

Audit Report

Walter P. Reuther Psychiatric Hospital
Procurement Card Program

October 1, 2011 – May 24, 2013



Office of Audit
Data Analysis & Audit Section
March 2014



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
OFFICE OF AUDIT
400 S. PINE; LANSING, MI 48933

JAMES K. HAVEMAN
DIRECTOR

March 11, 2014

Mr. James K. Haveman, Director
Department of Community Health
201 Townsend Street
Lansing, Michigan 48913

Dear Mr. Haveman:

This is our audit report on the Walter P. Reuther Psychiatric Hospital procurement card program for the period October 1, 2011 through May 24, 2013.

This report contains an introduction; audit objective; audit scope and methodology; audit conclusion; findings and recommendations; glossary of acronyms and terms; and a corrective action plan.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Pam Myers", written over a large, stylized flourish.

Pam Myers, Director
Office of Audit

Enclosure

c: Nick Lyon
Tim Becker
Lynda Zeller
Cynthia Kelly
Richard Young
Amy Zimmerman

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INTRODUCTION

The State of Michigan's Procurement Card Program began in June 1995. The program simplified the process of single item purchases of less than \$2,500. The focus of the Procurement Card Program is to continue improving the purchasing process by streamlining small dollar purchases, expanding controls and increasing efficiency.

For the program to be a success the cardholder, supervisor, and department administrator have key roles and responsibilities in the program management. Each group, fulfilling their roles, allows the program to meet the State of Michigan purchasing needs while ensuring the program's integrity.

Procurement cardholders are selected at the discretion of the Department of Community Health's (DCH) management and are provided a Bank of America issued Visa Procurement Card. Employees may use their Procurement Card to make purchases related to their job in person, by mail, telephone, or via the Internet, within the designated limits on their account. Each cardholder is responsible for the use of and security over their procurement card. Enrollment and removal from the procurement card program for all DCH cardholders is processed and controlled centrally by the Operations Administration, Bureau of Budget and Purchasing.

Cardholder charges are reflected on a Cardholder Transaction Detail report that is provided to each cardholder on a biweekly basis. This report is to be used for reconciling cardholder charges.

In fiscal year 2011-12, the Walter P. Reuther Psychiatric Hospital (WRPH) had 6 cardholders who incurred 595 procurement card transactions totaling \$175,560. In fiscal year 2012-13 (from October 1, 2012 through May 24, 2013), WRPH had 7 cardholders who incurred 395 transactions totaling \$137,203.

AUDIT OBJECTIVE

Our audit objective was to assess whether Walter P. Reuther Psychiatric Hospital's internal controls over the procurement card program were effective in ensuring compliance with applicable policies and procedures.

AUDIT SCOPE AND METHODOLOGY

Our audit covered the period October 1, 2011 through May 24, 2013. Our on-site review of documentation occurred during June 2013. We reviewed Department of Technology, Management, and Budget (DTMB), Department of Community Health (DCH), and Walter P. Reuther Psychiatric Hospital's (WRPH) policies and procedures. We interviewed cardholders, supervisors, warehouse personnel, and administrators. We tested a judgmental selection of transactions for supporting documentation, proper approvals, billing reconciliations, and compliance with other applicable procurement card policies and procedures. For our fiscal year 2011-12 sample, we selected all transactions over \$1,000 because these transactions had the highest dollar impact. For our fiscal year 2012-13 sample, we selected all transactions for 3 separate payment cycles because these transactions would ensure that we reviewed activity for each cardholder that had transactions during the fiscal year. From these two samples, we judgmentally selected a smaller sample of transactions to verify the existence of the purchased items. The following chart provides the detail related to our samples.

