



Pittsburgh Regional Transit

INTERNAL AUDIT DEPARTMENT

Audit of Internal Controls of the Purchasing Card Program

October 2024

Performance Audit

Audit of Internal Controls of the Purchasing Card Program

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EXECUTIVE SUMMARY

INTRODUCTION

The Pittsburgh Regional Transit (PRT) Internal Audit Department conducted an audit of PRT's Purchasing Card (P-Card) program internal controls. The program's purpose is to provide an efficient means for cardholders to procure low dollar goods and services independently and to reduce the number of purchase orders and check requests, including the processing time and resources for same, for small dollar (\$10,000 or less) and often time sensitive purchases. P-Cards are credit cards which are issued to authorized PRT employees via a financial service provider. P-Card purchases totaled \$2,137,021.47 (9,047 transactions) during the audit scope (January 1, 2019 - December 31, 2021). As of June 10, 2024, there are 68 active cardholders, the majority of which are in management level positions.

OBJECTIVES, SCOPE, AND METHODOLOGY

The audit objectives were to determine if:

- Employees are complying with the guidelines established in PRT's P-Card program manual.
- Purchases are made for business purposes and are adequately documented.
- The P-Card program is being administered in accordance with the P-Card manual requirements, cardholders are trained/instructed on the proper use of P-Cards and other P-Card procedures, and P-Cards are only issued to authorized employees.

The scope of the audit was January 1, 2019, through December 31, 2021, and the audit methodology utilized to accomplish the audit objectives is included in Attachment A.

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

STATEMENT OF OPINION

In our opinion, the internal controls associated with the P-Card program are generally effective and the processes are generally adequate. In general:

- Employees are complying with the guidelines established in PRT's P-Card manual.
- Purchases are made for business purposes and are adequately documented.
- The P-Card program is being administered in accordance with the P-Card manual requirements, cardholders are trained/instructed on the proper use of P-Cards and other P-Card procedures, and P-Cards are only issued to authorized employees.

STRENGTHS NOTED DURING THE AUDIT

The following strengths were noted during the audit:

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- 1) All the sample of transactions tested during the audit were determined to be appropriate business-related charges.
- 2) Cardholders attend P-Card training which includes a review of PRT guidelines related to document retention, reconciling requirements, P-Card responsibilities, and tax-exempt information.
- 3) Required forms confirming receipt of the P-Card manual, completion of training and the consequences of improper P-Card usage were signed by all employees who were issued a P-Card during the audit period.
- 4) The P-Card program is meeting its intended purpose of providing a means for cardholders to efficiently procure low dollar goods and services independently and reduce the number of purchase orders and check requests for small dollar purchases.

Prior to this audit, Internal Audit performed a special review of P-Card transactions on behalf of the Procurement department and issued an internal report dated April 26, 2021, to Procurement Management. The report identified Internal control weaknesses related to the inadequate review of statements and supporting documentation. As a result of this review, the Procurement department, in conjunction with Internal Audit provided a refresher training for all P-Card holders and other relevant personnel. The training was conducted from 8/3/2021 through 8/5/2021 and covered an overview of the P-Card Program, proper P-Card usage, required documentation/recordkeeping, as well as cardholder and statement reviewer responsibilities. We believe this has contributed to an overall improvement in internal controls over the P-Card Program. Our current audit noted the need for improvement in internal controls over P-Card purchases being charged PA sales tax as summarized below:

OBSERVATION 1 – PA Sales Tax Paid on P-Card Purchases

In general, PRT is exempt from paying sales tax. In completing our bank statement and transaction testing, Internal Audit noted multiple instances of PA sales tax being paid on purchases. Internal Audit also noted that sales taxes was paid on transactions outside of our sample selected for testing.

During the audit period, we reviewed a sample of 281 transactions and noted PA sales taxes were paid in 30 (10.7%) instances totaling \$421.23. For these 30, only two purchases had the cardholders obtaining credit for the sales tax charged to the accounts leaving a total of \$400.68 unnecessarily paid in sales tax.

