

STATE OF NEW HAMPSHIRE
INTERNAL CONTROL REVIEW
STATE PROCUREMENT CARD PROGRAM
OCTOBER 2017



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To The Fiscal Committee Of The General Court:

This report presents the results of our assessment of the internal controls in operation over the State's procurement card (P-Card) program during the six months ended December 31, 2016. The State's P-Card program is administered by the Department of Administrative Services.

We conducted our work in accordance with auditing standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings.

The work performed was for the purpose of meeting the audit objectives described on page 4 of this report and did not constitute an audit of financial statements in accordance with GAGAS. The work performed also was not designed for the purpose of expressing an opinion on the effectiveness of the State's internal controls. Accordingly, we do not express an opinion on the effectiveness of the State's internal controls.

The Department of Administrative Services (Department) provided auditee responses which are included with each finding in this report. We did not audit the Department's responses.

Office of Legislative Budget Assistant

Office Of Legislative Budget Assistant

October 2017

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* No comments suggest legislative action may be required.

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EXECUTIVE SUMMARY

State agency management is responsible for establishing and maintaining effective internal controls, including controls over financial reporting, and controls over compliance with the laws, administrative rules, regulations, contracts, and grant agreements applicable to the entity's activities. The Department of Administrative Services has developed an *Internal Control Guide* to help State agency personnel understand the concepts of internal control. The *Internal Control Guide* explains the purpose of internal control and also explains its five components: control environment, risk assessment, control activities, information and communication, and monitoring. In addition, the Department of Administrative Services also maintains a *Manual of Procedures*, approved by the Governor and Council, for use by all State agencies.

The objective of this audit was to evaluate whether the Department of Administrative Services (Department or DAS) as the administrative agency, and State agencies, as user agencies, have designed, communicated, implemented, and operated suitable internal controls over the establishment and operation of a State-wide procurement card (P-Card) program intended to "streamline small purchase methods, minimize paperwork, eliminate the use of field purchase orders, and simplify the administrative effort associated with traditional and emergent purchase of supplies and commodities."¹ Criteria used in the evaluation included State statutes and administrative rules, policies and procedures, including the Department's *Procurement Card Users Manual*, *Manual of Procedures (MOP 1625)*, and *Internal Control Guide*, accepted State business practice, and State user-agency P-Card policies and procedures. The purpose of this audit was not to render an opinion on the State's or any agency's financial statements, internal control, or compliance.

Our audit was performed using auditing standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings.

SUMMARY OF RESULTS

We found the State's controls over the operation of its P-Card program consisted of controls in place at the DAS, as the program administrator, and controls in place at the State agencies participating in the P-Card program, including DAS.

¹ State of New Hampshire, Department of Administrative Services, *Procurement Card Users Manual*, revised effective 8/24/16, V.2.0.

We found the design of DAS' controls for managing the P-Card program to be insufficient to provide reasonable assurance that the specified internal control objectives would be achieved.

We also found some of the Department's controls for the P-Card program did not consistently operate as designed during the audit period. The establishment, operation, and maintenance of DAS' controls over the P-Card program appeared to be negatively affected by a key DAS program manager position not being filled. The vacancy in this key senior position at the inception of the P-Card program contributed to a control environment that did not demonstrate a strong control consciousness for the need to establish and maintain effective program controls over its and the participating agencies' related processes.

We found agency policies and procedures were not in full compliance with P-Card program requirements at any of the 13 agencies tested. We found the design of the controls at the agencies participating in the P-Card program to be varied. For example, for eight and a portion of a ninth agency selected in the audit for process review, the design of controls required cardholders to get pre-purchase approvals for field purchase order level purchases, in accordance with the DAS *Manual of Procedures (MOP 1625)*. At four agencies selected for process review, no similar pre-purchase approval controls were in place. We found the operation of the agency controls was also mixed, with the operation of controls at some agencies, and parts of agencies, better than others.

Weaknesses in the design and operation of internal controls supporting the State's P-Card program put the State at increased risk: in attempting to meet its program objectives, the State has significantly increased its exposure to error, fraud, noncompliance, and other misuses of State resources.

While we found weaknesses in the design and operation of P-Card program controls, we did not identify evidence of fraud or significant misuse in the transactions tested. We did find instances of noncompliance with policies and procedures related to the audit objectives.

The appendix to this report beginning on page 21 summarizes certain data related to the operation of the State's P-Card program during the six months ended December 31, 2016.

BACKGROUND

The State's P-Card program was initiated in July 2013 with the goal of providing "significant benefits for all state agencies, and will improve the efficiency and effectiveness of processing and monitoring low dollar expenses for the State of New Hampshire."² The P-Card program was originally piloted at a few agencies and then expanded to additional agencies. The dollar limit for the P-Card program was initially set at the State's field purchase order maximum of \$500 per procurement transaction. The limit for "field purchase order cards" was subsequently raised to \$1,000 per transaction. This limit was again raised with the issuance of "contract cards" for procurements on State contracts. While most contract cards have limits in the range of \$2,000 to

² Department of Administrative Services' June 19, 2013 letter to Governor and Council accompanying the contract for credit card services.

\$5,000 per transaction and \$10,000 to \$25,000 per billing cycle, some contract cards currently issued to senior agency personnel have transaction limits of \$150,000 per transaction and billing cycle limits of \$700,000 to make payments on large procurement transactions such as heavy trucks. During the six months ended December 31, 2016, there were 22 agencies participating in the program and approximately 21,000 procurement transactions totaling \$9.4 million were processed through the State's P-Card bank account by 500 cardholders using 655 P-Cards (some cardholders have both a field purchase order card and a contract card).

