



Susan Montee, CPA
Missouri State Auditor

STATEWIDE

Oversight of Procurement and Fuel Card Programs Follow-up

October 2008
Report No. 2008-68



auditor.mo.gov



Overall Purchasing Card Oversight Has Improved; However, Fraud Occurred at One Agency, and Further Improvement Is Needed

State employees use three types of cards for purchases including (1) procurement cards, (2) fleet fuel cards, and (3) business travel cards. All three purchasing card programs are under the oversight of the Office of Administration (OA) and administered by contracted service providers. Each participating state agency has designated program coordinators. This report followed up on recommendations in our 2002 report titled *Oversight of the State's Procurement Card Program (Report No. 2002-60)* and applicable recommendations in our 2003 report titled *State Vehicle Maintenance Facility and Fleet Fuel Card Program (Report No. 2003-107)*. Audit objectives included (1) analyzing agency procedures and controls related to procurement and fuel cards, (2) reviewing transactions for reasonableness, and (3) analyzing the procurement card vendor contract.

Improper fuel and procurement card transactions

In late February 2008, Missouri Veterans Commission (MVC) officials discovered an employee had been improperly using procurement and fuel cards for personal use since June 2006. Initially, MVC officials identified \$11,771 in questionable fuel and procurement card purchases. While conducting audit work shortly after the officials identified the problem, SAO audit staff identified additional questionable transactions. MVC officials also subsequently determined these transactions were improper. These transactions plus additional related transactions the officials identified totaled \$2,467. The employee who committed the fraud was terminated from employment and prosecuted, and provided restitution to the state for the identified fraudulent transactions. MVC officials have taken steps to improve internal controls over card usage since identification of the fraud. (See page 8)

OA has made improvements in card programs, but some issues need further evaluation

The OA's oversight of the procurement and fuel card programs and guidance to state agencies has improved since our prior reports. In May 2008, OA officials revised the state's procurement card policies and procedures manual, which provides guidance to state agencies, to address new topics. In addition, effective with the 2007 contract, Missouri's 1.44 percent rebate from the procurement card contractor is one of the highest identified in a state procurement card survey we reviewed. However, the following areas need additional consideration (1) inclusion of procurement and fuel card controls in agency internal control plans, (2) allocation of rebates, and (3) vendor discounts. (See page 15)

Agencies reviewed had control weaknesses, but had also developed improved procedures

Our review of procurement card procedures and transactions at 8 of the 28 participating agencies identified that agency staff did not always (1) comply with rules and guidance in the state procurement card policies and procedures manual or other common program controls, (2) review documentation related to automatic payments, and (3) perform annual card usage and transaction limit assessments. Some of these agencies had also developed improved procedures that could be better communicated to other agencies. Some agencies made policy decisions to increase card usage resulting in more rebates. (See page 20)

All reports are available on our Web site: www.auditor.mo.gov

Contents

State Auditor's Letter		2
<hr/>		
Chapter 1		3
Introduction	Various Types of Cards Used by State Employees for Purchases	3
	Previous SAO Procurement Card Work	5
	Previous SAO Fuel Card Work	6
	Scope and Methodology	6
<hr/>		
Chapter 2		8
Fraudulent Card Usage at One Agency	Improper Fuel and Procurement Card Transactions	8
	Poor Controls Allowed the Fraud to Occur and Remain Undetected	8
	Conclusions	10
	Recommendations	11
	Agency Comments	11
<hr/>		
Chapter 3		15
OA Has Made Improvements in Card Programs, but Other Improvements Are Needed	OA Needs to Address Additional Issues	15
	Agencies Received Pre-activated Cards	17
	Conclusions	17
	Recommendations	18
	Agency Comments	18
<hr/>		
Chapter 4		20
Agency Card Program Controls	Agency Control Weaknesses	20
	Noteworthy Procedures at Some Agencies	21
	Conclusions	23
	Recommendations	23
	Agency Comments	23
<hr/>		
Appendix I	Agency Card Activity and Cards Outstanding	26
<hr/>		
Tables	Table 4.1: Agency Compliance Issues	20
	Table I.1: Agency Procurement Card Activity	26
	Table I.2: Agency Fuel Card Activity	26
<hr/>		
Abbreviations		
CSR	Code of State Regulations	
GAO	Government Accountability Office	
MVC	Missouri Veterans Commission	
OA	Office of Administration	
RSMo	Missouri Revised Statutes	
SAO	State Auditor's Office	



