

JOINT COMMITTEE ON GOVERNMENT AND FINANCE
WEST VIRGINIA OFFICE OF THE LEGISLATIVE AUDITOR

POST AUDIT DIVISION

LEGISLATIVE AUDIT REPORT

ANALYSIS OF STATEWIDE P-CARD TRANSACTIONS

PERIOD REVIEWED: FY 2017, Q1

Legislative Auditor: Aaron Allred



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LEGISLATIVE AUDITOR'S STAFF CONTRIBUTORS

Aaron Allred Legislative Auditor
Adam Fridley Audit Manager
Amanda Copeland Senior Auditor
Randolph Mays Senior Auditor
Hugh Canada Auditor

Introduction

Due to consistent issues with P-Card transactions in various audits of state spending units, the Legislative Auditor conducted a statewide analysis of P-Card transactions to determine whether there are systemic issues within the P-Card Program.

The Legislative Auditor analyzed two statistically significant, random samples¹ of P-Card transactions from the first quarter of Fiscal Year 2017, which encompassed 126,166 individual transactions totaling approximately \$88 million. Sample one consists of 656 P-Card transactions across all non-higher education spending units, and sample two consists of 665 P-Card transactions from the State's two-year and four-year institutions of higher education. Tables 1 and 2 provide a breakdown of each sample. Each sample was selected to achieve a 95 percent confidence level and a margin of error of +/- 5 percent.

Table 1 Sample Transactions by Cabinet Level Sample 1		
Cabinet-Level	Number of Transactions	Sum of Transaction Amounts
Department of Administration	9	\$2,688.41
Department of Commerce	74	\$31,298.98
Department of Education	4	\$1,621.18
Department of Education & the Arts	10	\$8,952.19
Department of Environmental Protection	17	\$3,818.57
Department of Health & Human Resources	68	38,455.45
Department of Military Affairs & Public Safety	67	\$111,726.10
Department of Revenue	10	\$34,778.26
Department of Transportation	350	\$9,300,076.16
Department of Veterans Assistance	4	\$1,105.48
Miscellaneous Boards	6	\$1,880.34
Board of Public Works	23	\$16,973.32
Legislative Branch	1	\$161.94
Judicial Branch	13	\$1,594.05
Total	656	\$9,555,130.43
<i>Source: Legislative Auditor's sample pulled from the Reconciled Audit Log FY2017 in wvOASIS.</i>		

¹ Due to their high volume of P-Card transactions over the scope of this audit, the Department of Transportation and West Virginia University comprise the majority of the sampled transactions in Sample One and Sample Two, respectively. In total, the Legislative Auditor analyzed 1,321 P-Card transactions totaling \$11,210,741.52

Table 2
Sample Transactions by Institution
Sample 2

Institution	Number of Transactions	Sum of Transaction Amounts
Blue Ridge CTC	9	\$15,581.79
Bluefield State College	13	\$33,277.92
BridgeValley CTC	17	\$139,427.86
Concord University	15	\$46,473.79
Council for Community and Technical College Education	1	\$300.44
Eastern West Virginia CTC	1	\$37.97
Fairmont State University	38	\$117,610.50
Glenville State College	7	\$12,537.24
Higher Education Policy Commission	3	\$1,796.55
Marshall University	75	\$342,675.75
Mountwest CTC	7	\$5,800.55
New River CTC	10	\$77,409.19
Shepherd University	34	\$107,942.54
Southern West Virginia CTC	5	\$3,005.36
West Liberty University	14	\$5,483.83
WVNET	4	\$13,840.60
West Virginia Northern CTC	5	\$4,281.96
West Virginia School of Osteopathic Medicine	33	\$232,036.08
West Virginia State University	22	\$76,176.41
West Virginia University	343	\$390,656.59
West Virginia University at Parkersburg	9	\$29,258.17
Total	665	\$1,655,611.09

Source: Legislative Auditor's sample pulled from the Reconciled Audit Log FY2017 in wvOASIS.

The Legislative Auditor reviewed these transactions against the West Virginia State Auditor's P-Card Policies and Procedures and identified the following issues:

1. Of the 1,321 transactions reviewed in the two samples, 17.4 percent, or 230, did not have sufficient supporting documentation. This includes:
 - 32 which lacked an itemized receipt;
 - 194 which did not have documentation showing that the purchase was for a justified business purpose; and
 - 25 which lacked the appropriate documentation related to hospitality services².

²Twenty-two of the transactions lacked multiple types of documentation.

2. Approximately two percent of transactions were determined by the Legislative Auditor to be unallowable. Of these, 21 were transactions made with third-party payment processors such as PayPal or Amazon Marketplace.