	Fiscal Year 2011-12	Fiscal Year 2012-13 (through May 24, 2013)
Number of cardholders tested	6	7
Number of transactions tested for internal controls	54	80
Total dollar value of transactions tested for internal controls	\$84,894	\$32,804
Number of transactions tested for physical verification	13	8

AUDIT CONCLUSION

We concluded that WRPH's internal controls over the procurement card program were not effective in ensuring compliance with applicable policies and procedures. While WRPH had written procedures in place, cardholders, supervisors, and the administrative officer were not consistently following the procedures. As a result, we noted findings related to purchase documentation (Finding 1), purchase approvals (Finding 2), billing reconciliations (Finding 3), and physical verification/purchase use (Finding 4).

FINDINGS AND RECOMMENDATIONS

Finding

1. Purchase Documentation

WRPH's internal controls did not ensure that all procurement card purchase documentation was obtained, submitted, and retained.

Our review disclosed the following:

- a. As of June 10, 2013, 3 cardholders had not submitted their 3/16/2013 – 3/29/2013 billing cycle reconciliations or receipts to accounting.

DCH Procurement Card Monitoring Procedure #9 requires the cardholder to forward receipts, transaction detail report, and transaction logs to accounting. WRPH Standard Operating Procedure 311, E13 requires the cardholder to deliver transaction log and receipts to the accounting office. The accounting staff indicated that they had requested the documents from the cardholders, but none had been submitted. After we requested these billing reconciliations and receipts, management contacted the cardholders and the cardholders submitted the documentation.

- b. The cardholder had not submitted an original receipt with the individual purchase description and amounts for 2 (4%) of 52 transactions in fiscal year 2011-12 and 15 (19%) of 80 transactions in fiscal year 2012-13. As a result of the lack of receipts or receipts with detailed information about the purchase, we were unable to verify the appropriateness of the purchases.

Also, the amount on the transaction detail report (\$1,875) did not equal the amount on the store receipt (\$124) for 1 (1%) of 80 transactions in fiscal year 2012-13. At our request, the cardholder contacted the merchant and obtained a receipt that included all items purchased and matched the transaction detail report for this particular purchase.

DTMB Cardholder Manual Cardholder Responsibilities #2 requires that the cardholder retain all sales slips/register receipts and procurement card slips. DCH Procurement Card Monitoring Procedure #5A requires that the cardholder matches receipts/slips to the transaction detail report for each transaction to verify proper pricing was used and that inappropriate charges were not incurred. WRPH Standard Operating Procedure 311, E8 requires that the cardholder matches transaction and receipt documentation to the transaction detail report. The following entries must match: merchant name, transaction amount,

transaction date, no sales tax paid, description of what was purchased. It further instructs that the cardholder must resolve any disagreements or lack of supporting documentation.

WRPH had policies and procedures in place but the cardholders and supervisors did not follow the established policies and procedures. The lack of following internal control policies and procedures can result in inappropriate purchases and misuse of state funds.

Recommendation

We recommend that WRPH require cardholders to obtain complete receipts and submit the billing reconciliations and receipts to accounting in a timely manner.

Finding

2. Purchase Approvals

WRPH's internal controls did not ensure that purchase approval processes were followed.

Our review disclosed the following:

- a. The procurement request form was not signed by the purchase requestor or the cardholder before the purchase was made for 13 (24%) of 54 transactions in fiscal year 2011-12 and 22 (28%) of 80 transactions in fiscal year 2012-13. WRPH Standard Operating Procedure 311, E1 requires that the cardholder requests approval of the credit card purchase by completing a procurement request (DCH-D120) prior to making the purchase.
- b. The procurement request form was not signed by the Supervisor or Department head before the purchase was made for 14 (26%) of 54 transactions in fiscal year 2011-12 and 28 (35%) of 80 transactions in fiscal year 2012-13. WRPH Standard Operating Procedure 311, E2 requires that the cardholder's Supervisor or Department Head approve the procurement request (DCH-D120) and forward to the Administrative Officer / Designee for approval prior to the cardholder making the purchase.
- c. The procurement request form was not signed by Administrative Officer or designee before the purchase was made for 20 (37%) of 54 transactions in fiscal year 2011-12 and 35 (44%) of 80 transactions in fiscal year 2012-13. WRPH Standard Operating Procedure 311, E3 requires that the Administrative Officer / Designee approves the procurement request (DCH-D120) and forwards to the Supervisor/Department Head prior to the cardholder making the purchase.

