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Missouri State Auditor

ADMINISTRATION

State Purchasing Card Program

October 2013
Report No. 2013-100



<http://auditor.mo.gov>



CITIZENS SUMMARY

Findings in the audit of the Office of Administration, State Purchasing Card Program

Background	The Office of Administration (OA), Division of Accounting established the state purchasing card program to provide a more efficient, cost-effective method of purchasing and paying for goods and centralized travel services. The card contractor pays the state a rebate of 1.44 percent on all purchases. During calendar year 2012, the state received about \$713,000 in rebates.
Policies and Procedures	State agency personnel used purchasing cards to make prohibited purchases, including ammunition, interagency payments, and non-bulk motor fuel. Some state agency personnel did not maintain and sign transaction logs, and one coordinator approved his/her own transaction log. State agencies failed to pay 25 percent of the statements reviewed within 30 days of the statement date. State vehicle rental contracts indicate a preference for the use of purchasing cards for payment, but only 38 percent of rental payments analyzed were made using purchasing cards, thereby forfeiting \$5,200 in potential rebate revenue. Similarly, audit staff found over 45,000 small dollar transactions totaling over \$1.8 million which potentially could have been paid using purchasing cards. The OA did not have current interagency agreements or addendums for nine state agencies or divisions.
Cardholder Account Controls	State agency personnel did not cancel the purchasing card accounts of nine former state employees. One hundred thirty-three non-emergency purchasing cards remained assigned to employees that did not use the cards during calendar year 2012, and the OA did not ensure all cardholder records contain accurate and consistent data.

In the areas audited, the overall performance of this entity was **Good**.*

*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

Office of Administration

State Purchasing Card Program

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THOMAS A. SCHWEICH

Missouri State Auditor

Honorable Jeremiah W. (Jay) Nixon, Governor
and
Douglas E. Nelson, Commissioner
Office of Administration
Jefferson City, Missouri

We have audited certain operations of the State Purchasing Card Program administered by the Office of Administration, Division of Accounting. This audit was conducted in fulfillment of our duties under Chapter 29, RSMo. The objectives of our audit were to:

1. Evaluate the program's internal controls over significant management operations and financial functions.
2. Evaluate the program's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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 such a basis.

For the areas audited, we identified (1) deficiencies in internal controls, (2) no significant noncompliance with legal provisions, and (3) the need for improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the State Purchasing Card Program.

A handwritten signature in black ink that reads "Thomas A. Schweich".

Thomas A. Schweich
State Auditor

The following auditors participated in the preparation of this report:

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State Purchasing Card Program

Introduction

Background

The Office of Administration (OA) Division of Accounting established the state purchasing card program in 1998 to set up a more efficient, cost effective method of purchasing and paying for goods and centralized travel services. The program was designed to reduce the number of purchase orders and checks issued and to enhance efficiency within state agencies. The OA contracts with an outside vendor to administer the purchasing card program.

Under a typical purchase order system, a state employee obtains supervisory approval, prepares a purchase order and takes the order to a local vendor to obtain the goods. The vendor bills the state for the purchase and the state pays the vendor during the next payment cycle. Under the purchasing card program, employees take their card directly to a vendor (with or without prior supervisory approval) and procure the needed goods. The vendor electronically bills the card contractor for payment, and the contractor sends the state agencies a statement for each card monthly. Accordingly, the state is able to process fewer payments to the card contractor rather than processing multiple payments to individual vendors.

Cardholders are responsible for maintaining a log of their purchases. Upon receipt of the monthly statement from the card contractor, the employee is responsible for reconciling their log to the statement, attaching supporting documentation such as receipts, invoices, and packing slips; and submitting all documentation to their fiscal office for payment to the card contractor.

The OA is responsible for establishing state policy and administering the state purchasing card program. The OA established standard program policies, procedures, and purchase dollar limits based on general statutory guidelines for state purchasing outlined under Chapter 34, RSMo. Each participating state agency is required to designate program coordinators.

