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GOVERNANCE: Most Procurement Card Controls are Effective, but Some Need to be Strengthened

Audit Report OIG-A-2013-019 | September 26, 2013





NATIONAL RAILROAD
PASSENGER CORPORATION

Office of Inspector General



REPORT HIGHLIGHTS

Why We Did This Review

Procurement cards (company credit cards or PCards) are an inherently risky method for purchasing due to the highly decentralized nature of the transactions, the number of cardholders, and the amount of activity. Finance officials were concerned that the corporation's controls over the use of PCards needed to be strengthened.

After discussion with Finance officials, we initiated a systematic review using Audit Command Language (ACL), a specialized data analysis software tool. We analyzed 100 percent of PCard purchases for the 22-month period ending March 2013. During this period PCard holders made approximately 48,000 transactions procuring about \$17.2 million of goods and services.

In mid-2012 Amtrak changed its PCard service provider. Under the prior service provider, there were 1,385 PCards; the new service provider had 704.

Our objective was to test employee compliance with existing PCard controls and to identify control weaknesses.

For further information, contact Dave Warren, Assistant Inspector General for Audits (202) 906-4600

The full report is at www.amtrakoig.gov/reading-room

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What We Found

The Finance department established policies and procedures for controlling the use of PCards that, with a few exceptions, appear to be effective based on the level of compliance by employees. Areas where controls can be strengthened include:

- **Split Transactions and Circumvented Single Purchase Limits.** 142 employees potentially split purchases totaling about \$1.2 million into 2 or more separate purchases – circumventing the single purchase limit.
- **Single and Monthly Purchase Limits Exceeded.** 78 employees exceeded their single purchase limit 551 times, spending about \$569,000 over their authorized limits; 45 employees exceeded monthly purchase limits 82 times, spending about \$384,000 over their authorized limits.
- **Unauthorized Purchases.** We identified about \$130,000 of potentially unauthorized purchases.
- **Unused Cards Were Not Canceled.** 126 PCards with the new service provider had no activity for more than 6 months.
- **Employees With Higher Purchase Limits Than Requested.** 53 employees had purchase limits higher than the amounts they requested.
- **Uncertain Continued Need for a PCard.** 52 employees who changed positions did not surrender or request continuation of their PCard.

Our analysis of PCard controls in areas such as former employees retaining active cards, employees having multiple cards, and purchases made on lost/stolen cards did not identify any significant instances of control vulnerabilities. We will provide the Finance department with the ACL testing tools we developed for this review.

Corrective Actions

We recommend that the Acting Chief Financial Officer direct the Amtrak Controls group to assess the adequacy of PCard processes and to address the following control issues:

- unauthorized use
- split purchases
- overrides of controls for purchase limit and purchase type restrictions
- inadequate monitoring of card limits and privileges on periodic basis
- periodic review and cancellation of infrequently used cards
- routine monitoring of payment controls using data analytics similar to those developed for this review

The Finance department agreed with our recommendation and is taking steps to address it.




NATIONAL RAILROAD
PASSENGER CORPORATION

Office of Inspector General



Memorandum

To: Dan Black
Acting Chief Financial Officer (CFO)

From: David R. Warren 
Assistant Inspector General, Audits

Date: September 26, 2013

Subject: *Governance: Most Procurement Card Controls are Effective, but Some Need to be Strengthened* (Audit Report OIG-A-2013-019)

This report provides the results of our review of the Finance department's controls and processes to prevent and detect inappropriate uses and payments of its corporate procurement cards (PCards). The Procurement and Materials Management department in the Finance organization is primarily responsible for defining PCard policy, developing procedures, and administering applications. PCards benefit organizations by giving employees a simple, cost-effective solution for making low-value purchases. PCards also enable organizations to exercise cash control by setting up regular payment dates for invoices. When well controlled, PCards improve mission support and reduce transaction-processing costs. During the 22-month period ending March 2013, PCard holders made approximately 48,000 transactions procuring about \$17.2 million of goods and services. Amtrak changed service providers in mid-2012.¹ Under the prior service provider, employees held 1,385 PCards, compared to 704 with the new service provider.

PCards are an inherently risky method for purchasing due to the highly decentralized nature of the transactions, the number of cardholders, and the amount of activity. Organizations using PCards establish controls to help ensure that employees use the cards appropriately. Procurement officials were concerned that the corporation's controls over the use of PCards needed to be strengthened. As a result, in January 2013 they started taking a number of actions to improve the controls, including:

¹ Amtrak used two service providers during this period. The previous provider covered the period from June 2011 through December 2012; the current provider from April 2012 through March 2013. From April 2012 through December 2012, the ramping up of the cards managed by the current service provider overlapped with the winding down of the previous provider.

