



SUMMARY

A Review of State Agencies' Use of the Procurement Card



INTRODUCTION

Members of the General Assembly requested us to audit the S.C. Procurement 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.

BACKGROUND

The program began in 1996 to allow state employees to make small dollar purchases and to help streamline payments. It is administered by the Budget and Control Board's Materials Management Office. The Comptroller General's Office is responsible for day-to-day oversight and payment administration. Bank of America is under contract with the B&CB, and issues the Visa cards used in the program.

Currently over 10,000 cards have been issued at 93 state agencies. From August 1, 2008 through July 31, 2009, the state made purchases totaling more than \$163 million. In 2009, the state earned approximately \$2.7 million in rebates.

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.

STRONGER INTERNAL CONTROLS NEEDED

We reviewed a sample of procurement card (P-Card) purchases and found that there is a need for increased oversight and improvement in the state's internal controls governing the P-Card program. Areas where improvements are needed:

- Merchant category code blocks to prevent certain types of purchases.
- Controls over gift cards.
- General compliance with state policy concerning who is issued a card and what limits are placed on the cards.

MERCHANT CATEGORY CODES BLOCKING COULD BE MORE EFFECTIVE

One important internal control for preventing 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 purchases 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 Comptroller General's Office (CGO), the Budget and Control Board's Materials Management Office, and Bank of America took action to revise the system for implementing and monitoring the blocking of MCCs, which should result in a more effective system for preventing purchases at blocked vendors.

In our review of cards, we found approximately 25% of the cards did not have the state list of blocked MCCs on their cards as required. In our review of purchases, we found numerous instances where purchases had been made at vendors that were supposed to have been blocked. 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.
- We found some employees had inadvertently used their cards to make purchases for personal use that should have been blocked.

During our review of MCC blocks, we also found that the CGO was not being notified when new agencies established their P-Card programs and that the processes for adding newly-created MCCs to the blocked MCC list and for temporarily lifting a block need improvement.

IMPROPER PURCHASE OF GIFT CARDS

In our review of P-Card purchases, we found instances where agencies had used the P-Card to purchase gift cards and identified several problems associated with these purchases. In addition, agencies have received free gift cards from vendors as promotional items when making certain purchases.

There is not a significant difference between purchasing a gift card and obtaining a cash advance. Gift cards are more easily subject to theft or loss 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.

We found instances where agencies' use of gift cards was inappropriate. For example, a USC Upstate employee used his P-Card to purchase 20 gift cards, totaling \$5,300. Thirteen of the cards were given directly to individuals and 7 cards purchased for \$450 each were cashed with smaller cash disbursements made to 20 other individuals. In one case, the employee gave himself \$100 cash. 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. Also, \$200 in service fees were incurred in using the cards.

We found instances where agencies have received free gift cards from vendors as promotional items and noted problems with their use.

- A 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 he 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 March 2008, a Department of Employment and Workforce (DEW) employee placed an online order with Office Depot and a gift card was to be included with the order. The 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) 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. 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.

Gift card purchases may be necessary under certain circumstances. For example, MUSC uses gift cards to compensate participants in its medical studies. However, the use of gift cards should be strictly controlled and addressed in written policy. 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.

PROCUREMENT CARD TRANSPARENCY REPORTING NEEDS IMPROVEMENT

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. However, not all agencies' P-Card purchases are included on the website. This is due, in part, to agencies not using Bank of America's *Works* Payment Manager. We identified 16 agencies which did not use *Works*. The Budget and Control Board now requires that all state agencies on the CGO's accounting system use *Works*. Thus, with the exception of Santee Cooper and the State Ports Authority, the CGO will now include all agencies' P-Card expenditures on its website. These agencies are not on the website because they do not participate in the state P-Card contract. However, both of these agencies use *Works* and could be included in statewide *Works* reports.

Publicly reporting information on misuse of the P-Card allows the citizens of the state to assess the effectiveness of the P-Card program and can serve as a deterrent against abuse.

