

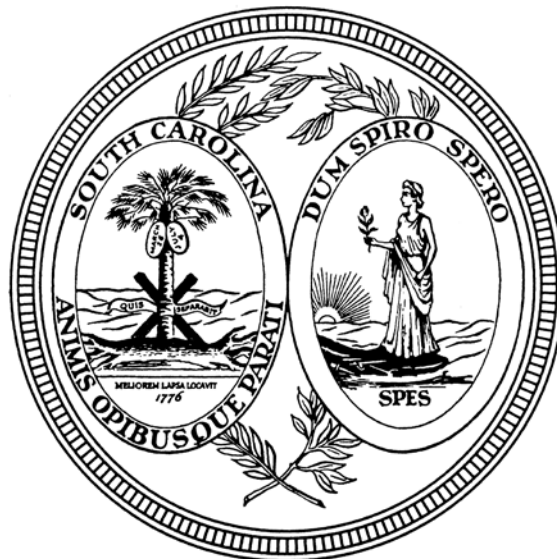


January 2011

A REVIEW OF STATE AGENCIES' USE OF PROCUREMENT CARDS

Increased Oversight and Improved Controls
Are Needed To:

- Detect Improper and Unauthorized Purchases
- Ensure Procurement Laws Are Not Violated
- Ensure Procurement Policies and Procedures Are in Place and Followed
- Allow the Public to Review How Employees Are Held Accountable for Misusing Procurement Cards



LEGISLATIVE AUDIT COUNCIL

1331 Elmwood Ave., Suite 315
Columbia, SC 29201
(803) 253-7612 VOICE
(803) 253-7639 FAX

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A Review of State Agencies' Use of Procurement Cards
was conducted by the following audit team.

Audit Manager
Perry K. Simpson

Auditor
Kristina A. Hooks

Typography
Candice H. Pou
Maribeth R. Werts

Legal Counsel
Andrea Derrick Truitt

Legislative Audit Council

A REVIEW OF STATE AGENCIES' USE OF PROCUREMENT CARDS

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Introduction and Background

Audit Objectives

Members of the General Assembly requested the Legislative Audit Council to conduct an audit of the South Carolina Procurement Card (P-Card) program. Our audit objectives were to:

- Evaluate the state's effectiveness in using the procurement card to reduce purchasing costs.
- Review a sample of procurement card purchases to determine if the state has adequate internal controls to prevent misuse.

Scope and Methodology

We reviewed the operations of the state's and agencies' P-Card programs. The period of our review was generally calendar years 2008 and 2009, with consideration of earlier and more recent periods when relevant.

To conduct the audit, we used evidence which included the following:

- Transaction reports from Bank of America's (BoFA's) *Works* Payment Manager.
- Research comparing the purchasing costs of using the P-Card versus purchasing costs using purchase orders (POs).
- State laws and regulations.
- Statewide and individual agencies' policies and procedures.
- Interviews with state officials, Bank of America officials, and employees of other states' procurement card programs.
- A survey of state agencies inquiring about their administration and usage of P-Cards.
- Receipts of P-Card purchases.

Criteria used to measure performance included state laws and regulations, state and agency policy, information provided by Bank of America, and the practices of other states. We used several non-statistical samples, the results of which cannot be applied to the whole population. These samples are described in the audit report. Our samples did not include all agencies. For example, we did not review purchases made by Santee Cooper or the State Ports Authority (SPA) because, while they do use P-Cards, they do not use the state P-Card contract.

We reviewed agencies' internal controls regarding their effectiveness on prevention of card misuse. In addition, we reviewed the effectiveness of state and agency efforts on the reduction of purchasing costs. The use of computerized data included information from the Budget and Control Board

(B&CB), Comptroller General's Office (CGO), Bank of America, and state agencies. We performed audit tests to confirm the reliability of data when it was significant to our findings.

We conducted this performance audit in accordance with generally accepted government auditing standards with the exception of the general standard concerning quality control. Due to LAC budget reductions, funding was not available for a timely external quality control review. In our opinion, this omission had no effect on the results of the audit.

Those generally accepted government auditing 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The procurement card program began in South Carolina in 1996 with the objectives of:

- Enabling authorized full-time state employees to make small value purchases of supplies, materials, equipment, and services for state business use.
- Streamlining payments by eliminating administrative burdens and costs associated with traditional methods of payment.

The program is administered by the B&CB's Materials Management Office (MMO). The CGO is responsible for day-to-day oversight and payment administration for state agencies that have payments disbursed through its office. Bank of America was awarded the contract by MMO in 2006 through a request for proposal process. The current contract period ends in August 2011, but there are two one-year options making the maximum contract period end July 31, 2013. The P-Cards are Visa cards issued by BofA. All agencies using the state P-Card contract are required to use Bank of America's *Works* Payment Manager for card administration and monthly billing statement reconciliation. As of August 2010, 93 South Carolina agencies were using P-Cards and 8 agencies did not use P-Cards.

Over 10,000 state employees are assigned a P-Card. For the period August 1, 2008 – July 31, 2009 (the time period used as the basis for the state's rebate), the state used these cards to make purchases totaling over \$163 million. In addition, local governments can use the state contract for their P-Card programs; they made approximately \$54 million in purchases during that time using the P-Card. The state receives a rebate on all purchases

(including local government purchases) made using the P-Card. In 2009, the rebate rate was 1.32% of the total expenditures for purchases made using the card, and the state earned over \$2.7 million in rebates.

The single transaction limit (STL) for each P-Card is set at \$2,500 and the monthly spend limit is typically \$5,000. The STL can only be raised with approval of MMO. The STL was set at \$2,500 because it is the amount below which agencies are not required to obtain written competitive quotes.

The ten state agencies that spent the most in P-Card purchases in 2009 are listed in Table 1.1. This list includes Santee Cooper, which does not use the state P-Card contract for its program.

Table 1.1: Top Ten Agencies by Spend Volume for 2009

AGENCY		AUG. 1, 2008	JULY 31, 2009
		SPEND VOLUME	
1	Medical University of South Carolina	\$24,100,928	
2	Clemson University	\$23,282,592	
3	University of South Carolina	\$22,828,356	
4	Medical University Hospital Authority	\$17,294,627	
5	Budget & Control Board	\$12,784,167	
6	Department of Transportation	\$12,293,357	
7	Santee Cooper*	\$6,572,991	
8	Department of Education	\$5,727,965	
9	Coastal Carolina University	\$5,577,083	
10	College of Charleston	\$4,961,920	

* Santee Cooper does not use the state's P-Card contract. The spend volume reported is for calendar year 2009.

Sources: Bank of America, Santee Cooper

Santee Cooper and SPA are not on the state's P-Card program because they are exempted by the state procurement code. However, they operate their own programs, with Bank of America serving as their contracted provider as it does for the state. These two agencies have different rebate provisions because they have different contracts with Bank of America, and they also keep the entire rebate amount rather than turning some or all of it over to the state. In 2009, the state's rebate rate was 1.32%, and Santee Cooper's rebate rate was 1.05%. SPA did not receive a rebate.

The P-Card cannot be used for cash advances. In addition, certain merchant category codes (MCCs) have been blocked to prevent purchases of certain types of good and services such as purchases from liquor stores or cruise lines. MCCs are codes applied to vendors by banks based on the primary type of goods or services the vendor provides. These codes can also be used to identify the types of purchases state agencies are making with their P-Cards. Table 1.2 shows the ten MCCs that had the highest total spending by agencies using the P-Card for 2009. These figures were calculated for all state agencies using the state contract. The figures do not include expenditures by agencies not on the contract, such as Santee Cooper and SPA.

Table 1.2: Spend Volume by Merchant Category Code for 2009

	MCC	MCC DESCRIPTION	TOTAL SPENT BY AGENCIES
1	5047	Laboratory, Hospital, Dental, & Ophthalmic Equipment/Supplies	\$11,655,195
2	4814	Telecommunication Services	\$8,217,904
3	5085	Industrial Supplies Not Elsewhere Classified	\$6,281,773
4	5111	Stationery & Office Supplies	\$5,993,973
5	5045	Computers, Computer Peripheral Equipment & Software	\$5,512,210
6	5943	Stationery, Office & School Supply Stores	\$5,154,264
7	5969	Direct Marketing – Other Direct Marketers Not Elsewhere Classified	\$4,912,459
8	4900	Utilities – Electric, Gas, Water & Sewer	\$4,883,178
9	5999	Misc. & Specialty Retail Stores	\$4,359,359
10	7399	Business Services-Not Elsewhere Classified	\$4,342,732

Source: Bank of America *Works* report

The P-Card program and all P-Card users and administrators are subject to South Carolina’s procurement code (S.C. Code of Laws, Title 11, Chapter 35, and S.C. Code of Regulations 19-445). South Carolina’s P-Code policy manual provides guidance to P-Card users and administrators on the code and other requirements. The manual “establishes minimum standards for use of the P-Card in order to ensure compliance with all applicable State laws pertaining to purchasing as contained in the State Code.”

Internal Controls

One of our objectives was to review a sample of procurement card purchases to determine if the state has adequate internal controls to prevent misuse. We identified several areas where the state needs to improve its internal controls, including the blocking of merchant category codes, controls over gift cards, and general compliance with state policy concerning who may be issued a card and what limits are to be placed on the cards. We also found a need for more comprehensive oversight of the P-Card program.

Blocking of Merchant Category Codes

One important internal control for preventing potential abuse of the P-Card is the blocking of certain merchant category codes (MCCs). An MCC is assigned by Visa or MasterCard to each merchant or vendor based on the type of goods or services the vendor typically provides. For example, vendors such as liquor stores that primarily sell beer, wine, and liquor have an MCC of 5921. By blocking the MCC, any attempt to use the card to make a purchase at a blocked vendor will result in the card being declined.

We found that the system for blocking MCCs had not been implemented effectively and no system for monitoring compliance with the blocks had been established. During the course of our review, the CGO, the B&CB's MMO, and Bank of America revised the system for implementing and monitoring the blocking of MCCs, which should result in a more effective system for preventing purchases at blocked vendors. However, improvements are still needed in the system.

Background

In order to prevent misuse of the P-Card, certain restrictions are placed on its use. For example, the state prohibits using the P-Card to obtain cash advances. This restriction has been implemented by Total System Services, the card processor, and not by Bank of America. This restriction is a "hard" block, meaning that it cannot be removed by individual agency P-Card administrators.

Another type of restriction placed on the card is limiting its use only to certain vendors. This is done by blocking certain merchant category codes. These blocks are "soft" blocks and are put in place by BofA. However, unlike with cash advances, these blocks can be removed by individual agency P-Card administrators.

The CGO decides which merchant category codes are to be blocked based on several considerations. First, merchants who primarily provide services are blocked because of difficulty in meeting IRS 1099 reporting requirements. Second, vendors who provide meals and lodging are blocked because the

state has a separate travel card program that is to be used to pay for these items. In addition, because there are limits on the amount of reimbursement an employee may receive for meals and lodging, these vendors are blocked to prevent employees from circumventing these limits. Third, fuel purchases are blocked because the state has a separate state fuel card program. Finally, other blocks are put in place based on public policy concerns. For example, the state does not want its employees to use the P-Card to pay for insurance, fines, or make purchases at liquor stores. As of June 2010, the CGO's list of blocked MCCs included 438 (62%) of the 704 total MCCs.

The CGO's authority to block MCCs extends only to agencies that utilize the state accounting system. These agencies are known as Group A agencies and the list of blocked MCCs is known as the SCGroupA list. Universities and technical colleges, the Education Lottery, Santee Cooper, and the State Ports Authority are responsible for developing their own lists of blocked MCCs. Thus, of the approximately 10,000 P-Cards in use by state agencies, approximately 4,400 are required to have the SCGroupA blocks in place.

It is important to note that an MCC block is vendor specific and cannot be applied to individual products. Thus, an employee may be blocked from making a purchase of beer at a liquor store, but can make that same purchase at a discount store if it is not a blocked vendor.

MCC Blocks Not Implemented Effectively

The policy blocking certain MCCs has been in place since the state P-Card program began. In late 2008, the CGO and MMO discovered that the method of blocking MCCs was not working correctly. Purchases were being made at vendors that were thought to be blocked. Also, agencies were removing the blocks without obtaining prior approval from the CGO.

Officials with the CGO and MMO then met with BofA officials; they updated the list of blocked MCCs and created a new list of blocked MCCs named SCGroupA. This group contained all the MCCs the CGO had determined needed to be blocked, such as liquor stores, cruise lines, restaurants, hotels, and gas stations. SCGroupA was then added to each individual card's profile to prevent purchases at blocked vendors. However, no system for monitoring whether the blocks were working was put in place.

We ran reports using BofA's *Works* program in March 2010 to verify that the blocks were in place and working properly. We reviewed individual card profiles to determine if the SCGroupA was included in the card profile as required, and reviewed agency purchases to determine if purchases were being made at vendors that should have been blocked.

We reviewed the card profiles of the approximately 4,400 cards assigned to Group A agencies. Approximately 25% of the cards did not have SCGroupA included on the profile as required. However, not having SCGroupA on the card does not mean that agencies could make purchases at any vendor. Agencies had often implemented their own lists of blocked MCCs or had used BofA's standard lists of blocked MCCs. Thus, although some MCCs that should have been blocked under SCGroupA were not, we did not identify any cards with no MCCs blocked.

In our review of purchases, we found numerous instances where purchases had been made at vendors that were supposed to have been blocked and for which the agency had not received prior approval from the CGO to make the purchase. For example:

- State agencies used the P-Card to pay for meals, lodging, and fuel, which are violations of state policy.
- In some cases, cards were stolen and used to make fraudulent purchases at vendors that should have been blocked.
 - A Department of Mental Health (DMH) card was used to make fraudulent purchases of over \$8,000 at a liquor store. DMH officials identified the purchase after reviewing the bill and the agency was not charged for this purchase.
 - A Department of Transportation (DOT) card was fraudulently used to purchase veterinary services in the amount of \$270.45. Though the cardholder stated the fraudulent purchase was reported to BofA, the proper procedure for disputing the claim was not followed and DOT did not receive a credit for the amount.
- We found that some employees had inadvertently used the card to make purchases for personal use that should have been blocked.
 - A DMH employee mistakenly used her state P-Card to pay a \$130.79 insurance bill. The error was identified shortly after the card was used and the employee subsequently reimbursed the agency.