The P-Card manual states that PRT is generally exempt from paying sales tax. Additionally, cardholders are expected to obtain a credit for any sales tax charged to their account.

BUSINESS IMPACT

With total P-Card transactions for the audit period exceeding two million dollars, paying sales tax is not only an unnecessary waste, but it can also cost PRT especially if the charges are not reversed. Although they may appear to be minimal, paying sales tax on purchases is not only a violation of the manual but an unnecessary waste, which could still cost the organization if the charges are not reversed. Additionally, it is an indication that the cardholder and their supervisor are performing insufficient reviews.

RECOMMENDATION

We recommend that the Procurement Department emphasize the importance of the sales tax exemption, the need for any accidental charges to be reversed, and that stronger reviews are performed to ensure that sales tax issues are identified and reversed timely.

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MANAGEMENT RESPONSE

Procurement Management concur with the recommendation and will monitor sales tax on future statements and alert card holders of such charges to have them credited in a timely manner.

FOLLOW UP ON OUTSTANDING RECOMMENDATIONS FROM PREVIOUS AUDITS

There were no outstanding audit recommendations from the previous audit. All recommendations from the previous audit were implemented/closed.

INTRODUCTION

The Pittsburgh Regional Transit (PRT) Internal Audit Department conducted an audit of PRT's Purchasing Card (P-Card) program internal controls. The purpose of this program is to provide an efficient means for cardholders to procure low dollar goods and services independently and to reduce the number of purchase orders and check requests, including the processing time and resources for same, for small dollar (\$10,000 or less) and often time sensitive purchases. P-Cards are credit cards which are issued to authorized PRT employees via a financial service provider. This program offers increased accountability, the ability to monitor purchases using the P-Card system reporting features and convenience and efficiency to employees who, as part of their job duties and responsibilities, need to make small purchases on a frequent and/or time-sensitive basis. PRT employees made P-Card purchases totaling \$2,137,021.47 (9,047 transactions) during the audit scope (January 1, 2019 - December 31, 2021). As of June 10, 2024, there were 68 active cardholders, the majority of which are in management level positions.

OBJECTIVES, SCOPE, AND METHODOLOGY

The audit objectives were to determine if:

- Employees are complying with the guidelines established in PRT's P-Card program manual.
- Purchases are made for business purposes and are adequately documented.
- The P-Card program is being administered in accordance with the P-Card manual requirements, cardholders are trained/instructed on the proper use of P-Cards and other P-Card procedures, and P-Cards are only issued to authorized employees.

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STATEMENT OF OPINION

In our opinion, the internal controls associated with the P-Card program are generally effective and the processes are generally adequate. In general:

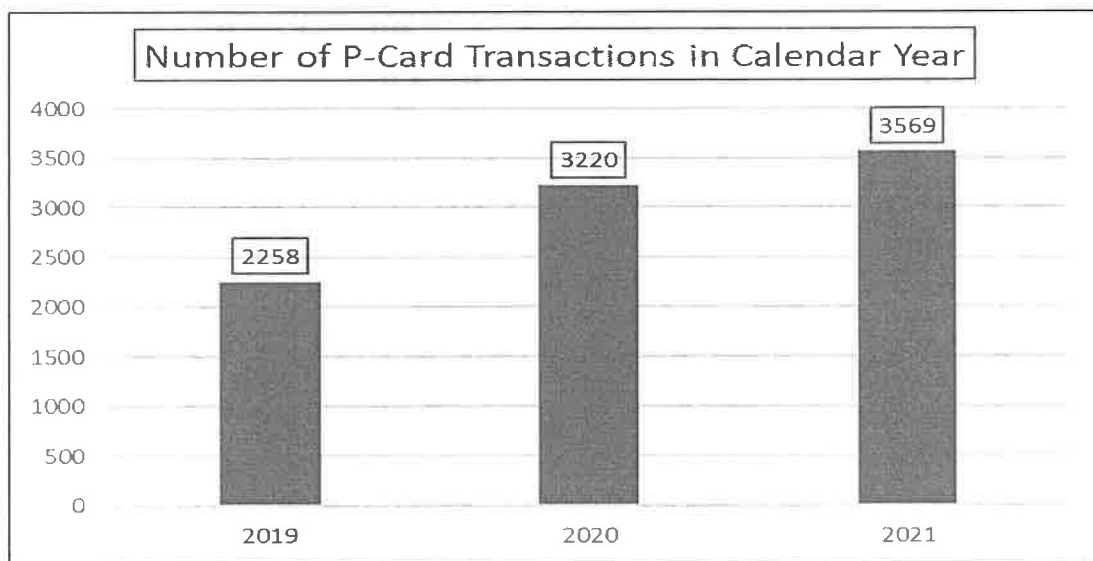
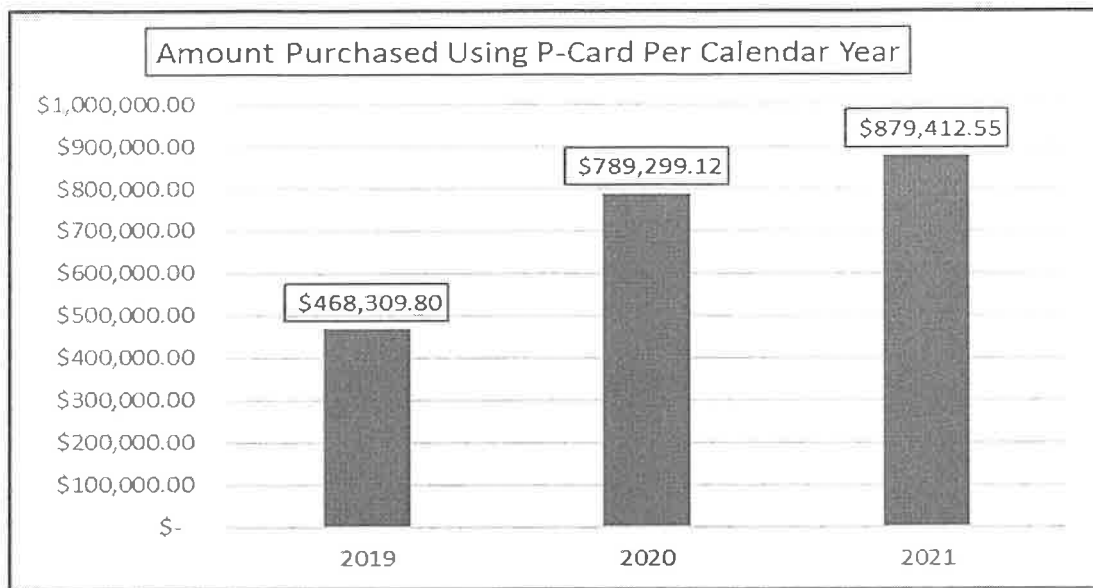
- Employees are complying with the guidelines established in PRT's P-Card manual.
- Purchases are made for business purposes and are adequately documented.
- The P-Card program is being administered in accordance with the P-Card manual requirements, cardholders are trained/instructed on the proper use of P-Cards and other P-Card procedures, and P-Cards are only issued to authorized employees.

STRENGTHS NOTED DURING THE AUDIT

The following strengths were noted during the audit:

- 1) All the sample of transactions tested during the audit were determined to be appropriate business-related charges.
- 2) Cardholders attend P-Card training which is facilitated by at least one of the two P-Card program administrators (administrators) utilizing a PowerPoint presentation. This training includes a review of PRT guidelines related to document retention, reconciling requirements, P-Card responsibilities, and tax-exempt information and includes emergency contact information.
- 3) Required forms were signed by all employees who were issued a P-Card during the audit period and these forms are retained in the employee's personnel file. The current forms confirm that the cardholder acknowledges receipt of the P-Card manual, has completed PRT's P-Card training program, understands and agrees that improper use of the P-Card may result in revocation of card privileges and may lead to disciplinary action up to and including discharge and authorizes deduction from wages for improper purchases. In addition to the above:
 - The Cardholder Agreement form acknowledges receipt of the P-Card and identifies the card number received.
 - The Acknowledgement of Receipt of Manual, Completion of Training and Authorization for Deduction From Wages form provides confirmation of the employee's understanding and agreement of their responsibilities to read and familiarize themselves with the policies and procedures in the P-Card manual.
- 4) The P-Card program is meeting its intended purpose of providing a means for cardholders to efficiently procure low dollar goods and services independently and reduce the number of purchase orders and check requests, including the processing time and resources for same, for small dollar and often time-sensitive purchases. As can be seen in the following graphs, the total dollar amount of purchases and the number of P-Card transactions have increased each year during the calendar year periods 2019 through 2021.

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Prior to this audit, Internal Audit performed a special review of P-Card transactions on behalf of the Procurement department and issued an internal report dated April 26, 2021, to Procurement Management. The report identified Internal control weaknesses related to the inadequate review of statements and supporting documentation. As a result of this review, the Procurement department, in conjunction with Internal Audit provided a refresher training for all P-Card holders and other relevant personnel. The training was conducted from 8/3/2021 through 8/5/2021 and covered an overview of the P-Card Program, proper P-Card usage, required documentation/recordkeeping, as well as cardholder and statement reviewer responsibilities. We believe this has contributed to an overall improvement in internal controls over the P-Card Program. Our current audit noted the need for improvement in internal controls over P-Card purchases being charged PA sales tax as summarized below:

OBSERVATION 1 – PA SALES TAX PAID ON P-CARD PURCHASES

In general, PRT is exempt from paying sales tax. In completing our bank statement and transaction testing, Internal Audit noted multiple instances of PA sales tax being paid on purchases. Internal Audit also noted that sales taxes was paid on transactions outside of our sample selected for testing.

During the audit period, we reviewed a sample of 281 transactions and noted PA sales taxes were paid in 30 (10.7%) instances totaling \$421.23. For these 30, only two purchases had the cardholders obtaining credit for the sales tax charged to the accounts leaving a total of \$400.68 unnecessarily paid in sales tax.

The P-Card manual states that PRT is generally exempt from paying sales tax. Additionally, cardholders are expected to obtain a credit for any sales tax charged to their account.

BUSINESS IMPACT

With total P-Card transactions for the audit period exceeding two million dollars, paying sales tax is not only an unnecessary waste, but it can also cost PRT especially if the charges are not reversed. The potential dollar amounts paid out as sales tax at 6% (PA sales tax rate) could be significant. Paying sales tax on purchases is not only a violation of the manual but an unnecessary waste, which could cost the organization a great deal of money if the charges are not reversed. Additionally, it is an indication that the cardholder and their supervisor are performing insufficient reviews.

RECOMMENDATION

We recommend that the Procurement Department emphasize the importance of the sales tax exemption, the need for any accidental charges to be reversed, and that stronger reviews are performed to ensure that sales tax issues are identified and reversed timely.

MANAGEMENT RESPONSE

Procurement Management concur with the recommendation and will monitor sales tax on future statements and alert card holders of such charges to have them credited in a timely manner.

Target Date: Implemented

FOLLOW UP ON OUTSTANDING RECOMMENDATIONS FROM PREVIOUS AUDITS

There were no outstanding audit recommendations from the previous audit. All recommendations from the previous audit were implemented/closed.

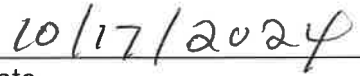
ACKNOWLEDGEMENTS

Members of the Internal Audit Department thank Keasha Brown, Director of Procurement, Justin Cava, Procurement Ops Administrator (P-Card Administrator), and Manny Martinez, Manager of Accounts Payable for their cooperation and assistance during this audit.

