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# Procurement Card Fraud

*Prevent this common occupational fraud*

By Vic Hartman, JD, CPA, CFF, CFE, and Sridhar Ramamoorti, ACA, CPA/  
CITP/CFF/CGMA, CIA, CFE, CFSA, CGAP, CGFM, CRMA, CRP, MAFF



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**P**rocurement-card (P-card) is a purchasing card, charge card or credit card. The use of P-cards makes a lot of financial sense for most organizations due to the significant cost savings involved. Without a P-card program, the organization will use the traditional and expensive procurement process involving a requisition, purchase order and check payment.

An organization that initiates a P-card program for routine low-cost purchases can greatly reduce purchasing expenses. After all, the cost to process a \$25 purchase is the same as a \$1,000 purchase. Often, the transaction processing cost exceeds the value of the item being acquired (e.g., the cost to acquire \$25 worth of supplies may exceed \$100). Estimates of the cost to process a payment in the traditional manner range from \$50 to \$200 per transaction.

The considerable advantages of P-cards make them popular with all kinds of organizations, including healthcare organizations. Once P-cards have been introduced in a healthcare organization, the transaction processing cost problem has been solved, but another one has been created. Now, employees are effectively walking around with petty cash funds in their wallets.

Pair P-cards with the fraud triangle—opportunity, pressure and rationalization—and you get the most common occupational fraud. A perfect storm scenario results—the opportunity for abuse is ripe, the motives and rationalization are not hard to imagine, and the P-card provides the means to commit fraud without much fear of detection.

The irony is that P-card fraud is one of the easiest frauds to prevent. One other attribute of this kind of fraud is the involvement of two primary wrongdoers—the employee

that misused the P-card to steal and the manager that unwittingly trusted the employee.

Interestingly, except for public corruption cases, the FBI will typically not prosecute these cases due to the low dollar amounts involved. P-card fraud is akin to “death by a thousand cuts” and the perpetrator is easily able to avoid detection. The perpetrator might even make a small test purchase before engaging in large-scale fraud. The prevalence of P-card fraud is shocking and organizations are often unaware of the problem.

What is the problem? What are the red flags? What are the controls? If your organization is not attuned to these issues, you should assess the use of P-cards and work with management to have them fix any problems immediately. The P-card problem is less about internal audit involvement and more about management—especially management controls and monitoring P-card usage according to defined protocols.

## Fraud scenarios

Unscrupulous employees are known to put purchases on the P-card from groceries to adult entertainment. Clever employees will only use the P-card on dual purpose expenses—the “gray zone” of expense categories—like gasoline and office supplies where a business or personal use is difficult to differentiate. Using the P-card to purchase gift cards is another common scheme.

Employees may purchase a restaurant gift card when ordering dinner. A difficulty exists in distinguishing meals with a business purpose from personal dinner with family and friends. Double dipping is another scheme whereby the employee pays for expenses with their P-card but submits the same claim through an expense reimbursement process.

## *Employees are effectively walking around with petty cash funds in their wallets.*

The P-card can also be used to violate other company policies by purchasing a phone, tablet or computer from their vendor of choice. Employees are only limited by their imagination and the internal controls that are present and functioning.

### **Red flags**

The most common red flag is a manager or supervisor who is simply too busy to review the expense reports of his or her subordinates. A fraud at a Fortune 100 company occurred because a vice president gave his password to his trusted assistant for all his approvals.

The vice president was too busy to attend to pesky administrative matters. That delegation turned out to be a \$400,000 mistake! The case resulted in a federal prosecution,

a federal prison sentence and significant disciplinary action, including termination, for the vice president. All these undesirable outcomes were completely avoidable and preventable through supervision and monitoring.

Additional red flags are summarized in Exhibit 1.

### **Soft controls**

Both soft controls and hard controls are necessary to prevent P-card fraud. Soft controls pertain to the cultural environment where employees work. Does the organization have a code of conduct, employee handbook, antifraud policy and P-card policy? If so, do ongoing efforts make employees aware of these provisions and are they systematically enforced?

Do executives model appropriate P-card usage? Do employees feel they are stewards of the organization's finances or do they feel the P-card is an opportunity to gain parity for perceived slights?

