

# M E M O R A N D U M



## Final Audit Report

Internal Operations No. 09-06

**SUBJECT:** Audit of the Purchase Card Program

**DATE:** June 29, 2009

**FROM:** OIG –Helen Lew /s/

**TO:** CFO –Carol D. Kissal

**This Final Audit Report**, entitled *Audit of the Purchase Card Program*, presents the results of our audit. The objective of our audit was to assess the adequacy of internal controls over the Washington Metropolitan Area Transit Authority's (WMATA) Purchase Card Program.

### **Background**

WMATA's Department of Financial Services, Office of Procurement and Materials (PRMT) is responsible for the administration and management of the Purchase Card Program. WMATA Policy/Instruction (P/I) 8.11/0 sets out the guidelines for the Purchase Card Program. As of January 26, 2009, there were 224 employees authorized to have purchase cards. During calendar year 2008, there were 27,559 transactions processed totaling \$13.7 million. Most of the cardholders have a transaction limit of \$3,000 and a monthly limit of \$25,000. PRMT delegates authority for some cardholders to make official business purchases up to \$5,000 per transaction with a \$100,000 monthly purchase limit. The WMATA Board of Directors raised the limits to this level in September 2007.

WMATA contracted with Citibank in January 2006 to provide Purchase Card Services, including card design, training, processing and issuance of cards. Billing procedures, statements, handling inquiries, disputes, and charge back services are also included in the contract. Additionally, the contract includes controls that protect the interests of WMATA regarding single and monthly transactions limits, and restrictions on the types of vendors and purchases. The current contract covers the period February 1, 2009, through January 31, 2010.

The former Office of Auditor General issued nine audit reports on the purchase card program during the period October 31, 2001, through November 17, 2006. These prior reports identified some instances of split purchases, sales taxes paid, missing documents, and other relatively minor concerns. PRMT implemented measures to address the audit recommendations.

PRMT monitors the program and conducted reviews of 169 cardholder records during calendar year 2008. PRMT's findings included sales taxes paid, lack of documentation, split purchases, unsigned documents, and lack of online reconciliation. To address these

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findings, PRMT provided cardholders with additional training, suspended card use for some cardholders, required cardholders to provide missing documents, and obtained refunds for sales taxes paid.

### **Audit Results**

We found that the WMATA Purchase Card Program management controls were functioning as intended. Cardholders were generally following PRMT guidance and making appropriate use of the purchase cards. However, we found a few instances where employees did not comply with the policy instruction, making split purchases and not attending the required annual purchase card training.

In the Chief Financial Officer's June 16, 2009, response to a draft of this report, she concurred with all four of our recommendations. She also provided targeted completion dates on when the recommendations are expected to be implemented. The complete text of the response is included as an attachment to this report.

#### **Finding 1 –Three employees made split purchases.**

P/I 8.11/0, ¶ 10.12, defines a split purchase as a purchase that is intentionally split into multiple smaller transactions to circumvent the cardholder's single transaction threshold. Split purchases are strictly prohibited. P/I 8.11/0, ¶ 5.1, provides for the Managing Director of PRMT to waive purchase card policy, on a case-by-case basis, in the event of an emergency situation, compelling business need, or an urgent operational requirement.

We found three cardholders who split purchases, totaling \$9,152.64. All three cardholders were in the Office of Elevator and Escalator Services (ELES).

- On January 16, 2009, two ELES employees split the purchase of 20 portable radios. An ELES supervisor originally ordered 14 portable radios, totaling \$3,894.10, for the presidential inauguration activities. The supervisor provided the order to a cardholder with a \$3,000 transaction limit. The cardholder subsequently revised the order form by changing the number of radios from 14 to 10; the order now totaled \$2,781.50. A second ELES cardholder then completed the order by purchasing another 10 radios to get enough radios to satisfy the original request of 14 radios (plus six extra radios).

