

*State of New Jersey
Office of the State Comptroller
Audit Division*



***A PERFORMANCE AUDIT OF P-CARD
PRACTICES***

For the period July 1, 2014 through June 30, 2017

Kevin D. Walsh
Acting State Comptroller

July 23, 2020

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Audit Authority

Our audit was performed pursuant to the State Comptroller's authority as set forth in *N.J.S.A. 52:15C-1 et seq.* We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards applicable to performance audits. 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The Department of the Treasury, Division of Purchase and Property (Treasury) provides centralized purchasing of goods and related services for New Jersey state agencies. Treasury may assign its purchasing authority to state agencies through its "Delegated Purchasing Authority" (DPA). A state agency may use the DPA when the product or service sought is not available under an existing Treasury-issued State contract and when the cost does not exceed a statutorily defined threshold. *N.J.S.A. 52:25-23.*

In 1998, Treasury established the Purchasing Card (P-Card) Program to provide governmental agencies with a convenient method to purchase goods and services. The P-Card enables cardholders to quickly and easily initiate transactions in person, by telephone, by mail, or via the internet, which allows prompt delivery of goods and services.

Treasury administers the P-Card Program and has designated a program administrator to manage the program for participating state agencies. Agencies that participate in the P-Card Program are responsible for establishing internal controls to ensure compliance with applicable laws, rules and regulations, and Treasury circulars. For Fiscal Years (FYs) 2015 through 2017, 17 state agencies expended approximately \$42.2 million through the P-Card Program.

We judgmentally selected three state agencies with high P-Card spending during FYs 2015 through 2017: the Department of Human Services (Human Services), the Department of Corrections (Corrections), and the Department of Environmental Protection (Environmental Protection).

Executive Summary

Our audit found that Human Services and Corrections failed to comply with P-Card Program regulations regarding (i) procurement of goods and services, (ii) documentation requirements, and (iii) internal controls and the segregation of duties. Environmental Protection failed to comply with P-Card Program regulations regarding documentation requirements.

We make three recommendations to improve operations and compliance with state regulations.

Audit Objectives

We conducted a performance audit of the selected agencies' compliance with procurement and P-Card policies and procedures. The specific objectives included:

Objective 1: To determine if the agency P-Card program administrators complied with state regulations for the procurement of goods and services in accordance with Treasury circular requirements.

Objective 2: To determine if the agency cardholders completed the required documentation for P-Card purchases in accordance with Treasury's P-Card circulars.

Objective 3: To determine if internal controls were in place to ensure the segregation of duties pursuant to Treasury's P-Card circulars.

Audit Scope

Our audit covered the period July 1, 2014 through June 30, 2017.

Audit Methodology

To accomplish our objectives, we reviewed the relevant Treasury circulars for P-Card transactions and the selected departments’ internal policies and procedures. In addition, we conducted interviews of key employees regarding their responsibilities in the administration and oversight of the program.

We used a random sampling approach in selecting our audit samples for review to assess the agencies’ compliance with the P-Card procurement process. Our audit sample included 68 P-Card transactions from the three agencies with total expenditures of \$170,181. Our sample selection was designed to provide conclusions about the validity of the sampled transactions, the adequacy of internal controls, and compliance with Treasury circulars. Because we used a non-statistical sampling approach, the results of our testing cannot be projected over the entire population of like transactions.

The following chart summarizes the Human Services, Corrections, and Environmental Protection P-Card population and audit samples.

	July 1, 2014 - June 30, 2017					
	Population			Sample		
Dept.	Cardholders	Transactions	P-Card Expenditures	Cardholders	Transactions	P-Card Expenditures
Human Services	67	24,113	\$ 16,236,023	9	26	\$ 96,715
Corrections	58	6,415	\$ 3,499,500	15	22	\$ 57,745
Environmental Protection	301	16,065	\$ 3,497,562	16	20	\$ 15,721
Totals	426	46,593	\$ 23,233,085	40	68	\$ 170,181

AUDIT FINDINGS and RECOMMENDATIONS

Procurement Process

Objective 1: To determine if the agency P-Card program administrators complied with state regulations for the procurement of goods and services in accordance with Treasury circular requirements.

Finding

Human Services and Corrections failed to follow the requirements in Treasury circulars with regard to seeking quotations and obtaining verification of sole source vendors during the procurement process.

