



LAC

FOLLOW-UP REPORT

A Review of State Agencies' Use of Procurement Cards



INTRODUCTION

In January 2011, the Legislative Audit Council published an audit of the State Procurement Cards (P-Card) program. The audit objectives were to evaluate the state's effectiveness in using the procurement card to reduce purchasing costs and to review a sample of procurement card purchases to determine if the state has adequate internal controls to prevent misuse.

The P-Card program began in 1996 with the objectives of enabling state employees to make small-value purchases of supplies, materials, equipment, and services for state business use. It was also designed to streamline payments in order to reduce the administrative burden on agencies. The P-Card program is administered by the Budget and Control Board's (B&CB's) Materials Management Office. The Comptroller General's (CG's) Office is responsible for day-to-day oversight and payment administration for state agencies that have payments disbursed through its office. Bank of America (BofA) is under contract with the B&CB and issues the Visa cards used in the program. There were almost 10,000 procurement cards issued as of April 2013.

RECOMMENDATIONS AND CURRENT STATUS

LAC RECOMMENDATIONS	
Implemented	27
Not Implemented	6
TOTAL	33

- The Comptroller General's Office should ensure that the state has an effective system for blocking merchant category codes. IMPLEMENTED*
- State agencies should comply with state policy and not remove MCC blocks without prior authorization from the Comptroller General's Office. IMPLEMENTED*
- 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.*

IMPLEMENTED

The CG reports that it has been running Merchant Category Code (MCC) exception reports and that between December 2010 and July 2012, four P-Cards were suspended and one card was canceled. The CG also reports that there are monthly meetings between BofA and the CG to discuss issues, including any new MCC codes that are established.

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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.* IMPLEMENTED

5. *State agencies with a legitimate need to purchase gift cards should request prior approval from the Budget and Control Board.* IMPLEMENTED

6. *The Budget and Control Board should revise the statewide procurement policy to allow exceptions for the purchase of gift cards when justified.* IMPLEMENTED

We identified two agencies that had purchased gift cards between December 2012 and February 2013. In one case, an employee made a purchase in violation of agency policy and the employee's card was suspended for three months. In the second case, a university purchased three gift cards as incentives for research project participants. University policy allowed such purchases by the athletic department and where non-state appropriated funds are used. However, after a procurement audit by the B&CB's Materials Management office found the university to be out of compliance with the state's P-Card policy concerning gift cards, the university revised its P-Card policy to prohibit the purchase of gift cards. State P-Card policy prohibits the purchase of gift cards and states that, "No exceptions will be granted unless obtained in writing as set forth in this policy."

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.* IMPLEMENTED

State policy on the use of procurement cards was revised in March 2012 to state that promotional gift cards are to be used for the benefit of the state and turned over to each agency's P-Card coordinator.

8. *State agencies should ensure that they are not being charged for promotional gift cards.* IMPLEMENTED

We identified seven agencies that had received promotional gift cards between December 2012 and February 2013. We found no evidence to indicate that they had been charged for the cards. They reported that these cards are used by the agency to make additional purchases or as employee rewards and that they have policies in place addressing how these cards are to be used or are revising their policies to address their use.

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.* IMPLEMENTED

In our 2011 audit, we found certain agencies (State Ports Authority and Santee Cooper) that did not use the state P-Card contract were not included on the CG's transparency website. The CG reports that it only posts data for agencies that use the state contract and has included all of those agencies.

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10. All state agencies with procurement cards should implement Works Payment Manager. IMPLEMENTED

As of February 2013, Bank of America representatives and the CG confirmed that 101 state agencies were using *Works*.

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. NOT IMPLEMENTED

The CG's office states that it is continuing to review this recommendation and cites cost issues as one explanation why this has not been done. During our review, one agency reported that it had identified an employee who had defrauded the agency of over \$200,000 in 2010 using the P-Card. Another agency disciplined an employee for improperly purchasing gift cards. The CG stated it had suspended four cards and canceled another for improper purchases. Reporting misuse of the P-Card can help deter future misuse and also assist agencies in improving their internal controls.

12. Santee Cooper and the State Ports Authority should post their procurement card transactions on their websites. NOT IMPLEMENTED

Santee Cooper states that it is continuing to review this recommendation. The State Ports Authority states that it posts all expenditures involving state-appropriated funds above \$100 on its website, in accordance with state law.

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. NOT IMPLEMENTED

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. NOT IMPLEMENTED

The CG states that this data is currently not available but plans to request that the next contract solicitation include determining if there is a way to have it reported. The CG also noted that because of cost and system restrictions, less than 2% of VISA merchants provide detailed purchase data.

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.*

IMPLEMENTED

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16. Agencies should set the single transaction limit for each employee's card to the level necessary to perform his or her job duties. IMPLEMENTED

We found that 215 (approximately 2%) of all P-cards have single transaction limits (STLs) above \$2,500. We contacted the B&CB and were provided information showing that 157 of these cards had their limits approved or that the limit did not require approval. We then sampled four agencies with STLs above \$2,500 for which we could not locate approvals. At one agency, the STL for one card had been set at \$125,000 — the highest in the state. After our inquiry, the STL was lowered to \$2,500. The remaining three agencies provided information indicating that approval had been granted or requested.

