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Controls and Your Program's Success

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NAPCP Mission

The NAPCP is a membership-based professional association committed to advancing Commercial Card and Payment professionals and industry practices worldwide. The NAPCP is a respected voice in the industry, serving as an impartial resource for members at all experience levels in the public and private sectors. The NAPCP provides unmatched opportunities for continuing education and peer networking through its conferences, Regional Forums, webinars, website, virtual demonstrations, newsletters and regular communication. The association sponsors research and publishes timely and relevant white papers, survey results and other documents. The NAPCP offers a Certified Purchasing Card Professional (CPCP) credential.

NAPCP Benefits

- Membership - \$495
 - with full access to website
- Subscribership– **FREE**
 - with limited access to website
- Associate Membership
 - As low as \$99/person

Introduction

- NAPCP — Manager of Content Services
- Nearly seven years program management experience
 - One-Card program
 - Resided in purchasing, then in treasury departments
- P-Card audit responsibility

Today's Agenda.....

- Laying the Groundwork
- Evaluating Your Existing Program
- Maintaining Policies and Procedures
- Auditing & Reporting

Laying the Groundwork

Laying the Groundwork—Key Notes

- All payment methods have risks, requiring appropriate controls
- Must understand P-Card process in order to establish effective controls
- P-Cards generally require different types of controls than other payment methods
- As P-Card programs evolve and mature, the control environment needs to keep pace as well
- Ongoing monitoring is needed to ensure effectiveness

P-Card Fraud and Misuse Defined

- *Fraud* involves the unauthorized use of a Purchasing Card, resulting in an acquisition whereby the end-user organization does not benefit
- *Misuse/abuse* involves unauthorized purchasing activity by the employee to whom P-Card is issued

The P-Card Control Environment

- Factors Influencing Control Environment
 - Organization philosophy and culture
 - P-Card program goals
 - Level of P-Card knowledge among management and auditors
 - Past audit results, if any
 - The media
 - Emotions, including fear of change

The P-Card Control Environment

- Areas where controls are needed:
 - Cardholder reconciliation of posted P-Card transactions to detect potential fraud
 - Independent review of a cardholder's transactions, such as by the cardholder's supervisor, to detect potential card misuse or fraud
 - A well-designed P-Card audit program to uncover any previously undetected fraud and misuse

Evaluating Your Existing Program

Objectives and Goals

- Rank/place within organization's payments strategy
- Goals, such as transaction volume and/or spend
- Benefits of card program
- Card types used
- Targeted transactions/purchase types
- Prohibited purchases

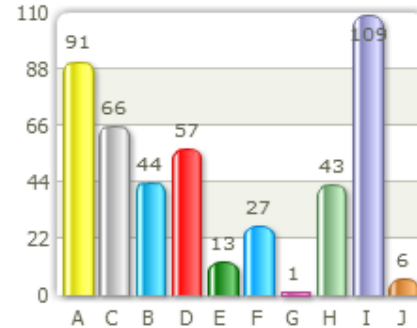
Poll: Card Types Commonly Used

Survey Results: Payment Methods Used Within Your Organization

Question:

What other payment methods, besides paper checks, are used within your organization? Please check all that apply.

- A. Traditional P-Card (91 out of 129)
- C. Travel Card (66 out of 129)
- B. One Card (P-Card and Travel) (44 out of 129)
- D. Fleet Card (57 out of 129)
- E. Declining Balance Card (13 out of 129)
- F. Department Card (27 out of 129)
- G. Mobile Payment (1 out of 129)
- H. Virtual Card (ePayable) (43 out of 129)
- I. ACH (Wires: Either Auto-debit or Manual) (109 out of 129)
- J. Prepaid Card (6 out of 129)



Risk Analysis

Is an evaluation of a program's current processes and related controls

- Can uncover inefficiencies with the program, becoming a catalyst for program improvements
- Not limited to only card program, can be completed for any facet of a business

Risk Analysis

- How often?
 - At implementation
 - Perhaps annually, but at any time the need presents itself

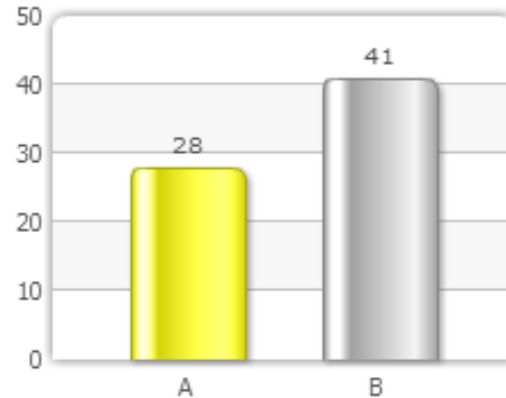
Poll: Risk Analysis

Survey Results: Conducting a Risk Analysis

Question:

Has your organization conducted a risk analysis of your Commercial Card program?