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Participating internal auditors were Hadiza Buhari, Neil Caponi, Austin Hamm, and Monika Todd.


Hadiza Buhari, Director - Internal Audit Department


Date

Disclaimer:

This report is intended solely for the information and use of PRT management for decision making purposes. It is not intended for use by any other party.

ATTACHMENT A – AUDIT METHODOLOGY

To determine if adequate controls and processes are in place for PRT's P-Card program, we:

- 1) Reviewed the P-Card manual which includes guidelines of when P-Cards can/cannot be used, and we tested P-Card transactions for compliance with these guidelines.
- 2) Documented the business processes for the P-Card program (Refer to Attachment B).
- 3) Prepared and reviewed a P-Card program internal control questionnaire with the administrators of the program.
- 4) Reviewed a sample of P-Card purchases made during the audit period to determine if the purchases 1) are business related, 2) comply with the P-Card program guidelines, 3) are properly documented, 4) include sales tax, 5) were made from contracted vendors (when possible), 6) are supported by required receipts and by quote/fair price documentation, if required (i.e., documentation of three written quotes for purchases in the \$2,501 to \$10,000 price range), and 7) if the P-Card statements are signed and approved as required.
- 5) Reviewed a sample of P-Card purchases to determine if the limits specified in the "Spending Limits - Control Mechanisms Within the Purchasing Cards" section of the P-Card manual are being followed (single purchase dollar limits, maximum number of transactions per day, monthly purchase dollar limits and maximum number of transactions per month).
- 6) Reviewed a sample of bank statements to determine if monthly credit card statements processed during the audit period were paid in a timely manner to avoid penalties or late fees.
- 7) Obtained a record of all P-Card transactions processed during the audit period from the bank records.
- 8) Determined if the information on a cardholder's monthly statement (which lists all transactions made by a cardholder during the month) agrees with the information on the Corporate Account Summary (which is a summary of all individual cardholder's P-Card transactions during the month).
- 9) Reviewed a sample to determine if cardholders signed an Acknowledgement of Receipt of Manual, Completion of Training and Authorization for Deduction from Wages form and Cardholder Agreement form.
- 10) Reviewed the PRT Computer Security Policy.

ATTACHMENT B – BUSINESS PROCESS – P-CARD PROGRAM

- 1) The P-Card program was established at PRT to provide a means to procure low dollar goods and services independently and to reduce the number of purchase orders and check requests for small dollar purchases. P-Cards were first used at PRT in April 2010.
- 2) P-Cards are assigned to non-represented employees only. All P-Card accounts have an individual transaction limit and a monthly expenditure limit. In addition, the P-Card manual contains guidelines for establishing these transaction limits and monthly expenditure limits.
- 3) Procedures require that all employees using or administering a P-Card must sign an Acknowledgement of Receipt of Manual, Completion of Training and Authorization for Deduction From Wages form and a Cardholder Agreement form. These forms state that improper use of a P-Card will result in revocation of card privileges and potential disciplinary action, and they also authorize PRT to recover amounts spent for improper card use through payroll deductions from wages.
- 4) Two separate reviews are performed for P-Card purchases as follows:

Paper Review - Cardholders attach receipts to monthly cardholder statements, sign these statements, and provide this information to their supervisors for review and approval. This information is then sent to the administrator who reviews this information each month to determine if it contains the required signatures. After this review, the information is sent to the manager of accounts payable for processing.

Electronic Review – The bank's P-Card transaction files are uploaded into PeopleSoft on a daily basis. Cardholders receive an email each time they purchase something using their P-Cards which confirms that a purchase was made and requests that the cardholder approve his/her purchases. Purchases are processed to the default account coding in PeopleSoft unless the cardholder enters an alternate account coding. P-Card transactions default to the staged/verified status until the cardholder approves the transactions in PeopleSoft. Once the status is changed to approved, the budget is validated, and the transaction can be approved by the cardholder. Approvals can be on a transaction-by-transaction basis, or all purchases made by a cardholder can be approved at the same time.