When we asked agencies how these prohibited purchases had been made, agencies stated that no one at the agency had removed the blocks. In addition, agencies reported that the purchases were made without any difficulty, indicating that the blocks were not working properly.

We identified two reasons agencies were able to make purchases that should have been prevented. First, not all agencies had the SCGroupA list of blocked MCCs added to their card profiles when the list was created in 2008.

When SCGroupA was created, it worked only with agencies that were using an “exclude” strategy to block MCCs. When setting up their cards, agencies can choose one of two strategies when determining how to block certain vendors. Most agencies used an “exclude” strategy which created a list of MCCs for which purchases would be blocked. However, other agencies used an “include” strategy which created a list of MCCs where purchases were allowed. Thus, those agencies using the “include” strategy did not have the SCGroupA list of blocked MCCs added to their individual card profiles. We identified seven agencies which did not have the SCGroupA list added in 2008.

Second, because of the way BofA’s *Works* program is set up, each agency’s individual P-Card administrator has the ability to remove the SCGroupA blocks from the card profile without contacting either the CGO or BofA. For example, Vocational Rehabilitation mistakenly removed the SCGroupA blocks on 114 of its cards after they had been placed on the cards in 2008.

Lack of System for Monitoring MCC Blocks

MCC blocks were updated and reinstated in December 2008. However, no system for monitoring compliance with the MCC blocks was established. After notifying the CGO and BofA of the results of our March 2010 review, the system for blocking MCCs was revised; all Group A agencies were converted to the same strategy for blocking MCCs, and the SCGroupA list was added to all cards for all Group A agencies. This process was completed in May 2010. However, individual agency P-Card administrators could still remove these blocks from agency cards on their own.

In June 2010, we ran a *Works* report to determine if all SCGroupA blocks were in place and were working correctly. We identified 15 cards that did not have SCGroupA in place. For 11 of the 15 cards, the blocks should have been in place. For example, in January 2010, the Department of Archives and History (A&H) began the process for setting up agency P-Cards. At that time, A&H was informed of the limits regarding use of the cards, including the blocking of certain MCCs, and SCGroupA was added to the card profiles. In April 2010, the CGO issued a memo reminding agencies that maintaining the blocks was a condition of participation in the program. However, in June 2010, A&H’s P-Card administrator removed the blocks on the agency’s eight P-Cards at the direction of a supervisor to allow for the payment of hotels and meals on a trip taken by agency staff. Further, the blocks were not reinstated after the trip until we notified the CGO and BofA of the results of our June 2010 analysis. The blocks were then immediately reinstated.

Because blocks can be removed by individual agencies without contacting BofA or the CGO, the CGO has implemented a system to monitor agency

compliance with the MCC blocks. The CGO is now running exception reports in *Works* to identify purchases that have been made under blocked MCCs. Agencies that did not request prior authorization to remove the blocks are being contacted and informed that continued purchases under blocked MCCs may result in restrictions being placed on the cards. The CGO also plans to require each agency to attach a statement to its monthly P-Card bill certifying that procurement rules had been followed and no MCCs had been unblocked. The CGO began running reports for purchases made in June 2010. In addition, the CGO has begun conducting meetings twice a month with BofA to discuss issues relating to the use of the P-Card. It has also held webinars for state agencies to discuss state policy and *Works* reporting.

In June 2010, the CGO identified nine state agencies that had made purchases under blocked MCCs. For one of the blocked MCCs, the CGO had authorized the temporary removal of the block, and BofA failed to re-institute the block in a timely manner. In another case, the MCC was dropped from the block list in error for a period of time and then added back. According to an official with the CGO, BofA has committed to improving the level and quality of its staff serving state agencies.

Additional Issues Relating to MCC Blocks

During our review of MCC blocks, we identified additional issues concerning the blocking of MCCs that should be addressed. We found that the CGO was not being notified when new agencies established their P-Card programs. For example, when the S.C. Commission for the Blind (SCCB) created its program in 2010, the CGO was not notified. When setting up its P-Cards, BofA did not place the SCGroupA block list or the single transaction limit of \$2,500 on the cards. As a result, SCCB used the P-Card to pay for hotel and other travel expenses in violation of state policy. According to a CGO official, a process has been implemented in which the CGO and MMO will be the first points of contact for new user agencies. This should result in agencies having a clearer understanding of state policy regarding how the P-Card can be used and provide greater assurance that cards are being set up in compliance with state policy.

We found that the process for adding newly-created MCCs to the blocked MCC list needs improvement. From time to time, a new MCC may be created. Depending on the type of MCC, it may or may not need to be added to the state's list of blocked MCCs. The CGO performed a comparison of the master list of MCCs, which the CGO uses to determine which MCCs to block, to a master list of MCCs provided by BofA. The CGO identified 12 MCCs (mostly hotels and airlines) that were not included on the CGO's list. In most cases, these new MCCs were still blocked because they fell within

the range of MCCs already blocked. However, without access to the most up-to-date MCC list, there is less assurance that the state will block all MCCs that should be blocked.

Also, because the state has chosen to use the “exclude” strategy to block MCCs, new MCCs may not be automatically blocked when created. This increases the likelihood of improper use if the newly-created MCC is one that should be blocked. BofA has stated that it plans to provide both the CGO and MMO with an updated list of MCCs every six months in order to ensure that the state’s list of blocked MCCs is comprehensive.

Finally, the process for temporarily removing a block needs improvement. There are occasions when an agency may need to make a purchase from a vendor with a blocked MCC. State policy allows this as long as the agency receives prior approval from the CGO. However, because all blocked MCCs are contained in SCGroupA, when a block is removed for a certain MCC, all cards with SCGroupA have that block removed instead of just the single card that is needed to make the purchase. According to an official with the CGO, BofA is working on a new card profile that would allow temporary unblocking of an MCC without the block being removed at all other agencies.

Conclusion

Without an effective system for blocking certain merchant category codes, there is an increased likelihood of state procurement cards being misused. The types of misuse can range from fraudulent purchases by either state employees or others, to violations of state policy (i.e. using the card for travel expenses), to inadvertent personal use. The blocking of certain MCCs is recognized as an important part of the system of internal controls for procurement cards.

Recommendations

1. The Comptroller General’s Office should ensure that the state has an effective system for blocking merchant category codes.
2. State agencies should comply with state policy and not remove MCC blocks without prior authorization from the Comptroller General’s Office.
3. The Comptroller General’s Office should establish a system for monitoring agency compliance with the blocking of merchant category codes. This system should include, at a minimum:

- Running periodic exception reports to determine if agencies are making purchases under blocked MCCs.
- Providing training to agencies that are new users of the procurement card.
- Regularly updating the list of blocked MCCs to ensure they are current.
- Implementing a strategy to ensure that newly-created MCCs are blocked until the Comptroller General's Office has reviewed them.
- Restricting or canceling the cards of employees found to be in violation of state policy.
- Revising the method of temporarily removing MCC blocks to limit it to only the specific cards that need the block removed.

Gift Cards

In our review of P-Card purchases, we found instances where agencies had used the P-Card to purchase gift cards. In addition, agencies have received free gift cards from vendors as promotional items when making certain purchases. State policy should address prohibited and allowable uses of gift cards by agencies, including when gift cards can be used, as well as the use of promotional gift cards received by agencies as a result of certain purchases.

Purchase of Gift Cards by State Agencies

USC Upstate

During our review, we found purchases of gift cards by USC Upstate employees from GiftCards.com. We reported our findings to University of South Carolina (USC) officials which resulted in an internal review by USC Upstate finance department officials. The review found that 20 gift cards, totaling \$5,300, were purchased between December 2007 and May 2010 by a USC Upstate employee using his procurement card. Thirteen of the cards were given directly to individuals for services rendered. Seven cards purchased for \$450 each were cashed with smaller cash disbursements made to 20 other individuals. USC Upstate provided signed receipts showing who received either a gift card or cash disbursement. In one case, the employee gave himself \$100 cash for services rendered. An unused amount of \$640 in cash, which had been in the possession of the cardholder, has been returned to USC Upstate and deposited in an agency account. In addition, \$200 in service fees were incurred in using the cards, including \$42 in automated teller machine (ATM) fees for converting the cards to cash and \$158 in monthly maintenance fees.

The report also found that reconciliations were not done monthly throughout the years as required and that none of the card statements had a manager's

signature. The report concluded, “Although the cash payment method was not appropriate for purchasing cards, the expenses have been determined appropriate and reasonable for the services provided for the particular events.”

USC Upstate employees have purchased almost \$12,000 in gift cards which have been given directly to individuals or converted to cash.

USC’s P-Card policy, dated January 2009, specifically prohibits the purchase of gift cards using the P-Card. We identified \$300 in gift cards purchased at USC Upstate between January 2009 and May 2010 that were in violation of this policy. USC policy also requires that card liaisons review cardholders’ monthly statements to ensure all purchases are appropriate. In addition, according to USC officials, each department head is required to certify monthly that the statements have been reviewed. However, this procedure was not followed in this case.

We also identified \$6,491 in gift cards purchased in 2008 by two other USC Upstate employees. These cards were used as payment for services rendered. In one case, the wife of the USC Upstate employee who purchased the \$5,300 in gift cards discussed above received a \$150 gift card in appreciation for her work with a student organization over several years. In another case, an individual received \$1,100 in gift cards in 2008, but was not provided a 1099 form as required by IRS regulations.

Three employees have been disciplined as a result of these incidents: the cardholder, liaison, and the department head. The cardholder has also had his card canceled. In addition, the student organization is being reimbursed \$158 in monthly maintenance fees by USC Upstate.

USC Upstate has had prior incidents involving the P-Card. An April 2008 internal audit report found numerous violations of university policies and procedures involving the P-Card, including missing monthly statements, missing receipts, unauthorized purchases (including the purchase of gift cards), and missing signatures.

Department of Archives and History

In June 2010, an Archives and History employee purchased two gift cards in violation of state policy. One card in the amount of \$203.45 was for supplies purchased at Sam’s Club and the other \$100 card was to be used for additional supplies in the future. Both cards were purchased because the supplies came from a vendor that does not accept the state P-Card. According to the employee, he was not aware that the purchase of gift cards was prohibited by state policy.

Medical University of South Carolina

The Medical University of South Carolina (MUSC) has used the P-Card to purchase gift cards that are used to compensate participants in medical trials and are given to employees as part of MUSC’s employee recognition

program. For calendar years 2008 and 2009, we identified approximately \$67,000 in gift cards that MUSC purchased, either for study participants or for the employee recognition program.

According to an MUSC official, gift cards are an essential part of the agency's research study participant compensation program. The agency has established a policy that addresses the use of gift cards and the documentation required. Cards for the employee recognition program are purchased in bulk and kept in MUSC's human resources (HR) department. HR records and maintains information about gift cards received by employees in a database and adds this information to the employees' W-2 forms at the end of the year.

In May 2010, the Budget and Control Board revised the state P-Card policy to specifically prohibit the purchase of gift cards. This policy applies to all state agencies, including MUSC. According to MUSC officials, they were unaware of this policy update. There may be certain circumstances where the purchase of gift cards is appropriate and thus, a provision allowing for an exception to the prohibition of the purchase of gift cards may be appropriate. As an alternative, agencies could use a purchase order to buy gift cards.

Clemson University

Clemson University has used the P-Card to purchase gift cards for athletes. According to a university official, Clemson's Athletics Department has used the P-Card to make purchases in order to meet NCAA requirements. Clemson has also used the P-Card to purchase gift cards to be used as incentives in some of its grant programs.

Gift Cards Received as Promotional Items

Agencies need to implement appropriate controls and revise their P-Card policies to prevent misuse of promotional gift cards. We found instances where agencies received free gift cards from vendors as promotional items when making certain purchases, and we have noted problems with their use.

- In August 2008, a Department of Social Services (DSS) employee made an online purchase from Office Depot for office supplies and was to receive a free \$20 gift card. However, the DSS employee stated they never received the gift card and DSS was charged the \$20 cost of the card in error. DSS staff did not detect this error when reviewing the bill. After our inquiry, DSS contacted Office Depot and the company agreed to provide the agency a credit on its next order.
- In May 2010, a Citadel employee took advantage of a promotion at Office Max which offered a gift card with the purchase of printer ink or toner. The employee purchased enough ink and toner to qualify for

eighteen \$10 gift cards. These cards were to be used to offset future supply purchases. The employee subsequently used two of the cards to purchase additional supplies, but did not keep the receipt since the cards were free. After an LAC inquiry into this purchase, The Citadel determined that this practice should stop and the agency stated it would be revising its P-Card policy to prohibit purchases involving promotional gift cards.

- In March 2008, a Department of Employment and Workforce (DEW) employee placed an online order with Office Depot. According to information from BofA's *Works* program, Office Depot included a gift card along with the order. The DEW employee stated he did not receive a gift card, but neither the employee nor Office Depot could provide a copy of the receipt. Thus, it is not known whether DEW, formerly the Employment Security Commission until 2010, received the gift card or not.

In some cases, gift cards cannot be used to offset future purchases because of the nature of the card. For example:

- A USC employee's receipt for the purchase of supplies included a \$10 gift card. The employee believed the card to be a gift, but the receipt shows the agency was charged for the card. USC's internal review process did not find this error. The gift card was not used before its expiration date, and was destroyed. After an inquiry by the LAC, the employee reimbursed USC for the cost of the card.
- MUSC received a \$20 gift card for dinner and a DVD after placing an order for supplies with a vendor. Initially, MUSC was charged for the gift card but the cardholder noticed the charge and a credit was obtained. The gift card was used to provide food for an employee party and as a door prize.
- The State Board for Technical and Comprehensive Education received a \$25 restaurant gift card after placing an order for supplies. According to an agency official, it is customary to receive free gifts with some of their purchases and these gifts are disbursed among agency employees.
- The Commission on Higher Education (CHE) received a \$25 restaurant gift card after placing an order for supplies. According to an agency official, these cards are used as door prizes for CHE's Christmas party.
- DEW received a number of promotional gifts, including items such as a tool set, a picnic cooler, and a woven basket set. These items were either

distributed to employees or were being kept by DEW's human resources department to be distributed to employees.