- A. Yes (28 out of 69)
- B. No (41 out of 69)



Potential Risks

- Fraud or misuse = monetary loss
- Accounting errors = productivity loss
- Negative press/media = affects all aspects of program negatively from suspicion of upper management to a slower growth of the program

Risk Analysis — Now What?

- Evaluate controls that might mitigate risk
 - Any gaps?
 - Action items to address gaps
- Look at responsibilities of all involved
 - Program Administrator or Team, Approvers, Cardholders, Approvers, Card Issuer, Supplier

Roles and Responsibilities – Relating to Controls

- The roles and responsibilities for each individual involved in the P-Card program should be clearly defined to minimize gaps in accountability

Roles and Responsibilities – Relating to Controls

- Questions to ask
 - What are the roles and responsibilities for each?
 - Are employees suited for their respective roles related to the card program?
 - Have they been trained for their respective roles?
 - How do they stay current on what they need to know?
 - Do they have adequate time to execute program-related responsibilities?
 - What type of access do they have to sensitive data?
 - Is there appropriate separation of duties?

Establishing Roles and Responsibilities

- Program Management Team Roles and Responsibilities
 - Acts as the organization's liaison to the card issuer
 - Maintain the program procedure manuals
 - Manage card issuance
 - Maintain related card controls
 - Cancel cards
 - Suspend accounts
 - Program reporting

Roles and Responsibilities – Relating to Controls

- Approver Roles and Responsibilities
 - Ensure cardholders have completed training on the proper use of the card
 - Review cardholder transactions and supporting documentation on at least a monthly basis
 - Monitor spending patterns and suppliers used, as a sudden unexplained increase in purchases or questionable suppliers may indicate a problem
 - Report instances of probable fraud or misuse

“Worst” Scenario

- A former Colorado State University worker faces up to 12 years in prison after she was convicted of stealing \$17,000 from the University Counseling Center. The employee was found guilty of felony theft and misdemeanor credit card fraud. Her trial was in Larimer County District court. Prosecutors said the employee, a 30-year employee of the school, was responsible for depositing cash and checks from the center. They said she deposited the checks but not the cash. She also was accused of making about \$500 in improper purchases on a university-issued credit card. Her boss faces one count of official misconduct. Investigators said they do not believe he knew of the thefts. He is accused of creating an environment that allowed the employee to take the money. Reference: Fort Collins Daily Camera 2007

Roles and Responsibilities – Relating to Controls

- Cardholder Roles and Responsibilities
 - Required to complete training prior to card issuance
 - Maintain security of their P-Cards
 - Review transactions
 - Errors, discrepancies and potential fraud should be identified and disputed
 - Ensure appropriate supporting documentation

Roles and Responsibilities – Relating to Controls

- Card Issuer Roles and Responsibilities
 - As a partner to the end-user organization, the card issuer has fraud detection systems that are instrumental in identifying out-of-pattern purchases. Subsequently, its role includes alerting the end-user of any potential fraudulent activity and recommending appropriate actions.

Roles and Responsibilities – Relating to Controls

- Suppliers Roles and Responsibilities
 - An organization's suppliers have a role in fraud prevention and detection by keeping card data secure, in accordance with the Payment Card Industry Data Security Standard (PCI DSS). In addition, suppliers may be familiar with how and what an organization purchases, thereby able to recognize potential fraudulent purchases and notify the organization accordingly.

Maintaining Policies and Procedures

Policies and Procedures

- Appropriate policies and procedures
 - Provide the foundation for the control environment
 - Establish expectations for program
 - Must align with program goals and objectives
 - Vary greatly by organization and can be very general to very specific

Policies

Questions to ask yourself...

- Who has authority and responsibility?
- How do you manage version control?
- Where are they located/published?
- How often are they reviewed for accuracy and clarity?
- How are changes communicated to program participants and others?

Policies

- It is likely that an organization's P-Card policies will change
- Determine the department or business unit responsible for managing the policy
- Do policy changes require council or board approval?
- How will you communicate changes?
 - Newsletter
 - E-mails
 - Resources and messages posted to the company's Intranet.