We found nine individuals with two cards in their names which comprised less than 1/10th of 1% of all P-Cards issued. We did not find cards issued in other than an employee's name. Five agencies were contacted concerning cards that had not been used in more than three years: one was necessary for medical emergencies; three agencies cancelled the cards in question; the other cancelled one card with plans to reactivate its other three cards.

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. IMPLEMENTED

In conjunction with the CG, the B&CB reviewed the STL and decided not to lower the single transaction limit. It remains at \$2,500, which is the no-compete purchase limit for the state.

18. State agencies should monitor suspended cards to ensure they do not remain in a suspended status for inordinately long periods of time. IMPLEMENTED

We contacted the internal audit departments at 19 state agencies. These agencies reported placing few cards in suspended status and that procedures were in place to monitor suspended cards. We found only 38 cards, less than ½ of 1% of all cards, had been in suspended status for over a year.

19. State agencies should comply with the state procurement code when making purchases over \$2,500 with the procurement card. IMPLEMENTED

We contacted the internal audit departments at 19 state agencies. The agencies reported having purchasing limits of \$2,500 on their cards and adhering to the state procurement code in all the purchases above \$2,500, no matter the method used to make the purchase.

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. IMPLEMENTED

We contacted the internal audit departments at 19 state agencies. Agencies reported that using a P-Card to purchase equipment with a value (usually above \$1,000) requiring an asset number was prohibited. Also, agencies reported developing policies to address the tracking of equipment with a value that does not require an asset number. We reviewed a sample of equipment purchases, including items such as iPads and GPS devices and contacted the agencies to determine if the items could be located. All items were reported located.

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21. *State agencies should prohibit any agency purchases from being shipped to employees' homes unless the agency has granted prior written approval.* IMPLEMENTED

The internal audit departments at the 19 state agencies we contacted reported prohibiting shipments of goods to an employee's home or requiring prior approval of any goods shipped to an employee who works from home. We reviewed a sample of purchases to determine where the purchases had been shipped. All shipments were to office locations of the agencies.

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.* NOT IMPLEMENTED

23. *Each state agency should establish its own formal written policies and procedures governing the use of the P-Card.* IMPLEMENTED

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.* IMPLEMENTED

25. *Internal audit departments of all state agencies should conduct regular reviews of the use of their procurement cards.* IMPLEMENTED

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.* IMPLEMENTED

27. *State agencies should ensure that their cardholders, approving officials, and accounts payable staff have appropriate separation of duties.* IMPLEMENTED

28. *State agencies should ensure that the appropriate documentation is maintained for all P-Card activity.* IMPLEMENTED

We contacted the internal audit departments at 19 state agencies to determine to status of recommendations 23–28. Agencies reported having developed their own policies and procedures governing the use of P-Cards. Agencies also reported that employees were receiving training on the use of P-Cards prior to being issued a card, and, in some cases, periodically thereafter. Some agencies required employees to pass a test prior to issuance of a card. Some agencies also required employees to sign cardholder agreements prior to issuance of cards.

The internal audit departments stated that regular reviews of P-Card usage were being done or planned, usually annually, but sometimes more frequently. Agencies reported proper separation of duties and that documentation of P-Card activity was being maintained.

29. *The Comptroller General's Office should calculate its portion of the procurement card rebate in accordance with state law.* IMPLEMENTED

The CG reports that it began using the revised calculation in 2010.

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30. Santee Cooper and the State Ports Authority should use the state procurement card contract for their procurement card programs. NOT IMPLEMENTED

Santee Cooper states its rebate is not generated by the expenditure of state general funds, and having a separate P-Card contractor allows the rebate to be attributed to rate payers. The State Ports Authority reports that state law requires it to retain all revenues, including P-Card rebates.

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. IMPLEMENTED

We contacted the internal audit departments at 19 state agencies and they reported being in compliance with the Office of Management and Budget's (OMB's) circular A-87 regarding use of rebate funds 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. IMPLEMENTED

According to the B&CB, the state's rebate percentage has increased from 1.33% to 1.52% for total purchases between \$250 and \$300 million.

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. IMPLEMENTED

According to the CG, a number of formerly blocked MCCs have been opened, which should result in expanded use of the P-Card. Also, Clemson had an optimization study done and, according to the B&CB, studies at the Departments of Natural Resources and Parks, Recreation and Tourism are in progress. B&CB and CG officials also met with BofA officials to identify opportunities for expansion. STLs have been raised for certain individuals and additional categories (i.e. student group travel) have been opened to P-Card use.

This follow-up was limited to the issues in the 2011 audit for which we made recommendations. We received information from relevant agencies regarding the implementation of the recommendations in the audit. We reviewed this and other information, and verified evidence supporting the agency information as appropriate.

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