manage the identified risks to an acceptable level.

We planned and performed the engagement with due professional care in order to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and recommendations. Our observations, recommendations, and management's action plans were discussed with management.

George L. Kennedy, III, CPA
State Auditor

4. Engagement Overview

Background

The Procurement Department operates as part of South Carolina Department of Transportation's (SCDOT) Office of Finance and Administration, serving as a support unit to SCDOT. Within the Procurement Department, the Office of Project Delivery's areas of service include the following:

1. The Procurement of Design-Build Projects
2. Administration of SCDOT's Purchasing Card (P-Card) Program

In November 2019, the State Fiscal Accountability Authority issued an independent procurement audit report for the period April 1, 2011, through June 30, 2018. The scope of the procurement audit included a review of the following:

1. Internal Procurement and P-Card procedure manuals
2. All sole source and emergency justifications
3. Procurement transactions for the audit period as follows:
    a. 65 procurements over $2,500
    b. 500 sequentially filed purchase orders reviewed for the use of order splitting and favored vendors
    c. 123 P-Card transactions for the three month period ended April 2018 through June 2018
4. Minority Business Enterprise Plans and Reports
5. Information technology acquisitions under IT Plans
6. Surplus property dispositions, and approval for trade-ins exceeding $5,000
7. Disposition of unauthorized procurements

As part of SCDOT's Response to the Procurement Audit Report, IAS agreed to provide monitoring for one year and an annual P-Card risk and control assessment. This report serves to provide reporting on both the monitoring review and the annual audit of the P-Card activity within SCDOT, as performed by Internal Audit Services.

The State of South Carolina P-Card is a charge card designed to enable authorized, full-time State of South Carolina employees to make purchases of supplies, materials and services for State business use. The P-Card program streamlines payments by eliminating the administrative burdens and costs associated with traditional payment methods. The card provides an efficient and effective method for purchasing and paying for non-contract supplies with a value of $2,500 or less. Typically, this is the procurement method of choice for eligible small purchases.

Bank of America issues P-Cards in the employee's name and all charges must be for official State business only. Purchases using the P-Card must follow the SC Consolidated Procurement Code, State and SCDOT purchasing regulations. It is the cardholder's responsibility to ensure that the card is used within stated guidelines of the SCDOT P-Card Policy as well as SCDOT's Policies and Procedures relating to the expenditure of SCDOT funds. Ultimate responsibility for the proper use of a P-Card rests with the cardholder. Failure to comply with the program guidelines may result in permanent revocation of the card, notification to management, and further disciplinary actions including termination.

P-Cards are only issued to a designated permanent, full-time SCDOT employee. Project Delivery will receive requests for card issuance via a P-Card application. Upon review of the application, including all required supervisor approvals and training completion, SCDOT will then issue a P-Card to the applicant. Each cardholder must maintain the original itemized receipt or invoice documentation and must monthly reconcile all receipts to their cardholder statements. Each subdivision/district head must assign a liaison for each cardholder. Liaisons review cardholder activity, question any charges, and approve the cardholder's monthly activity statements indicating their review. Each cardholder is also assigned a manager who is required to ensure that all purchases are properly documented, valid, and warranted for the day-to-day operation of the Department or Division.

Project Delivery performs a monthly review of activity designed to provide administrative monitoring of the program. These reports will notify the Department of any purchases made from prohibited vendors, potential split purchases, and dormant P-Cards. Project Delivery will then research and investigate variances as necessitated from its monitoring.

Objective

Management's objective with the P-Card activity is to ensure that the Agency is in compliance with State policies and procedures with regards to the administration of P-Cards.

Our objective is to provide assurance that internal controls are adequately designed and operating effectively to manage risks that may hinder the achievement of Management's objectives for the P-Card activity.