WRPH had policies and procedures in place but the cardholders, supervisors, and administrative officer did not follow the established policies and procedures. The administrative officer indicated that in the case of an emergency purchase (one made on a weekend or holiday), it would not be possible for the supervisor or administrative officer to sign the procurement request form prior to the purchase occurring. We reviewed the purchase dates for the errors noted above and determined that only 1 purchase in fiscal year 2011-12 occurred on a state holiday and only 2 purchases in fiscal year 2012-13 occurred on a weekend. The lack of following internal control procedures can result in inappropriate purchases and misuse of state funds.

Recommendations

We recommend that WRPH requires requestors or cardholders, supervisors or department heads, and the administrative officer or designee to complete and sign purchase request forms prior to the cardholder making a purchase, unless the purchase is an emergency purchase.

When the purchase is made on an emergency basis, we recommend that WRPH require cardholders to indicate on the procurement request form that it is an emergency purchase and to obtain the required signatures on the next business day after the purchase has occurred.

Finding

3. Billing Reconciliations

WRPH's internal controls did not ensure that billing cycle reconciliations were completed and approved by the cardholder and the cardholder's supervisor.

Our review disclosed the following:

- a. The cardholder had not demonstrated that the transaction detail report was reconciled to receipts for 1 (6%) of 16 cardholder transaction detail reports in fiscal year 2012-13. DCH Procurement Card Monitoring Procedure #5A requires that the cardholder compares DCH-0012 procurement card transaction log with transaction detail report and matches receipts/slips to the billing for each transaction to verify proper pricing was used and that inappropriate charges were not incurred. WRPH Standard Operating Procedure 311, E8 requires the cardholder matches transaction and receipt documentation to the transaction detail report. It indicates that the following entries must match: Merchant name, transaction amount, transaction date, no sales tax paid, description of what was

purchased. It also requires that the cardholder resolves any disagreements or lack of supporting documentation.

- b. The transaction detail report had not been signed by the cardholder in 4 (17%) of 24 cardholder transaction detail reports in fiscal year 2011-12 and 3 (19%) of 16 cardholder transaction detail reports in fiscal year 2012-13. DCH Procurement Card Monitoring Procedure #7 requires that the cardholder signs and dates DCH-0012 procurement card transaction log verifying that purchases were appropriate and accurate.
- c. The cardholder's supervisor had not signed the cardholder transaction detail reports for 5 (21%) of 24 cardholder transaction detail reports in fiscal year 2011-12 and 6 (38%) of 16 cardholder transaction detail reports in fiscal year 2012-13. DCH Procurement Card Monitoring Procedure #7 requires that the cardholder obtains supervisor approval on DCH-0012 procurement card transaction log who also verifies that purchases were appropriate and accurate. WRP Standard Operating Procedure 311, E9 & E12 require that the supervisor verifies that all transactions are authorized and beneficial to the State of Michigan, reconciles receipts with transaction log, completes full signature, and dates reconciliation log.

WRPH had policies and procedures in place but the cardholders and supervisors did not follow the established policies and procedures. The lack of following internal control policies and procedures can result in inappropriate purchases and misuse of state funds.

Recommendations

We recommend that WRPH require cardholders to reconcile receipts to the transaction detail reports and sign the transaction detail report to document the reconciliation.

We also recommend that WRPH require cardholders' supervisors sign the transaction detail reports to document that they have performed the required reconciliation and approved the purchases.

Finding

4. Physical Verification/Purchase Use

WRPH's internal controls did not provide sufficient documentation to support that all procurement card purchases were used for appropriate and approved purposes.