A P-Card manual has been developed at PRT. The P-Card manual states that the P-Card is intended for use in completing low dollar purchases and this P-Card manual includes guidelines for:

- Selecting a supplier/vendor,
- Sales tax,
- When a P-Card can be used,
- When a P-Card cannot be used,
- Making a purchase,
- Required documentation,
- Returns and credits,
- Problems on your account,

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- Monthly reconciliation/review of statements,
- Spending limits – control mechanisms within the Purchasing Cards,
- Audits,
- Security,
- Lost or stolen cards,
- Suspension/termination of cardholder privileges,
- Key contacts,
- Purchasing procedures for non-stock and non-capital purchases,
- Cardholder Agreement form,
- Spending Limits Change form, and
- Acknowledgement of Receipt of Manual, Completion of Training and Authorization for Deduction from Wages form.

P-Card Program Manual (excerpts from the full manual)

- 1) The P-Card may be used for purchases acquired previously through the blanket purchase order process. Items that typically may be purchased include, but are not necessarily limited to, except as otherwise prohibited or limited in this Manual, the following:
 1. Building materials (hardware, plumbing, lumber, etc.).
 2. Automotive parts.
 3. Office supplies (non-contract).
 4. non-inventory material.
 5. Material/service for non-allowable expenses identified under the procedures for Voucher Check and Coded Invoice.
 6. Car rental and hotel expenses for approved travel. A copy of a properly approved Request for Travel Authorization form must be included with the P-Card statement.
- 2) Use of a P-Card for unauthorized purchases is strictly prohibited. In addition, use of a P-Card by anyone other than an Authorized User is strictly prohibited.

The following are examples of goods and services that cannot be purchased with a P-Card, absent a written business justification and Division AGM and/or Chief Financial Officer approval of same. This is not a comprehensive list. Cardholder should consult with the P-Card Administrator whenever it is unclear if a proposed purchase is permissible. Prior to issuing guidance to Cardholder, the P Card Administrator shall consult with relevant Senior Management, Internal Audit and/or Legal Department personnel regarding whether the proposed purchase is an Authorized Purchase, as defined and set forth in this Manual. If utilizing a P-Card to purchase items in otherwise prohibited categories, such as fuel, you must submit with your supporting documentation a written business justification and Division AGM and/or Chief Financial Officer approval to verify the purchase is proper and justified. Of course, certain prohibited categories, such as purchases for the personal benefit of the cardholder, are never permitted. Questions as to which otherwise prohibited categories are permitted with a written business justification and Division AGM and/or Chief Financial Officer approval should be directed to your P-Card Administrator.

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1. Purchases for personal benefit of the Cardholder or another individual or organization.
2. Grant funded equipment, supplies or services that will be paid from a project specific Federal or State grant.
3. Chemicals. Employees should contact System Safety Department personnel for guidance on purchasing chemicals to ensure compliance with Port Authority's Hazardous Materials Management Program.
4. Goods and/or services exceeding Cardholder's Limits of Authority.
5. Goods and/or services that exceed Cardholder's Single Purchase Limit dollar amount.
6. Parts and materials maintained in inventory.
7. Food and beverages.
8. Travel expenses for airfare, food, beverages, and entertainment.
9. Fuel, except in cases of business necessity (such as out-of-town business travel utilizing a company vehicle) documented and authorized, in writing, by the Cardholder's Division AGM.
10. Parking expenses for local business travel, except where a trip to and from the business location is not reasonably possible utilizing Port Authority's public transportation system, in which case the justification for the expense will be documented and authorized, in writing, by the Cardholder's Division AGM.
11. Furniture.
12. Automatic Teller Machine (ATM) transactions, cash advances.
13. Money orders, gift certificates and gift cards.
14. New, used, and refurbished cell phones, and/or cell phone repair services. Cardholders must contact the Director of IT regarding these types of purchases.
15. Desktop computers, laptop computers, nucs, monitors, digital cameras, software, software applications (Apps) and/or software licenses without express written consent of the Director of IT and the Cardholder's Division AGM. However, digital cameras that do not exceed \$100 in value and do not require direct network access to or compatibility with Port Authority's computer network are a permitted purchase for Port Authority business needs without further Director of IT and/or the Cardholder Division AGM's written consent.