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- establishing a PCard stabilization program to resolve outstanding issues from the implementation of the Strategic Asset Management² system
- instituting improved reporting capabilities and business processes to administer PCard purchases
- developing user guides
- training employees on proper PCard use

After discussion with officials from the Finance department regarding the controls over PCards, we decided it would be beneficial to conduct a system-wide review of PCard use and related controls. To do this, we relied heavily on Audit Command Language (ACL), a specialized data analysis software tool. By using the tool, we can analyze 100 percent of PCard purchases for a selected timeframe to test employee compliance with controls and to identify control weaknesses. For details on our scope and methodology, see Appendix I.

Our objective was to test employee compliance with existing PCard controls and to identify control weaknesses.

MOST PROCUREMENT CARD CONTROLS ARE EFFECTIVE, BUT SOME NEED TO BE STRENGTHENED

Overall, Procurement has established policies and procedures for controlling the use of PCards that, with a few exceptions, appear to be effective based on the level of compliance by employees.³ However, we did find opportunities to strengthen certain controls. The following summarizes the results of our analysis for the 22 months from June 2011 through March 2013.

²Strategic Asset Management was a company-wide, multi-year effort to improve Amtrak's key operational, financial, supply chain, and human resource processes by enhancing many inefficient manual and automated systems or replacing them with new systems and business processes.

³We provided the Procurement and Accounts Payable departments with a detailed list of exceptions on May 6, 2013, and July 26, 2013.

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Selected Controls are Working Effectively

Our analysis did not identify any significant instances of noncompliance or control vulnerabilities in the following areas:

- former employees retaining active cards
- employees having multiple cards
- purchases made on lost/stolen cards
- purchases made with the cardholder's last name included in the merchant name
- cards that employees had requested to cancel were still active
- employees with unrestricted Merchant Category Code (MCC)⁴ access

Opportunities to Further Strengthen Controls

Our analysis of controls determined that some were generally working well, but others needed strengthening. We grouped the areas for control improvements into three categories—technology, people, and processes.

- **Technology:** Since Amtrak changed service providers in mid-2012, automated controls have reduced the misuse of PCards; however, we identified opportunities for further improvement.

Unauthorized purchase controls are working effectively with minor exceptions.

The automated controls of the service providers limit certain types of purchases by use of an MCC. The service provider uses the MCC to prohibit employees from purchasing items, such as fuel and alcoholic beverages, as stated in the PCard policy. This automated control was largely effective, with some minor exceptions.

For the 22-month period, we identified potentially unauthorized purchases of about \$130,000, less than 1.0 percent of the \$17.2 million of total purchases. We also noted a rate of 1.3 percent of potentially unauthorized purchases with the current service provider; the same rate for the previous provider was 0.5 percent. The more stringent MCC restrictions established by management—with the technical assistance from the

⁴ The Merchant Category Code is a four-digit number assigned to a business by MasterCard or VISA when the business first starts accepting one of these cards as a form of payment. This code is used to classify the business by the type of goods or services it provides.

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current service provider—have resulted in identifying a higher rate of potentially unauthorized purchases.

Single and monthly purchase limit controls. The Amtrak Procurement Card Manual⁵ limits purchase amounts to \$500 for a single purchase and to \$5,000 for monthly purchases. In addition, Procurement Cards policy 11.37.3 (PCard policy), 4/16/2012, requires that higher purchase limits must be approved by a CFO Representative. Exceeding the purchase limits can lead to waste or unexpected budget variances.

During the 22-month period we reviewed, 78 employees exceeded their single purchase limit 551 times, spending collectively about \$569,000 over their authorized limits. Three of the 78 employees exceeded the single purchase limit 394 times, about 72 percent of the total number of excess purchases. Forty-five employees exceeded monthly purchase limits 82 times, spending collectively about \$384,000 over their authorized limits. However, this problem was largely fixed when Amtrak transitioned to a new service provider in mid-2012. For the 22-month period we reviewed, purchases exceeding single and monthly limits reduced from 7.3 percent with the previous service provider to 1.4 percent with the current service provider.

- **People:** Controls over employee behavior, such as splitting purchases, to circumvent authorized limits have not improved.

Employees split transactions and circumvented single-purchase limits. Splitting purchases is a violation of the PCard policy. During the 22-month period reviewed, 142 employees potentially split purchases totaling about \$1.2 million into two or more separate purchases, circumventing the single purchase limit—about 7 percent of the total purchases. For example, an employee with an approved single purchase limit of \$1,500 appears to have split a \$2,100 purchase into two \$1,050 purchases. The percentage of split purchases has remained the same under both service providers—about 7 percent of the total amount purchased. Splitting purchases increases the risk of improper use of PCards.