According to an official with the State Ethics Commission, as long as the purchaser of the items does not retain the gift card for himself, and all agency employees have an equal opportunity to receive the gift, then using the free gift cards as an employee benefit is allowable.

Conclusion

The purchase of gift cards is not a well-controlled business practice. According to a B&CB official, the agency does not see a significant difference between purchasing a gift card and obtaining a cash advance, which is strictly prohibited by the contract and state policy. Gift cards are more easily subject to theft or being lost than other types of P-Card purchases and determining who actually received the gift card can be difficult.

State policy governing P-Card purchases was revised in May 2010 to specifically prohibit the purchase of gift cards. Purchases of gift cards may be necessary under certain circumstances, but should be strictly controlled and these exceptions should be addressed in written policy. Also, purchases should not be made without prior authorization, both from agency officials and the B&CB. Cards that are obtained by the agency as part of a promotion should be used either as a discount on future purchases or, when that is not possible, to benefit all agency employees.

Recommendations

4. State agencies should monitor and strictly enforce the state policy prohibiting the purchase of gift cards. Employees found in violation of the policy should face appropriate disciplinary action.
5. State agencies with a legitimate need to purchase gift cards should request prior approval from the Budget and Control Board.
6. The Budget and Control Board should revise the statewide procurement policy to allow exceptions for the purchase of gift cards when justified.
7. The Budget and Control Board should revise the statewide procurement policy to address how agencies are to handle free gift cards received as promotional items.
8. State agencies should ensure that they are not being charged for promotional gift cards.

Review of Agency Purchases

We selected a sample of agencies in order to review their P-Card purchases. We selected the following agencies for review:

Department of Motor Vehicles (DMV)
Commission on Higher Education (CHE)
South Carolina Law Enforcement Division (SLED)
Department of Employment and Workforce (DEW)
Department of Archives and History (A&H)
South Carolina State University (SCSU)
Department of Commerce (DOC)
Department of Disabilities and Special Needs (DDSN)
Health and Human Services (HHS)

For each agency, we ran a *Works* report showing the agency's P-Card purchases for calendar years 2008 and 2009. We then selected a non-statistical sample of purchases and requested supporting documentation for the purchases and an explanation of the need for the purchase.

Department of Motor Vehicles

We reviewed 35 purchases at DMV and found:

- There were three purchases of fuel for maintenance equipment at convenience stores and two purchases of meals by employees. Use of the P-Card to purchase fuel or employee meals is a violation of state policy. In addition, these purchases should have been blocked under the CGO's policy blocking certain merchant category codes (see p. 5). According to a DMV official, the fuel purchases were made using the card because the stores would not accept the state fuel card. The meal purchases were the result of inadvertent use of the card by the employee. In both cases, DMV was reimbursed the cost of the meal through either a credit on the card or by payment from the employee.
- There was a purchase at a florist where the vendor inadvertently charged DMV for flowers not ordered by the agency. DMV staff discovered the error and received a credit from the vendor.

Commission on Higher
Education

We reviewed 29 purchases at CHE and found:

- There were purchases of almost \$200 worth of Tylenol during the two-year period for an employee first aid kit. According to a CHE official, this was a long standing practice that has been discontinued.
- There was a purchase at Staples that resulted in CHE receiving a free \$25 restaurant gift card as a promotional item. According to an agency official, these free gifts are distributed to employees as door prizes at various office events.

South Carolina Law
Enforcement Division

We reviewed 39 purchases at SLED and found:

- There were seven purchases, including payments for hotel rooms, rental cars, and rental trucks that should have been blocked under the CGO's policy of blocking certain MCCs. According to an agency official, when SLED was asked to send agents to assist in the aftermath of hurricane Katrina in 2005, the agency made a telephone request to remove all blocks from its cards. The blocks were not reinstated until December 2008.
- There were two purchases that had incomplete documentation. One purchase was at K-Mart for \$25.67 where the receipt could not be located. A second purchase for \$652.55 from LegalZoom.com for filing SLED's new logo with the U.S. Copyright Office did not have a purchase requisition as required by agency policy.
- There was a purchase of a Kindle reader which was shipped to the employee's home and not to the agency's office because it was needed for a pending trip (see p. 31).

Department of
Employment and
Workforce

We reviewed 37 purchases at DEW and found:

- There was a purchase at Sportsman's Warehouse for \$53.45 for which no receipt could be provided. According to an agency official, DEW believes the purchase was for cans of Mace for DEW hearing officers.
- There were two personal purchases made using the state card for which the agency either received a credit on the card or obtained reimbursement from the employee.

- There was a purchase of \$158.33 at an online flower store that was fraudulent and for which DEW received a credit.
- There was a purchase of two guest books for \$34.24 for which no justification was provided.

Department of Archives and History

We reviewed 12 purchases at A&H and found:

- There were seven purchases for meals, hotel rooms, and other travel-related expenses. Use of the P-Card to pay travel-related expenses is a violation of state policy. In addition, these purchases should have been blocked under the CGO's policy blocking certain merchant category codes (see p. 5). According to agency official, the cards initially had the blocks in place but the official removed them at the request of a supervisor.
- There were two purchases of gift cards from Walmart for \$303.45. The purchase of gift cards is prohibited by state policy. According to an agency official, the gift cards were purchased to use at another store that did not accept the P-Card.

South Carolina State University

We reviewed 52 purchases at SCSU and found:

- There were 17 purchases totaling over \$4,000 for meals at a single restaurant in Orangeburg. In three instances totaling approximately \$400, the meals are listed as "official dinner" but no documentation indicating who attended was available.

Department of Commerce

We reviewed 35 purchases at DOC and found:

- There were two purchases of fuel. The purchase of fuel is a violation of state policy.
- There were purchases of Tylenol and other items for an agency first aid kit.
- A catering purchase that included an \$8 tip that was made in error and was refunded by the DOC employee.

Department of Disabilities
and Special Needs

We reviewed 17 purchases at DDSN and found:

- There were four purchases at a package store that should have been blocked under the CGO's policy of blocking certain MCCs. According to an agency official and a review of agency documentation, the purchases were for soft drinks and non-alcoholic beer to be used as an incentive to obtain a patient's cooperation in taking his medication.
- There was a \$1 charitable donation made in error by the cardholder who reimbursed the agency.
- There were four purchases of fuel. Use of the P-Card to purchase fuel is a violation of state policy.

Department of Health and
Human Services

We reviewed 42 purchases at HHS and found:

- There was a purchase of holiday cards to send to two Department of Social Services offices.

Additional Samples

In addition to reviewing a sample of agency purchases, we also reviewed purchases using other criteria. We ran reports in *Works* searching for certain vendor names. We also reviewed purchases that involved international transaction fees.

Vendor Purchases

We ran *Works* reports searching for certain vendor names which we believed could potentially be fraudulent. For example, we searched for purchases from eHarmony, Victoria's Secret, and match.com and found the following.

- There were four purchases from eHarmony and five from match.com which were the result of fraud committed by non-state employees and which the agencies' internal review systems detected. All agencies received credits for these purchases.

International Transaction Fees

Agencies that purchase products from foreign countries are charged a 1% international transaction fee on these purchases. For example, DEW purchases software from a Canadian company, which results in a transaction fee. The Department of Health and Environmental Control (DHEC) has also incurred international transaction fees for items it has purchased. We selected four purchases involving international transaction fees at DHEC and found two that were fraudulent.

- In one case, DHEC was charged \$4,446.07, which was discovered during DHEC's normal internal review process and for which DHEC received a credit.
- In a second case, DHEC incurred a fraudulent charge of \$426.44. However, neither the cardholder nor the supervisor discovered the fraud. After our inquiry, DHEC disputed the charge, but it was outside the time frame permitted for disputes and DHEC did not receive a credit. According to an agency official, all cardholders have been reminded of the policies and procedures as well as the necessity to review all transactions in a timely manner.

Credit Card Transparency Reporting

Beginning in 2010, the CGO began posting procurement card usage reports on its website in an effort to enhance the state's spending transparency efforts. Together with the monthly spending details on the same site, these reports will allow citizens a better understanding of how state government is using its funds. However, not all agencies' P-Card purchases are included on the website.

Santee Cooper and the State Ports Authority are not on the website because they do not utilize the state P-Card contract. These agencies have separate contracts with Bank of America for their procurement cards. Charges on P-Cards used by DDSN to make purchases for its clients at Whitten Center and Midlands Center are also not on the website. These purchases are not included because they are made using clients' personal funds.

Proviso 89.137 of the FY 10-11 appropriations act states that if any agency, such as the CGO, chooses to post P-Card data for other state agencies, there has to be a link from the individual agency's website to the CGO's website where the data is posted. It does not require agencies to post data on their own websites or provide data to the CGO.

Agencies Not Using *Works* Payment Manager

As part of the state contract for procurement card services, state agencies can utilize Bank of America's *Works* Payment Manager. *Works* is a web-based management tool that provides a way for agencies to better manage their P-Card programs, detect improper purchases, and improve accountability. During the course of our review, we identified 16 agencies with P-Card programs that were not using *Works*.

Works gives agencies the ability to review and analyze P-Card spending. It also allows the CGO and the B&CB's MMO to monitor agencies' compliance with P-Card policy. For example, agencies are required to get prior authorization from the CGO before making a purchase from a vendor with an MCC on the CGO's blocked MCC list. A report can be generated in *Works* showing agency spending by MCC. The CGO can review the report, determine if any purchases have been made under a blocked MCC, and then determine if prior approval was given. In addition, during our review, we made extensive use of reports generated through *Works* to review agency expenditures to identify potential misuse and non-compliance with policies governing the P-Card program. If agencies do not use *Works*, reviews of purchases by the public or outside audit agencies, or agencies such as the CGO and B&CB that have oversight responsibilities, can be more difficult. Reviews by agency internal auditors or purchasing staff can also be made easier through *Works*.

In March 2010, the B&CB mandated that all Group A agencies (comprised of agencies on the Comptroller General's accounting system) use *Works*. As of July 2010, all Group A agencies were using *Works*. While both the State Ports Authority and Santee Cooper do not use the state P-Card contract, both agencies make use of BofA's *Works* and could be included in statewide *Works* reports.

Detailed Purchase Data

Currently, the P-Card information included on the CGO's website shows the name of the merchant where a purchase was made, the date, and amount. It does not include detailed information on the products purchased. Specific information on individual products purchased using the card, known as level III data, is available only on a limited basis. Level III data would include information contained on the actual receipt of purchase, such as product codes and product description. Access to level III data could give the public a much clearer picture of how state agencies are expending public funds.

Information on Misuse by State Employees

The CGO's website lists P-Card expenditures, but does not include the number of state employees who have been found to have misused the card or descriptions of the types of misuse found. For example, a business manager at a state agency used the card to buy items for personal use. This employee was terminated but not prosecuted. Reporting this information can serve as an additional deterrent against abuse. This also would allow the public to assess the degree to which employees are held accountable for theft or abuse. In response to an LAC survey, 32 (36%) of the 90 state agencies surveyed reported disciplining employees for misusing the card during calendar years 2008 and 2009. State agencies reported criminally prosecuting two of four employees terminated as a result of the misuse. According to a CGO official, the office is currently reviewing reporting this information, but is not sure how effective it would be.

Recommendations

9. The Comptroller General's Office should place all procurement card expenditures by state agencies on its website, and report any agencies not included and why they are not included.
10. All state agencies with procurement cards should implement *Works Payment Manager*.
11. Agencies should report to the Comptroller General's Office any disciplinary action taken against state employees for misusing the procurement card. The reports should include the type of misuse, amount of funds involved, and disciplinary action taken. The Comptroller General's Office should include this information on its charge card transparency website.
12. Santee Cooper and the State Ports Authority should post their procurement card transactions on their websites.

13. The General Assembly should amend Proviso 89.137 of the FY 10-11 appropriations act to require all state agencies to provide their procurement card data, and any disciplinary actions taken against agency employees, to the Comptroller General's Office for posting on its website.
14. The Comptroller General's Office should examine the feasibility of providing public access to detailed purchase data on purchases made using the procurement card.

Non-Compliance with State Law and Policy

We found a number of areas of non-compliance with state policy concerning P-Card usage. We also found examples where agencies had violated the procurement code when making purchases over \$2,500. Further, we found that MMO did not have a system in place to monitor agencies for compliance with P-Card requirements.

Single Transaction Limits

State policy sets the single transaction limit (STL) for P-Cards at \$2,500. This is the limit on the amount that can be bought during a single purchase. The STL is set at \$2,500 because that is the amount designated as the "no compete" limit for small purchases. Individual cardholders may have their STLs raised, but only with prior authorization. Between 2006 and 2010, individual agency purchasing departments could adjust these limits. However, in practice, numerous agencies requested prior authorization from the B&CB before raising the STLs. In May 2010, state policy was revised to specifically require that agencies obtain prior approval from MMO's Chief Procurement Officer (CPO). According to the CPO, requests have been granted on a card-by-card basis and are, for the most part, permanent. State agencies, colleges, and universities are subject to the CPO's approval for raising the STL.

We ran a report using BofA's *Works* and identified cards with STLs above \$2,500. We then compared this list to documentation of STL approvals provided by the B&CB. We sampled cards at five agencies where we did not find evidence of B&CB approval and contacted them to request additional information. We found:

- 6 cards at Vocational Rehabilitation (VR) with STLs ranging from \$3,500 to \$5,000. According to a VR official, documentation requesting an increase in the STL could not be located.

Individual agency P-Card administrators have the ability to raise the single transaction limit without B&CB approval.

- 7 cards at the Department of Corrections (SCDC) with STLs ranging from \$5,000 to \$10,000. According to an agency official, SCDC did not request prior approval, but has now requested approval for these cards.
- 43 cards at DMH with STLs ranging from \$3,000 to \$10,000. An official with DMH stated that the agency had received authorization but did not provide documentation of the authorization.
- 10 cards at the Department of Motor Vehicles which had no STL. According to an agency official, some of these accounts had been set up when DMV became a separate state agency, and STLs apparently had not been set. DMV was not aware that these particular cards did not have set STLs. DMV has now set limits of \$2,499 on these cards.
- 20 cards at the Department of Health and Environmental Control of which 19 had no STL. According to an agency official, DHEC had interpreted the B&CB's response to a DHEC request for higher STLs for certain cards as permission for DHEC to set higher limits for any of its P-Cards in the same category.