The State of New Hampshire P-Card program is administered by the Department of Administrative Services, Division of Procurement and Support Services (Department). The Department has contracted with a credit-card provider bank to service the P-Card program, including providing a web-based program to allow agency management to review and approve transactions. Purchases with P-Card program credit cards may be made from statewide contracted vendors and from merchants who have no contractual relationship with the state. As currently operated, the P-Card program requires all credit card processor invoices to be paid monthly, with no balances carried forward to subsequent months. The program does provide a "rebate" to the State based on volume of activity in the account. At December 31, 2016, the State had received approximately \$84,000 in rebates since the inception of the program in July 2013, with none of that amount having been expended or otherwise distributed.

As provided for in RSA 21-I:17-a, I, "The form and use ofprocurement cards shall be prescribed by rules adopted by the commissioner of administrative services ... or in the department's manual of procedures." The Department of Administrative Services *Manual of Procedures (MOP)* incorporates the *Procurement Card Users Manual* by reference and describes further requirements applicable to State agencies when utilizing P-Cards. The *Procurement Card Users Manual* requires each agency participating in the P-Card program to establish additional P-Card policies and procedures specific to their agency's operations. In addition to requirements in the *MOP*, statutes applicable to particular agencies or to particular types of purchases, as well as Executive Branch ethics laws and policies, may pose additional requirements on an agency's use of P-Cards.

Generally, State policy requires purchases made with P-Cards conform to all State purchasing requirements, including, to the extent applicable, the State's purchasing rules (N.H. Admin. Rules Adm 600). The *Procurement Card Users Manual* does identify certain products that are prohibited from purchase with a State P-Card. Examples of prohibited purchases include: cash advances, fuel, travel, gift cards, weapons and firearms, alcohol and cigarettes, interagency purchases, entertainment, on-line auction purchases, and international purchases.

OBJECTIVES, SCOPE, AND METHODOLOGY

Audit Objectives

1. Assess the State's (both the Department's and the user agencies') internal controls related to the P-Card program, including control environment, risk assessment, control activities, information and communication, and monitoring by assessing the Department's and user agencies' policies and procedures for the establishment and maintenance of an effective control system over the P-Card program.
2. Assess the adequacy of the design of internal controls over the P-card program at both the Department and at a sample of user agencies.
3. Assess establishment/implementation of internal controls as designed.
4. Assess the operation of the internal controls, including:
 - Functional compliance with written policies and procedures, laws, and rules related to the use of P-Cards.
 - Functional compliance with stated (but not necessarily documented) policies and procedures related to the use of P-Cards.
 - Adequacy of separation of duties and responsibilities for controls over the P-Card program.

Audit Scope

The scope of our audit included the internal controls over the operation of the State of New Hampshire's P-Card program, including centralized controls at the Department and controls at the user agencies.

The audit period was July 1, 2016 through December 31, 2016.

Audit Methodology

1. Interview Department of Administrative Services personnel.
2. Review Department documentation, including:
 - Contracts,
 - Program manuals,
 - Policies and procedures, and
 - Documentation of systems, applications, forms and instructions, and other relevant information.
3. Review laws, rules, regulations, and policies and procedures related to the P-Card program, including:

- State statutes,
 - New Hampshire Administrative rules,
 - Department and general State policies and procedures,
 - Department and specific policies and procedures for the P-Card program, and
 - User agency general and specific policies and procedures for the P-Card program.
4. Observe processes.
 5. Interview user agency personnel.
 6. Review agency documentation and processes at a sample of 13 participating agencies, including:
 - Policies and procedures,
 - Documentation of systems, applications, forms and instructions, and other relevant information, and
 - Operating processes in place.
 7. Review the design and operation of internal controls through tests of transactions, including:
 - Random samples of low-tier and high-tier transactions, and a
 - Judgmental sample of selected transactions.

PRIOR AUDIT

There are no prior audits that specifically addressed internal controls over the P-Card program or the State's use of credit cards for the procurement of products and services.

FINDINGS AND RECOMMENDATIONS

Observation No. 1: Strengthen Internal Controls

Observation:

Sufficient attention and resources have not been applied to establishing and maintaining effective internal controls over the State's P-Card operations. Weaknesses in the design and operation of controls at DAS and the user agencies puts the achievement of program objectives, including efficient and effective purchasing, at risk.

Internal control is defined as a process, effected by an entity's [governing body], management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.³ Internal control consists of the five interrelated components of control environment, risk assessment, control activities, information and communication, and monitoring activities. The components are linked and can and will impact each other, and all are required for an entity to maintain effective internal control over its activities.

Internal controls affecting the P-Card program are centered at the Department of Administrative Services (DAS) and the user-agencies participating in the P-Card program. At the inception of the P-Card program, DAS, in compliance with statutory direction and in conjunction with experience gained from agencies piloting the program, established a *Procurement Card Users Manual* (P-Card manual or manual) to provide a base set of control policies and procedures for the operation of the P-Card program. The manual documented the design of the control structure for the operation of the P-Card program, including the scope of use for the procurement cards, the standard forms to document the acceptance of program conditions by responsible parties at user agencies, the requirements for pre-payment transaction review procedures, and the requirements to retain documentation of purchases, etc. The manual also required participating agencies to design and implement additional agency-specific controls.