The second ELES cardholder is a supervisor and the approving official for the first cardholder. This individual explained that the additional radios would allow ELES to obtain six spare radios. The approving official for the second cardholder told us that he was not aware of the initial order for 10 radios. Both cardholders later acknowledged they had deliberately split the order to circumvent the \$3,000 transaction limit, explaining that there was an exigent circumstance because of the inauguration. None of the employees involved was aware of any alternative acceptable method for ordering the radios on an expedited basis through PRMT.

During our audit, PRMT became aware of the ELES cardholders splitting the purchase of the 20 radios. PRMT took immediate disciplinary action by suspending

the cardholder and approving officials' charge privileges and providing refresher training.

- Two invoices (numbers S1517603.001 and S1517603.002) for \$1,889.64 and \$1,700 dated March 6, 2009, for elevator parts were a split purchase. We contacted the vendor who verified to us that the two amounts related to the same ELES order. The cardholder acknowledged that the two invoices were for the same project, and he was not aware of an alternative method for ordering items that exceeded his \$3,000 purchase card transaction limit. Additionally, the cardholder told us the ordered items were for the repair of an elevator at the Forest Glen Metro Station, and it was essential to get the elevator back in operation in a short period of time. The cardholder's approving official acknowledged his failure for not detecting the split purchase in his review.

These split purchases occurred because the approving officials did not adequately review and/or question the purchases for compliance with existing purchase card policies and procedures. Also, neither the cardholders nor approving officials were aware that PRMT has procedures for handling emergency purchases that exceeded the \$3,000 transaction limit. Failure to follow the policy barring split purchases can result in unauthorized and excessive spending.

#### Recommendations

1. We recommend that PRMT reiterate WMATA's purchase card policy, prohibiting split purchases in its annual training of cardholders and approving officials.
2. We also recommend that PRMT provide training for cardholders and approving officials on emergency purchases exceeding the purchase card transaction limits.

#### **Finding 2 – Some cardholders did not receive required annual training.**

P/I 8.11/0 ¶ 7.03 (b) requires that all cardholders and approving officials receive formal training and a manual on WMATA's purchase card policy and procedures prior to issuance of a purchase card. Refresher training is required annually and possibly more often, if warranted due to requests by management, lost cards, and findings. PRMT may provide written warnings, immediate retraining, reduction in single or monthly limits, or suspension/revocation of card privileges for cardholders who have not attended annual training.

We reviewed 97 cardholder training records and identified 5 employees, or 5 percent of our sample, who had not received their annual training in the past year. The cardholders informed us that this was an oversight on their part. During calendar year 2008, PRMT took no action regarding cardholders who did not attend annual training. PRMT does not have an adequate process for tracking and reminding cardholders and approving officials of their annual training dates.

#### Recommendations

1. We recommend that PRMT develop and implement a systematic process to track and remind cardholders of their annual training dates.

2. We also recommend that PRMT take appropriate action regarding cardholders who have not attended the required annual training.

### **Management Comments**

In the Chief Financial Officer's June 16, 2009, response to a draft of this report, she concurred with all four of our recommendations. She also provided targeted completion dates on when the recommendations are expected to be implemented. The complete text of the response is included as an attachment to this report.

### **Objective, Scope and Methodology**

The objective of the audit was to assess the adequacy of internal controls over WMATA's Purchase Card Program. During our review, we looked for unauthorized purchases, policy and procedures violations, and possible fraudulent activities. The audit was conducted from February 2009 through May 2009. We held an exit conference with management personnel in the Department of Financial Services on June 1, 2009.

We selected for testing a statistical sample of 184 purchase card transactions from the population of purchase card transactions during calendar year 2008. We utilized the Audit Command Language (ACL) software, using a confidence level of 95 percent with a precision rate of plus or minus 5 percent. The sample had a total value of \$101,416, and included 97 cardholders.

We conducted interviews and walk-throughs with PRMT personnel involved in the purchase card program. We conducted interviews with cardholders and some approving officials. We reviewed purchase card logs, invoices/receipts, and Citibank statements to determine if they met WMATA policy and procedures. We also reviewed the former Office of Auditor General's audit reports on the purchase card program for general information on previous audit findings.