Because of the way BofA's *Works* is set up, each agency's individual P-Card administrator has the ability to raise the STL without contacting either the B&CB or BofA. Establishment of a single transaction limit can be an effective tool in ensuring agency compliance with the procurement code and in helping to prevent fraud and abuse.

Lowering of Single Transaction Limit

We also found that approximately two-thirds of P-Cards have their STLs set at the statewide policy limit of \$2,500. The average transaction amount in 2009 was \$256. A lower STL could help to reduce fraud and also make it harder to violate the procurement code by splitting transactions.

Cardholders with Multiple Cards

The state's P-Card policy and procedure manual states that there is a limit of "...one P-Card per Cardholder." During the course of our review, we identified a number of state employees who were assigned two or more P-Cards. Assigning more than one card to a cardholder can make it more difficult for the employee to keep track of and use the P-Card correctly. Limiting P-Cards to one per cardholder can help reduce fraud and misuse.

We ran a report using BofA's *Works* in April 2010 showing all cardholders, and each open card in their names, at all the agencies participating in the state P-Card program. We found 143 cardholders from different agencies who had more than one procurement card each issued in their names. DOT

was the agency with the highest number of employees (91) assigned more than one P-Card. The Department of Labor, Licensing and Regulation (LLR) had the second highest number (11), and Clemson University had 10 employees who were assigned more than one P-Card. We also found instances where one employee of an agency had a large number of cards. For example, one Lander University cardholder was assigned 19 P-Cards and another individual from Winthrop University had 8 cards.

We asked the agencies why these cardholders were each assigned more than one card:

- DOT stated that its employees with multiple cards usually either work in a maintenance shop and are assigned one P-Card to buy parts and another for miscellaneous purchases, or they work in an office and are given one P-Card for office supply purchases and another for miscellaneous purchases.
- Francis Marion University stated that employees were issued multiple cards in the past to try to simplify work flow by using different cards for different budgets, and that it wanted to have separate cards for grant accounts. However, after our inquiry, Francis Marion informed us that each of the seven cardholders with more than one card would have their cards reduced to one, and Francis Marion would only allow one P-Card per cardholder from that point forward.
- Lander University replied that the practice of allowing some cardholders to be assigned more than one card started years ago, because it believed it would be too hard to track purchases on a card with a large number of purchases. It preferred separate cards for the different areas of the university. For example, some physical plant employees have been assigned a card for supply purchases and another for service purchases. The employee who was assigned 19 P-Cards was issued the cards for various types of physical plant purchases. According to an agency official, the employees who were each assigned more than one card returned their excess cards to Lander's procurement office after our inquiry. The official also stated that Lander has changed its procedures to allow only one P-Card per employee.
- The Department of Labor, Licensing and Regulation indicated that, after our inquiry, it canceled all cards in excess of one per employee, except for those belonging to the fire marshal and the employee who pays for SLED background checks. According to LLR, it has requested that these two employees' multiple P-Cards remain assigned to them because the cards are necessary for their purchases. LLR reported to us that all its

P-Cards in the multiple card violations we found were issued because LLR wanted separate cards for purchases made for different cost centers.

- Winthrop University stated that one cardholder had three cards “to ensure efficiency in tracking expenditures by purpose” (one for the Office of Public Events’ purchases, one for the President’s office’s purchases, and one for the Board of Trustees’ purchases). Another cardholder was assigned eight cards, one for each of eight sports, in order to track budgets individually for NCAA reporting purposes.

Assigning more than one P-Card to a single cardholder is a violation of the state’s P-Card policy. Agencies could communicate with MMO, other agencies, or Bank of America to determine if there are other ways to track purchases that do not require the use of multiple cards.

Cards Not Used

During the course of our review, we identified 354 open P-Cards which had no activity for at least one year. The state’s P-Card policies and procedures manual, revised May 5, 2010, states that one of the responsibilities of each agency is to “monitor [c]ardholder accounts for inactivity and close accounts that are no longer needed.” Routine reviews of card activity should be conducted to identify cards that have not been used for a long period of time, and consideration should be given to canceling these cards.

As of May 2010, we found 354 open P-Card accounts that had no activity for at least one year. We contacted three agencies (DDSN, DMH, and DOT) to inquire about the agencies’ processes for monitoring card inactivity and closing unneeded accounts. For the agencies we sampled, there was a total of 72 cards that had not been used for at least one year; there were 15 such cards at DDSN, 33 at DMH, and 24 at DOT.

- DDSN stated that it would cancel 2 of the 15 cards not used in over a year. The DDSN official informed us that the remaining 13 had not been used recently because they are secondary cards used when the primary buyer for consumers is out.
- DMH stated that it would cancel 28 of the 33 cards in question, and it expected one of the remaining cards to be used more frequently. DMH also stated that the other four cards were assigned to on-call pharmacists who occasionally need them to purchase medication for clients.
- DOT stated that it would cancel 14 of the 24 cards in question. Nine of the accounts would remain open, as these were assigned for use during emergencies, such as hurricanes. The remaining account will also remain open, because it is the only P-Card assigned in that area.

Thus, of the 72 total cards in our sample, agencies stated they would cancel 44 (61%).

Industry best practice specifies that agencies be selective in issuing cards and not allow cards to remain open that are not used or needed. Open, unused accounts can lead to:

- Increased risk of fraud and misuse through card loss.
- Administrative costs to agencies that could have been avoided.

The federal Government Accountability Office has suggested that some federal agencies review their P-Card usage to identify unneeded cards. After some federal agencies reviewed their procurement card usage to identify unneeded cards, the number of cards in these agencies decreased significantly.

According to a USC official, USC created an internal procedure about eight years ago whereby annual reviews are conducted to identify unused cards. Cards that have not been used in approximately 10 to 12 months are canceled. After its 2009 review, USC canceled approximately 50 cards, but officials say that the average number of cards canceled per year is closer to 25. USC's internal procedure is not included in its written P-Card policies, but it may be added, according to an agency official.

Also, during its P-Card training for staff, USC emphasizes that inactive, unneeded cards should be turned over to the purchasing department for cancellation. However, the official stated that departments have not turned over unneeded cards to the purchasing department. The only cancellations of unused cards have come from monitoring for cards that have not been used for a significant period of time.

Suspended Cards

We found that some of the cards listed in the *Works* report as having not been used for at least one year were classified "suspended." This means that the bank made the card temporarily unavailable for use because the cardholder had a known upcoming period of absence during which he or she would not be using the card. A suspension provides security for the card in the absence of the cardholder, and is used for events such as maternity leave or military leave. It is a separate category from open and closed cards. A suspended card becomes active again after the suspension is lifted.

Suspended cards can be left in the suspended category as long as the agency feels it is necessary, and can be an appropriate option under certain circumstances. However, in some cases, the agency may determine that it would be better to cancel the card at the beginning of the period of non-use

and issue a new card when card activity resumes. An example of this would be an extended military leave of absence. Alternately, the agency could approve suspension of a card, and later cancel the card if the period of non-use of the card is considerably extended. We noted several cardholders with long periods of suspension, including one DMH cardholder whose card had not been used in almost three years.

Number of Cards Assigned to State Employees Could be Reduced

State agencies should regularly evaluate the assignment of P-Cards to employees to ensure that the cards are needed. South Carolina has more than 10,000 cards assigned to state employees. Approximately 1 in 6 state employees has a card.

As noted on pages 24 and 26, we found a number of state employees with more than one card assigned to them or who had not used their cards in more than a year. According to BofA data, South Carolina P-Card cardholders averaged four transactions a month during calendar year 2009. We ran a *Works* report and identified almost 500 cardholders who had used their cards 6 times or fewer during the two-year period of 2008 and 2009.

Reducing the number of cards can reduce the likelihood of fraud by either employees or non-state employees. Also, state agencies incur costs associated with reviewing and paying P-Card bills which could be reduced if cards are assigned only to employees whose job duties require a card.

Cards Not Assigned to Individuals

The state's P-Card policy states that, "[c]ards will not be issued in the name of a Department or work unit to be shared by multiple employees." During the course of our review, we identified a number of cards that had been issued in the names of agency departments or divisions.

Assigning a card to a department or division rather than to an individual can make detecting fraud and abuse more difficult. When a card is shared by a group of employees, it is more difficult to account for purchases and identify which employees made specific purchases. If the card is lost or stolen, it is more difficult to determine who last had possession of the card or determine the card's whereabouts. Additionally, the state P-Card policy lists many cardholder responsibilities that would be difficult to fulfill if a card is not assigned to an individual.

We ran a report using BofA's *Works* in June 2010 that showed all open cards in the state's P-Card program. We identified 217 cards that were not issued in a person's name, but rather in a department's or other group's name. We asked agencies why they had P-Cards assigned to departments or other groups rather than to individuals. We found:

- Winthrop University had 55 cards assigned to various departments or university organizations. According to an agency official, these cards were not assigned to individuals because staff in these departments change each academic year and it was more efficient to place the cards in department names rather than in the names of individuals.
- The Department of Archives and History had eight cards assigned to various departments. According to an official with A&H, when the agency established its P-Card program, its card accounts were not set up correctly. A&H has now assigned these cards to individuals instead of departments.
- The Attorney General's (AG) office had two cards assigned to departments within the agency. According to an official with the AG's office, the agency was unaware of the requirement to have all cards assigned to an individual. It has since placed one of the cards in an individual's name and canceled the other card.

Purchases Over \$2,500

The state procurement card has a limit of \$2,500 per purchase before the agency must obtain at least three written competitive quotes or make the purchase using a state contract. However, some agencies have received permission from MMO to have cards with limits above \$2,500.

We reviewed a non-statistical sample of procurement card transactions over \$2,500 made by 15 state agencies to determine if the agencies complied with the state procurement code. Most transactions from our sample were purchased in accordance with the procurement code because the agencies made the purchases using an existing statewide term contract, obtained the required quotes, or were exempt from the procurement code.

Other transactions were exempt from the requirement. For example, Tri-County Technical College and USC purchased items for resale in their bookstores. These purchases were not required to be made with state contracts or bids, as allowed by the S.C. Code §11-35-710(8) exemption for items purchased by government bodies for commercial sale. However, we found the following instances where the requirement to purchase under state contract or obtain the proper quotes was not followed. For example:

- The Department of Natural Resources (DNR) purchased tents for \$3,400 without using a state contract or obtaining quotes. This error was discovered by DNR procurement staff and reported as an unauthorized purchase in May 2008. The DNR official who made the purchase said he thought the minimum dollar amount that would require a contract or quotes for a P-Card purchase was \$5,000.
- The Department of Employment and Workforce (DEW) made two improper transactions. One was a \$6,000 purchase for lapel pins for a Veterans' Day promotion. The state contract used to make the purchase was limited to service pins for state employees, thus, DEW should have obtained three written quotes for the purchase. The second DEW purchase was for a \$2,699 memory upgrade for DEW's computers. The DEW official who purchased the memory upgrade said that he did not realize the transactions were over \$2,500, and therefore did not secure the required quotes.
- Patriots Point Development Authority purchased two fire-proof, legal filing cabinets for \$3,050, but could not provide documentation that it adhered to the procurement code requirements when making the purchase.

Also, agencies' internal audits of P-Card usage (see p. 35) found numerous instances of cardholders splitting transactions to avoid the requirement of obtaining bids. For example, the following agencies reported confirmed or possible split transactions in their internal audits:

- Francis Marion University
- Medical University Hospital Authority
- Department of Transportation
- South Carolina State University
- USC Upstate
- Department of Public Safety
- Medical University of South Carolina

Inventory

Agencies use the P-Card to purchase a variety of items, including various types of equipment. Oftentimes this equipment has not been placed on an agency's inventory because its cost was low, usually under \$1,000. However, these items are susceptible to being lost or stolen. For example, both DSS and The Citadel reported terminating employees, in part, because they had purchased equipment and converted it to personal use.

We reviewed a non-statistical sample of 21 items that could easily be lost or stolen. These included cameras, televisions, and laptop computers. We conducted an on-site inventory of these items at the Office of the Adjutant

General, the Forestry Commission, the Department of Natural Resources, and the University of South Carolina. We were able to locate all of the items in our sample.

Some agencies have P-Card policies that are stricter than the state policy. According to a Department of Health and Environmental Control (DHEC) official, there are specific items that DHEC does not allow its employees to purchase with the P-Card. For example, DHEC considers computers to be equipment which must be tracked in its asset system. The DHEC policy manual states that, “[t]he purchasing card must NOT be used for the purchase of Personal Computers or notebook computers, or any equipment capitalized.”

An official with Parks, Recreation, and Tourism (PRT) stated that PRT prohibits using the P-Card to buy equipment. All equipment is to be purchased using a local purchase order. This way, the equipment is documented at the park even though it is not expensive enough to be on the agency’s formal inventory.

We also found examples of employees having items shipped to their home addresses. For example, a South Carolina Law Enforcement Division (SLED) employee purchased a Kindle reading device from an online store and had the item shipped to his home address. In another instance, a USC employee had three separate software purchases shipped to his home address so that he could do university work on his home computer. Not having items shipped to an official business location increases the likelihood that items may be stolen.

Improved Oversight of P-Card Program Needed

There is no single entity, such as the Legislative Audit Council, State Auditor, or other agency, responsible for monitoring compliance with the state’s P-Card policy. Without proactive and frequent reviews of the use of P-Cards, the likelihood of fraud and misuse is increased. The B&CB sets statewide policy for how the card is to be used, but does not have a system in place to periodically check to determine if agencies are complying with it. While a sample of transactions made using the P-Card are reviewed during B&CB procurement audits, issues such as single transaction limits, cardholders with more than one card, and unused cards are not addressed. The CGO is responsible for determining which MCCs are to be blocked. However, this authority extends only to agencies using the state’s accounting system; some agencies, such as universities and technical colleges, are not subject to the CGO’s MCC requirements.