Scope

The P-Card activity is comprised of eight processes involving multiple stakeholders as follows:

1. Issuance of P-Cards
2. Cardholder Review
3. Liaison Review
4. Manager Review
5. Monthly HQ Reviews
6. Termination of P-Cards
7. Declared Emergencies
8. Accounts Payable Payments

Based on the compliance requirements for this activity, IAS included all processes within our scope. Our scope included transactions for the period of November 2020 through November 2021.

Methodology

For the processes included in the engagement scope, we performed the following procedures:

1. We discussed with Management their processes and the respective individuals responsible.
2. We facilitated Management's completion of a risk and control matrix used to:
    a. Identify risks which threaten process objectives;
    b. Score the risks as to their consequence and likelihood of occurrence using the risk scoring matrix in Appendix B;
    c. Determine if controls are adequately designed to manage the risks to within the Agency's risk appetite; and
    d. Propose design improvements to controls when risks are not managed to within the Agency's risk appetite.

    As shown on the Risk Scoring Matrix in Appendix B, risk significance is rated on a scale of 1 (lowest) to 25 (highest) and is the product of the risk consequence score (1 to 5) multiplied by the risk likelihood score (1 to 5). Risk appetite is the amount of risk exposure Management is willing to accept in pursuit of its objectives. Executive Management has set various risk appetites by risk type as shown in Appendix C. Risks scoring below Management's risk appetite require no further risk management. Controls determined to be inadequate in design result in risk exposure to the Agency if risk scores exceed risk appetite.
3. We observed the discussion by key process owners and other subject matter experts performing the steps in procedure two above.
4. We evaluated Management's assessment to determine if it was reasonable and comprehensive.
5. We tested key controls intended to manage risks with inherent risk scores of 6 and above [scale of 1 (low) to 25 (high)] to determine if controls are designed adequately and operating effectively. Our testing included inquiry, observation, inspection of documentation, and re-performance of process steps to determine if key controls are operating effectively.
6. We developed observations for controls determined to be inadequate in design and/or ineffective in operation.
7. We collaborated with management to develop action plans to improve control design and/or operating effectiveness.

5. Conclusion

Purchasing Card Activity Controls

The Agency has several internal controls to ensure that P-Card activity is in compliance with State policies and procedures. In our opinion, controls are adequately designed and operating effectively for the Agency to achieve its goals. Risk exposure is determined to be Medium-Low. Our observations and recommendations in combination with Management's action plans are expected to improve those internal controls and reduce risk exposures to within the Agency's risk appetite.

Development of Management Action Plans

We facilitated Management's development of action plans for each observation to improve control design with practical, cost-effective solutions. These improvements, if effectively implemented, are expected to reduce the overall risk exposure to an acceptable level (i.e. within the Agency's risk appetite).

We will follow up with Management on the implementation of the proposed actions on an ongoing basis and provide SCDOT leadership with periodic reports on the status of management action plans and whether those actions are effectively and timely implemented to reduce risk exposure to an acceptable level.

Observations

Observation 5.1 **Unallowable P-Card Use**	**Risk Exposure** **Medium-Low**
Division: Procurement	
Control Assessed: Control 1 – Cardholder Reconciliation Control 2 – P-Card Reconciliation Checklist Control 3 – Liaison Review Control 4 – Manager Review	
Control Description: Control 1 – Each cardholder is required to reconcile all receipts for the activity period to the bank statement activity. Control 2 – Each month a P-Card reconciliation checklist is required to be completed for each cardholder's activity. The checklist is a guide for the cardholder, liaison, and manager that details each step that they must complete in their monthly review. Control 3 – Each cardholder is assigned a liaison. The liaison is required to review the cardholder reconciliation and ensure that all documentation are within the reconciliation, review transactions to ensure they are legitimate public expenditures, and comply with all P-Card policies. After the liaison review, the reconciled package is given to the manager. Control 4 – Each cardholder is also assigned a manager. The manager reviews and signs the monthly activity statement, attesting that all purchases are properly documented, valid, and warranted for the day to day operations of the department. They ensure all documentation is included within the package and sign all applicable documents.	
Process Affected: (See process descriptions in Appendix A on page referenced below) Process 1 – Cardholder Review Process 2 – Liaison Review Process 3 – Manager Review Process 4 – Declared emergencies	
Observation: Out of the 400 transactions tested in the monthly monitoring review, we found one unallowable P-Card transaction. While the purchased item was an unallowable purchase under the State and Agency P-Card policy, the transaction would have been allowable under other procurement methods (i.e. via an approved purchase order). **Recommendation 1:** We recommend that the Office of Project Delivery require cardholders, liaisons, and managers to complete a periodic training to continuously instill the importance of the policies and procedures for P-Cards.	