The OA has created a statewide Policy and Procedure Manual which contains details and requirements of the program. For instance, the manual includes detailed instructions on the records that must be kept by cardholders, coordinators, and the agencies involved; instructions on how to make administrative changes to the cards (such as issuing cards to new employees, renewing cards upon expiration, and closing accounts of old employees); and what purchases are and are not allowed to be made with the cards. Agencies may set stricter policies for the program, but must adhere to state policies, unless a waiver is granted.

The card contractor has on-line reporting tools available to allow for monitoring and analysis of agency transactions as well as a process that allows state agencies to upload transaction data with accounting code defaults into the state accounting system.

Under the terms of the current contract effective in March 2007, the card contractor pays the state a rebate of 1.44 percent on all purchases. Rebate



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amounts are deposited in funds specified by the purchasing agency, or in the state General Revenue Fund. During calendar year 2012, the state received about \$713,000 in rebates.

During calendar year 2012, all state agencies participated in the purchasing card program. Total card usage per agency is presented in the table below.

Table 1:
Agency Purchasing Card Activity

State Agency	Card Expenditures Calendar Year 2012
Conservation	\$ 13,190,102
Transportation	11,499,966
Corrections	5,849,915
Public Safety	5,131,113
Natural Resources	3,071,445
Office of Administration	2,194,900
Health & Senior Services	1,037,800
Mental Health	778,782
Judiciary	719,241
Elementary & Secondary Education	706,898
Economic Development	679,873
Revenue	590,706
Social Services	353,741
Insurance, Finance, and Professional Registration	290,558
Agriculture	196,963
Secretary of State	106,865
Labor & Industrial Relations	77,826
Higher Education	67,667
Attorney General	49,548
Governor	48,254
Legislature	38,738
Public Defender	35,280
State Treasurer	26,548
State Auditor	3,450
Lieutenant Governor	1,825
Total	\$ 46,748,004



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Scope and Methodology

Our methodology included reviewing written policies and procedures, and interviewing various personnel of the OA and participating state agencies. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violation of contract or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We obtained purchasing card transaction data for calendar year 2012. To ensure completeness of the data, we summarized transactions by agency and month to ensure all agencies and time periods were included and performed other testing. Although we used computer-processed data from the card contractor system to review transaction related information, we did not rely on the results of any processes performed by this system in arriving at our conclusions. Our conclusions were based on our review of the controls over transactions.

We obtained cardholder account data as of January 2013. To ensure completeness of the data, we summarized accounts by agency, matched accounts to transaction records, scanned the names of employees, and performed other testing. Although we used computer-processed data from the card contractor system to identify cardholder accounts and related information, we did not rely on the results of any processes performed by this system in arriving at our conclusions. Our conclusions were based on our review of the controls over cardholder accounts. However, the results of testing cardholder records determined that data fields key to our review contained inaccurate or inconsistent data. Since we were able to use other data fields and obtain information from OA personnel to accomplish our audit objectives, we determined the cardholder data were sufficiently reliable for the purpose of testing cardholder accounts. However, since accurate cardholder data is necessary for effective program administration and monitoring, our report includes a recommendation to improve cardholder data quality and reporting capabilities to allow for more effective and efficient monitoring of the program.

We obtained the employment records of all state employees for fiscal years 2001 to 2013 from the statewide accounting system for human resources. We matched these records to cardholder accounts to determine if any terminated employees had active purchasing cards. We provided OA management a list of all terminated employees we found who had active purchasing cards. Although we used computer-processed data from the human resources system for our audit work, we did not rely on the results of any processes performed by this system in arriving at our conclusions. Our



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conclusions were based on our review of the issues specific to the audit objectives.

We obtained calendar year 2012 financial transaction records for selected vendors from the statewide financial accounting system. We compared these records to purchasing card transaction records to determine if preferred use criteria established in policy was being followed. Although we used computer-processed data from the financial system for our audit work, we did not rely on the results of any processes performed by this system in arriving at our conclusions. Our conclusions were based on our review of the issues specific to the audit objectives.