While each of the agencies participating in the P-Card program are required to adhere to policies and procedures in the DAS manual, each agency determines which of their employees are to be cardholders (users), the number, type, and transaction limits of cards assigned to each cardholder, how to structure pre-purchase approvals for transactions, the method used by the agency to maintain purchase documentation, as well as additional agency-based policies and procedures. Cardholders are restricted by card transaction limits (both individual transaction and billing cycle total) to the dollar amount of purchases that can be made. While the card-issuer bank provides the State the ability to block the use of State cards for certain transaction types, the State has elected to only block the merchant codes related to cash-back type transactions, for example certain bank, ATM, and gift card purchase transactions. The State has not implemented any other "hard" preventative controls limiting the ability of cardholders from purchasing

³ Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control-Integrated Framework*, May 2013, page 1.

products or services that are prohibited by P-Card program rules. Controls over the misuse of cards are primarily soft controls, relying on internal controls in place at the agency and the State.

The distributed and disparate nature of the processes used by user-agencies to initiate and process P-Card transactions makes an effective internal control system at DAS and the user agencies imperative, to lessen the risk that errors or frauds will occur and go undetected and uncorrected.

The following five observations provide specific examples of deficiencies in each of the five generally recognized interrelated components of internal control:

- Control environment,
- Risk assessment,
- Control activities,
- Information and communication, and
- Monitoring activities.

Recommendation:

DAS, in conjunction with the agencies participating in the P-Card program, should strengthen the controls over that program by appropriately engaging all components of internal control into the program's operating activities. DAS and the participating agencies should ensure that sufficient resources and attention to the establishment and maintenance of effective controls are applied to aid the State in reaching its objectives for an efficient, effective, and controlled P-Card program.

The strength of P-Card program controls should be based on assessed risk, business needs and objectives, priorities, and availability of resources. While available resources and competing needs limit management's capacity to actively manage the program, well designed and routinely performed controls can help mitigate the risks of uncorrected misuse, abuse, or frauds that could occur in the P-Card program.

Auditee Response:

We concur.

The P-Card program has been overseen through the utilization of purchasing agents on an as needed basis under the direction of the Contracts Manager. A full time P-Card Manager (Administrator II) position was created in fiscal 2018 and was posted to internal candidates on September 18, 2017. This full time position shall actively manage the program. Filling this position is a top priority.

Observation No. 2: Improve Control Environment

Observation:

The effectiveness of the State's P-Card program control environment is negatively impacted by insufficient management attention and resources having been applied to the program's controls. Management has not regularly demonstrated its commitment to controls in a manner that would reinforce employee control consciousness and expectation for employees to maintain control compliance in performing their P-Card program responsibilities.

The control environment is the set of standards, processes, and structure that provides the basis for carrying out internal control across the organization. The control environment encompasses a number of factors that have a pervasive influence on the way business activities are structured, objectives are established, and risks are assessed. The control environment sets the tone of an organization and influences employees' control awareness and instills an enterprise-wide attitude of integrity and control consciousness, commonly referred to as the "tone at the top." The tone at the top is the foundation for all other components of internal control providing discipline and structure and affects all aspects of the entity's operations and is evidenced in management's philosophy and operating style, organizational structure, assignment of authority and responsibility, and human resources policies and procedures.

DAS implemented the State's P-Card program without ensuring that an appropriate control environment had been established to address the development of program objectives, the identification of risks to meeting those objectives in the operation of the program, and the design and implementation of controls to reasonably mitigate significant identified risks. The lack of sufficient dedicated staff attention to the P-Card program, including the unfilled P-Card manager position at DAS, contributed to a control environment where policies and procedures were not efficiently and effectively developed, communicated, monitored, and enforced. For example, at the time of audit fieldwork, DAS program management was not fully aware of provisions of the contract with the bank card processor that were significant to the controlled operation of the program. DAS program management was unclear as to the frequency of the rebate⁴ payments and was unaware of the availability of Service Organization Controls (SOC) reports and other reporting of program performance from the bank card service processor.

DAS' P-Card control environment during the six months ended December 31, 2016 allowed a number of control concerns to remain unaddressed including lack of formal risk assessments, unperformed control activities, inefficient communication of program information and ineffective program monitoring, as described in the following observations. While sample-based audit tests did not detect fraudulent or clearly abusive transactions, audit tests identified instances where DAS and agency controls had not detected and corrected P-Card transactions that were not in compliance with program rules, and agency P-Card activities that were not addressed in program rules.

⁴ A byproduct of the State's P-Card program is a rebate paid semiannually to the State based on the dollar value of purchases made. As of December 31, 2016, the State had received \$83,768 as rebates on purchases made since the inception of the program.

Recommendation:

DAS should strengthen the State's P-Card program control environment and demonstrate by its actions its commitment to the establishment and maintenance of strong internal controls for the program, both internally at DAS and externally at the participating agencies.

- a) DAS should staff its P-Card program management and control structure with appropriate levels and lines of authority and responsibility for the P-Card program clearly formalized and articulated.
- b) DAS program management should establish a strong control environment for the program, ensuring the manual and other program policies and procedures remain current and comprehensive, address the program's risks, and promote the program's success. DAS should review its control activities and monitoring processes and establish activities to promote agency compliance with program requirements.
- c) DAS should work with participating agency management to ensure agency employees have the training, performance feedback, and other resources that encourage the employees to continue to meet and perform their responsibilities with competence, integrity, and in a manner that promotes management's intentions for efficient, effective, and controlled operations that meet the program's objectives.

Auditee Response:

We concur.