Criteria

- Treasury Circulars 11-10-DPP and 16-02-DPP – Delegated Purchasing Authority (DPA)
- Treasury Circulars 14-04-DPP and 17-07-DPP – State of New Jersey Purchasing Card Program (P-Card)

Methodology

To meet this objective, we took the following steps:

- Interviewed agency personnel responsible for P-Card administration;
- Reviewed Corrections' Procurement of Goods and Services Policy and Internal Management Procedures; and
- Verified the procurement method used for each sampled transaction for compliance with the Treasury circular requirements.

Audit Results

Pursuant to Treasury's DPA circulars, state agencies must follow Treasury requirements for soliciting quotations for all supplies and services purchased from non-contracted vendors. Agencies are required to solicit three quotations for all P-Card transactions over \$1,000 and up to \$17,500. In addition, if only one source can provide the supply or service (sole source), the agency must prepare a memorandum of sole source justification indicating why the source is the only vendor that can provide those supplies or services. The memorandum must be signed and kept on file.

Our review found that Human Services and Corrections did not adhere to state procurement requirements for all sampled transactions. Human Services failed to obtain quotations from vendors for four purchases totaling \$26,391. Corrections failed to obtain quotations from vendors for a transaction totaling \$7,950. Corrections also did not verify whether a vendor was actually a sole source for a transaction totaling \$6,995.

Cause

Human Services and Corrections personnel failed to follow state procurement requirements applicable to quotations and verification of sole source vendors.

Effect/Potential Effect

A state agency's failure to follow procurement requirements could result in an agency paying more for goods or services and lead to the abuse of the procurement process.

Recommendation

1. Human Services should develop internal policies and procedures and Corrections should revise its policies and procedures to ensure that all P-Card transactions adhere to the requirements in the applicable DPA circulars regarding quotations and verification of sole source vendors.

Documentation Requirements

Objective 2: To determine if the agency cardholders completed the required documentation for P-Card purchases in accordance with Treasury's P-Card circulars.

Finding

Human Services, Corrections, and Environmental Protection cardholders failed to maintain transaction logs and supporting documentation required by Treasury's circulars for P-Card transactions.

Criteria

- Treasury Circulars 14-04-DPP and 17-07-DPP – State of New Jersey Purchasing Card Program (P-Card)

Methodology

To meet this objective, we took the following steps:

- Interviewed agency personnel responsible for P-Card administration;
- Reviewed Corrections' Internal Management Procedures;
- Tested 68 Human Services, Corrections, and Environmental Protection P-Card transactions totaling \$170,181; and
- Requested and reviewed detailed supporting documentation for the sampled transactions.

Audit Results

Treasury's P-Card circulars require cardholders to maintain a transaction log, receipts, and other supporting documentation for all purchases. Both the cardholder and the approving official are required to sign and date the log. Our audit found the following:

- Human Services – 6 of the sampled 26 transactions had incomplete or missing logs (23 percent) and 1 transaction had missing documentation (4 percent).
- Corrections – 5 of the 22 transactions had incomplete or missing logs (23 percent) and 1 transaction had missing documentation (5 percent).
- Environmental Protection – 6 of the 20 tested transactions had incomplete or missing logs (30 percent) and 4 transactions had missing documentation (20 percent).

Cause

State agencies did not follow P-Card Program policies and procedures by maintaining a log of and documentary support for purchases.

Effect/Potential Effect

State agencies that fail to document P-Card transactions lack the ability to evaluate appropriate P-Card activity and create a greater risk of fraud or misuse.

Recommendation

2. Human Services, Corrections, and Environmental Protection should monitor the P-Card transactions and ensure that all cardholders maintain a transaction log with the appropriate signatures and all supporting documentation for P-Card purchases in compliance with the applicable P-Card circular.

Segregation of Duties

Objective 3: To determine if internal controls were in place to ensure the segregation of duties pursuant to Treasury's P-Card circulars.

Finding

Human Services and Corrections did not have adequate internal controls in place to ensure the segregation of duties required by Treasury's P-Card circulars.

Criteria

- Treasury Circulars 14-04-DPP and 17-07-DPP – State of New Jersey Purchasing Card Program (P-Card)

Methodology

To meet this objective, we took the following steps:

- Interviewed agency personnel responsible for P-Card administration;
- Reviewed Corrections' Internal Management Procedures;
- Tested 68 Human Services, Corrections, and Environmental Protection P-Card transactions totaling \$170,181; and
- Verified the agency staff responsible for the procurement, approval, reconciliation, and payment for each sampled transaction were independent.