Recommendation 2:
IAS recommends that the Office of Project Delivery develop a monthly monitoring program in order to identify and monitor issues of non-compliance.

Management Action Plan (MAP) 5.1A

The Office of Project Delivery performs quarterly training for new cardholders. In conjunction with this training, a refresher training for all cardholders, liaisons, and managers will be implemented. The Office of Project Delivery will seek assistance from the SCDOT Learning Management System (LMS) team to automate when the refresher training is required.

MAP Owner:	Chief Procurement Officer – Project Delivery
Division:	Procurement
Scheduled Date:	July 1, 2023

Management Action Plan (MAP) 5.1B

The Office of Project Delivery updated the policies and procedures and performed training of all cardholders, liaisons, and managers prior to this audit. As the monthly monitoring by IAS progressed, the trend for issues and concerns declined. As part of this revision and in concurrence with the monthly monitoring completed by IAS, Project Delivery began additional monthly testing to include reviews of split purchases, weekend purchases, blocked MCC code purchases, underutilization, termination lists, etc. An additional full time employee has been filled and will facilitate the additional monitoring recommendation.

MAP Owner:	Chief Procurement Officer – Project Delivery
Division:	Procurement
Scheduled Date:	January 1, 2023

Observation 5.2
P-Card Administrative Issues

Risk Exposure
Medium-Low

Division: Procurement

Control Assessed:
Control 1 – Cardholder Reconciliation
Control 2 – P-Card Reconciliation Checklist
Control 3 – Liaison Review
Control 4 – Manager Review

Control Description:
Control 1 – Each cardholder is required to reconcile all receipts for the activity period to the bank statement activity.

Control 2 – Each month a P-Card reconciliation checklist is required to be completed for each cardholder's activity. The checklist is a guide for the cardholder, liaison, and manager that details each step that they must complete in their monthly review.

Control 3 – Each cardholder is assigned a liaison. The liaison is required to review the cardholder reconciliation and ensure that all documentation are within the reconciliation, review transactions to ensure they are legitimate public expenditures, and comply with all P-Card policies. After the liaison review, the reconciled package is given to the manager.

Control 4 – Each cardholder is also assigned a manager. The manager reviews and signs the monthly activity statement, attesting that all purchases are properly documented, valid, and warranted for the day to day operations of the department. They ensure all documentation is included within the package and sign all applicable documents.

Process Affected: (See process descriptions in Appendix A on page referenced below)
Process 1 – Cardholder Review
Process 2 – Liaison Review
Process 3 – Manager Review
Process 4 – Declared emergencies

Observation:
During the course of IAS' monthly monitoring testing, we noted that there were several administrative findings including issues such as untimely reconciliations, missing dates, incomplete checklists, missing or delayed approval signatures, etc. (included in the above dashboards). These findings represent instances of non-compliance with the State and Agency P-Card policies and are detailed in Appendix C.

Recommendation 1:
We recommend that the Office of Project Delivery require cardholders, liaisons, and managers to complete a periodic training to continuously instill the importance of the policies and procedures for purchasing cards.

Recommendation 2:
IAS recommends that the Office of Project Delivery develop a monthly monitoring program in order to identify and monitor issues of non-compliance.