The P-Card Manager position will provide a full-time, dedicated staff member, ensuring the necessary attention to the overall P-Card program is provided. The P-Card Manager will be responsible for establishing controls, guidance, training, and managing agency compliance to all policies and procedures. The P-Card Manager will also use tools such as Service Organization Control reports, to ensure that the provider has the appropriate controls in place as well.

Observation No. 3: Establish A Formal Risk Assessment Process

Observation:

DAS has not established and performed a formal risk assessment process for the P-Card program. DAS reports that it has not regularly and formally reviewed or encouraged participating agencies to regularly and formally review their P-Card operations, including planned changes in operations, for exposure and response to risk.

Risk assessment is a process for identifying, assessing, and responding to risks related to the achievement of management's objectives. A prerequisite to an effective risk assessment is the

establishment and recognition of objectives and the risks that may put achieving those objectives in jeopardy.

An effective risk assessment process is the foundation for the development and implementation of effective and efficient controls intended to eliminate, mitigate, or otherwise manage identified risks. A formal and well planned risk assessment process increases the likelihood that the appropriate balance between the costs and benefits of controls can be understood and become the basis for controls put into operation. Without a risk assessment process, the identification and response to risk often occurs in a reactive mode, after a risk has been realized and a loss incurred.

Risks increase at times of change, especially at the inception of programs. A new program, such as the State's P-Card program, is ripe with risk to the secure operations of the State and participating agencies. Misuse of State P-Cards could lead to loss of public confidence in the program as well as loss of State resources. Similar governmental procurement card programs have experienced significant fraud, waste, and abuse incidents. While DAS and the participating agencies reported that they have identified only minor instances of misuse to date, program risks could imperil the State's ability to meet its objectives for the program. Examples of risks include:

- a) *Risk associated with dramatically increasing the number of procurement points.* The State's P-Card program, in essence, provides approximately 600 State employees with the equivalent of State checkbooks. Except for a hard control intended to prevent State-issued P-Cards from being used to directly draw cash, there are no hard controls that prevent a cardholder from making any purchase at any vendor within the card's transaction and billing cycle limits. The lack of hard controls makes the effectiveness of soft controls at DAS and the participating agencies, including policies and procedures and cardholder training, critical to mitigate the risk of misuse of State P-Cards.
- b) *Risks associated with the expansion of the program.* With the issuance of "contract cards"⁵ DAS expanded the P-Card program from field purchase order-type expenditures (\$500 at the inception of the program) to purchases on contracts that, during the period under review, included \$100,000-plus transactions for the purchases of large trucks. Increasing the scope of the program to include contract procurements greatly increased the volume of transactions, the dollar amount of transactions, the number of cards issued, and the dollar limits on those cards.
- c) *Risks associated with increased contract prices.* It would be common business practice for a vendor to incorporate at least a portion of the bank card transaction fee cost, along with all

⁵ Contract cards are intended for procurements on State contracts. A cardholder listing as of March 17, 2017 indicated approximately 330 contract cards were issued to State employees. Contract cards generally have limits in the range of \$2,000 to \$5,000 per transaction and \$10,000 to \$25,000 per billing cycle. However, during the six months ended December 31, 2016, some contract cards had limits as high as \$150,000 per transaction and \$700,000 per billing cycle. An agency may issue an employee both a field purchase order (FPO) card and a contract card, if warranted. Some agencies issue an eligible employee a contract card which is used for both FPO and contract procurements. Specific policies and procedures for the use of contract cards are not included in the *Procurement Card User Manual*, revised effective 8/24/16, V.2.0. which was in effect during the audit period.

other costs, into their acceptable transaction price when bidding on a contract the vendor knows or expects will be paid by a credit card. Therefore, if a State contract requires vendors to accept payment by credit card, the State should assume the contract price will be higher than if the transaction was to be paid on otherwise similar terms by check or other payment process that does not result in a similar additional cost to the vendor. While a portion of the increase in cost to the State for vendors building credit card fees into bid prices may be returned to the State in the form of a rebate from the card processing bank, a portion of the fee is likely retained by the bank, resulting in a net increased purchase cost to the State for such procurements.

d) *Risk associated with the loss of oversight controls.*

- 1) As discussed in Observation No. 4, agencies are not consistent in reviewing and approving all P-Card transactions prior to invoices from the credit card company being paid. Payments on credit card bills prior to agency reviews and approvals of underlying procurement transactions regularly occurs when DAS sweeps and processes for payment unapproved transactions to avoid additional transaction fees. While agencies report they generally subsequently review the swept transactions, in these and other instances, agency approvers are not always independent of purchase transactions they approve nor do they always have access to documentation necessary to determine the appropriateness of the transaction, lessening the control value of those reviews and approvals.
- 2) P-Card transaction information available to NHFirst financial report users identifies payments to the credit card company and not the vendor at which the P-Card transaction occurred. As a result, NHFirst report users (and Transparent N.H. users) do not have complete information on State procurements at vendors where State P-Cards were used, including information useful to monitor the P-Card program and its possible effects on State procurements, e.g. more frequent purchases, purchases of unusual source or nature, etc.

Recommendation:

DAS should establish a formal and documented risk assessment process to continuously review P-Card program operations for exposure to risk and to plan for and reasonably respond to identified risks through risk elimination or mitigation as appropriate, and to determine and document whether the acceptance of the risks in the operation of the program continues to coincide with DAS and the State meeting their objectives for the program.