Audit Results

Pursuant to Treasury's P-Card circulars, a state agency must ensure that no one employee handles all aspects of the P-Card process. Different individuals should perform the duties of purchase, reconciliation and monitoring, and payment to ensure that the P-Card process is independently verified. Human Services and Corrections did not adhere to this requirement. For both agencies,

we found instances in which the cardholder who made a purchase also entered the transaction in the system or also approved the payment in the system. In our sample, we found Human Services' cardholders handled multiple duties in 13 of the 26 transactions (50 percent). For Corrections, cardholders handled multiple duties in 8 of the 22 transactions (36 percent).

Cause

Human Services and Corrections did not properly assign staff roles to maintain segregation of duties for P-Card transactions.

Effect/Potential Effect

State agencies that allow employees to approve their own transactions increase the risk of fraud and misuse of state funds.

Recommendation

3. Human Services and Corrections should implement adequate internal controls to ensure that the cardholder who makes the purchase cannot enter the transaction into the P-Card system or approve the payment, as required by the applicable P-Card circulars.

REPORTING REQUIREMENTS

We provided a draft copy of this report to Human Services, Corrections, Environmental Protection, and Treasury officials for their review and comment. The agencies agreed with the audit findings and conclusions, and their responses indicated they intend to implement corrective actions to address our recommendations. Their comments were considered in preparing our final report and are attached as Appendix A.

We are required by statute to monitor the implementation of our recommendations. In accordance with *N.J.A.C. 17:44-2.8(a)*, within 90 days following the distribution of the final audit report, the agencies are required to provide a report detailing the corrective actions taken or underway to implement the recommendations contained in the report and, if not implemented, the reason therefore. We will review the implementation of the corrective action plans to evaluate whether the steps taken by the agencies effectively implement our recommendations.

We thank the management and staff of all three agencies for the courtesies and cooperation extended to our auditors during this engagement.



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Department of Human Services

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July 9, 2020

Kevin D. Walsh, Esq.
Acting State Comptroller
Office of the State Comptroller
20 West State Street
Trenton, NJ 08625-0024

Dear Mr. Walsh:

The Department of Human Services (the Department) is in receipt of the draft report issued by the Office of the State Comptroller entitled "A Performance Audit of P-Card Practices" for the period of July 1, 2014 through June 30, 2017. We appreciate OSC's review and thank you for the opportunity to comment on the draft report. Please accept the following responses to the draft audit recommendations:

OSC Recommendation

"Human Services should develop internal policies and procedures ... to ensure that all P-Card transactions adhere to the requirements in the applicable DPA circulars regarding quotations and verification of sole source vendors."

Response

The Department will develop internal policies and procedures to ensure that it follows Treasury requirements for soliciting quotations for supplies and services and verifying sole source vendors. The Department will continue to solicit at least three quotations for P-Card transactions between \$1,000 and \$17,500. Where only one source can provide a supply or service, the Department will require the preparation of a memorandum of the sole source justification indicating why the vendor is a sole source, which will be signed and kept on file.

OSC Recommendation

"Human Services ... should monitor the P-Card transactions and ensure that all cardholders maintain a transaction log with the appropriate signatures and all supporting documentation for P-Card purchases in compliance with the applicable P-Card circular."

Response

The Department will ensure that cardholders maintain a transaction log with supporting documentation for all purchases as required by the P-Card circular.

OSC Recommendation

“Human Services ... should implement adequate internal controls to ensure that the cardholder who makes the purchase cannot enter the transaction into the P-Card system or approve the payment, as required by the applicable P-card circulars.”

Response

The Department agrees that the cardholder who makes a purchase should not also enter the transaction into the P-Card system or approve the payment. The Department will implement internal controls to ensure the segregation of these duties.

Thank you again for the opportunity to review and respond to OSC’s draft audit report.

Sincerely,



Carole Johnson
Commissioner

- c: Brian Francz, Chief Financial Officer
- Daniel Prupis, Manager, Office of Contract Policy and Management
- Allan Brophy, Director, Office of Auditing



State of New Jersey

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June 30, 2020

Kevin D. Walsh
Acting State Comptroller
Office of the State Comptroller
P.O. Box 024
Trenton, New Jersey 08625-0024

Dear Mr. Walsh:

The New Jersey Department of Corrections (NJDOC) is in receipt of the Office of the State Comptroller's (OSC) Purchasing Card (P-Card) Program Performance Audit covering the period of July 1, 2014 to June 30, 2017. Thank you for the opportunity to review the audit report and provide comments to your Office prior to the release of the audit.