Management Action Plan (MAP) 5.1A

The Office of Project Delivery performs quarterly training for new cardholders. In conjunction with this training, a refresher training for all cardholders, liaisons, and managers will be implemented. The Office of Project Delivery will seek assistance from the SCDOT Learning Management System (LMS) team to automate when the refresher training is required.

MAP Owner:	Chief Procurement Officer – Project Delivery
Division:	Procurement
Scheduled Date:	July 1, 2023

Management Action Plan (MAP) 5.1B

The Office of Project Delivery updated the policies and procedures and performed training of all cardholders, liaisons, and managers prior to this audit. As the monthly monitoring by IAS progressed, the trend for issues and concerns declined. As part of this revision and in concurrence with the monthly monitoring completed by IAS, Project Delivery began additional monthly testing to include reviews of split purchases, weekend purchases, blocked MCC code purchases, underutilization, termination lists, etc. An additional full time employee has been filled and will facilitate the additional monitoring recommendation.

MAP Owner:	Chief Procurement Officer – Project Delivery
Division:	Procurement
Scheduled Date:	January 1, 2023

Observation 5.3 Periodic Review of Liaison to Cardholder Ratio	Risk Exposure Medium-Low

Division: Procurement

Control Assessed:
Control 1 – Periodic Review of liaison to cardholder ratio

Control Description:
Control 1 – Project Delivery analyzes the amount of cardholders assigned to each liaison on a periodic basis. Each liaison should have seven or less assigned cardholders.

Process Affected: (See process descriptions in Appendix A on page referenced below)
Process 1 – Liaison Review

Observation:
Through conversation with management, we learned that a high-level periodic review of the liaison to cardholder review is performed; however, the results of the analysis are not formally maintained. We noted that it would a best practice for the Office of Project Delivery to maintain the results of the annual analysis.

Recommendation:
We recommend that Project Delivery formally document the cardholder to liaison analysis on a quarterly basis, along with any potential justifications for results that deviate from an established benchmark.