As part of that risk assessment and response to risk, DAS should require participating agencies to also perform and document a risk assessment of their individual P-Card programs, including whether the acceptance of the risks in the operation of the program continues to coincide with the agencies meeting their objectives for the program.

Auditee response:

We concur.

With the new position soon to be filled, DAS will be able to establish a risk assessment process for the P-card program. The P-Card Manager will communicate the inherent risks of the program to users and reviewers, work closely with all participating agencies, and assist with risk assessments at the agency and state level. DAS Bureau of Purchase & Property will work with the Department of Information Technology, the DAS Division of Financial Data Management and all necessary agency personnel to verify and ensure complete and accurate information is made available in NH First reporting and thus recorded into Transparent NH.

Observation No. 4: Strengthen Control Activities

Observation:

Many of the controls designed in the DAS P-Card manual have been less effective than intended due to control design, performance, and maintenance issues and inconsistent follow-up on the results of the control activities that are performed.

Control activities are the actions established through policies and procedures that help ensure management's directives to mitigate risks to the achievement of objectives are carried out. Controls are categorized as preventative or detective in nature and may include a range of activities such as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties. The following are examples of opportunities for DAS and the participating agencies to improve the design and operating effectiveness of their control activities.

- a) The bank card service provider sends all P-Cards ordered by agencies to DAS for forwarding to the cardholder. While DAS reviews to determine the cardholder was set up in the bank's Works⁶ system, the design and operation of DAS' control activities would be more effective if it also included a review to ensure the cardholder is a valid State employee and that the cardholder has completed required card-use agreement forms or cardholder training prior to card issuance.
- b) The design and operation of DAS' control activities would be more effective if it required agencies to establish and provide formal cardholder training prior to the issuance of cards to users. In 10 of the 13 user agencies surveyed, while the agencies stated that training had been provided, there was no documentation of a formal cardholder training being presented to users. Cardholder training is required by the DAS manual.

⁶ Works is a bank-provided information system used by the State to track P-Card transactions by cardholder. As configured for the State, Works has a three-level, post-procurement, pre-bank-payment authorization process. Works allows cardholders, agencies, and DAS the ability to view and approve P-Card transaction information in near real-time.

- c) The design and operation of DAS' control activities would be more effective if it required either DAS as P-Card Manager (PCM) or participating agencies to maintain listings of active cardholders outside of the bank's Works system and required management to perform a regular, periodic review of the business need for cardholders to continue to have a P-Card. That review could help ensure that only active employees with a business need for a P-Card would have a card and that transaction limits would be appropriate for the anticipated level of activity. To assist in that review process, DAS should consider developing and distributing cardholder activity reporting that would provide agency management with readily accessible and comparable information on card use by its employees. A comparison of active cardholders to active employees as of March 17, 2017 identified four cardholder accounts that remained active at the test date even though the employees no longer worked at the agency. In three of the instances, the agencies indicated the card had been destroyed upon the employee's termination and, in one instance, the agency indicated the card was in the possession of the agency, as it had not been distributed to the employee prior to the employee's termination.
- d) The design and operation of DAS' control activities would be more effective if DAS performed a follow up to ensure agencies adopt agency-based policies and procedures addressing controls required by the DAS *Procurement Card Users Manual* and *Manual of Procedures (MOP 1625)* including the completion of forms for cardholders and others involved in the P-Card program and the establishment of agency pre-purchase approval controls. Audit testing revealed that many participating agencies' rules did not address all of the topics identified in the DAS manuals. As agencies provided copies of their rules to DAS, DAS should have been aware of the deficiencies in the rules and taken appropriate action.
- e) The design and operation of DAS controls would be more effective if agencies were more consistent in the timely completion of the three-stage post-procurement, pre-payment approval process in the bank's Works system. Because agencies are not consistent in completing the Works approval process, DAS regularly "sweeps" and posts transactions in NHFirst for payment circumventing the intended agency review and approval control of agencies documenting their approvals for payment of the procurement.
- f) The design and operation of DAS and agency controls would be more effective if agencies better segregated incompatible duties. Participating agency P-Card administrators (PCAs) are able to grant approval authority in Works, issue P-Cards to any employee within the agency, and receive the P-Card for distribution to the cardholder, including granting authorities and issuing cards to employees even if those actions would cause increased segregation of duties risks. DAS does not have a process to review, monitor, and respond to risks caused by poorly segregated P-Card duties at the agencies.
- g) The operation of agency controls for approving transactions in Works would be more effective if agencies consistently had access to and reviewed supporting documentation prior to approving the transactions. As discussed in paragraph h) below, difficulties in maintaining documentation and making the documentation available to approvers in a timely manner caused certain agencies to, on occasion, approve transactions without the benefit of

reviewing documentation supporting the transaction, making the effectiveness of the control process less than intended by the design of the control.

- h) The operation of agency controls would be more effective if DAS provided additional policies and procedures control guidance for agency maintenance of documentation of P-Card procurements. Certain agencies maintain complete central documentation of P-Card procurement transactions, including scanning transaction documentation into NHFirst. Other agencies maintain only partial transaction documentation, some centrally and some distributed across agencies. Commonly, documentation of the receipt of P-Card purchased items (receiving and inspection information) is not regularly maintained by agencies. Commonly, documentation supporting an independent receipt and acceptance of items obtained with a P-Card is missing.

Recommendation:

DAS should establish reasonable and appropriate control activities for the State's P-Card program. The control activities should be appropriately designed and scaled for the different size and level of purchase card activity of the participating agencies and regularly reviewed to ensure they remain sufficient and appropriate for changes that occur in the scope and operation of the P-Card program. The control activities should be documented in well-designed policies and procedures included in the DAS P-Card manuals.