To identify examples of improper purchasing card activity, we used data mining techniques on purchasing card transactions occurring in calendar year 2012. The data mining criteria included identifying (by vendor or merchant code) potential transactions involving goods or services prohibited by policy or likely to be used for non-business purposes. For selected transactions, we requested and reviewed supporting documentation from agencies and performed test work.

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Management Advisory Report

State Auditor's Findings

1. Policies and Procedures

Internal control weaknesses, caused by a lack of agency compliance with and Office of Administration (OA) enforcement of state purchasing card policies, exposed the state to an increased risk of improper purchases. Agency personnel used purchasing cards to pay transactions prohibited by policy and did not comply with certain policies and procedures designed to ensure purchasing cards are used appropriately. In addition, the OA did not maintain current interagency agreements or addendums for participation in the program.

1.1 Prohibited Transactions

State agency personnel used purchasing cards to make purchases prohibited by policy.

According to state policy, purchasing cards may not be used to purchase particular classes or types of items. Examples of prohibited purchases include items such as alcohol, ammunition, cash advances, payments between state agencies, most non-bulk motor fuel, and transactions involving easily pilfered inventory such as gift cards or postage stamps. Agencies can request a waiver from the OA to allow for the purchase of prohibited or excluded items by presenting a justified business case. Using data mining techniques to analyze the transaction data, we found examples of purchasing cards being used for payment of purchases prohibited by policy.

- We tested 5 of 119 potential interagency payments, totaling \$14,160, and confirmed all 5, totaling \$1,142, were interagency payments.
- We tested 9 of 3,291 potential purchases of non-bulk motor fuel, totaling over \$103,000, and found 6 purchases, totaling \$337, were improper.
- Agencies made three purchases of ammunition totaling \$3,196 without receiving a waiver from the OA.

Although the OA has the ability to block purchases from vendors using certain merchant codes, OA personnel indicated they do not utilize this feature because many vendors sell merchandise from numerous categories, even if primary sales are in a prohibited category. Instead, the OA relies on transaction reviews by agency personnel to detect improper purchases. Without additional controls to prevent or enhanced transaction reviews to detect prohibited purchases, there is an increased risk of improper purchases.

1.2 Policy compliance

State agency personnel did not always comply with state purchasing card policies and procedures.

We reviewed 72 purchasing card statements from 21 agencies and divisions and found the following instances of non-compliance:



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- One cardholder did not maintain a transaction log to reconcile the card statement.
- Another cardholder did not sign the transaction log to indicate all charges had been verified.
- One coordinator approved his own transaction log.
- Certain agencies had been granted a waiver allowing cardholders and coordinators to sign a certification statement to acknowledge the validity and accuracy of purchases, rather than completing transaction logs. However, neither the cardholder nor the coordinator applied the certification for one card statement, and the coordinator did not sign the certification on another statement.
- Cardholders used a third-party processor (such as Paypal) to process six transactions without obtaining supervisory approval.
- In 18 instances, state agency personnel did not pay balances within 30 days of the card statement date.

Failure to follow established purchasing card policies increases the risk of inappropriate activity occurring without detection.

1.3 Preferred Use

State agency personnel did not always comply with policies for the preferred use of purchasing cards.

Vehicle Rental Contracts

State vehicle rental contracts contain a clause indicating the preferred use of purchasing cards for invoice payment. Using purchasing cards for payment allows for more timely payments and by combining multiple purchasing card transactions on one statement, administrative costs can be reduced.

We analyzed payments to the two vehicle rental contractors processed in the state accounting system and those paid through the purchasing card program. During calendar year 2012, agencies processed approximately 4,200 transactions for \$361,000 through the state accounting system and 2,600 transactions for \$273,000 using the purchasing card program. Utilizing purchasing cards for all vehicle rental transactions would have reduced the number of transactions processed by the state accounting system, likely reducing administrative costs. Additionally, because the purchasing card program generates a rebate of 1.44 percent to the state based on total purchases, the state forfeited potential rebate revenue of \$5,200 from rental vehicle transactions not paid with a purchasing card.