Because these samples are statistically significant, the Legislative Auditor is able to project the results from each sample in order to determine the extent to which these documentation issues exist across all P-Card transactions from the first quarter of FY 2017. The Legislative Auditor concludes that there are potentially more than 24,000 P-Card transactions statewide that are not supported by the required documentation.

Approximately 17 Percent of all P-Card Transactions From the Samples Are Not in Accordance with the Minimum Standards for P-Card Use. 230 P-Card Transactions Were Identified as Lacking One or More Piece(s) of Important Supporting Documentation.

Itemized Receipts

The State Auditor’s Purchasing Card Policies and Procedures Manual establishes the minimum standards for the use of a P-Card. Specifically, the manual establishes specific requirements as it relates to the documentation that must be attached to each transaction. With regard to transaction documentation, the manual states:

. . . an itemized receipt must be obtained for each transaction placed on the P-Card. The receipt must be legible, itemized (reflecting the goods or services purchased), and contain the vendor name, date of purchase, and the price of items [emphasis added].

The Legislative Auditor’s analysis of samples one and two identified 32 transactions totaling approximately \$155,000 that did not include a legible itemized receipt associated with a transaction. The sample of transactions from non-higher education state spending units included 14 transactions without an itemized receipt, while there were 18 transactions lacking an itemized receipt from the State’s institutions of higher education. Table 3 below provides a breakdown of these transactions.

Table 3		
Sample Transactions Without an Itemized Receipt		
Sample One – State Spending Units (Non-Higher Education)		
Spending Unit/Institution Name	Number of Transactions	Amount
Adjutant General	3	\$1,819.58
Armory Board	2	\$44.32
Department of Environmental Protection	3	\$1,724.76
Division of Corrections	1	\$7,855.30
Division of Highways	5	\$74,822.01
Division of Natural Resources	4	\$6,209.66
Sample Two – Institutions of Higher Education		
Concord University	2	\$12,653.98
Marshall University	3	\$12,089.26
Shepherd University	1	\$4,185.00
West Liberty University	1	\$44.60
West Virginia School of Osteopathic Medicine	2	\$13,738.32
West Virginia University	5	\$20,130.31
Total	32	\$155,317.10
<i>Source: Legislative Auditor’s analysis of P-Card Transactions Samples.</i>		

Business Use Documentation

The P-Card policies and procedures manual states that a review of each transaction must be conducted to ensure that each transaction is legitimate, for official state business, and that all required documentation is included. Determining that a transaction was for a legitimate business purpose often requires more than just an itemized receipt. According to the Director of Program Oversight within the P-Card Division of the State Auditor’s Office:

Many of the items purchased by state agencies today carry an inherent risk of conversion to personal use. With this in mind, an itemized receipt may not always provide enough information to determine if a purchase was made for legitimate business purposes . . . For this reason, different types of documentation may be required to support the various steps in the procurement cycle or payment process.

The Legislative Auditor noted that approximately 15 percent (194 out of 1,321) of the total transactions in the two samples did not have adequate documentation to determine that the purchase was for business use. In reaching this conclusion, the Legislative Auditor evaluated all of the attached transaction documentation, the nature of the items purchased, and the nature of the purchasing spending unit, and employed a generous evaluation approach whereby a reasonable benefit of a doubt was extended to the purchaser. Table 4 provides a breakdown, by spending unit, of the transactions with insufficient documentation of business use.

Table 4
Sample Transactions Lacking Business Justification for Purchase

Sample One – State Spending Units (Non-Higher Education)		
Spending Unit/Institution Name	Number of Transactions	Amount
Adjutant General	2	\$11,435.70
Armory Board	4	\$726.69
Bureau of Senior Services	1	\$19.15
Dept. of Administration	2	\$553.98
Dept. of Agriculture	7	\$3,173.53
Dept. of Environmental Protection	4	\$1,799.76
Dept. of Health and Human Resources	7	\$23,442.43
Division of Corrections	5	\$8,531.59
Division of Forestry	2	\$286.63
Division of Highways	37	\$147,841.58
Division of Justice and Community Services	1	\$2,339.00
Division of Motor Vehicles	1	\$432.00
Division of Natural Resources	28	\$5,647.90
Division of Tourism	2	\$1,449.56
Economic Development Authority	1	\$30.91
Fire Commission	1	\$476.00
Homeland Security and Emergency Management	1	\$154.67
Lottery Commission	1	\$22,515.00
National Coal Heritage Area Authority	1	\$144.29
Parkways Authority	8	\$4,742.47
Secretary of State	1	\$745.44
State Auditor’s Office	2	\$219.40
State Rail Authority	1	\$376.99
West Virginia State Police	2	\$19.99
Sample Two – Institutions of Higher Education		
Bluefield State College	1	\$633.70
BridgeValley Community and Technical College	1	\$17.47
Concord University	4	\$5,941.50
Council for CTC Education	1	\$300.44
Fairmont State University	11	\$19,001.92
Glenville State College	1	\$64.67
Marshall University	12	\$41,708.50
New River Community and Technical College	1	\$1705.00
Shepherd University	2	\$1,504.26
Southern WV Community and Technical College	1	\$536.65
West Liberty University	7	\$940.49
WVNET	2	\$385.60
West Virginia School of Osteopathic Medicine	10	\$41,770.90
West Virginia State University	4	\$5,336.50
West Virginia University	14	\$4,327.67
Total	194	\$338,131.17