Georgia has a State Cards Program Manager who is responsible for developing policy for the state's three credit card programs (procurement, travel, and fuel). There is also a full-time audit team in Georgia’s Department

of Administrative Services dedicated to reviewing the three cards' programs. This staff is funded through rebate revenue.

Oversight of the state P-Card program could be made more efficient by making greater use of BofA's *Works*. Reports can be run to identify cards with STLs over \$2,500, cardholders with multiple cards, cards not assigned to individuals, cards not being used and other indicators of non-compliance with state policy. Using these reports could be a simple and effective way to monitor for compliance with state policy.

Recommendations

15. State agencies should comply with state policy by:
 - Obtaining prior approval of the Budget and Control Board for single transaction limits over \$2,500.
 - Limiting cardholders to one card each.
 - Canceling cards that are not being used.
 - Issuing cards in employees' names only.
16. Agencies should set the single transaction limit for each employee's card to the level necessary to perform his or her job duties.
17. The Comptroller General's Office and the Budget and Control Board should review the single transaction limit to determine if it should be lowered.
18. State agencies should monitor suspended cards to ensure they do not remain in a suspended status for inordinately long periods of time.
19. State agencies should comply with the state procurement code when making purchases over \$2,500 with the procurement card.
20. State agencies should document equipment purchased using the state procurement card in order to be able to locate the items and reduce the likelihood of them being lost or stolen.
21. State agencies should prohibit any agency purchases from being shipped to employees' homes unless the agency has granted prior written approval.
22. The General Assembly should enact legislation to provide for a comprehensive system for monitoring state agencies' compliance with state law and procurement card policy.

Survey of State Agencies

We conducted a survey of 90 state agencies regarding their use of the P-Card as of April 2010. Three agencies established P-Card programs after we began our survey. From our survey, we found that:

67 AGENCIES (74%) HAD FORMAL WRITTEN POLICIES.

The Budget and Control Board has issued a statewide P-Card policy which established the minimum standards for use of the P-Card. This policy requires that agencies have an internal policy governing the use of the P-Card.

ONLY 7 AGENCIES (8%) HAD PERFORMED A COST SAVINGS ANALYSIS FOR USING PROCUREMENT CARDS.

RPMG Research Corporation (RPMG) provides e-procurement data and trend information. Its 2010 purchasing card benchmark survey estimated that it cost \$93 to process a purchase order (PO) and \$22 to process a P-Card transaction, for a savings of \$71. However, this cost is an average and can vary. DOT noted in its response that when it first started using the P-Card, the cost to process a PO was \$135 versus the \$93 figure used by RPMG. Spartanburg Community College reported a figure of \$50 to process a PO versus \$7 to process a P-Card transaction for a net savings of approximately \$43.

ONLY 4 AGENCIES (4%) HAD PERFORMED AN ANALYSIS TO DETERMINE IF PURCHASES UNDER \$2,500 WERE MADE USING PROCUREMENT CARDS VS. PURCHASE ORDERS.

- DOT reported that in FY 08-09, almost 94% of transactions eligible to be done by P-Card were completed using the P-Card.
- Trident Technical College also reported almost 94% of small dollar transactions were made using the P-Card.
- The Arts Commission reported reducing the number of POs processed from more than 250 in FY 07-08 to less than 150 in FY 08-09.
- The Forestry Commission reported that use of the P-Card has resulted in the commission reducing its accounts payable staff by one full-time employee.

32 AGENCIES (36%) HAD DISCIPLINED EMPLOYEES FOR IMPROPER USE OF A PROCUREMENT CARD.

Two agencies, DSS and The Citadel, each reported terminating two employees as a result of improper use during the 2008 and 2009 calendar years. The two Citadel employees were also criminally prosecuted.

33 AGENCIES (37%) HAD PROCUREMENT CARDS THAT WERE LOST OR STOLEN.
During the course of our review, we found two instances in which agencies either did not discover fraudulent purchases or did not take the appropriate action to obtain reimbursement and paid the fraudulent charges (see pp. 7, 20).

39 AGENCIES (43%) HAD EMPLOYEES REIMBURSE THEM FOR PERSONAL USE OF THE CARDS.
According to the state P-Card policy, personal use of the cards is never allowed.

75 AGENCIES (83%) HAD REGULAR REVIEWS OF THEIR EMPLOYEES' USE OF PROCUREMENT CARDS.

MANY AGENCIES IDENTIFIED BENEFITS OF USING THE PROCUREMENT CARD COMPARED TO OTHER PAYMENT TYPES. THESE INCLUDE:

- Time and money are saved through reduced labor and cost of supplies.
- Payment data is immediately available and easy to track.
- Agencies can make purchases where purchase orders are not accepted.
- Due to flexibility and ease of use, purchases are easier to make in emergencies.

SEVERAL AGENCIES REQUESTED MORE TRAINING ON THE PROCUREMENT CARD PROGRAM AND WORKS.

Agencies expressed a need for additional training on both the state's P-Card program and Bank of America's *Works* Payment Manager, which is used to track agencies' activity in this program.

SOME REPORTED ON CREATIVE WAYS THEY USE THE CARD TO INCREASE EFFICIENCY.

Aiken Technical College uses *Works* to approve purchases before they are made; this method may also benefit other small agencies.

Recent State Agency Internal Audits

During our survey of state agencies, we requested that agencies provide us the most recent internal audits addressing use of the P-Card. We received internal audits and reviews from 16 agencies. Several agencies reported that they were sufficiently managing their P-Card programs to provide adequate controls, resulting in the agencies' general adherence to P-Card policies and procedures. In other agencies, a range of violations was discovered during the auditing process.

Violations of P-Card code, policies, and procedures discovered during the internal audits/reviews included unauthorized purchases, inadequate documentation of P-Card usage, additional inadequate controls, and other areas for improvement.

Unauthorized Purchases

Several types of unauthorized purchases were found, including using the card for personal use, splitting of transactions over \$2,500 to avoid having to comply with the written quote requirements of the procurement code, giving unauthorized employees P-Cards to make purchases, purchasing gift cards, and making purchases from blocked vendors.

One example of personal use was the purchase of airline tickets by an athletics coach at USC Upstate for his wife and daughter. He purchased the tickets so they could travel with him to Alaska to watch a tournament in which he was coaching. After the internal audit was submitted, this employee was disciplined (see p. 38). In addition, USC Upstate reported two purchases of software upgrades that were made using the P-Card for which prior supervisory approval was not obtained. These upgrades were placed on the employees' home computers to allow them to do university work from home.

There were a number of split transactions found during the internal audits. Splitting transactions is a violation of the state procurement code and state policy. In the case of split P-Card transactions discovered in South Carolina, the cardholder was often attempting to avoid the \$2,500 limit above which written competitive quotes are required. For example, a DOT internal audit detected seven split purchases made in one district in one year. According to the audit's findings, four of the split transactions either resulted from poor planning or were intentionally split to avoid competition; the other three transactions gave the appearance of being intentionally split.

The state P-Card policy prohibits anyone other than the authorized user of a P-Card to use that card to make a purchase. The Department of Public Safety (DPS) and SCDC reported that authorized cardholders at their agencies had provided their cards to unauthorized employees to make purchases.

Purchases at some vendors are blocked through merchant category codes (see p. 5). Both the Medical University Hospital Authority (MUHA) and SCSU reported purchases from blocked vendors. Other types of unauthorized purchases were also reported in the internal audits. DNR found one item over the fixed asset threshold, which was not approved and was not added to the inventory. USC Upstate reported unauthorized gift card, food, and entertainment charges.

Inadequate Documentation

Internal auditors at some agencies found inadequate documentation of P-Card purchases. For example, agencies reported that not all receipts were signed by cardholders and that the approving official's signature was missing from some monthly statements. Audits also reported missing receipts and missing statements.

Agencies reported insufficient details or supporting documents for some purchases. For example, audits reported findings of an invoice or receipt not matching the purchase charge; that is, the cardholder did not properly reconcile the statement as required by policy. Other audits found misallocation or no allocation for some purchases.

Additional Inadequate Controls

In addition to the violations listed above that could have been partially prevented by adequate controls, agencies' internal audits reported areas where internal controls could be improved.

Some agencies lack proper checks and balances for the cardholders and their approving officials, or the reporting structure is not working properly. For example, DPS's audit found that some liaisons report to the cardholders whose accounts they are responsible for monitoring. This creates a possible conflict of interest, such as a situation where an approving official could be prevented from properly carrying out his or her duties. Liaisons may not be able to point out supervisors' mistakes or report issues that would cause the supervisors to be disciplined. This situation is also a violation of state policy which requires "appropriate separation of duties between... transactions... review and approval... and payment."

MUHA's internal audit found that not all receipts, statements, and cards were kept secure. Its approving officials also did not receive training to review the cardholders' usage for which they were responsible. And, in general, SCSU found that its monitoring controls were inadequate and could not ensure that all transactions were for official university business.

State agency internal audits and our own review found violations of internal controls, including inadequate documentation and lack of proper checks and balances. This increases the likelihood of fraud and abuse.

Other Areas for Improvement

Findings from the internal audits also include other issues with, and violations of, both state and agency policies. For example:

- Two B&CB cards had not been used for some time. According to state policy, agencies are required to monitor P-Cards and cancel cards that are not used or needed.
- A College of Charleston P-Card policy was not followed when the card was used to purchase computer equipment; the purchaser claimed ignorance of the policy.
- Twenty percent of cardholders audited at MUSC purchased items prohibited by MUSC policy.
- An SCSU P-Card policy was not followed when the card was used to purchase computer equipment.
- MUHA's P-Card policies and procedures were not updated with important information.
- SCSU's internal audit found that, in general, the procurement department does not adequately administer or monitor the P-Card program.
- SCSU's policies and procedures do not reflect its practices. For example, purchases for travel are prohibited, but airline tickets and travel agent fees were procured with the P-Card.
- Most of Trident Tech's cardholders and approving officials did not have their P-Card responsibilities listed on their job duties/evaluations.

These internal audit reports made many recommendations, including that agencies:

- Train cardholders and reviewers sufficiently.
- Monitor use of P-Cards closely.
- Require approving officials to sign each statement.
- Emphasize completeness of records to ensure inclusion of required detail.
- Have P-Card responsibilities added to cardholders' and liaisons' job duties/evaluations.
- Block vendors immediately that should be blocked, but are not.
- Ensure that there is no unauthorized use of cards; a PO should be used if the authorized user cannot make a specific purchase.
- Enforce policies and discipline employees when violations occur.
- Counsel cardholders with multiple violations of policies and procedures.
- Ensure agency policies and procedures are accurate and up-to-date.
- Follow state and agency policies and procedures regarding the procurement card.

Some agencies reported taking disciplinary actions after violations were discovered during the internal audits. For example:

- USC Upstate suspended the coach previously discussed for three days without pay, required him to reimburse the athletics department in full before he could return to work, and prohibited him from using any state procurement card in the future.
- Trident Tech canceled an employee's card after misuse was discovered.

While most agencies have a system in place to monitor the use of the P-Card, a review by an agency's internal auditor can provide an additional level of assurance that the agency is complying with policy. It can also identify areas where the agency needs to improve its P-Card program.

Recommendations

23. Each state agency should establish its own formal written policies and procedures governing the use of the P-Card.
24. State agencies should ensure that employees who are issued cards receive training on the requirements and prohibitions of the program, as well as on the consequences for violating any policy or code relating to the P-Card.
25. Internal audit departments of all state agencies should conduct regular reviews of the use of their procurement cards.
26. State agencies should ensure that all cardholders and approving officials have signed mandatory cardholder agreements affirming that they have been adequately trained and agree to abide by state code and state and agency policies and procedures concerning the use of the P-Card.
27. State agencies should ensure that their cardholders, approving officials, and accounts payable staff have appropriate separation of duties.
28. State agencies should ensure that the appropriate documentation is maintained for all P-Card activity.

Administrative Savings

One of our objectives was to evaluate the state's effectiveness in using the procurement card to reduce purchasing costs. The state receives savings in the form of rebate funds received on purchases made using the P-Card and in administrative savings achieved through the reduction in workload from processing a P-Card transaction as opposed to using a purchase order (PO). We identified several issues associated with how the state's rebate program has been implemented. We also found that the state may be able to make better use of the P-Card for purchases under \$2,500. Further, we question the amount of administrative savings achieved through use of the P-Card.

Rebate on Purchases

The state P-Card contract includes a provision for the state to receive a rebate on purchases made using the P-Card. We identified several issues involving the rebate that should be addressed. First, we found that the CGO's portion of the rebate is not being calculated correctly. Second, neither Santee Cooper nor the State Ports Authority participates in the state rebate program, resulting in lost revenue to the state. Third, agencies that use federal funds when making P-Card purchases need to ensure that they are in compliance with federal requirements relating to how the federal portion of the rebate is to be used. We also found that the state may be able to increase the rebate on P-Card purchases.

Background

The amount of the state rebate is based on the amount of purchases (spend volume) and the timeliness of payments. The rebate year runs from August 1 to July 31. For rebate year 2009, which ended July 31, 2009, the state rebate percentage was 1.32%, based on a spend volume of between \$200 million and \$250 million.

In addition to state agencies, local governments can also use the state contract for their P-Card programs. Local governments with a spend volume of over \$1 million receive a rebate ranging from 0.5% up to 0.9% with the remainder of the rebate going to the state. Local governments with a spend volume under \$1 million do not qualify for any rebate, but their spend volume is included when calculating the state's rebate amount. Of the approximately \$241 million total spend volume in 2009, approximately \$54 million was generated by local governments.

The state rebate amount is divided among several different groups. State agencies qualify for a rebate in the same manner as local governments. In addition, the CGO received \$300,000 in FY 09-10. The remaining amount

was deposited in the state’s general fund. Table 3.1 provides a breakdown of the total rebate received under the state contract for rebate year 2009.