⁵The Amtrak Procurement Card Manual (August 2012) establishes policy and procedures and also provides guidance to employees on how to properly use PCards.

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Some employees did not always properly follow the PCard credit limit request process. The purchase limits on employees' PCards should match the amount requested on their electronic PCard application or PCard maintenance forms (request forms). As of March 2013, we identified 53 employees with the current service provider (7.5 percent of PCards) who had purchase limits higher than the requested amounts in the credit limit field of their PCard request forms.

We inspected PCard request forms for 22 of the 53 employees and identified 16 instances where the completed forms that did not follow the application procedures in the Amtrak Procurement Card Manual. Six employees requested a higher credit limit using the comments box instead of filling out the extended credit limit data field in the form. Using the comments box bypasses the automatic routing of the request to the CFO Representative for approval. For the remaining 10 employees, higher than the requested purchase limit was granted because it was believed that the employee's job duties would require higher amounts. This practice could circumvent the CFO Representative's approval and may increase the risk of overspending and inappropriate use.

- **Processes:** The determination of continued need and cancellation processes for cards were not always effectively implemented.

The continued need for an employee's PCard was not always confirmed. The PCard policy requires an employee who changes positions in the company either to surrender or request the continuation of his or her card. We identified 52 employees with the current service provider (7.4 percent of PCards) who should have followed this policy but did not. These cases leave the company vulnerable to unauthorized purchases and inaccurate cost center accounting. The PCard administrator has been unable to monitor such exceptions and take corrective actions due to the lack of a reporting tool or an effective follow-up process.

Unused cards were not canceled. Amtrak does not have a policy or procedure to cancel dormant cards—cards that have had no activity for a set period of time. About 126 PCards with the current service provider (about 18 percent of PCards) had no activity for more than 6 months. The service provider has a control that can automatically deactivate dormant cards. However, management decided not to activate this control so the cardholders could use the PCards in an emergency. Best

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practice organizations have policies to deactivate infrequently used cards because such cards are vulnerable to undetected loss, theft, and misuse.

RECOMMENDATIONS

The PCard policies and procedures of the Finance department and the automated controls used by its service provider were generally effective; however, selective controls need improvement. To address those controls, we recommend that you direct your Amtrak Controls group to work with the process owners to assess the adequacy of PCard processes and to address the following control issues:

- unauthorized use
- split purchases
- overrides of controls for purchase limit and purchase type restrictions
- inadequate monitoring of card limits and privileges on periodic basis
- periodic review and cancellation of infrequently used cards
- routine monitoring of payment controls using data analytics similar to those developed for this review

MANAGEMENT COMMENTS AND OIG ANALYSIS

In his response to the draft report, the Acting Chief Financial Officer agreed with our recommendation. He also cited specific corrective actions and a timeframe for implementing them (see Appendix II). The proposed corrective actions address the intent of our recommendation.

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Appendix I

SCOPE AND METHODOLOGY

The scope of our work included reviewing the PCard policy and the PCard manual to identify the key controls implemented. We then obtained complete PCard transaction data from the previous service provider for the period from June 2011 through December 2012 (34,262 purchases worth about \$12.2 million for 1,385 cards), and from the current service provider for April 2012 through March 2013 (13,876 purchases worth about \$5 million for 704 cards). Using the Audit Command Language (ACL) tool, we performed the following data analytic tests to identify PCard exceptions:

- transactions that exceed the card's single purchase limit
- transactions that exceed the card's monthly purchase limit
- split purchases
- inappropriate transactions on unauthorized Merchant Category Codes
- terminated employees with active cards
- employees with multiple cards
- dormant cards
- purchases on lost/stolen cards
- transactions that include the cardholder's last name in the merchant name
- cards with purchase limits higher than approved limits
- active cards that were requested to be canceled
- employees with privileged MCC code access
- employees carrying cards from their prior position
- online purchases using PCards

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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Our methodology approach was to determine whether PCard noncompliance was occurring by performing various data analytic tests on PCard usage. We also identified the potential adverse consequences of the identified exceptions (noncompliance and control weaknesses), to the extent that they were readily discernible. We identified causes only when we could show that policy and procedures were not being followed or when we found an absence of policy and procedures.

Internal Controls

In conducting the audit, we assessed the adequacy of PCard internal controls by performing tests of user compliance with the policies in multiple areas discussed in our scope and methodology.

Use of Computer-Processed Data

To achieve our objective, we used computer-processed data from the previous service provider, the current service provider, and Amtrak's procurement system, eTrax.⁶ We loaded this data into ACL and developed automated programs for our tests. To validate the results of our analysis, we selected a few exceptions and compared them with the source data to ensure that automated programs were producing accurate results based on the established test criteria.

