Internal Control Basics
Purchase Card Case Study

Assignment: *Given the objective, risk, and control activities, identify at least 5 violations of internal control in the example case study below.*

A small state agency has four employees: an executive director, a deputy director, a fiscal analyst (FA), and an administrative assistant (AA). All employees have been with the agency since it was formed about two years ago.

The agency has been using purchase cards for about a year. The FA and AA each have a purchase card that they ordered themselves. They also each set their own spending limits on their cards. They each order goods and services. They are careful to follow the state purchasing rules, and use state contracts whenever possible. The FA and AA each verify that their own goods and services were received, and sign the packing slip or invoice. The FA authorizes payment on both purchase cards.

The executive director does not have a purchase card in his name. However, the AA has written the account number for her purchase card in his planner so that he can occasionally order goods and services. He usually does not keep the credit card receipts for his purchases, but he does tell the AA what he purchased and instructs her on what expenditure coding to use. The AA then forwards the bill to the FA for payment.

The AA purchases most of the goods and services for the agency with her purchase card. She always keeps her purchase card with her in her purse. She also keeps receipts for all purchases that she has made in a folder in her desk drawer, verifies that the goods and services were received, and reconciles all receipts to her purchase card statement before sending to the FA for payment.

The FA has known the AA since high school. Since he has known her for so long, he trusts her and takes her word that she has reconciled all receipts to her statement. He always authorizes and makes payment on her purchase card based on her word, especially since he knows that she keeps all documentation.

The FA also purchases goods and services with his purchase card. Most of the charges on his card are for recurring payments, like the lease of office space, agency phone bills, etc. Since these are all agency charges, he authorizes and makes payment on his purchase card.

The agency has written policies on purchase cards, but they aren't specific to the agency yet. They were obtained from a friend at another agency, and the AA is eventually going to make some modifications so that they are specific to the agency. Training is not formally provided since only two people in the agency are primarily using purchase cards. They tell each other when problems are encountered with the cards, so they feel that they are informed enough to be able to use them.

So, were you able to identify at least 5 internal control violations in the case study above? Let's see how well you did, the answers are on the following page….

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Answers:

1. The FA and AA should not order their own cards. That is the agency program administrator's role, to order cards, receive them, and then deliver them to card holders.
2. The FA and AA should not be setting their own spending limits on their cards. That should be the approving official's role.
3. There isn't an agency program administrator. It seems that would be an appropriate role for either the director or deputy director. (The same position should not act as both the agency program administrator and the approving official.)
4. There isn't an approving official. It seems that would be an appropriate role for either the director or deputy director. (The same position should not act as both the agency program administrator and the approving official.)
5. An approving official should be verifying that the FA and AA did in fact receive the goods and services they ordered, that they have completed timely reconciliations of their card statements, and that they have kept appropriate documentation. This should be done on a routine basis.
6. The FA should not be authorizing payment on his own card. The authorization should come from the approving official, who should also review the FA's reconciliations before authorizing payment.
7. The security of the AA's card is compromised by her writing her account number in the director's planner and keeping the card in her purse. The card should be kept in a locked location when not in use.
8. Since the agency has individually assigned cards, only the person to whom the card has been assigned should be using the card. So the director shouldn't be making purchases using the AA's card number. Also, the director usually doesn't keep the receipts for his purchases. All receipts should be kept.
9. The FA should not be authorizing payment on the AA's card based solely on her word. An independent person, like an approving official, should be reviewing the AA's reconciliations and be the one to authorize payment.
10. The agency should update its written policies on purchase cards so that they are specific to the agency.
11. Even though this is a small agency, training should still be provided on the agency and state policies and procedures, and the appropriate use of the purchase card. It should be provided before the cardholders start using the card.
12. There are no signed card user agreements. The agency program administrator should ensure that a card user agreement form has been signed by both the card user and the appropriate approving official before issuing the card.