Source: Legislative Auditor’s analysis of P-Card Transactions Samples.

In concluding that these transactions did not have documentation to show that the purchases were for business purposes, the Legislative Auditor is **not** suggesting that all 194 transactions were inappropriate or for personal use. **Rather, the Legislative Auditor concludes that P-Card users need to do a better job of clearly documenting that each P-Card transaction is for the official business and benefit of the State.**

Hospitality Documentation

The State Auditor’s Office has also established clear requirements as it relates to hospitality expenditures:

*In addition to other documentation requirements, each hospitality event/function must be supported by **an itemized receipt/invoice and a list of names (by first and last name) of function attendees.** (Emphasis added).*

The West Virginia Purchasing Handbook defines hospitality expenditures to include, “*expense for food, beverages, facility rental and entertainment **relating to conducting state business***” (original emphasis).

In reviewing the two P-Card samples, the Legislative Auditor identified 58 transactions for hospitality services, totaling \$100,157.92. Of these, the Legislative Auditor determined that 25 transactions, or approximately 43 percent, did not contain the required documentation for a hospitality expense. Table 5 provides the details of these transactions.

Table 5		
Sample Transactions Lacking Hospitality Documentation		
Sample One – State Spending Units (Non-Higher Education)		
Spending Unit/Institution Name	Number of Transactions	Amount
Dept. of Health and Human Resources	1	\$199.41
Supreme Court	1	4.96
Sample Two – Institutions of Higher Education		
BridgeValley CTC	1	\$28,816.50
Concord University	2	\$273.98
Shepherd University	1	\$445.80
West Liberty University	1	\$215.80
School of Osteopathic Medicine	1	\$340.00
West Virginia State University	3	\$22,414.87
West Virginia University	14	\$30,062.06
Total	25	\$82,773.38
<i>Source: Legislative Auditor’s analysis of P-Card Transactions Samples.</i>		

In total, over \$82,000 in hospitality expenditures across the two samples did not have the required supporting documentation. While evaluating the documentation related to hospitality expenditures, the Legislative Auditor identified that institutions of higher education accounted for

23 of the 25 transactions (92 percent) lacking the required documentation. In most of these instances, the institutions did not attempt to document the names of the individuals who attended the event or function for which a hospitality expenditure was made.

In addition, the Legislative Auditor noted that West Virginia University's hospitality expense form contains language which contradicts the State Auditor's P-Card Policies and Procedures Manual. The University's Hospitality/Event Documentation form states, "*If the group is larger than 20, then a list of attendees is not required.*" However, the State Auditor's P-Card Policies make no such exception. **Therefore, the Legislative Auditor recommends that West Virginia University adhere to the State Auditor's policies and amend its policy accordingly.**

Unallowable Purchases

The Legislative Auditor determined that 24 total transactions across the two samples were unallowable. This includes 18 transactions from the institutions of higher education and 6 transactions from the sample of state agencies. Of these, 21 transactions, or approximately 88 percent, were determined to be unallowable because the transactions were with third-party payment processors such as PayPal or Amazon Marketplace. According to the State Auditor's P-Card Policies and Procedures, payments may only be made through these third-party payment processors upon prior approval. The Legislative Auditor found no documentation to indicate that prior approval was sought or granted.

In addition, the Legislative Auditor questions whether many P-Card holders understand the difference between purchases made from Amazon LLC and the Amazon Marketplace, transactions from which purchases are made through a third-party payment processor. Since the majority of unallowable purchases identified in the Legislative Auditor's samples were Amazon Marketplace transactions (18 of 24), the Legislative Auditor recommends that the State Auditor's Office place additional training emphasis on the difference and encourage spending units to seek prior approval for these types of transactions.

Two additional transactions were determined to be unallowable because the transactions were for the purchase of gift cards. Like payments with third-party payment processors, gift card purchases require prior approval from the State Auditor's Office. The final unallowable transaction identified by the Legislative Auditor appeared to be a personal food purchase. Although this purchase is strictly unallowable under the P-Card Policies and Procedures Manual, the existing system of controls was able to identify the transaction. After an internal review by the spending unit determined that the purchase was accidental, it was subsequently reimbursed by the cardholder.