DAS should actively advise agencies in establishing policy and procedure manuals. DAS as manager of the P-Card program is in a position to compare, coordinate, and share "best practices" for efficient and controlled operation among State agencies participating in the P-Card program.

Auditee Response:

We concur.

With the new position soon to be filled, DAS will work closely with the Policy and Procedures team to ensure that the Manual of Procedures, Procurement Card Users' Manual, and PC forms are up-to-date, complete and communicated to all agencies in a timely manner. DAS will analyze and address the scalability of the P-Card program to ensure agencies of all sizes may participate without compromising procedures and while maintaining controls. DAS will verify that the agencies have established P-Card procedures, and that they are tracking all users and transactions in accordance with all policies.

Observation No. 5: Improve Information Sharing And Communication

Limitation in communication and information sharing between DAS and the agencies and within the agencies has hampered the controlled operations of the State's P-Card program.

Information is necessary to carry out internal control responsibilities to support the achievement of objectives. Communication of operational information is a critical element of all program controls. Communication of program objectives, compliance and other requirements, policies and procedures, and how the program is operating to meet those criteria is necessary for the success of the program.

Establishing effective communication and sharing of information is especially important when instituting a program distributed over a number of agencies, to ensure that all entities participating in the program are aware of and responsive to their responsibilities and are able to react timely and appropriately to the recognition of risk and other changing conditions. Examples of limitation in communication and information sharing between DAS and the agencies and within the agencies include:

- a) DAS' processes for communicating P-Card program rules and other policies and procedures to user agencies, and user agency processes for communicating required control information to DAS, have not been maintained to reasonably ensure that user agencies are made aware of program criteria timely and that DAS can effectively monitor agency compliance with program policies and procedures.

The primary source of P-Card program information available to user agencies is the DAS *Procurement Card Users Manual* (manual), which includes policies and procedures, forms to be completed by agency program management and cardholders, discussion of the Works prepayment authorization process, procurement limits, authorized uses, etc. Communication of P-Card program requirements and processes and any subsequent changes to those criteria should be clear, unambiguous, and effectively distributed to minimize the risk that agencies and users are uninformed.

- 1) During the six months ended December 31, 2016, the manual was not comprehensive and current, as it did not include any specific policies and procedures for the use of P-Cards to pay for procurements on State contracts, which began in May 2016, and prior to the issuance of the August 24, 2016 revision, did not include discussion of the increase in the P-Card field purchase order limit from \$500 to \$1,000, which also occurred in May 2016.
- 2) At the start of the audit, the version of the manual available on the DAS website was incomplete, as not all of the pages were included.
- 3) DAS has been inconsistent in requiring agencies to adhere to communication controls in the P-Card manual. For example, the manual directs agencies to forward copies of certain user-completed forms to DAS. During the six months ended December 31, 2016, DAS was not requiring agencies to forward those forms.

- b) Limitations on communication and information sharing within agencies has hampered some agencies' ability to timely collect, review, and approve P-Card transaction documentation. Delays in agency reviews have resulted in transactions being swept for processing prior to agencies reviewing and approving the P-Card transaction.
- c) While the use of P-Cards has provided some expenditure efficiencies, some agencies have found it necessary to expand other accounting activities to track and maintain budgetary control over expenditures. Because expenditures by P-Card are not recognized in the State accounting system (NHFirst) until the monthly bank invoice is recorded, agencies are unable to utilize NHFirst to determine and monitor available balances during the time between monthly billing cycles. As a budget control, some agencies are preparing spreadsheets and performing other reconciling activities to track available balances in the interim periods.
- d) DAS' manual directs that cardholders must provide an itemized receipt including at least the merchant name, items purchased, quantity, unit price, total purchase amount, and date to their agency's P-Card administrator (PCA) in the intervals established by the agency. Also, that purchase documentation must be maintained in accordance with the agency's records retention requirements.

While all agencies are required to retain documentation, and agencies were able to provide documentation for all audit-test sample items, there is little consistency in the practices used by agencies to maintain the documentation and make it available for review. At some agencies, all P-Card purchase documentation is scanned into the State accounting system (NHFirst) providing the security of a retrievable electronic record and allowing authorized users access to view original vendor sales receipts. In other agencies, paper files are maintained either centrally or in several locations throughout the agency, with only the support for the allocation of the monthly bank card invoice scanned into NHFirst.

The lack of detail transaction information readily available to approvers and other transaction reviewers increases the risk that P-Card transactions will not be sufficiently transparent to allow management and others to efficiently and effectively determine the need for, and the appropriateness of, the transactions.

The information system relevant to financial reporting objectives, which includes the accounting system, consists of the procedures and records established to initiate, authorize, record, process, and report entity transactions (as well as events and conditions) and to maintain accountability for the related assets, liabilities, and net assets or fund balance. The quality of system-generated information affects management's ability to make appropriate decisions in controlling the entity's activities, including preparing reliable financial reports.

Recommendation:

DAS should improve the information sharing and communication controls for the State's P-Card program. DAS should ensure that the program manual is current and comprehensive, fully explaining the program's conditions and criteria and considers both the current program needs and the need for an expanding program and, as recommended in Observation No. 4, DAS should

communicate to other agencies participating in the P-Card program the “best practices” it observes in agency P-Card operations.

