

Alert: A Not-for-Profit Hot Topic



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Protecting your procurement card program

Procurement card abuse has increased as dramatically as the technology that created it, and it is a favorite topic for the national media. For example:

- > Lack of oversight by one organization resulted in the theft of \$350,000 over a six-year period.
- > Personal purchases totaling \$40,000, including \$18,000 in gift card purchases and \$4,000 worth of laptops and digital cameras occurred at another organization.
- > \$80,000 in fraudulent transactions over a three-year period was overlooked at a third institution.

Far exceeding the real costs of these abuses are the additional fines, federal audits, criminal charges, staff losses, and time from months of internal investigations and litigation procedures.

How could these transactions have occurred without being detected by the organization's internal controls? How can institutions update their proactive audit and monitoring techniques to prevent or detect such behaviors? With procurement card spending expected to grow, and with the potential risks of lost time, money and reputation, now may be the ideal time for institutions to re-examine their existing procedures.

Steps for Managing Procurement Card Risk

Following, we describe methods for your institution to consider in protecting its procurement card program.

Data Mining

Automated technique utilizing data analysis tools to evaluate voluminous data for matches, trends and patterns.

- > Does your audit process include matching vendor and employee addresses?
- > Do you audit spending patterns for spikes and fluctuations?
- > Can you quickly review voluminous data to detect fraudulent transactions in a timely manner?

Monitoring and Reviewing

Analysis to assess and examine compliance with established policies and procedures.

- > Do you pre-screen employees for credit risks prior to receipt of a procurement card?
- > Does your monitoring and review process detect attempts to bypass the required approval channels for potential non business-related transactions?
- > Do you escalate unusual transactions beyond immediate supervisors?
- > Do you review past suspensions and corrective actions?
- > Do you ensure that procurement card approvers are not responsible for reviewing their superior's transactions?
- > Do you periodically analyze spending limits of cardholders as to whether spending thresholds and limits are appropriate?

For more information or any questions you might have on this topic, please connect with us at bakertilly.com or 800 362 7301.

System Controls/Reporting

Detective and preventive reporting for inconsistency and abnormal activity.

- > Does your reporting include violations of policy for individuals throughout your various procurement mechanisms (e.g., vendor direct payment, employee reimbursement and procurement card) to review for patterns of abuse?
- > Does your reporting highlight cardholders with past violations?
- > Does your reporting include a list of potentially unusual transactions?

Training

Definition and communication of roles, responsibilities, and accountability to staff.

- > Do you provide periodic training to all procurement cardholders and approvers?
- > Are reviewers and approvers given refresher training to highlight issues at your institution or other institutions?
- > Are employees consistently trained about their accountability and the penalties associated with fraud, misuse, and abuse of procurement cards?

Policies and Procedures

Written documentation formally outlining the practices of the institution and regulatory requirements.

- > Do you frequently update your policies and procedures and communicate them to all cardholders and approvers?
- > Do your procedures include a notification or pre-exit clearance process for terminated cardholders and approvers to cancel cards in a timely manner?
- > Do you have a pre-approval process for out-of-the-ordinary purchases?

Baker Tilly has a dedicated practice specializing in:

- > Strengthening financial oversight and internal controls
- > Helping organizations avoid fines and penalties through improved compliance procedures
- > Preserving organization's focus on their mission by helping to manage risk
- > Conducting internal investigations in response to allegations of fraudulent activity and streamlining processes