While the CGO website lists P-Card expenditures, it does not include information on the number of state employees who have been found to have misused the card and a description of the type of misuse. Reporting this information can serve as an additional deterrent against abuse. In response to an LAC P-Card survey, 32 (36%) of the 90 agencies surveyed reported disciplining employees for misusing the card during calendar years 2008 and 2009. Four employees were terminated as a result of the misuse, two of which were criminally prosecuted.

NON-COMPLIANCE WITH STATE LAW AND POLICY

We found examples where agencies had violated the state procurement code when using the P-Card to make purchases over \$2,500. This is the limit above which agencies must obtain at least three written bids or purchase off of state contract. Internal audits by various state agencies found numerous instances of cardholders splitting transactions to avoid the requirement of obtaining bids. In addition, we found instances where the requirement to purchase under state contract or obtain the proper bids was not followed. We also found a number of areas of non-compliance with state policy concerning P-Card usage and that MMO was not monitoring for compliance with state policy.

- State policy sets the limit on the amount that can be bought using a P-Card during a single transaction at \$2,500. The limit can be raised, but only with prior authorization. We identified a number of employees whose limit was above \$2,500.
- State policy sets a limit of one P-Card per cardholder. We identified 143 state employees who were assigned two or more P-Cards.
- State policy requires that cards be issued in the name of an employee and not in the name of a department or work unit. We identified 217 cards that had been issued in the name of agency departments or divisions.
- State policy requires agencies to monitor accounts for inactivity and close accounts that are no longer needed. We identified 354 open P-Cards which had had no activity in at least one year.

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.

SURVEY OF STATE AGENCIES

We conducted a survey of 90 state agencies using the procurement card as of April 2010 regarding their use of the P-Card. From our survey, we found that:

- 23 agencies (26%) had no formal written policies.
- 32 agencies (36%) had disciplined employees for improper use of a procurement card.
- 33 agencies (37%) had procurement cards that were lost or stolen.
- 39 agencies (43%) had employees reimburse them because of personal use.

ADMINISTRATIVE SAVINGS

We evaluated the state's effectiveness in using the P-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 instead of a purchase order. 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 associated with use of the P-Card.

IMPROVEMENTS NEEDED IN ADMINISTRATION OF P-CARD REBATE

We found that the CGO's portion of the rebate is not being calculated correctly. Also, neither Santee Cooper nor the State Ports Authority participates in the state rebate program resulting in lost revenue to the state. Finally, 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.

Since at least FY 07-08, state provisos have allowed the Comptroller General's Office to retain a portion of the rebate. Proviso 75.6 of the FY 09-10 appropriations act states the CGO can, "... 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 rebate share came entirely from the state general fund portion. As a result, agencies received \$200,000 more in rebate funds and the state's general fund received \$200,000 less.

Because Santee Cooper and the State Ports Authority are exempt from the state procurement code and do not utilize the state P-Card contract, the state is losing rebate revenue. We estimate the state could earn an additional \$19,000 in rebate revenue if these agencies used the state contract.

In 2009, 26 agencies received at least some rebate revenue, ranging from over \$204,000 for MUSC to just over \$5,000 for Vocational Rehabilitation. Most agencies stated they deposited the rebates 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.

We compared South Carolina's rebate percentage to neighboring states and found that the state may be able to increase its rebate. The CGO and MMO are currently in negotiations with Bank of America to increase the rebate.

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. We examined purchases of supplies under \$2,500 made using a purchase order instead of the P-Card and found 44 agencies that reported purchasing over \$4.3 million in supplies using a purchase order instead of the procurement card. State agencies may be able to make use of Bank of America's "optimization study" to help them convert more of their existing purchases to the P-Card so that they can fully realize the benefits of electronic payments.

FOR MORE INFORMATION

Our full report, including comments from relevant agencies, is published on the Internet. Copies can also be obtained by contacting our office.

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