Management Action Plan (MAP) 5.3

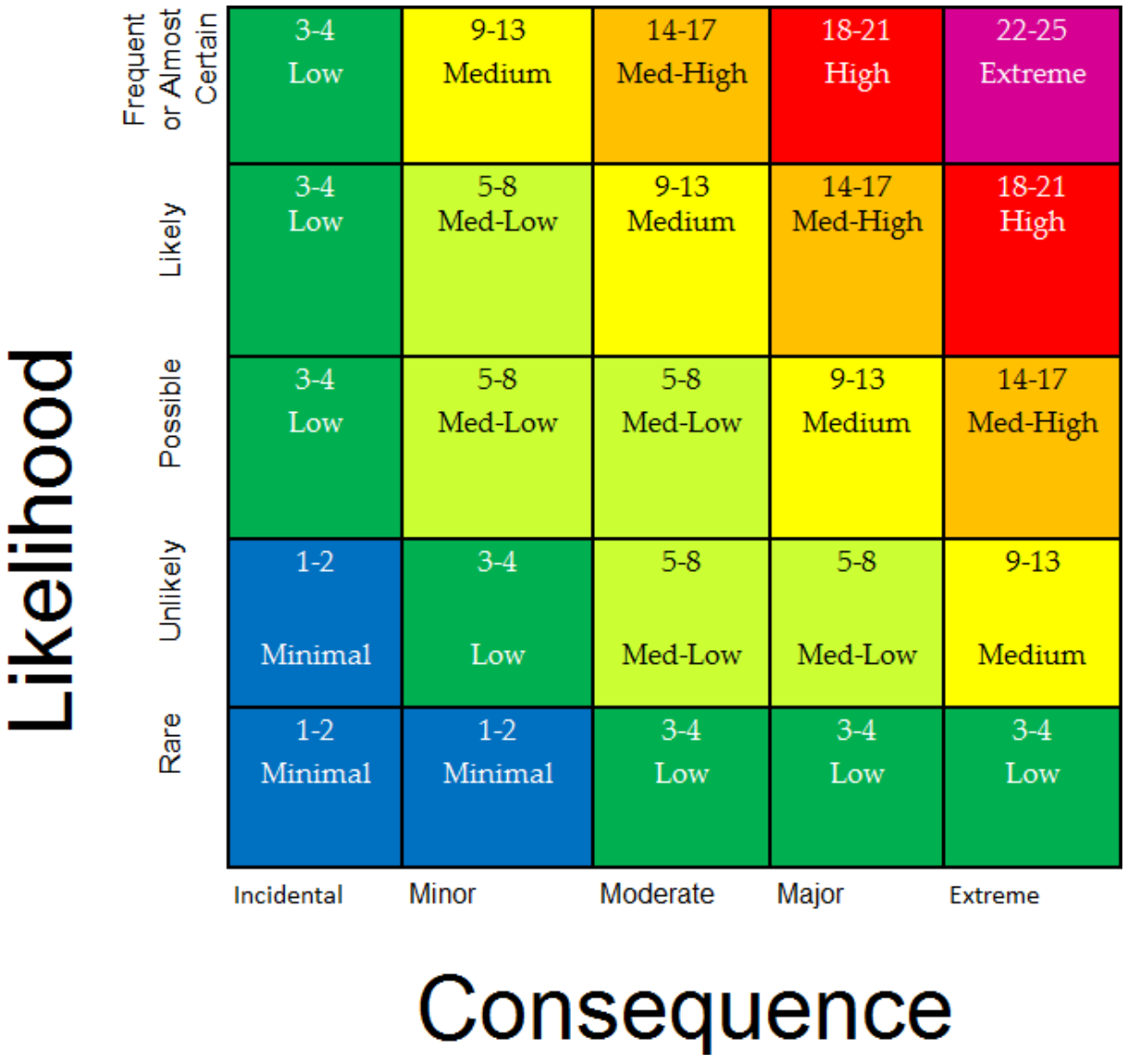
The Office of Project Delivery will review each new or modified cardholder/liaison application prior to approving to ensure the liaison to cardholder ratio is acceptable based on an established benchmark. Project Delivery will require additional information and justification if needed. A quarterly analysis of the ratio will be completed and documented.

MAP Owner:	Chief Procurement Officer – Project Delivery
Division:	Procurement
Scheduled Date:	July 1, 2022

Appendix A

RISK SCORING MATRIX

Risk significance is rated on a scale of 1 (lowest) to 25 (highest) and is the product of the risk consequence score (1 to 5) multiplied by the risk likelihood score (1 to 5). The following matrix provides a color scale corresponding to risk significance scores.



Appendix B

RISK APPETITE

Risk appetite is defined as the amount of risk the Agency is willing to accept in the pursuit of its objectives. Management's goal is to manage risks to within the appetite where mitigation is cost- beneficial and practical. Management has set the Agency's risk appetite by risk type using scoring methodology consistent with the Risk Scoring Matrix shown in Appendix B. Risk appetites by risk type are as follows:

RISK TYPE	EXAMPLES	RISK APPETITE SCORE 1 = Minimal Risk 25 = Extreme Risk (See Scoring Matrix in Appendix B)
Safety	Employee and Public Well-Being	2
Ethical	Fraud, Abuse, Mismanagement, Conflict of Interest	2
Financial	Funding, Liquidity, Credit, Reporting	4
Strategic	Resources not Aligned, Unclear Objectives	4
Reputational	Unintentional Unwanted Headlines	4
Operational	Delays, Cost Overruns, Waste, Inefficiency	6
Regulatory	Non-Compliance	6
Legal	Lawsuits	10