Our review disclosed the following:

- a. Twenty (37%) of 54 transactions in fiscal year 2011-12 and 18 (24%) of 75 transactions in fiscal year 2012-13 did not contain receiving disbursement voucher (RDV) numbers indicating that the item(s) purchased had been presented to and checked in by the warehouse staff. WRP Standard Operating Procedure 311, E5 states that the cardholder will deliver all purchases of equipment and supplies/materials to the warehouse for distribution. WRP Standard Operating Procedure 311, E6 states that the Warehouse Supervisor/Designee tags all equipment items and delivers equipment and supplies / materials to requestor.

WRPH had policies and procedures in place but the cardholders did not follow the established policies and procedures and their supervisors did not ensure that they followed the procedures. The administrative officer indicated that in the case of an emergency purchase (one made on a weekend or holiday), it would not be possible for the cardholder to present the purchased items to the warehouse staff on the date of purchase. We reviewed the purchase dates for the errors noted above and determined that none of the fiscal year 2011-12 purchases occurred on a weekend or state holiday and only 1 fiscal year 2012-13 purchase occurred on a weekend. The lack of following internal control policies and procedures can result in inappropriate purchases and misuse of state funds.

- b. We were unable to locate all of the items purchased on 7 (54%) of 13 receipts from fiscal year 2011-12 and 3 (38%) of 8 receipts from fiscal year 2012-13. The items included a ratchet set, work clothes, replacement window glass, door locks, heating / cooling system dampers, switch locks, and water coolers / fountains.

WRPH facilities personnel do not keep any written inventory records for maintenance supplies, items for building installation (such as locks or drinking fountains), replacement parts, or small tools. As a result, we could only verify equipment purchases that were tagged by the warehouse staff and a few items that were permanently attached or adhered to the building. Because there were no inventory records, we attempted to identify work orders that related to the remaining purchases, but because the facility's personnel do not include work order numbers

on their purchase request forms, we could not determine for which project, maintenance, or repair the items were purchased. Keeping an inventory of maintenance supplies, building installation items, replacement parts, and small tools and including the work order number on the purchase request forms would provide information that could be used to help ensure that supplies and materials were used for the intended approved project.

Recommendations

We recommend that WRPB require cardholders to ensure that all purchases are checked in by the warehouse staff and assigned RDV numbers.

We also recommend that the facilities personnel develop a method to maintain written inventory records of maintenance supplies, items for building installation, replacement parts, and small tools.

We further recommend that the facilities personnel record work order numbers on the procurement request forms in order to document purchases are for intended approved purposes or in accordance with State policies.

GLOSSARY OF ACRONYMS AND TERMS

Cardholder Transaction Detail Report	A biweekly report of cardholder charges
DCH	Department of Community Health
DCH-D120	A Department of Community Health procurement request form
DTMB	Department of Technology, Management, and Budget
Procurement Card	A Bank of America Visa credit card provided to employees to make purchases related to their job with the State of Michigan in person, by mail, by telephone, or via the Internet.
RDV	Receiving Disbursement Voucher. The warehouse personnel record all purchases received through the warehouse in the receipting log, indicate to which unit/department the purchased items were delivered, and assign each purchase a receiving disbursement voucher number.
WRPH	Walter P. Reuther Psychiatric Hospital

CORRECTIVE ACTION PLAN

Finding Number: 1

Finding Title: Purchase Documentation

Recommendation: We recommend that WRPH require cardholders to obtain complete receipts and submit the billing reconciliations and receipts to accounting in a timely manner.

Comments: Walter Reuther Psychiatric Hospital (WRPH) agrees with the recommendation.

Corrective Action: WRPH will modify Standard Operating Procedure 311 to ensure that the Cardholder Transaction Detail Reports are sent directly to the cardholder's supervisor, not the cardholder, to ensure an active role of the supervisor in the review, approval and timely submission of the transaction detail reports.

In addition, WRPH has implemented quality control monitoring of Performance Improvement Measures quarterly reports to ensure that supervisors are reviewing all Cardholder transaction detail reports and related documents.

Anticipated Completion Date: February 28, 2014

Responsible Individual: Venus Durr, Administrative Officer

Finding Number: 2

Finding Title: Purchase Approvals

Recommendation: We recommend that WRPH requires requestors or cardholders, supervisors or department heads, and the administrative officer or designee to complete and sign purchase request forms prior to the cardholder making a purchase, unless the purchase is an emergency purchase.