Internal auditors can play a key role in enhancing the soft controls by assessing the organization's culture and communicating the results to those charged with corporate governance. A catchy way of thinking about the concept is to ask the following questions:

- What is the tone from the top?
- What is the mood in the middle?
- What is the buzz at the bottom?
- Are the top, middle and bottom in cultural harmony?

### **Hard controls**

Internal auditors are very comfortable with the concept of hard controls, which include preventive, detective and corrective controls. An example of a preventive control is to limit P-card charges using merchant category code (MCC) restrictions. An MCC is a four-digit number that can enable a P-card administrator to exclude unwanted merchant purchases, like airline tickets, professional services (e.g., physicians, lawyers, accountants, utilities) and cash advances.

A variation of this control is to use a detective control such as continuous monitoring to identify questionable purchases. When a flagged MCC purchase is made, instead

### **Exhibit 1 – Red flags**

1. Supervisor is “too busy” to review subordinate expense reports.
2. Supporting receipts and disbursement explanations are missing, incomplete or suspicious.
3. Receipt provided is the version with the total amount, not the itemized version.
4. Monthly spending reconciliations are late or not performed at all.
5. Employee is under review for other issues and believes termination is imminent.
6. Employee rushes the supervisor to approve the expense report.
7. The amount of P-card spending steadily increases.
8. Employee says the wrong card was “mistakenly” used for numerous purchases.
9. Date of purchase is a nonworking day.
10. Purpose of the charges are for morale-building expenses.
11. Spending is inconsistent with an employee's responsibilities.

*Pair P-Cards up with the fraud triangle—opportunity, pressure and rationalization—and you get the most common occupational fraud.*

of restricting the purchase, a real time notification can be sent to a manager to assess if the purchase was appropriate (a false positive). Another type of preventive control is to limit purchases to pre-specified dollar limits.

An anonymous tip line is an example of a detective control. Tip lines can be very effective when organizations effectively communicate their existence and take corrective action for corroborated allegations.

A strongly enforced policy with well-defined protocols is probably the most effective means of deterring P-card abuse. Protocols should include firing any employee who engaged in P-card fraud, taking disciplinary against the manager who failed to carefully review the bogus charges, and communicating these actions to all employees. Seeking criminal prosecution of the employee may also be appropriate. Swift, decisive action by management can be a most effective deterrent to fraud.

*P-card fraud is akin to  
“death by a thousand cuts.”*

Having all P-card account statements flow through a designated P-card administrator serves as both a preventive and detective control. Further, internal auditors should periodically audit samples of P-card statements along with the employee-submitted receipts.

Enhancing employee awareness when policy violations do occur is a good corrective control. Education of all employees about existing policies should be performed at the same time.

Internal auditors in healthcare organizations should discuss best practices in P-card use and identified abuses with their industry counterparts. Such sharing and benchmarking of

best practices with their colleagues can yield insights into a far too common problem that has straightforward solutions. Internal auditors could also help their management with P-card vendor selection and implementation of appropriate controls to minimize the potential for abuse.

## Summary

Preventing and detecting occupational fraud is a difficult challenge for many organizations. However, this problem should not be the case for P-card fraud. The good news is that although P-card fraud is the most prevalent, it is almost entirely preventable. **NP**

*Victor Hartman is Principal of The Hartman Firm, LLC, specializing in forensic accounting and internal investigations. He was an FBI Special Agent serving as a Street Agent, Supervisory Special Agent and Chief Division Counsel. Victor is an Adjunct Professor at Georgia State University and serves on Georgia Southern University's Forensic Accounting Advisory Board. You can reach Vic at (404) 369-0616 and [Vic@HartmanFirm.com](mailto:Vic@HartmanFirm.com).*



**Sridhar Ramamoorti, ACA, CPA/CITP/CFF/CGMA, CIA, CFE, CFSA, CGAP, CGFM, CRMA, CRP, MAFF, is an Associate Professor in the Department of Accounting of the University of Dayton. He serves on the Editorial Board of the Association of Healthcare Internal Auditors. You can reach Sridhar at (630) 347-9172 and Sri.Ramamoorti@gmail.com.**



*If I have a thousand ideas and only one turns out to be good, I am satisfied.* ~ Albert Nobel