P-Card Monthly Monitoring

Sample of 50 Transactions Reviewed per Month

Quarter Ended December 2020

Issue Type	Issue	October		November		December	
		# of Issues	# of Trans-actions	# of Issues	# of Trans-actions	# of Issues	# of Trans-actions
Compliance	1. Unallowable Use of P-Card	*	*	0	0	0	0
Internal Controls	2. Untimely Reconciliation and/or Approval (within 5 days of statement receipt)	*	*	8	7	24	20
	3. Missing Date for Documenting Reconciliation Timeliness	*	*	3	3	7	7
	4. Incomplete Reconciliation Checklist	*	*	1	1	0	0
	5. Missing or Delayed Approval Signature	*	*	17	14	2	2
	6. Other Documentation Errors	*	*	2	2	1	1

* Monthly monitoring did not start until November 2020

Procurement Card Monthly Monitoring

Sample sizes: January – 50, February & March – 25

Quarter Ended March 2021

Issue Type	Issue	January		February		March	
		# of Issues	# of Trans-actions	# of Issues	# of Trans-actions	# of Issues	# of Trans-actions
Compliance	1. Unallowable Use of P-Card	0	0	0	0	0	0
Internal Controls	2. Untimely Reconciliation and/or Approval (within 5 business days of statement receipt)	7	7	0	0	4	4
	3. Missing Date for Documenting Reconciliation Timeliness	25	23	3	3	1	1
	4. Incomplete Reconciliation Checklist	0	0	0	0	0	0
	5. Missing or Delayed Approval Signature	4	4	8	8	1	1
	6. Other Documentation Errors	0	0	0	0	0	0

Procurement Card Monthly Monitoring

Sample size: 25

Quarter Ended June 2021

Issue Type	Issue	April		May		June	
		# of Issues	# of Trans-actions	# of Issues	# of Trans-actions	# of Issues	# of Trans-actions
Compliance	1. Unallowable Use of P-Card	0	0	0	0	1	1
Internal Controls	2. Untimely Reconciliation and/or Approval (within 5 business days of statement receipt)	1	1	7	6	5	5
	3. Missing Date for Documenting Reconciliation Timeliness	1	1	0	0	0	0
	4. Incomplete Reconciliation Checklist	0	0	0	0	0	0
	5. Missing or Delayed Approval Signature	3	3	1	1	0	0
	6. Other Documentation Errors	0	0	0	0	0	0

Procurement Card Monthly Monitoring

Sample size: 25

Quarter Ended September 2021

Issue Type	Issue	July		August		September	
		# of Issues	# of Trans-actions	# of Issues	# of Trans-actions	# of Issues	# of Trans-actions
Compliance	1. Unallowable Use of P-Card	0	0	0	0	0	0
Internal Controls	2. Untimely Reconciliation and/or Approval (within 5 business days of statement receipt)	4	4	1	1	1	1
	3. Missing Date for Documenting Reconciliation Timeliness	0	0	1	1	0	0
	4. Incomplete Reconciliation Checklist	0	0	0	0	0	0
	5. Missing or Delayed Approval Signature	0	0	1	1	1	1
	6. Other Documentation Errors	0	0	0	0	0	0

Procurement Card Monthly Monitoring

Sample size: 25

Quarter Ended December 2021

Issue Type	Issue	October		November		December	
		# of Issues	# of Trans-actions	# of Issues	# of Trans-actions	# of Issues	# of Trans-actions
Compliance	1. Unallowable Use of P-Card	0	0	0	0	*	*
Internal Controls	2. Untimely Reconciliation and/or Approval (within 5 business days of statement receipt)	4	4	1	1	*	*
	3. Missing Date for Documenting Reconciliation Timeliness	0	0	0	0	*	*
	4. Incomplete Reconciliation Checklist	0	0	0	0	*	*
	5. Missing or Delayed Approval Signature	0	0	0	0	*	*
	6. Other Documentation Errors	0	0	0	0	*	*

* IAS's Monthly monitoring ended in November 2021.