Agencies participating in the P-Card program should improve their process for communicating P-Card transaction documentation to responsible agency reviewers to ensure reviewers are able to effectively review transactions timely and avoid transactions being swept without agency review and approval. Where necessary, agencies with multiple locations should consider employing technological means such as scanned documents to transfer purchase information efficiently and timely to responsible reviewers.

Auditee Response:

We concur.

The P-Card Manager will be tasked with reaching out to the respective agencies regularly to maintain consistency and to ensure all documentation and controls are in place at all agencies, in strict accordance with all policies and procedures. In addition, the P-Card Manager will work on increasing agency outreach and providing more timely communications, as well as implementing clearer policy regarding swept transactions.

Observation No. 6: Improve Monitoring Of P-Card Program Control Activities

DAS’ control monitoring process has not been properly developed and maintained. DAS was aware or should have been aware that during the six months ended December 31, 2016 certain DAS-mandated control activities were not performed at DAS and at the agencies participating in the P-Card program, yet DAS did not take corrective action to improve control compliance.

Monitoring activities assess whether each of the five components of internal control is present and functioning. This involves: 1) regular and/or separate evaluations by appropriate personnel of the design and operation of the controls, and 2) taking necessary actions to ensure controls remain responsive to changes in risks and are operating effectively. Without effective monitoring of controls, a false sense of assurance can result if controls assumed to be effective prove otherwise. Examples of where control monitoring at DAS could be improved include the following:

- a) DAS’ *Procurement Card Users Manual* (manual) established control processes intended to allow DAS to monitor agency performance of controls outlined in the manual, including directing agencies to provide DAS with copies of cardholder agreements and other authorization forms documenting employee acceptance of responsibilities prior to participating in the P-Card program and copies of agency-based policies and procedures required by the manual.

At the time of audit fieldwork, DAS did not require agencies to file the authorization forms required by the manual. DAS also did not respond when agency-filed policies and procedures

did not meet the manual's requirements as they did not address all required policy and procedure criteria outlined in the manual.

- b) The primary purchasing control for the State's P-Card program is the post-procurement pre-payment control provided in the bank's Works system. The design of the control has the cardholder, subsequent to the use of the card, approving the purchase in Works, with the cardholder's manager and the agency accounting function also subsequently approving the purchase. If by the end of the month all of the approvals in Works have not been applied, either the accountant at the agency or DAS can "sweep" the unapproved transactions. Monthly, the approved and swept purchase transactions are included in bank invoice data which is loaded into NHFirst for payment from the appropriate expenditure accounts. The weakness in the control is there is no assurance that an individual P-Card purchase is reviewed and approved by the agency either prior to or subsequent to the payment of the credit card invoice. (NHFirst does require agency approvals of monthly totals of charged purchases.)
 - 1) Audit tests identified 20 procurements in random samples of 98 transactions tested (20%) were swept and did not have documentation to support that a full-control review of the expenditures was completed prior to payment being made for the transaction on the related credit card invoice. While DAS notifies agencies of swept transactions and agencies report that they subsequently review and approve those transactions, there is no control to ensure a subsequent review is performed or standard policies and procedures to support the performance and documentation of that review.
 - 2) Audit tests identified a number of transactions that that did not comport with other program rules. Examples include contract cards used for field purchase order (FPO) procurements to avoid the \$1,000 FPO limit, P-Cards used for transactions between State agencies, P-Cards being used when an employee was not at work, and a P-Card used to purchase an item that was available at minimal rental cost through a State contract. In none of these tested transactions was there documentation to evidence that management had also identified the misuse of the cards and taken action.

In addition, instances were identified where procurements using FPO cards were split into multiple transactions (card swipes) to avoid FPO P-Card transaction limits. While agency and DAS personnel reported this was an allowed practice, it appears contrary to the *Procurement Card Users Manual* which states:

When the P-Card is used in place of a field purchase order, purchases shall be limited to \$1,000.00 per purchasing occasion. **Consecutive purchases made for the purpose of circumventing this restriction shall be prohibited.** [emphasis original] In this context, "consecutive purchases" is defined as purchases from the same or a different vendor(s), following one after the other, in order to expend the total amount of the desired purchase irrespective of the \$1,000.00 limit.

In none of the examples was it apparent that DAS effectively monitored for, noted, and responded to noncompliance with program policies and procedures. The lack of effective control monitoring and response, either to enforce compliance or to revise the policies and procedures as appropriate, negatively impacts management's ability to rely upon the controls over the State's P-Card program.

- c) In five of the 13 agencies (38%) selected for process review, the agencies had not established pre-purchase approval controls for field purchase order level P-Card purchases. A pre-purchase approval process is required by paragraph IV. A of the Department of Administrative Services *Manual of Procedure (MOP 1625)*.

Recommendation:

DAS should improve its control monitoring to ensure that participating agencies adhere to relevant program rules, policies, and procedures; that the rules, policies, and procedures remain relevant to the program objectives; and that the program is operating as intended.

DAS should also encourage agencies to formalize their monitoring activities and provide substantive feedback to DAS to allow DAS to gauge agency activities to both monitor current program performance and also to recognize any needed or appropriate revisions to the program.

Auditee Response:

We concur.

The hiring of a full time P-Card Manager will improve the monitoring of all P-Card program activities and provide the increased attention and resources necessary to ensure proper administration of the program. The P-Card Manager will be responsible for agency outreach and training on policies, procedures, and best practices, as well as periodic documentation and transaction audits to identify possible abuse, misuse, and prohibited transactions. The P-Card Manager will seek agency feedback to monitor program efficiencies and make any adjustments needed.