Table 3.1: Distribution of P-Card Rebate – 2009

	REBATE AMOUNT
State Agencies	\$1,034,988
Comptroller General	300,000
State General Fund	1,392,030
TOTAL REBATE TO STATE	\$2,727,018
Local Governments	436,896
TOTAL	\$3,163,914

Source: Bank of America

The state receives a lesser rebate (0.5%) on large ticket transactions, which are transactions over \$4,700. Of the approximately \$241 million spend volume in rebate year 2009, the state had a large ticket volume of just under \$3 million, which resulted in a rebate of approximately \$15,000. Also, in 2006, the first year of the contract, the state received a one-time payment of \$500,000.

Neither Santee Cooper nor the State Ports Authority uses the state contract for their P-Card programs. Santee Cooper received a rebate of approximately \$69,000, or approximately 1.05%, of a total spend volume of \$6.6 million. According to an official at the State Ports Authority, it received no rebate on its spend volume of approximately \$113,000.

Calculation of the Comptroller General's Office's Share of the P-Card Rebate

Since at least FY 07-08, the Comptroller General’s Office has been allowed to retain a portion of the P-Card rebate received by the state. The amount authorized has increased from \$50,000 in FY 07-08 to \$300,000 in FY 09-10. Proviso 75.6 of the FY 09-10 appropriations act states, “The Comptroller General’s Office is authorized to retain the first \$100,000 of rebate associated with the Purchasing Card Program and \$200,000 of agency incentive rebates.”

We found that in FY 09-10, the CGO took its share of the rebate entirely from the state general fund portion and none from the portion going to state agencies. As a result, agencies received \$200,000 more than they should

have in rebate funds and the state's general fund received \$200,000 less. If the rebate to the CGO had been distributed according to the method specified in the proviso, state agencies would have received \$834,988 instead of the \$1,034,988, which is a reduction of 19%. The agency that received the highest rebate amount in 2009, MUSC, would have received \$165,279 instead of \$204,857, which is a reduction of \$39,579.

Agencies Not Participating in the State Contract

Both Santee Cooper and the State Ports Authority are exempt from the state procurement code and are not required to use the state P-Card contract. As a result, the state is losing rebate revenue.

In 2009, Santee Cooper's spend volume was approximately \$6.6 million. Santee Cooper has an agreement with BofA through Colectric for a rebate of 1.05% on its P-Card purchases. The state rebate was 1.32% on a spend volume of \$241 million. In addition, the state rebate increases to 1.33% if the spend volume exceeds \$250 million. With the addition of Santee Cooper's spend volume, the state would be approaching that threshold.

If Santee Cooper were to use the state contract, however, it would not retain the entire rebate amount. Thus, while the state general fund would see an increase in the amount of the rebate, Santee Cooper's amount would decrease. We estimate that overall, the state would have received an additional \$87,000 in rebate revenue with the inclusion of Santee Cooper's spend volume. This would have been an increase of approximately \$18,000 over the amount Santee Cooper earned from its contract. However, the amount Santee Cooper retained would have been reduced by approximately \$30,000.

The State Ports Authority also uses BofA for its P-Card program. SPA had a spend volume of approximately \$77,500 in 2009 which would have generated approximately \$1,000 in additional rebate revenue for the state.

Rebates to State Agencies

In 2009, 26 agencies received at least some rebate revenue. Amounts ranged from over \$204,000 for MUSC to just over \$5,000 for Vocational Rehabilitation. In our survey of state agencies, we asked the agencies that received rebates how the rebates were used. Most agencies responded that the rebates are deposited into the general fund of the agency.

In September 2009, the CGO reminded agencies that rebates received as a result of the spending of federal funds may be subject to being credited back to the federal government program which was used to pay for the purchases.

North Carolina's policy on procurement card rebates states:

The federal government must be allocated their portion of any rebate received from the use of procurement cards by state agencies and universities. The federal portion is based on the participation by the federal government in the particular program that generated the rebate.

Increased Rebate Revenue

We compared South Carolina's rebate percentage to the percentage received in the neighboring states of Florida, Georgia, and North Carolina. South Carolina's rebate percentage is the lowest of the four states. Table 3.2 shows the overall rebate percentage and the additional amount South Carolina could have earned based on its 2009 spend volume of approximately \$241 million.

Table 3.2: Rebate Comparison

STATE	REBATE PERCENTAGE	ESTIMATED INCREASE IN SC'S REBATE AMOUNT
South Carolina	1.32% for spend volume between \$200 and \$250 million	N/A
Florida	1.6% for spend volume under \$300 million	\$674,800
Georgia	1.4% for spend volume under \$325 million	\$192,800
North Carolina	1.33% for spend volume between \$225 and \$250 million	\$24,100

Source: P-Card Contract Documents for FL, GA, NC, and SC.

According to an official with the CGO, the Budget and Control Board's Materials Management Office and the CGO are currently negotiating with BofA to increase South Carolina's rebate percentage. The current proposal would increase the rebate percentage from 1.32 to 1.36 for a spend volume between \$200 and \$250 million. This would result in an increase in South Carolina's rebate revenue of approximately \$95,000 based on the state's spend volume for 2009.

The state P-Card contract's initial term expires in August 2011. However, the contract has two one-year options for renewal. The state could rebid the contract to try to obtain an increased rebate, or negotiate an amendment to the contract to try to increase the rebate.

Recommendations

29. The Comptroller General's Office should calculate its portion of the procurement card rebate in accordance with state law.
30. Santee Cooper and the State Ports Authority should use the state procurement card contract for their procurement card programs.
31. State agencies should ensure that they are in compliance with the Office of Management and Budget Circular A-87 with regards to any rebate earned using federal funds.
32. The Budget and Control Board should attempt to increase the state's rebate by either rebidding the state contract when it expires in 2011 or negotiating an amendment to increase the rebate percentage.

Administrative Savings from Using the P-Card

One primary benefit of having a procurement card program is the administrative savings realized from using the card to make small dollar purchases instead of using a purchase order. A 2010 purchasing card survey by RPMG Research Corporation found that the average cost to process a PO was \$93 while the average cost for a P-Card transaction was \$22, a net savings of \$71 per transaction.

An analysis done by the B&CB showed that using a P-Card reduced the number of steps needed to purchase an item by 17. It also found that the number of steps needed to pay a recurring bill, such as a cell phone bill, was reduced by 12 steps. DHEC, in its FY 08-09 accountability report, stated that use of the P-Card had resulted in almost \$800,000 in cost avoidance savings. There are also other benefits associated with using the P-Card including:

While use of a P-Card can reduce administrative costs, it is not clear that there has been a corresponding reduction in personnel due to the streamlining of procurement activities.

- Reduction in cycle time. The 2010 RPMG report states that use of a P-Card reduces cycle time by approximately 12 days, meaning vendors get paid faster and goods arrive quicker.
- Increase in the number of vendors. In our survey, state agencies reported some vendors would not accept a purchase order but would accept the P-Card.
- Avoidance of late fees by making immediate payment to vendors.
- Useful in emergencies when purchases need to be made quickly.
- Amount of unauthorized use is minimal. A national study found that only .025%, or \$250, of every \$1 million in purchases made with P-Cards was unauthorized.
- Increase in ability to identify fraud. BofA makes available to agencies its online management tool *Works*, which can make identifying misuse much easier than with traditional payment methods.
- Insurance against unauthorized or fraudulent use. Under the state contract, BofA will reimburse the state for fraudulent use of the card by either employees or non-employees if the process of reporting such abuse is followed.
- Reduction in the need to reimburse employees for expending their own funds to make purchases in the field.
- Reduction in the need to maintain items in inventory.

While use of a P-Card can reduce administrative costs, it is not clear that there has been a corresponding reduction in personnel due to the streamlining of procurement activities. In response to our survey, only two agencies, Central Carolina Technical College and the Forestry Commission, reported actual staff reductions. Each reported eliminating one position. However, ending the program could increase costs. In response to the RPMG P-Card survey, 61% of the organizations indicated they would have to hire additional staff if the P-Card were eliminated.

Using a P-Card can also result in additional administrative costs. Agencies must expend resources when dealing with fraudulent use of the cards, either by agency employees or by someone outside the agency who has stolen the card. In addition, there are costs associated with obtaining reimbursement from employees who have used the card inadvertently. These costs do not appear to be included when calculating the processing costs for a P-Card.

Expanded Use of the P-Card Could Result in Additional Savings

Agencies may not be maximizing use of the P-Card. As a result, the state may be losing rebate revenue and incurring increased administrative costs.

The Comptroller General's Office, in its FY 08-09 accountability report, stated that one of its goals was to encourage increased use of the P-Card for small purchases. However, in response to our P-Card survey, only four agencies responded that they had conducted any analysis to determine the percentage of purchases under \$2,500 made using the card.

We obtained a report from the South Carolina Enterprise Information System (SCEIS) showing purchases of supplies under \$2,500 made using a purchase order instead of the P-Card. We found 44 agencies that purchased over \$4.3 million in supplies using a PO instead of the procurement card. We chose a non-statistical sample of purchases of supplies made using a PO at two agencies, Vocational Rehabilitation and the Department of Natural Resources.

- We sampled 19 purchases at DNR and an agency official stated that 5 of these purchases could have been made using the P-Card. According to a DNR official, in some cases, the P-Card could not be used because the item purchased was a piece of equipment (i.e. computer) that cost more than \$1,000. In SCEIS, it is recommended that asset purchases be made using a PO. In other cases, the vendor on state contract at the time was unable to process orders using the P-Card. However, the contract has since been awarded to a new vendor who can.
- We sampled 48 purchases at Vocational Rehabilitation that were less than \$50 and VR staff stated that 34 could have been made using the P-Card. According to a VR official, some purchases could not be made using the P-Card because they involved workers' compensation claims, drugs for use in agency treatment centers, or purchases made by VR's disabilities determination unit, which required more detailed reporting and controls.

We found that other states had also examined expanding the use of the P-Card.

- In March 2009, Kansas' Legislative Division of Post Audit estimated that in FY 2008 the state could have potentially increased its rebate by \$1.3 million through increased use of the P-Card.
- A 2008 report by New York's comptroller estimated that over a two-year period the state could obtain \$4 million in rebate revenue and realize \$26 million in cost avoidance savings through increased use of the card.
- A 2002 Colorado Office of the State Auditor report recommended that use of the P-Card be mandated for all eligible purchases.

As part of Bank of America's contract, it offers an optimization study to help agencies convert more of their existing payments to the card so that they can fully realize the benefits of electronic payments. DOT has analyzed the percentage of eligible purchases (defined as purchases under \$2,500 that are not otherwise restricted) it charges to the card and has charged over 90% of these purchases on the P-Card since FY 00-01.

Ghost Cards and ePayables

We found several agencies that are using ghost cards and ePayables as a means of getting increased benefits from the P-Card program. A ghost card does not involve the use of a physical card. Instead, account numbers are provided to a vendor to charge purchases that are frequent or recurring in nature (i.e. utilities). ePayables is a type of account that is used to pay a vendor via a credit card account. Each ePayables account can usually make payments to only one vendor. This enables the vendor to be paid more quickly and allows the state to include these purchases for rebates. Payments made using ghost cards and ePayables count toward the spend volume used to calculate the state's rebate. Both Clemson and MUSC are using ePayables.

Conclusion

The state may be able to increase its purchases made with the P-Card. This could result in increased rebate revenue and administrative savings through reduced workload. However, if the state is to expand use of the P-Card, it will need to ensure that internal controls over card usage are in place and working effectively. This will require a cooperative effort between the agencies, the Comptroller General's Office, the Budget and Control Board, and the state's P-Card contractor.

Recommendation

33. State agencies, in conjunction with the Comptroller General's Office, the Budget and Control Board, and Bank of America, should conduct an analysis of their purchases to determine if use of the procurement card could be expanded while still maintaining appropriate internal controls. An optimization study conducted by Bank of America should be included in this analysis.

Agency Comments

*Due to the statewide nature of this audit, we provided all or portions of our report to 33 agencies for their review.
The following agencies provided final comments to our report.*

Office of the Comptroller General	Medical University of South Carolina
SC Budget and Control Board	SC Department of Motor Vehicles
Santee Cooper	University of South Carolina
SC Department of Archives and History	

The following agencies provided informal final comments.

SC State Ports Authority	SC Department of Disabilities and Special Needs
Clemson University	SC Vocational Rehabilitation Department

The following agencies did not have comments on the final report.

Office of the Attorney General	SC Department of Labor, Licensing and Regulation
The Citadel	Lander University
Coastal Carolina University	South Carolina Law Enforcement Division
SC Department of Commerce	SC Department of Mental Health
SC Department of Corrections	SC Department of Natural Resources
SC Department of Employment and Workforce	Patriots Point Development Authority
SC State Ethics Commission	SC Department of Social Services
Francis Marion University	SC State University
SC Department of Health and Environmental Control	SC State Board for Technical and Comprehensive Education
SC Department of Health and Human Services	SC Department of Transportation
SC Commission on Higher Education	Winthrop University



State of South Carolina
Office of Comptroller General

1200 Senate Street
305 Wade Hampton Office Building
Columbia, South Carolina 29201

Telephone: (803) 734-2121
Fax: (803) 734-1765
E-Mail: cgooffice@cg.sc.gov

RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL

JAMES M. HOLLY
CHIEF OF STAFF

January 10, 2011

Thomas J. Bardin, Jr., Director
Legislative Audit Council
1331 Elmwood Ave., Suite 315
Columbia, SC 29201

RE: Comments on "A Review of State Agencies' Use of Procurement Cards"

Dear Mr. Bardin:

The Comptroller General's Office (CGO) appreciates the opportunity to review and comment on "A Review of State Agencies' Use of Procurement Cards" and the Legislative Audit Council's (LAC) work and recommendations to improve this program. For convenience, we refer to LAC's document herein as the "Report."

For many months in 2010, the CGO together with the Materials Management Office (MMO) reviewed how to improve the Purchasing Card program and the services of Bank of America, the vendor under the state contract, amid concerns over whether Bank of America (BoA) had failed to comply fully with the state contract. In the interest of clarity, I would add that the program changes discussed by LAC in the Report concerning the use and administration of purchasing cards by state agencies were being reviewed by the CGO before LAC began its review, and most of the changes recommended by LAC in the Report were implemented by the CGO, or in the process of being implemented, during LAC's review. The CGO continues to work with MMO to review and improve the Purchasing Card program

Before the CGO comments on various details in the Report, we believe several general comments may be beneficial.