In addition, certain goods and services that fall within select Merchant Category Code (MCC) groupings are prohibited. MCC groupings block the Cardholder from using a P-Card at certain, unauthorized categories of merchants and vendors. MCC blocked groupings automatically apply to all Cardholder account profiles.

- 3) Cardholder is responsible for documenting every transaction made with his or her P-Card. A transaction can be a purchase or a return. All original documentation must be saved and submitted with the account statement to Cardholder's supervisor or manager at the end of the month, or more frequently if requested. The specific documentation required for each transaction is:
 1. Sales/Charge Receipt.
 2. Shipping ticket (if item was shipped).
 3. Description of goods and/or services.

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4. Quote or fair price documentation, if required. (See Purchasing Procedures for Non-Stock and Non-Capital Purchases).
 5. Written approval, if required for purchase (ex. Request for Travel Authorization form for car rental or hotel).
 6. Include any other information that may be important, including a brief description on receipts which do not clearly identify the item(s) purchased and/or where the items(s) will be used. Remember that you may be called upon at any time to explain what you purchased and why.
- 4) Cardholders are responsible for reviewing their account statements, submitting required documentation for each transaction to their supervisor/manager and reconciling their P-Card transactions in PeopleSoft by the end of each month. Cardholders must retain copies of their P-Card statements and all documentation of P-Card transactions for a period of seven (7) years from date of purchase.

Transactions are generally available for reconciling in PeopleSoft three business days after the purchase. All transactions must be assigned a distribution account and approved in PeopleSoft by the end of the month. All Cardholders will receive training on reconciling transactions in PeopleSoft.

Prior to the activation of the P-Card, the P-Card Administrator or Co-Administrator will email the Cardholder's manager/supervisor to notify them that their direct report has an active P-Card, and that the manager/supervisor is responsible for approving the statement for credible Port Authority authorized transactions and mathematically correct statements. The Cardholder's manager/supervisor, through the notification email, will be invited to attend the P-Card training with his/her direct report.

Cardholders will receive a monthly account statement. Cardholders must review each transaction (purchases and credits) to ensure they are properly recorded on the bank statement and match the supporting documentation. Please refer to the "Required Documentation" section of this manual for guidance regarding supporting documentation requirements. Cardholder should verify that all transactions have properly been recorded and are mathematically correct. If charges and credits have not been properly recorded, Cardholder should take appropriate steps to correct the charges. Upon completion of review, the Cardholder should sign and date the bank statement to indicate approval and submit the original statement with required documentation attached for each transaction to his or her manager/supervisor for review and approval.

Managers/supervisors must review the transactions on the bank statement and required supporting documentation, which will include a justification memo and AGM approval as required supporting documentation for applicable purchases requiring same, to ensure the charges/credits are proper and in compliance with this manual. Prior to approving the monthly P-Card statements, Cardholder managers/supervisors should verify that:

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1. A receipt, confirmation or printed order form and other supporting documentation is in the file for each transaction (both purchases and returns) included on monthly bank statements.
2. The receipt, confirmation or printed order form includes the description, quantity and cost of the item(s) purchased or returned.
3. The Cardholder has obtained three written quotes (for purchases in the \$2,501 to \$10,000 price range) and the documentation is being maintained by the Cardholder.
4. A valid Port Authority shipping address is included with the documentation for all items requiring shipment.
5. All items purchased are for legitimate Port Authority business purposes and do not include the prohibited items identified in the P-Card Manual.
6. The Cardholder has signed and dated the P-Card statement.

Managers/supervisors must sign and date the bank statement to indicate approval and submit the statement with required documentation attached to the P-Card Administrator.

Refer to the P-Card manual for additional information that is not stated in the business process.