When the purchase is made on an emergency basis, we recommend that WRPH require cardholders to indicate on the procurement request form that it is an emergency purchase and to obtain the required signatures on the next business day after the purchase has occurred.

Comments: WRPH agrees with the recommendations.

Corrective Action: WRPH has met with maintenance cardholders to review the Standard Operating Procedure 311, credit cardholder manuals, and Administrative Guidelines related to authorizing purchases.

WRPH will conduct an in-service training of supervisors and cardholders to ensure that cardholders make authorized purchases with procurement cards.

WRPH will reassign internal auditing from Accounting Assistant (Cardholder) to the Chief Accountant and require the monthly internal audits to produce quarterly monitoring report to review transactions that appear to circumvent purchasing guidelines. This report will document the suspected misuse of the credit card and advise the procurement card administrator of activities that impact the internal controls. In addition, management will use the report to initiate corrective action against cardholders if they don't consistently follow policies/procedures.

WRPH will modify Standard Operating Procedure 301 and 311 to require that all emergency repair work orders completed after normal working hours

require cardholders to indicate on the procurement request form that it is an emergency purchase and to obtain the required signatures on the next business day after purchase has occurred.

Anticipated Completion Date: February 28, 2014

Responsible Individual: Venus Durr, Administrative Officer

Finding Number: 3

Finding Title: Billing Reconciliations

Recommendation: We recommend that WRPB require cardholders to reconcile receipts to the transaction detail reports and sign the transaction detail report to document the reconciliation.

We also recommend that WRPB require cardholders' supervisors sign the transaction detail reports to document that they have performed the required reconciliation and approved the purchases.

Comments: WRPB agrees with the recommendations.

Corrective Action: To ensure the procurement card usage is in compliance with State policies and procedures, WRPB will modify Standard Operating Procedure 311 to ensure that the Cardholder Transaction Detail Reports are sent directly to the cardholder's supervisor, not the cardholder, to ensure an active role of the supervisor in the review, approval, compliance and timely submission of the transaction detail reports. WRPB will conduct an in-service training of supervisors and cardholders on their responsibility for reconciliation of cardholder's transaction detail reports.

In addition, WRPB has implemented quality control monitoring of Performance Improvement Measures quarterly reports to ensure that supervisors are reviewing all Cardholder transaction detail reports and related documents.

Anticipated Completion Date: February 28, 2014

Responsible Individual: Venus Durr, Administrative Officer

Finding Number: 4

Finding Title: Physical Verification / Purchase Use

Recommendation: We recommend that WRPB require cardholders to ensure that all purchases are checked in by the warehouse staff and assigned RDV numbers.

We also recommend that the facilities personnel develop a method to maintain written inventory records of maintenance supplies, items for building installation, replacement parts, and small tools.

We further recommend that the facilities personnel record work order numbers on the procurement request forms in order to document purchases are for intended approved purposes or in accordance with State policies.

Comments: WRPB agrees with the recommendations.

Corrective Action: WRPB will conduct an in-service training of all cardholders and supervisors on Standard Operating Procedure 311 in regards to ensuring that all purchases are checked in by the warehouse staff and assigned RDV numbers.

WRPB will develop a method to maintain written record of maintenance supplies, items for building installation replacement parts, and small tools. WRPB will also pursue purchasing a computerized Work Order system which includes equipment supply inventory and cross-reference of related documents.

WRPB will modify Standard Operating Procedure 310 and 311 to ensure that work orders contain a listing of materials and that Purchase Requests are cross-referenced to work orders. In addition, it will require the review and approval of the maintenance supervisor to ensure that materials used to complete the work orders are appropriate and reasonable.

Anticipated Completion Date: March 31, 2014

Responsible Individuals:

David Hoffman, Physical Plant Supervisor
Venus Durr, Administrative Officer