General Comments

MMO and CGO have met and consulted with representatives of Bank of America on many occasions during the past year, reviewed its activities as the State's Purchasing Card vendor, and reviewed the relevant contract. Based on our work, MMO and CGO State's concluded that the BoA has failed to provide services that meet all of the requirements of the state contract, and this failure is a cause of many of the circumstances on which the Report recommends improvements.

After lengthy discussions with BoA about these deficiencies, services have improved significantly, and BoA has increased the annual rebate to the State, which will be discussed in more detail below. Although MMO and CGO have not had every one of the State's concerns

satisfied by BoA, we believe that the bank's significant efforts in addressing many of the State's concerns, the short amount of time left on the existing state contract and the complexity in replacing a vendor for this type of program support the conclusion to allow the existing state contract to stay in place. However, MMO, as CGO understands, will work toward a new solicitation for the program in 2011 or will renegotiate provisions of the existing contract as part of any extension granted BoA.

Several of the improvements or changes that the Report recommends with respect public colleges, universities, and technical colleges and Santee-Cooper and the State Ports Authority would require legislation or voluntary compliance by those entities because of the manner in which the General Assembly has chosen to allow these entities to operate. They are not part of the State's central accounting operations maintained by CGO, are not required to comply with all of the laws and regulations that State agencies are, and are not considered state agencies in many contexts. Accordingly, we believe that the Report would be more useful to act upon if it addressed these entities and their activities separately from State agencies.

CGO believes that the most effective controls for use of Purchasing Cards are those that may be implemented at the agency level through education, published policies, prompt review and reconciliation of purchase activity and monthly statements, regularly running and reviewing various reports from BoA's internet-based *Works* system, regular program audits, and appropriate actions taken against those who violate state or agency regulations or policies. CGO believes that the mandatory monthly Purchasing Card statement certification requirement from State agencies it implemented last year along with other actions it has taken with MMO and BoA will assist agencies in effectively controlling purchasing card use. LAC may wish to consult with the State Auditor's Office on how it includes Purchasing Card activity in its agreed-upon procedures and its audits of state agencies and entities, and whether its applicable auditing procedures should be expanded.

Comments on Summary of LAC Report

Page 1 of Summary, 2nd paragraph, last sentence: This sentence in the Report on the effect of "blocking" Merchant Category Codes (MCC's) requires further explanation and is an overstatement. A MCC block is established by the Purchasing Card administrator at an agency or BoA setting up the profile for the card in the *Works* system as not allowing transactions with vendors assigned that MCC. However, an agency's Card Administrator unilaterally can remove a MCC block through *Works* without authorization from CGO or BoA. Also, a vendor can bypass a blocked MCC without authorization from anyone so as to allow a transaction to process. BoA states that there are no automated systems currently available to prevent those actions from being taken to override a block on an MCC. We will discuss other aspects of the material on the MCC's in our specific comments on the relevant portions of the Report. It must be noted that the fact that a vendor under a blocked MCC was paid through the Purchasing Card for a purchase does not in itself mean that the purchase was illegal or violated procurement laws or regulations; instead, it means that the purchase should have been paid for with a check or form of payment other than the Purchasing Card. The Purchasing Card is a method of payment for a purchase. It is not a method of procurement.

Page 2 of Summary, 3rd paragraph: Gift cards are a concern whether acquired by a purchasing card, check or other form of payment. If a gift card is given or received by a State

employee within the scope of his or her employment, that compensation, as we understand depending on the amount, may need to be reported on that employee's W-2 and taxes paid thereon.

Page 4 of Summary, 3rd paragraph: We will comment more specifically on the CGO's rebate allocation calculation in our comments on that portion of the Report. We adopted LAC's interpretation of the language of the referenced proviso for processing the last annual rebate allocation for the "rebate year" that ended on July 31, 2010.

Comments on LAC Report

Page 5, 1st paragraph, last sentence, in section with title beginning with "Blocking": See CGO's comments on the preceding page with respect to Page 1, 2nd paragraph of the LAC's Summary of the Report. That CGO comment provides a clarification of the effect of "blocking" an MCC.

Page 6, 2nd paragraph in section with title beginning with "MCC Blocks": Both CGO and MMO understood after meetings with BoA in late 2008 and early 2009 that automated, hard-blocks of the Group A blocked MCC's had been put in place by BoA as required by the State contract. Thus, because no blocked MCC's could be used or overridden by a State agency, there was no immediate need to monitor blocks. Furthermore, as part of this process, CGO required that "Group A" agencies (excludes colleges, universities and other entities not on the State's accounting system) had to obtain CGO approval to remove a MCC block for any purpose. As soon as the CGO discovered in early 2010 that the BoA system was not automatically preventing transactions under a blocked MCC as required, it and MMO began working with BoA to implement an effective solution to address this situation.

Page 10, first full paragraph: The creation of any new MCC's by the banking industry is on the agenda for each semi-monthly meeting between CGO and BoA. Also, CGO now receives an alert through *Works* when new MCC's are created. These procedures should provide CGO the ability to block new MCC's soon after they are created. These procedures are sufficient to identify and block any new MCC's where appropriate.

Page 10, 3rd paragraph: With the assistance of BoA, the CGO established a revised process for temporarily unblocking MCC's based on requests by State agencies. The agency must request the temporary unblocking of an MCC in writing and provide the CGO sufficient written justification for its request and the approval of the top financial or procurement official in the agency. If the CGO approves the request based on its analysis, it must do so in writing. The BoA then works with the agency to implement the temporary removal of the block of the MCC that limits the unblocking to a specific card or cards or to the requesting agency. A profile that is known as "SC Temp Group" is placed as the profile on the specific card to allow the transaction to process. Then, that temporary profile is removed by BoA after the transaction is completed and the prior Group A profile with the blocked MCC is placed back on the card immediately after the transaction processes. BoA then must notify the CGO in writing that this entire process has been completed. The temporary opening of a MCC through this process usually lasts a few hours to one day.

Page 21, last paragraph, last sentence: Although the State Ports Authority and Santee-Cooper may be on BoA's *Works* system through their own individual contracts with Bank of America, neither MMO nor CGO can access their data or has the right to do so whether it is part of *Works* or not.

Page 22, 1st paragraph: Level III card activity data is available only if a vendor agrees to provide that data. This involves additional costs to the vendor, and the vendor must record and generate additional data to input into the system for each transaction. Only a small portion of Visa's vendors participate in the Level III program due to its costs to the vendor. Industry and technological changes may lead to this level of data being more widely available at a lower cost to vendors in the future. CGO understands the utility of receiving this additional data from BOA, if or when it is feasible for BoA to provide it, in order for CGO to make this additional data available on its transparency website. CGO recommends to MMO that this requirement be included in future solicitations or contract negotiations with Purchasing Card providers. After full implementation of the SCEIS Project during the current fiscal year, CGO will review whether it is possible to capture Level III type data through SCEIS programs and merge that data with the data available through *Works* for Group A agencies that then may be published on CGO's transparency website. However, colleges, universities and technical colleges are not part of SCEIS.

Page 28, first paragraph in section with title beginning with "Number": The Report fails to provide the number of Purchasing Cards and cardholders separately for Group A agencies and for colleges, universities and technical colleges. Group A agencies (approximately 4200 Purchase Cards) have significantly fewer cards than the latter group of public higher education institutions, but more employees. Thus, the density of cards is much different between the two groups. Also, the card activity of the two groups is subject to different sets of regulations and oversight which is an additional reason the numbers of cards and cardholders should be stated separately. The public higher education institutions are not part of the State's accounting system, including the accounts payable component of that system.

Page 40, top, table: The State's portion of the rebate disbursed by BoA for the most recently completed rebate period, but not presented in the Report, is \$2,975,095 (including allocation to CGO). The dollar amount provided in the report is over one year old.

Pages 40-41, section with title beginning with "Calculation": The CGO sought advice from the staff of the Senate Finance Committee on interpreting the language in the budget proviso discussed in this section because of the Committee's role in adopting that proviso. CGO had made the calculation of its portion of the rebate according to that legislative guidance. However, CGO began using the LAC's differing interpretation of the proviso as stated in the Report to make the calculation for allocating the rebate payments for the most recent completed rebate period that ended July 31, 2010, and received complaints from agencies because the amount of their rebates was reduced as a result CGO of using that calculation methodology.

Pages 42-43, section with title "Increased Rebate Revenue": The references to the rebate formulas of the three other states cited in the Report erroneously fails to take into account the impact on the rates of the following factors: (1) the dates when these states' Purchase Card contracts were entered into with BoA; (2) the volumes of Purchase Card expenditures of Florida and Georgia which are substantially higher each year than South

Carolina's or North Carolina's; and (3) the role the historic volumes of expenditures plays in the level of rebate BoA or any other card provider will pay.

This section of the Report fails to recognize that MMO and CGO previously negotiated a new rebate structure with BoA that increased the State's rebate (for General Fund and for Agencies) from \$795,500 in FY 2007 to \$2,756,000 in FY 2008 (net of allocation to CGO). As a result of negotiations in 2010 initiated by MMO and OCG, BoA increased the rebate schedule four basis points for each rebate volume level beginning at the \$200,000,000 volume level. This brings the South Carolina rate above North Carolina's rate. The new rate was effective as of August 1, 2010.

Pages 45-46, section with title beginning with "Expanded": In 2010, CGO permanently removed the blocks from 47 more MCC's and is reviewing whether additional MCC's may be opened to allow greater use of the Purchasing Card by making innovative changes in controls on the use of Purchasing Cards. Changes in IRS 1099 reporting may allow additional MCC's to be opened in the future. However, complicating this process is the fact that the MCC structure set up by the banking and credit card industry is arbitrary and inflexible.

Conclusion

CGO believes the changes in the Purchasing Card program implemented by CGO and MMO in conjunction with Group A agencies in 2010 have improved the controls on and effectiveness of the program. CGO and MMO are continuing their review of and work on other changes to the program. Furthermore, the matters raised through this process will be a part of any future negotiations on the existing contract with the current vendor and any future solicitations. The creation of the Purchasing Card transparency website by CGO in April 2010 that lists all Purchase Card transactions by each Group A agency and by each public higher education institution on a monthly basis is a significant enhancement in the controls for the Purchase Card program. CGO recommends that the expenditure of additional State funds to oversee this program is not warranted at this time.

Although our opinions differ on some matters, we wish to compliment LAC's staff on their professionalism, diligence and hard work.

With regards,

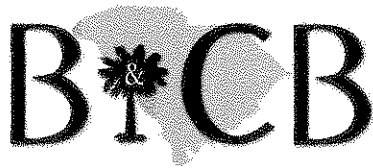


James M. Holly
Chief of Staff

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CURTIS M. LOFTIS, JR.
STATE TREASURER

RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL



SC BUDGET AND CONTROL BOARD

Office of the Executive Director
Frank W. Fusco
EXECUTIVE DIRECTOR

(803) 734-2320
Fax: (803) 734-2117

HUGH K. LEATHERMAN, SR.
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COMMITTEE

DANIEL T. COOPER
CHAIRMAN, HOUSE WAYS AND MEANS
COMMITTEE

January 12, 2011

Thomas J. Bardin, Jr.
Director
South Carolina Legislative Audit Council
1331 Elmwood Ave. Suite 315
Columbia, S.C. 29201

Dear Mr. Bardin:

Thank you for the opportunity to comment on the audit *A Review of State Agencies' Use of Procurement Cards*. We agree with your conclusion that expanded use of the procurement card could result in additional savings for state agencies. We will work with our partners to conduct an optimization study to identify ways to save the state money by use of this program.

As noted in your audit, the procurement card is a mechanism for paying for purchases and reducing paperwork and transaction costs. It does not in any way alter or waive the Consolidated Procurement Code's requirements for competitive bidding when appropriate.

For the last several years, our Materials Management Office (MMO) has been working collaboratively with the Comptroller General's Office and the Bank of America to enhance oversight of the procurement card program. While a number of significant changes have been enacted and we will continue to look for opportunities to improve, procurement and financial management authority ultimately rests with individual agencies. As noted in the draft, universities and certain other state entities have wider discretion over their financial matters than do central state agencies that are part of the Comptroller General's system.

Of a total of thirty-three recommendations, five direct the Budget and Control Board to take action. (Recommendations 6, 7, 17, 32 and 33) Recommendation 6 directs that we revise the statewide procurement policy to allow exceptions for the purchase of gift cards when justified; to soften the current policy, and Recommendation 7 directs that we revise the statewide procurement policy to address how agencies handle free gift cards received as promotional items. Once the final audit is released and the confidentiality requirements of the draft audit no longer apply, we will proceed with both recommendations.

Recommendation 17 directs that the Board and the Comptroller General's Office review the single transaction limit to determine if it should be lowered. As noted in your report, the single transaction limit is established to coincide with the initial competition threshold of the Consolidated Procurement Code; currently \$2,500 by law. Alignment of the single transaction limit with the Code is appropriate for establishing the maximum allowance for the state policy. As such, each state agency is the best judge for reducing the transaction limits for its employees beneath the maximum allowed. However, we will certainly support agencies in that effort.

Thomas J. Bardin, Jr.
January 12, 2011
Page 2

Recommendation 32 directs that we attempt to increase the state's rebate by either rebidding the state contract prematurely or negotiating an amendment to increase the rebate percentage. We have successfully renegotiated the rebate offer from Bank of America to increase all tiered rebate offers according to state spending volume using the procurement card. For the tier addressed in your report, state spend volume between \$200 and \$250 million, Bank of America has agreed to increase its rebate offer from 1.32% to 1.36%. Based on the state's spend volume for 2009 and by our calculations, this will result in an increase in South Carolina's rebate revenue of approximately \$102,000.

Finally, Recommendation 33 directs that state agencies work in conjunction with the Comptroller General's Office, the Budget and Control Board, and Bank of America to analyze their purchases to determine if use of the procurement card could be expanded. With the release of final report, we stand ready to participate fully in the proposed analysis.

Again, we appreciate the chance to provide input concerning this matter. Please do not hesitate to contact me if you need further information.