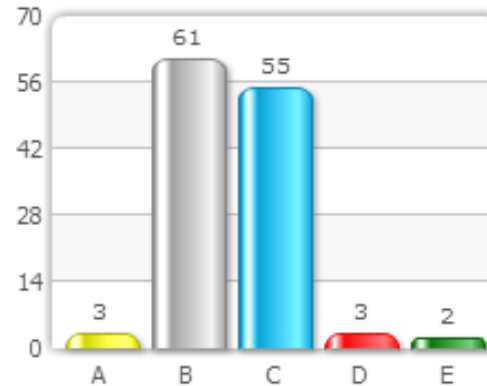
Poll: Format of Policies/Procedures

Survey Results: Format of Your P-Card/One Card Policies and Procedures

Question:

In what format do you distribute the P-Card/One Card program policies and procedures (P&P) to cardholders and other program participants (e.g., approvers)?

- A. Paper/hard copy (3 out of 124)
- B. Electronic (61 out of 124)
- C. We provide both formats (paper and electronic) (55 out of 124)
- D. Neither; we do not have documented P&P (3 out of 124)
- E. Not applicable; we do not have a P-Card or One Card program (2 out of 124)



Procedures Manual - Users

Generally includes the topics of:

- General program information (Background, Purpose, Benefits for organization, Contact information for program administration)
- Account/card security – avoiding scams
- Roles and responsibilities
- How to request a card
- Training requirements
- Card controls (transaction limits, MCCs, etc.)
- What to use P-Card for; what not to use it for

Procedures Manual - Users

- Documentation requirements for transactions
- Reconciling process for transactions
- Card maintenance (permanent or temporary changes)
- Transactions dispute procedures
- What to do if a transaction is declined
- Reporting a lost or stolen card
- Expiring cards
- Closing the account — exit procedures
- How to use the P-Card technology
- Record retention

Procedures Manual - Management

Generally includes the topics of:

- Card set-up and issuance
- Training program and related materials
- Goals and metrics
- Account maintenance
- Interfacing P-Card data with other systems
- Administrator guide for P-Card technology
- Payment to card issuer; monitoring of General Ledger (GL) account
- Key controls, including reconciliation and dispute processes
- Regular reporting and analysis

Agreement

As a best practice, organizations should require employees (cardholders and approvers) to sign an internal agreement form prior to card issuance that specifies their card-related responsibilities and the possible consequences for non-compliance. A typical agreement serves to confirm and document that an employee:

Agreement

- Has been informed of the policies and procedures governing the card program
- Understands that violations of the policy may result in disciplinary action, including possible employment termination
- Agrees to make restitution to the organization for personal use
- Will surrender the card on demand

Auditing and Reporting

Auditing Your Program

- Audit Processes
 - Above all, audits should be meaningful, tailored to the organization's unique program.
 - There are two primary types of audits:
 - process audits
 - transaction audits.

Process Audit

- Conducted by external auditors
- Discern whether program participants and the program management team understand and follow documented procedures
- Process Testing – *following a transaction through the process to test the procedures*
- Generally occur annually

Transaction Audit

- Conducted by a variety of employees on a regular basis
- Focus on card activity
- Should be strategic, focusing, for example, on:
 - high-dollar purchases
 - transactions with prohibited suppliers and/or MCCs
 - cardholders with high transaction volume and/or spend

Transaction Audit Process

- Areas that might be included for review in an auditing process are:
 - Approvals
 - Reviewing & Reconciling
 - Transaction Documentation
 - Expense Control

Transaction Audit Process

- All cardholders should be audited at a minimum of once a year
- organizations should explore automated tools to aid the audit process, ranging from common computer programs (e.g., Microsoft Excel) to robust auditing technology solutions.

Creating and Analyzing Reports

Development of a standard reporting suite can keep management aware of card usage and compliance with policies and procedures. Reports, in conjunction with the ability to query transaction data and produce ad hoc reports, can assist in the early detection of inappropriate or fraudulent card activity, supporting the audit process.

Creating and Analyzing Reports

- Declined Transactions
- Activity Analysis
 - Transaction Splitting
 - MCCs/Unique Purchases
- Disputed Charges
 - How Often? Additional Training Needed?
- New Account Listing
 - No Activity, New Cards Issued

Conclusion — Recap

- Segregation of duties
- Establish consistent policies
- Require training for cardholders and approving managers
- Create and maintain controls up front

Conclusion — Recap

- Utilize technology
- Partnership with card issuer
- Conduct internal audits
- Audit beyond the typical
- Create and maintain cardholder relationships
- Network
- Under- or over-controlling the program

Contact Information

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