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State of New Hampshire
Internal Control Review
State Procurement Card Program
Summarized Data For The Six Months Ended December 31, 2016

Procurements By Agency

Agency	Amount
Department of Transportation	\$ 4,333,920
Department of Corrections	1,312,877
Department of Health and Human Services	807,000
Department of Safety	701,899
Department of Resources and Economic Development	654,136
Department of Administrative Services	637,116
NH Veterans Home	399,321
Liquor Commission	141,262
Fish and Game	99,001
Department of Justice	77,875
Department of Employment Security	54,042
Office of Professional Licensure & Certification	35,211
Police Standards & Training	29,083
Department of Education	20,753
Lottery Commission	19,664
Department of Revenue Administration	17,036
Public Utilities Commission	15,234
Department of Information Technology	15,164
Department of Labor	5,545
Governor's Commission on Disability	4,518
Banking Department	4,280
State Treasury	1,000
Total	<u>\$ 9,385,937</u>

Source: P-Card transaction data provided by the Department of Administrative Services.

State of New Hampshire
Internal Control Review
State Procurement Card Program
Summarized Data For Six Months Ended December 31, 2016

Number Of Procurement Transactions By Agency

Agency	Transactions
Department of Transportation	5,806
Department of Health and Human Services	4,284
Department of Resources and Economic Resources	3,588
Department of Administrative Services	1,508
Department of Corrections	1,368
Department of Safety	1,359
NH Veterans Home	856
Fish and Game	552
Liquor Commission	489
Office of Professional Licensure & Certification	318
Department of Justice	187
Police Standards & Training	154
Department of Employment Security	152
Department of Revenue Administration	142
Department of Education	131
Lottery Commission	72
Public Utilities Commission	55
Banking Department	41
Department of Labor	21
Governor's Commission on Disability	13
Department of Information Technology	11
State Treasury	1
Total	<u>21,108</u>

Source: P-Card transaction data provided by the Department of Administrative Services.

State of New Hampshire
Internal Control Review
State Procurement Card Program
Summarized Data For Six Months Ended December 31, 2016

Issued Cards As Of March 17, 2017

Agency	Count
Department of Transportation	264
Department of Resources and Economic Resources	172
Department of Health and Human Services	150
Department of Administrative Services	75
Fish and Game	36
Department of Education	26
NH Veterans Home	24
Police Standards & Training	22
Department of Safety	18
Department of Corrections	9
Department of Employment Security	9
Banking Department	6
Department of Labor	6
Public Utilities Commission	6
Department of Justice	6
Department of Revenue Administration	4
Department of Insurance	4
Department of Information Technology	4
Liquor Commission	3
Lottery Commission	3
State Treasury	2
Governor's Commission on Disability	2
Governor's Office	2
Department of Cultural Resources	2
Office of Professional Licensure & Certification	2
Cultural Resources	2
Department of Environmental Services	1
Commission for Human Rights	1
Total	861

Source: P-Card transaction data provided by the Department of Administrative Services. (Data as of December 31, 2016 was not available.)

State of New Hampshire
Internal Control Review
State Procurement Card Program
Summarized Data For Six Months Ended December 31, 2016

Top Twenty-Five Vendors By Dollar Amount

	Vendor	Amount
1	Liberty International Truck	\$ 1,183,970
2	WB Mason	926,626
3	Freightliner of NH	800,830
4	Ennis Paint Inc.	725,885
5	McKesson Medical Supply	339,919
6	Lindenmeyr Munroe	299,169
7	The Office Pal	293,044
8	SHI International Corp.	203,982
9	Potters Flex O Lite	194,040
10	Favorite Foods	181,051
11	WW Grainger	149,784
12	Control Technologies Inc.	147,982
13	Central Paper Products Co.	121,308
14	Office Interiors Limited	107,276
15	Sullivan Tire #19	100,641
16	Good Source Solutions	99,373
17	I.T. Insiders	97,876
18	Cheesco of NE-CLVR	84,997
19	SQ Matts Trading Inc.	81,127
20	Control Technologies Inc.	76,989
21	Fastenal Company01	72,131
22	TIC Express LLC	65,008
23	A & B Lumber	63,700
24	The Home Depot #3485	60,766
25	Eberl Iron Works Inc.	54,483
	Total Top 25 Vendors	<u>\$ 6,531,957</u>

Source: P-Card transaction data provided by the Department of Administrative Services.

State of New Hampshire
Internal Control Review
State Procurement Card Program
Summarized Data For Six Months Ended December 31, 2016

Top Twenty-Five Vendors By Transaction Count

	Vendor	Count
1	WB Mason	5,964
2	The Office Pal	906
3	WW Grainger	830
4	The Home Depot #3485	488
5	McKesson Medical Supply	466
6	Lindenmeyr Munroe	431
7	Amazon Mktplace Pmts	362
8	Fastenal Company 01	345
9	TIC Express LLC	296
10	Central Paper Products Co.	296
11	I.T. Insiders	266
12	Applied Ind Tech 2603	202
13	Freightliner of NH	195
14	NAPA Auto Littleton	189
15	The Granite Group 31	181
16	Northeast Elec Concord	151
17	MSC	144
18	A&B Lumber	138
19	Airgass North	137
20	Amazon.Com	121
21	Sanel Auto Parts 10	109
22	Lowes #02617	101
23	The Home Depot #3403	100
24	Wal-Mart #2369	100
25	The Home Depot #3402	99

Source: P-Card transaction data provided by the Department of Administrative Services.

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