Small Dollar Transactions

Apart from the state vendors which are covered by preferred use contracts, the state purchasing card manual encourages the use of cards to consolidate numerous, small dollar transactions onto a single statement, which can then



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be paid with one payment transaction. Consolidating transactions allows for greater efficiency in the payment cycle since the number of transactions that need to be processed is reduced.

We reviewed transaction records from the state accounting system to determine if agencies were using purchasing cards to reduce administrative inefficiencies. We selected vendors who received three or more payment transactions totaling \$1,000 or less. Our analysis found 45,489 transactions totaling over \$1.8 million with 4,500 vendors which potentially could have been paid using purchasing cards. In addition, over \$1.6 million of these payments were made by paper check, which is an even more costly method of payment than transactions paid through the accounting system and disbursed through Electronic Funds Transfer (EFT) methods.

According to OA management, not all cardholders have the ability to use purchasing cards to the same extent due to budgets and purchasing requirements. Purchasing card use is also discussed at the quarterly and annual purchasing card meetings.

Without maximizing the use of purchasing cards to pay vendors, agencies face increased administrative costs related to payment processing as well as forfeiting additional revenue from transaction rebates paid by the card contractor.

1.4 Interagency Agreements

The OA did not have current interagency agreements or addendums for nine state agencies or divisions.

State policy requires each agency and/or division to designate coordinators to serve as central administrators to oversee participation in the purchasing card program. The coordinator, along with senior agency staff and accounting staff (if they are not also the coordinator), must sign an interagency agreement acknowledging responsibilities for participation in the program. When coordinator changes occur, policy requires an addendum to the agreement to be completed to ensure the new coordinator is aware of program responsibilities.

Without current agreements in place, the OA does not have assurance all coordinators are aware of and acknowledge program responsibilities.

Recommendations

The OA:

- 1.1 Establish additional controls to ensure purchasing cards are not used to purchase goods or services prohibited by policy.
- 1.2 Provide periodic reminders to agencies on the importance of complying with purchasing card policies and procedures.



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Auditee's Response

- 1.3 Continue encouraging agencies to increase the use of purchasing cards for small purchases and for those vendors who have specifically agreed to accept them.
- 1.4 Maintain complete and current information to document agency coordinator acceptance of responsibilities associated with participation in the purchasing card program.
- 1.1 *We will enhance our reporting capabilities which will increase our oversight capabilities.*
- 1.2 *We agree to stress and reiterate purchasing card requirements to coordinators and users of the p-card. We are providing periodic reminders at annual and quarterly meetings for coordinators and users of the p-card and we do address and correct any weaknesses discovered. We will however, devote additional effort to ensuring the purchasing card policies and procedures are understood.*
- 1.3 *We agree to continue to encourage the most efficient methods of procuring and paying for state goods and services. We agree that purchasing cards are an important tool especially in relation to small dollar purchases.*
- 1.4 *We agree.*

2. Cardholder Account Controls

State agencies did not cancel purchasing cards assigned to employees upon termination of their employment with the state and cards were assigned to employees that did not use the cards. As a result, the OA did not enforce compliance with established policies to limit access to only employees with a justifiable business need to use purchasing cards. In addition, the OA did not ensure all cardholder records contain accurate and consistent information.

2.1 Terminated Employees

State agency personnel did not cancel the purchasing card accounts of nine former state employees.

According to the state policy, when a purchasing card account needs to be canceled, the card should be cut in half (to prevent further use), and sent to the agency coordinator to notify the card contractor to cancel the account. We matched the cardholder records to the state human resources accounting system records and found nine active accounts assigned to former employees of five agencies. Purchasing card coordinators provided the following explanations:

- Two cards were destroyed, and one card was never picked up from the agency coordinator, after the assigned cardholders left state



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employment. However these accounts were not closed. One of these cardholders left state employment in November 2011.