The Legislative Auditor Projects That as Many as 24,000 P-Card Transactions From the First Quarter of FY 2017 May Not Have Had the Documentation Required to Support Payment.

Since the Legislative Auditor took statistically significant random samples from each of the two populations of P-Card transactions, it is possible to extrapolate the results of the respective

samples and make inferences about the total populations. By calculating the percent of error for the attributes in the samples and applying them to the overall populations, the Legislative Auditor can project the number and dollar amount of P-Card transactions in the first quarter of FY 2017 that lacked important pieces of supporting documentation. Tables 6 and 7 provide a breakdown

Table 6		
Projection of State Spending Units P-Card Sample Results		
	Projected Number of Transactions	Projected Dollar Amount
Unallowable Purchases	653	\$3,528.74
No Itemized Receipt	1,958	\$600,377.06
No Business Justification	13,273	\$1,389,082.56
<i>Source: Legislative Auditor's analysis of P-Card Transactions Samples.</i>		

Table 7		
Projection of Higher Education Institutions P-Card Sample Results		
	Projected Number of Transactions	Projected Dollar Amount
Unallowable Purchases	1,483	\$150,283.55
No Itemized Receipt	1,154	\$985,713.02
No Business Justification	5,933	\$1,959,541.86
<i>Source: Legislative Auditor's analysis of P-Card Transactions Samples.</i>		

Assuming the samples that were analyzed are reflective of the populations from which they were taken, the Legislative Auditor's projections indicate that over 24,000 of P-Card transactions from the first quarter of FY 2017 may have been processed for payment while missing important pieces of required documentation, such as itemized receipts or a clear business justification. In addition, the projections indicate that over 2,000 unallowable P-Card purchases may have been processed for payment.

Conclusion

While the results of these analyses confirm that the minor documentation issues identified in past legislative audits exist statewide, the Legislative Auditor concludes that the system of controls over the P-Card Program is largely adequate so as to provide reasonable assurance that P-Card usage is appropriate. The higher the volume of transactions and the higher the number of active P-Cards available, the higher the inherent risk of fraud, misuse, or abuse. However, it is the opinion of the Legislative Auditor that the extent to which these transactions occur, they are the result of individual bad actors, and do not reflect systemic issues with the P-Card program or its system of controls.

Nevertheless, there are areas for improvement with respect to supporting documentation. Purchases are being approved without all proper supporting documentation, including documentation demonstrating the purchases are made for business purposes. Additionally, agencies are not ensuring that the documentation attached to each transaction is complete and

accurate to comply with the State Auditor's P-Card Policies and Procedures Manual. This negates assurances on the legitimacy of cardholder purchases, increasing the risk of P-Cardholders paying improper amounts and making unallowable and/or personal purchases.

Recommendations

- 1. The Legislative Auditor recommends that West Virginia University adhere to the State Auditor's policies and amend its policy accordingly.*
- 2. The Legislative Auditor recommends that the State Auditor's Office place additional training emphasis on the difference and encourage spending units to seek prior approval for these types of transactions.*
- 3. The Legislative Auditor recommends that all state spending units comply with the State Auditor's P-Card Policies and Procedures and ensure that all required supporting documentation is attached to each transaction.*

WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance

1900 Kanawha Blvd. East, Room E-132
Charleston, WV 25305-0610
(304) 347-4800
(304) 347-4819 FAX



Aaron Allred
Legislative Manager

May 16, 2018

John B. McCuskey, State Auditor
West Virginia State Auditor's Office
State Capitol Complex
Building 1
Charleston, WV 25305

Dear Auditor McCuskey:

This is to transmit a draft copy of the Statewide P-Card Transactions audit report. This report is tentatively scheduled to be presented during the **May 22, 2018** interim meeting of the Post Audits Subcommittee. The meeting is currently scheduled from **10:00-11:00a.m. in the Senate Finance Committee Room (451-M)**. It is expected that a representative from your agency be present at the meeting to respond to the report and answer any questions committee members may have during or after the meeting.

If you have any questions or concerns with the report, you may contact Adam R. Fridley, Audit Manager, at 304-347-4880. In addition, we need your written response by **noon on Friday, May 18, 2018** in order for it to be included in the final report. Thank you for your cooperation.

Sincerely,

A handwritten signature in black ink, appearing to read "A. R. Fridley".

Adam R. Fridley

Enclosure



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Room 329 W, Building 1
1900 Kanawha Boulevard East
Charleston, West Virginia 25305
Phone: (304) 347-4880