Our understanding of the objectives of the audit was to determine whether the selected agencies were in compliance with State of New Jersey Procurement and P-Card policies and procedures. The NJDOC's Office of Financial Management, Bureau of Procurement and Contract Management is the unit within the Department responsible for the administration of the P-Card. The Unit Supervisor and P-Card Administrator worked closely with the OSC audit team throughout the audit process. These individuals have reviewed the audit report, and acknowledge the findings and recommendations identified in the audit report. The NJDOC recognizes that there are areas of oversight that can be strengthened and improved pertaining to the administration of the P-Card Program.

Specifically, the Department was cited in three (3) areas that includes seeking quotations and obtaining verification of sole source vendors during the procurement process, maintaining transaction logs and supporting documentation and ensuring segregation of duties. Moreover, actions have already been taken to address these findings to improve our performance which will be further expanded upon in greater detail during the corrective action plan phase. Below you will find brief responses to the specific recommendations outlined in the audit report.


Annually, the NJDOC Office of Policy and Planning, distributes the Internal Management Procedures (IMP's) to each unit in the Department that have review and approval responsibility. The Bureau of Procurement and Contract Management has recently reviewed and updated our IMP on the State of New Jersey P-Card Program. Once this IMP is signed and approved, this will satisfy the first recommendation in the audit report.

Secondly, the NJDOC P-Card Administrator will work with all of the Managers, Supervisors and Card Holders to ensure that proper documentation is maintained, including transaction logs, for all P-Card transactions and usage. Finally, our facility Business Managers will make every effort to ensure that proper segregation of duties are maintained throughout the approval and payment process. Additionally, the Bureau of Procurement and Contract Management P-Card Administrator will develop and implement a P-Card checklist to accompany the transactions to strengthen the verification process for internal controls.

The NJDOC is committed to addressing and correcting these deficiencies. In an effort to further achieve and maintain compliance, the NJDOC Bureau of Auditing will also include these items in their scope and conduct periodic reviews. These additional measures along with training will provide the necessary oversight to ensure compliance with these specific audit findings.

In closing, I would like to thank your audit staff for their continued diligent work and professionalism exhibited during the audit.

Sincerely



Marcus O. Hicks, Esq.
Commissioner

RSB:maa

c: Victoria Kuhn, Acting Chief of Staff
Michelle Ricci, Acting Deputy Commissioner
Gary T. Alpert, Assistant Commissioner, Administration
Melinda Haley, Director of Legal Services
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July 8, 2020

Ms. Yvonne Tierney
Audit Director
Office of the State Comptroller
P.O. Box 024
Trenton, NJ 08625-0024

Dear Ms. Tierney:

Thank you for the opportunity to review and respond to the Office of the State Comptroller's (OSC) audit regarding compliance with procurement and P-Card policies and procedures. The Department has carefully reviewed the audit report and offers the following response to the recommendation:

Documentation Requirements

Objective 2: To determine if the agency cardholders completed the required documentation for P-Card purchases in accordance with Treasury's P-Card circulars.

Recommendation

"...Environmental Protection should monitor the P-Card transactions and ensure that all cardholders maintain a transaction log with the appropriate signatures and all supporting documentation for P-Card purchases in compliance with the applicable P-Card circular."

Response

In addition to a transition to an electronic filing system which will address the documentation deficiencies, the Department's current internal control procedures as follows are sufficient to address the above recommendation.

- All cardholders are given the annual P-Card Duties and Responsibilities Memo that includes a section on the requirements of the Purchasing Card Log Sheet.
- Staff must sign and return the Acknowledgement Form indicating they agree to the rules and procedures.
- P-Card log sheets are required to be submitted to the Procurement Unit by the 5th of each month and must be signed by the cardholder and their supervisor.

- All forms must be filled out completely with all receipts attached.
- Cardholders are reminded that if they consistently submit incomplete documentation, their card privileges may be suspended.

As stated above the Procurement Unit is planning a migration to an electronic filing method within the next 12 months. This will additionally ensure that all documents are easily identifiable and available for future audit reviews.

The DEP looks forward to maintaining the positive relationship that it has established with the Office of the State Comptroller so that we can continue to improve our operations throughout the State of New Jersey. Please do not hesitate to contact me in all areas of mutual concern.

Sincerely,



Adrienne E. Kreipke, Assistant Commissioner
Management and Budget

C: Catherine McCabe, Commissioner
Shawn LaTourette, Chief of Staff
Stephen Matis, Comptroller