- One card account was restricted to deny purchases from processing; however, the account was not closed.
- One card account was closed according to the agency coordinator, but the cancellation apparently failed to process in the card contractor system.
- Agency coordinators could not provide evidence that any actions had been taken to close four cardholder accounts timely. These four employees left state employment between October and December 2012; however, the purchasing cards were still active as of late January 2013.

While no instances of state agency personnel using purchasing cards after the cardholders left state employment were noted, failure to cancel purchasing card accounts after employees leave state employment increases the risk of financial exposure to loss from improper or fraudulent purchases.

2.2 Inactive Cards

State agencies had not canceled 133 non-emergency¹ purchasing cards that employees did not use during calendar year 2012.

Annually, the OA provides coordinators with a report of cardholder account information and a summary of transactions. Coordinators are required to review this information to determine if accounts should remain active and to ensure credit limits are set appropriately. However, cardholder accounts that did not have any purchase activity during the reporting period are not included on this report. According to OA management, cardholder accounts without activity are not included in the report due to system reporting limitations. OA management told us that since coordinators are required to keep a list of cardholders, they have the capability to identify inactive accounts by reconciling the agency list to the list of accounts with activity.

According to the Government Accountability Office (GAO), by limiting the number of purchase cards and related credit limits to the levels necessary to meet operational requirements, an agency can better manage and control its purchase card program². Failure to cancel inactive purchasing cards increases the administrative burden of maintaining accounts and exposes the

¹ An additional 81 cards were indicated as emergency cards. These cards are primarily assigned to National Guard units and are available in case the unit is activated for disaster response to procure necessary equipment and supplies at local retailers. Because these cards are not intended for routine use, they have been excluded from our analysis of inactive cards.

² Report GAO-04-87G, *Audit Guide, Auditing and Investigating the Internal Control of Government Purchase Card Programs*, issued in November 2003.



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state to unnecessary liability to loss from improper or fraudulent purchases. In addition, complete and accurate cardholder information would help ensure cardholder account reviews are properly performed.

2.3 Cardholder Data

The OA did not ensure all cardholder records contain accurate and consistent data.

The OA, in coordination with the card contractor, maintains system records for the purchasing card program and delegates some account maintenance and reporting responsibilities to agency coordinators. However, as administrator of the program, the OA is responsible for ensuring the integrity and completeness of cardholder data.

In our analysis of cardholder records, we found inaccurate data recorded in the agency name field for 12 cardholder accounts. We verified that no purchasing card payments from the state accounting system were processed from the wrong agency due to the inaccurate cardholder data. We also found the employee name recorded in the cardholder records was not always consistent with the name recorded in the state accounting system. As a result, we could not match 50 cardholder records to state employee records without the help of OA management and agency coordinators.

Cardholder data is administered and maintained by the card contractor. As a result, the OA is not directly responsible for the data recorded in the cardholder records. However, by not establishing data quality standards and uniform rules regarding how cardholder data is recorded and maintained, the OA cannot ensure the accuracy or consistency of cardholder data. By ensuring the card contractor establishes processes to increase and maintain data quality standards, the OA can more effectively administer and monitor the purchasing card program.

Recommendations

The OA:

- 2.1 Provide periodic reminders to agency coordinators of the importance of closing purchasing card accounts belonging to former employees in a timely manner.
- 2.2 Develop a report of purchasing cards without activity during the reporting period to ensure all purchase card accounts are reviewed at least annually.
- 2.3 Improve cardholder data quality to allow for more effective and efficient monitoring of the program.

Auditee's Response

- 2.1 *We are implementing a process to delete the cards for former employees in OA rather than relying on the agencies to close the accounts. We anticipate comparing the list of cardholders to SAM II*



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HR and cancelling the accounts in which we determine the employee is no longer working for the agency.

- 2.2 *We agree to develop a report of purchasing cards without activity.*
- 2.3 *We agree to continue to improve data related to the purchasing cards when possible. We have already instructed coordinators to only use the employee's legal name when establishing cards.*