Sincerely,

A handwritten signature in black ink, appearing to read "Delbert H. Singleton, Jr.", written in a cursive style.

Delbert H. Singleton, Jr.

January 11, 2011

SC Legislative Audit Council
Attn: Thomas J. Bardin, Jr., Director
1331 Elmwood Ave., Ste. 315
Columbia, SC 29201

Richard S. Kizer
Vice President
Government and Community Relations
(843) 761-8000, ext. 4654
fax: (843) 761-4010
rskizer@santeecooper.com

RE: LAC Procurement Card Audit

Mr. Bardin:

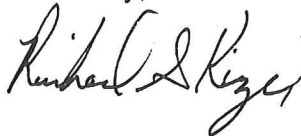
Thank you for providing excerpts from the final draft of the LAC's P-Card Audit.

We have reviewed the document and as stated in our October 4, 2010, correspondence, we continue to be concerned about the recommendation that Santee Cooper use the State Procurement Card Program. It appears that this recommendation is based on the premise that the State's general fund would benefit from a higher rebate if Santee Cooper's purchases were included as part of the State's total spending volume.

While this may be the case, we believe that a distinction needs to be made between the State general fund and Santee Cooper funds. Santee Cooper's operations are, and always have been, ratepayer-supported. Therefore, we believe that any rebate associated with purchases made with ratepayer dollars should be directly attributed to our ratepayers.

If you have any questions about this response or would like to discuss this matter further, please feel free to reply or call me at (843) 761-4016.

Sincerely,



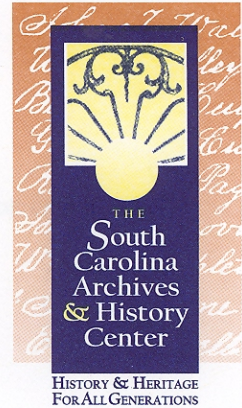
Richard S. Kizer

cc: Perry Simpson, Audit Manager – Legislative Audit Council

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January 4, 2011

Mr. Thomas J. Bardin Jr.
Director of S. C. Legislative Audit Council
Suite 315
1331 Elmwood Avenue
Columbia, S.C. 29201



Dear Mr. Bardin:

With reference to your e-mail pertaining to the audit of state procurement cards, we would like to clarify the following issues:

1. Lack of system for monitoring MCC Blocks - MCC codes have always been monitored. We ran into an isolated instance in which employees who normally do not travel needed to attend a workshop out of state in order to develop skills necessary for adequate leadership for required Preservation Programs. Federal Grants are awarded to this agency based upon our ability to administer these Programs by qualified and knowledgeable staff. Not all staff that traveled on this trip carried personal credit cards. In lieu of this situation, MCC blocks were released temporarily.
2. During this timeframe, our TAH director made 2 gift card purchases for a Teaching American History Institute. The reason the gift cards were purchased was the stores did not accept the p-card. This decision was made without any consultation with finance. He has been reprimanded. This has not happened again.
3. Cards not assigned to individuals- During our implementation process with Bank of America, we were told that we could set up cards in Divisional names rather than individual names. We have since corrected this issue.
4. We concur with your findings but all instances were isolated and proper guidance and control mechanisms beyond the agency were also not fully held accountable. All of these instances occurred during the first two months that this agency began Using the p-card. This was also a time of transition from our legacy accounting System to SAP. We also experienced a RIF of staff in Finance from 5 employees to 2 employees. We are pleased to have had this audit in order to steer us in the correct procedures and we are now in compliance with all rules and regulations.

Virginia Goodman
Budget & Finance, Director
S. C. Dept. of Archives & History

MUSC

MEDICAL UNIVERSITY
OF SOUTH CAROLINA

Chief Financial Officer
19 Hagood Avenue • Suite 408
PO Box 250824
Charleston • SC 29425

Ph (843) 792-8908
Fax (843) 792-7735

January 12, 2011

Mr. Thomas J. Bardin
SC Legislative Audit Council
Suite 315
1331 Elmwood Avenue
Columbia, SC 29201

Dear Mr. Bardin,

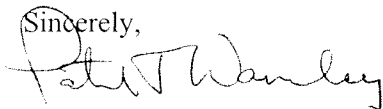
The Medical University of South Carolina (MUSC) appreciates the efforts of your department regarding the recent Purchasing Card (P-Card) Audit. We agree with the facts that you have presented and the recommendations made.

MUSC has taken steps to strengthen our P-Card administration to limit violations of policy. We have revised our policies to bring them in line with your recommendations.

I do want to point out that the audit report contains one statement that, if not clarified, could lead to a misunderstanding. The report states that "For calendar years 2008 and 2009, we identified approximately \$67,000 in gift cards that MUSC purchased, either for study participants or for the employee recognition program." While this is correct, we believe it would provide a better understanding if the reader was advised that almost all of this amount was related to study participants rather than the employee recognition program. It is also important to point out that appropriated dollars were not used for either one of these programs. Study participants were funded by restricted grant dollars and the employee recognition program, which comprised approximately 4% of the total, was funded by retained dollars.

We appreciate your involving us in the performance in this audit. Your auditors acted professionally throughout the audit.

Sincerely,



Patrick J. Wamsley
Chief Financial Officer

cc: Lisa Montgomery, VP for Finance and Administration
Betty Sandifer, Director of Purchasing and Accounts Payable



State of South Carolina
Department of Motor Vehicles

January 13, 2011

S.C. Legislative Audit Counsel
Mr. Thomas J. Bardin, Director
1331 Elmwood Avenue – Suite 315
Columbia, S.C. 29201

Re: State Agency Procurement Card Audit

Mr. Bardin:

Listed below are the S.C. Department of Motor Vehicles responses to the recent state agency procurement card audit findings:

****There were three purchases of fuel for maintenance equipment at convenience stores and two purchases of meals by employees. Use of the P-Card to purchase fuel or employee meals is a violation of state policy. In addition, these purchases should have been blocked under the CGO's policy blocking certain merchant category codes (see page 5). According to a DMV official, the fuel purchases were made using the card because the stores would not accept the state fuel card.**

Response: DMV will take extra measures to ensure cardholders check with the station clerk first to make sure they accept the Wright Express fuel card before fuel is pumped.

****The meal purchases were the result of inadvertent use of the card by the employee. In both cases DMV was reimbursed the cost of the meal through either a credit on the card or by payment from the employee.**

Response: DMV will take extra measures to ensure cardholders check their card before use to make sure they are using the correct card.

****There was a purchase at a florist where the vendor inadvertently charged DMV for flowers not ordered by the agency. DMV staff discovered the error and eventually received a credit from the vendor.**

Response: This is correct.

**State policy sets the single transaction limit (STL) for P-Cards at \$2,500. This is the limit on the amount that can be bought during a single purchase. The STL is set at \$2,500 because that is the amount designated as the “no compete” limit for small purchases. Individual cardholders may have their STLs raised, but only with prior authorization. (DELETION) Between 2006 and 2010, individual agency purchasing departments could adjust these limits. However, in practice, numerous agencies requested prior authorization from the B&CB before raising the STLs. In May 2010, state policy was revised to specifically require that agencies obtain prior approval from MMO’s Chief Procurement Officer (CPO). According to the CPO, requests have been granted on a card-by-card basis and, are for the most part, permanent. State agencies, colleges, and universities are subject to the CPO’s approval for raising the STL.

We ran a report using BofA’s *Works* and identified cards with STLs above \$2,500. We then compared this list to documentation of STL approvals provided by the B&CB. We sampled cards at five agencies which did not request B&CB approval and contacted them to request additional information. We found:

- 10 cards at the Department of Motor Vehicles which had no STL. According to an agency official, some of these accounts had been set up when DMV became a separate state agency, and STLs apparently had not been set. DMV was not aware that these particular cards did not have set STLs. DMV has now set limits of \$2,499 on these cards.

Response: DMV also discovered a portion of the data did not convert and sort correctly when the agency changed from the prior bank software *Eagles* to *Works*. This could have contributed to the deletion of the STLs.

If further information is needed, please contact me at 803-896-7858.

Sincerely,



Cathy Lucas
Procurement Director

cc: Procurement Card File



HARRIS PASTIDES
PRESIDENT

January 6, 2011

Mr. Thomas J. Bardin, Jr.
Director, SC Legislative Audit Council
Suite 315, 1331 Elmwood Avenue
Columbia, SC 29201

Dear Mr. Bardin:

Thank you for allowing us the opportunity to review relevant portions of the Legislative Audit Council's audit of the State's Purchasing Card (P-card) program. The University of South Carolina is committed to ensuring that its P-card program is effective and accountable. As your review notes, we have addressed the specific situations discussed in your report. In addition, we conducted an internal review of purchasing card issues last summer and have implemented a number of improvements to further strengthen our program. These include:

- Establishing a system in which cardholders will be required to complete refresher training before they can receive their renewal card.
- Requiring annual training for the Departmental Liaisons.
- Requiring Department Heads to complete refresher training every 2 years to make sure they are aware of their role in the oversight process.
- Having Department Heads sign new certification forms that explain the role that they play in oversight of the P-cards within their department.
- Updating the procedures manual to reflect that cards not used within a 12 month period of time will be cancelled.

We believe implementation of these recommendations will serve to strengthen our program by focusing on the accountability of all parties involved in the P-card process and will ensure that all policies and procedures with respect to card usage are closely adhered to in the future at all campuses. Thank you for your assistance in improving our Purchasing Card program.

Sincerely,

Harris Pastides

SC State Ports Authority

P.O. Box 22287
Charleston, South Carolina 29413

176 Concord Street
Charleston, South Carolina 29401

(843) 723-8651
1-800-845-7106

Peter N Hughes, CPA
Senior Vice President and
Chief Financial Officer
(843) 577-8140

We offer the following comments to the subject report.

The State Ports Authority will comply with the reporting requirements for expenditures as described in Code Section 54-3-1060.

The State Ports Authority continues to evaluate the most current options related to its P-Card program in order to insure that the Authority derives the greatest benefit.

Concerning the rebate as a result of using a P-Card program, the State Ports Authority's purchase rebates would be considered revenues of the Authority and as such must remain with the Authority as described in Code Section 54-3-1010 and the Authority's Revenue Bond Resolution.

Clemson University

Clemson University
Clemson, SC 29634

(864) 656-3311

Mike Nebesky
Procurement Director

Thanks for sharing the audit excerpts. Please find our comments to each below.

Gift Cards

In our review of P-Card purchases, we found instances where agencies had used the P-Card to purchase gift cards. In addition, agencies have received free gift cards from vendors as promotional items when making certain purchases. State policy should address prohibited and allowable use of gift cards by agencies, including when gift cards can be used, as well as the use of promotional gift cards received by agencies as a result of certain purchases.

Clemson University

Clemson University has used the P-Card to purchase gift cards for athletes. (DELETION) According to a university official, Clemson's Athletics Department has used the P-Card to make purchases in order to meet NCAA requirements. (DELETION) Clemson has also used the P-Card to purchase gift cards to be used as incentives in some of its grant programs.

COMMENT: Clemson's p-card policy prohibits the purchase of gift cards, with the exception of the Athletic Department for gift cards required by the NCAA. The purchase of gift cards outside of Athletics has been limited to non-state appropriated funds, where federal grants received by Clemson required the disbursement of gift cards as part of participant support expenses. Clemson continues to educate and train p-card holders on our p-card policy and specifically the fact that source of funds do not change the gift card prohibition. However, that said, we acknowledge there have been instances where our p-card policy has not been followed and continue to monitor for these instances.

Cardholders with Multiple Cards

The state's P-Card policy and procedure manual states that there is a limit of " ...one P-Card per Cardholder." During the course of our review, we identified a number of state employees who were assigned two or more P-Cards. Assigning more than one card to a cardholder can make it more difficult for the employee to keep track of and use the P-Card correctly. Limiting P-Cards to one per cardholder can help reduce fraud and misuse.

We ran a report using BofA's *Works* in April 2010 showing all cardholders, and each open card in their names, at all the agencies participating in the state P-Card program. We found 143 cardholders from different agencies who had more than one procurement card each issued in their names. DOT was the agency with the highest number of employees assigned more than one P-Card (91). The Department of Labor, Licensing and

Regulation (LLR) had the second highest number (11), and Clemson University had 10 employees who were assigned more than one P-Card.

Assigning more than one P-Card to a single cardholder is a violation of the state's P-Card policy. Agencies could communicate with MMO, other agencies, or Bank of America to determine if there are other ways to track purchases that do not require the use of multiple cards.

COMMENT: Clemson's practice on having more than a single card per user we believe pre-dates the requirement of the state's P-card policy and procedure manual and we strongly believe our reasoning for having this in place is justified. The employees that have more than one card have been given the additional card only after a detailed review of their specific needs. In each instance, the individual is responsible for multiple areas. One example being a director that oversees both the maintenance expenses for a building and the expenses for a summer camp program. In these cases, the two very different needs of the programs dictate various MCC restrictions be put in place on different cards. Requiring each individual to only be issued one card would leave greater room for fraud or abuse by requiring higher limits on a single card with less MCC restrictions. In several instances, these multiple cards are issued based on different sources of funds, which each carrying different restrictions for use. In all cases, Clemson believes we are better managing the p-card program by issuing multiple cards than sticking with the one card per person requirement.

SC Department of Disabilities and Special Needs

PO Box 4706
Columbia, SC 29240

3440 Harden St. Ext.
Columbia, SC 29203

(803) 898-9600
V / TTY: (803) 898-9600
1-888-DSN-INFO
(376-4636)

Allen Mance, Director
Procurement
(803) 898-9579

We are working on improving our procedures, doing more training and most of all monitoring the agency's p-card use. It is our goal to use the card as the tool it was designed to do, benefit the agency.

SC Vocational Rehabilitation Department

1410 Boston Avenue
P.O. Box 15
West Columbia, SC 29171

(803) 896-6500

Michael Cupp, Director
Procurement Services
(803) 896-6520

Cardholders with single transaction limits set above the state policy were adjusted to \$2500 as specified. If warranted, permission for increased STLs would be officially requested and associated documentation completed immediately."

This report was published for a total cost of \$62; 65 bound copies were printed at a cost of 96¢ per unit.

