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## OFFICE OF INSPECTOR GENERAL PALM BEACH COUNTY

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### Prevent Purchasing Card Misuse

***Our recent audits have revealed that some municipalities have an increased risk of fraud, waste, misuse, and abuse because they lack an effective purchasing card program that ensures payments are authorized, supported, and allowed.***

***Municipalities may be able to reduce purchasing card payment risks by improving the program design, enhancing written guidance, and monitoring activities of the purchasing card program.***

#### Do the benefits outweigh the risks of your purchasing card program?

**Risk vs Benefit**



Purchasing cards can offer many benefits to an organization over traditional procurement methods, including convenience, expedited delivery of goods, better pricing, expanded list of vendors, simplified purchasing and payment process, lower transaction processing costs, reduced paperwork, cash rebates, and improved reporting and tracking. It is important to design an effective control environment to ensure that those benefits are not diminished. To strike the right balance of controls, organizations can seek guidance from your internal audit and/or legal departments to assist with establishing appropriate controls or with conducting a risk analysis to determine program objectives, potential risks, and controls.

#### Utilize Technology to Increase Program Effectiveness

To further increase the effectiveness of your purchasing card program, utilize the technology that may already be available from your purchasing card provider. Technology can increase control and efficiency through electronic reporting, online statement delivery, electronic review and approvals, automatic transaction reconciliations, and data integration between computer systems.



*“Enhancing Public Trust in Government”*

### Suggestions for an Effective Purchasing Card Program

- **Assign program ownership and oversight** – to ensure that a dedicated program manager is guiding your team and executing purchasing card initiatives.
- **Document policies and procedures** – to clearly define program goals and objectives; authorized cardholders; card limits and restrictions; potential consequences for misuse; roles and responsibilities for cardholders and others; card application/issuance and deactivation process; required training and acknowledgments; excluded vendors/prohibited transactions; use sales tax exemption certificates; supporting documentation, approval, and reconciliation/review requirements; records retention requirements; process for lost/stolen cards; and monitoring/auditing process.
- **Require timely reconciliations by cardholders and supervisors** – to improve the detection of fraudulent, impermissible/unallowable or unauthorized transactions.
- **Establish independent reviews of cardholder transactions** – to ensure compliance with policy requirements and segregation of duties.
- **Prevent purchases of prohibited items** – by using the purchasing card system to restrict purchases from vendors with prohibited merchant category codes (MCC).
- **Promptly deactivate cards of former employees** – to reduce the risk of unauthorized payment transactions.
- **Establish cardholder and transaction limits** – to control the number of transactions and the maximum expenditure per transaction authorized per day and per cycle.
- **Establish a mandatory training program** – to maximize compliance by notifying authorized users prior to issuing cards and periodically reacquainting all cardholders with requirements and informing them of any policy or procedure changes.
- **Conduct audits/reviews** – to evaluate controls and promote compliance with policies and procedures. Key areas to review include: list of active cardholders and their transaction limits; improper purchasing activity, such as prohibited vendors/items and duplicate payments; compliance requirements, such as proper approval; exclusion of sales tax; and retention of sales receipts and documentation of purchases.
- **Carefully consider reasons for issuing cards** – to determine which employees need to initiate purchases or requisitions. Issuing a card to one employee per department may not address your needs for the majority of purchasing activity, whereas distributing too many cards may result in a high number of inactive cards or increased risk of misuse.
- **Use Technology** - if your current purchasing card provider does not offer technology solutions, consider using a competitive bidding process or piggyback established government contract to select a purchasing card provider that will offer technology solutions.