Prior Reports

We reviewed the following audit reports for potential relevance to our work:

- Amtrak OIG Report No. 104-2004, *eTrax Application Review, 2/23/2006*, concluded that PCards were not effectively administered and the charges were not properly reviewed, which resulted in possible waste and abuse of the card privileges. Issues found included cards issued on denied or incomplete applications, cards with higher than approved limits, split transactions, and untimely cancelation of card privileges of terminated employees.

⁶ eTrax automates Amtrak's procurement business functions such as spend management, contract management and supplier management. Amtrak uses eTrax for purchase requisitioning, travel and expense, procurement cards, and payment requests.

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- Amtrak OIG Report No. 202-2005, *eTrax Procurement Cards*, 6/26/2006, found varying degrees of non-compliance with PCard procedures for approval, reconciliation of charges, and supervisory review of charges. Also, the audit identified PCard purchases that could have been made at lower prices through eTrax catalog vendors.

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Appendix II

COMMENTS FROM AMTRAK'S MANAGEMENT

NATIONAL RAILROAD PASSENGER CORPORATION
 40 Massachusetts Avenue, NE, Washington, DC 20002

Memo



<p>Date September 17, 2013</p> <p>To David Warren Assistant Inspector General, Audits</p>	<p>From Dan M. Black  Acting Chief Financial Officer</p> <p>Department Finance</p> <p>Subject Management Response to Amtrak Office of Inspector General's (OIG) Draft Report No. 006-2013, dated September 4, 2013</p> <p>cc J. Martin B. Reynolds E. Acheson W. Herrmann D. Herndon M. Gagnon M. Paige R. Thomas K. Denihan</p>
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Management has reviewed the OIG Draft Report (No. 006-2013) entitled "GOVERNANCE: Most Procurement Card Controls are Effective but Some Need to be Strengthened". Management response to the recommendation is detailed below.

Recommendation: The PCard policies and procedures of the Finance department and the automated controls used by its service provider were generally effective; however, selective controls need improvement. To address those controls, we recommend that you direct your Amtrak Controls group to work with the process owners to assess the adequacy of the Pcard processes and to address the following control issues:

- *unauthorized use
- *split purchases
- *overrides of controls for purchase limit and purchase type restrictions
- *inadequate monitoring of card limits and privileges on periodic basis
- *periodic review and cancellation of infrequently used cards
- *routine monitoring of payment controls using data analytics similar to those developed for this review

Management Response: Management concurs with the OIG's recommendation to strengthen controls. The Finance Department and the Procurement & Materials Management Department will work with the Amtrak Controls group to address the adequacy of controls and strengthen where

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appropriate.

Management plans to implement utilizing the following approach:

- The adequacy and effectiveness of PCard processes and controls, to provide assurance regarding the achievement of PCard objectives (e.g. accuracy, completeness and timeliness of reporting; effectiveness and efficiency of operations, etc.), will be assessed during the rollout and implementation of the management control framework. Amtrak Controls will assist the process owners in the completion of the assessment. Although the final plan will be reviewed and approved by management in the near future, we expect a target completion date for this process to be December 31, 2014.
- During the assessment process described above, Amtrak Controls will work with the PCard process owners to evaluate and deploy solutions to each of the control issues noted (e.g. unauthorized use, split purchases, overrides of controls for purchase limit and purchase type restrictions, inadequate monitoring of card limits and privileges on periodic basis, periodic review and cancellation of infrequently used cards), where deemed appropriate.
- Amtrak Controls will also work with the PCard process owners to implement a routine monitoring of payment controls using data analytics similar to those developed by the OIG. We estimate that process can be completed (initial design and implementation, as this process will necessarily be periodically reviewed and improved) within 3 months of the date which we receive access to the data and processing capabilities of the ACL AX Core.

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Appendix III

ABBREVIATIONS

ACL	Audit Command Language
CFO	Chief Financial Officer
MCC	Merchant Category Code
PCard	Procurement Card

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Appendix IV

OIG Team Members

Vipul Doshi	Senior Director, Audits
Vijay Chheda	Audit Manager
Ben Davani	Senior Auditor, IT
Asha Sriramulu	Senior Auditor, IT
Ashish Tendulkar	Senior Auditor, IT
Jim Tarantino	Consultant
Kim Tolliver	Consultant

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OIG MISSION AND CONTACT INFORMATION

Amtrak OIG's Mission	The Amtrak OIG's mission is to provide independent, objective oversight of Amtrak's programs and operations through audits, inspections, evaluations, and investigations focused on recommending improvements to Amtrak's economy, efficiency, and effectiveness; preventing and detecting fraud, waste, and abuse; and providing Congress, Amtrak management, and Amtrak's Board of Directors with timely information about problems and deficiencies relating to Amtrak's programs and operations.
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