We expanded the scope of our review of purchase card transactions to include the period January 1, 2009, through April 3, 2009, as a result of information received during our audit. As a result, we reviewed 6,838 transactions, totaling \$3.3 million for the period January 1, 2009, through April 3, 2009.

We conducted our audit in accordance with Government Auditing Standards appropriate to our scope. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit includes assessments of applicable internal controls and compliance requirements of laws and regulations when necessary to satisfy our audit objectives. We believe that our audit provides a reasonable basis for our conclusion.

### **Administrative Matters**

Corrective actions proposed (resolution phase) and implemented (closure phase) by the affected Departments/Offices will be monitored and tracked through the Office of Inspector General's Audit Accountability and Resolution Tracking System. Department policy requires that you develop a final corrective action plan (CAP) for our review in the automated system within 30 days of issuance of this report. The CAP should set forth the

specific action items and targeted completion dates necessary to implement final corrective actions on the findings and recommendations contained in this report.

We appreciate the cooperation and assistance extended by your staff during our review. If you have any questions, please contact Andrew Clemmons, Assistant Inspector General for Audits, at (202) 962-1014 or me at (202) 962-2515.

Helen Lew /s/  
Inspector General

Attachment

cc: PRMT Raymond B. Griswold  
OPSV Jack Requa  
CHOS Shiva K. Pant  
COUN Carol O'Keefe

# ATTACHMENT

# M E M O R A N D U M



**SUBJECT:** Response to Audit  
Recommendations

**DATE:** June 16, 2009

**FROM:** CFO - Carol D. Kissal

**TO:** OIG – Helen Lew

In response to Draft Audit Report No.09-06, Audit of the Purchase Card Program, which assessed the adequacy of controls over the program, the following responses to the recommendations are being submitted for review.

**Finding 1: Three employees made split purchases.**

- 1. We recommend that PRMT reiterate WMATA's purchase card policy, prohibiting split purchases in its annual training of cardholders and approving officials.**

PRMT Response:

Concur with comment.

This is already incorporated within the training, including an exercise with examples of split purchases that involves the participation and open discussion from the cardholders and approving officials. To increase this awareness, policy reminders on the prohibition of split purchases will be posted in the "News" section of the home page of the Citigroup Global Card Management System (GCMS). The initial and annual training curriculum will be updated to include this reference and emphasize that these reminders should be read regularly.

Targeted completion date: September 15, 2009.

- 2. We also recommend that PRMT provide training for cardholders and approving officials on emergency purchases exceeding the purchase card transaction limits.**

PRMT Response:

Concur with comment.

Cardholders are given instruction during training that a requisition is required and that they must go through procurement if a transaction is above the allowed single transaction limit on the purchase card. The PRMT Procurement Manager overseeing the appropriate buying section has the capability to expedite the procurement. Additional training on guidelines for emergency purchases will be emphasized in all refresher classes.

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**Finding 2: Some cardholders did not receive required annual training.**

- 1. We recommend that PRMT develop and implement a systematic process to track and remind cardholders of their annual training dates.**

PRMT Response:

Concur with comment.

Currently, one of the key elements of the review of Cardholders files, is to record the date of their latest training as seen from the copy of their training acknowledgement form. If the training had not been held during the current fiscal year, the cardholder would be notified of their need to register and attend training.

**Revision**

A database will be developed and maintained to identify initial training dates. The individual training reminders and monthly training schedule will be forwarded to the cardholder no later than 45 days prior to the cardholders' anniversary date. Targeted completion date: August 30, 2009.

- 2. We also recommend that PRMT take appropriate action regarding cardholders who have not attended the required annual training.**

PRMT Response:

Concur with comment.

During this fiscal year we had begun enforcing the annual training requirement by suspending for 30 days, those cards from Cardholders who had no training within the past year.

**Revision**

All current cardholders who have not attended the required training will receive an appointment to schedule training by a target date. All card holders that are still outstanding after the due date will receive card suspension notices.

Per the previous recommendation, once the database is updated and the tickler file to generate reminder notices is in place, we will further enforce that policy compliance with suspensions of cards until their training has been completed. Targeted completion date: August 30, 2009.