SUSAN MONTEE, CPA
Missouri State Auditor

Honorable Matt Blunt, Governor
and
Larry Schepker, Commissioner
Office of Administration
and
Missouri Veterans Commission
Jefferson City, MO

The state established its procurement card program to provide a more efficient, cost effective method of purchasing and paying for some goods and services. Similarly, use of the fleet fuel card is designed to streamline and better automate the purchase of fuel. The Office of Administration (OA) oversees card administration. Because of the importance of safeguarding taxpayer monies, we followed up on recommendations in our 2002 report titled *Oversight of the State's Procurement Card Program (Report No. 2002-60)* and applicable recommendations in our 2003 report titled *State Vehicle Maintenance Facility and Fleet Fuel Card Program (Report No. 2003-107)*. Audit objectives included (1) analyzing agency procedures and controls related to procurement and fuel cards, (2) reviewing transactions for reasonableness, and (3) analyzing the procurement card vendor contract.

Fraud occurred at the Missouri Veterans Commission, and went undetected for at least 20 months due to the lack of effective controls. The employee who committed the fraud was terminated from employment and prosecuted, and provided restitution to the state for the identified fraudulent transactions. OA has made improvements in the procurement card program, but additional areas regarding internal control reporting, allocation of rebates, and vendor discounts still need to be addressed. In addition, agencies need to improve employee compliance with purchasing rules and guidance when using procurement cards. OA also needs to compile and distribute agency best practices.

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. This report was prepared under the direction of John Luetkemeyer. Key contributors to this report included Jon Halwes, Anissa Falconer, Amy Ames and Ryan Redel.

A handwritten signature in cursive script that reads "Susan Montee".

Susan Montee, CPA
State Auditor

Introduction

Various Types of Cards Used by State Employees for Purchases

State employees use three types of cards for purchases:

- Procurement cards
- Fleet fuel cards
- Business travel cards

All three card programs are under the oversight of the Office of Administration (OA) and administered by contracted service providers.

Procurement cards used for general purchasing needs

OA's Division of Accounting established the state's procurement 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. OA contracts with an outside vendor to administer the procurement 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 merchant to obtain the goods. The merchant bills the state for the purchase and the state pays the merchant during the next payment cycle. Under the procurement card program, employees take their card directly to a merchant (with or without prior supervisory approval) and procure the needed goods. The merchant 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 hundreds of payments to individual merchants.

The OA has overall responsibility for administering the state's procurement card program and each participating state agency has designated program coordinators. The OA established standard program policies, procedures and purchase dollar limits based on general statutory guidelines for state procurement outlined under Chapter 34, RSMo.

The state purchasing card is a preferred method of payment for purchases up to \$1,000 per transaction and \$3,000 per month. Higher limits are available with prior approval through the OA and procurement card contractor. The procurement card is flexible to allow agencies to tailor the program to meet their specific needs.

There are four types of procurement card accounts available:

- Standard account - allows the purchase of commodities and services, but is not intended for travel expenditures

-
- Central travel account - account set up for an employee to purchase travel related services for other employees - the services can include conference registrations, lodging, airfare, car rentals, and parking fees
 - Dualized account - allows one account to pay for both commodity/service purchases and central travel purchases
 - Multipurpose account - allows for purchase of commodities as well as business travel related expenditures for the cardholder - with the exception of meals

The card contractor has several on-line reporting tools available to allow for close 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's accounting system.

Prior to March 2007, the card contractor paid the state a 0.1 percent to 0.56 percent rebate, depending on annual purchase volume. A new contract effective March 2007 increased the rebate to 1.44 percent on all purchases. Rebate amounts are deposited into funds specified by the purchasing agency, or into the state's General Revenue Fund. During fiscal year 2008, the state received about \$533,000 in rebates.

Procurement card usage has increased significantly since the prior audit. During the prior audit period, 11 agencies participated in the procurement card program with 2,684 issued cards, but as of February 2008, 28 agencies¹ participated with 4,331 issued cards. Average statewide usage per month also increased from about \$872,000 to \$2 million. See Appendix I for additional information on current usage.

Fuel cards used for fleet and rental fuel purchases

OA's Division of General Services administers the fleet fuel card contract. Fuel cards are issued to an agency and then assigned to a specific vehicle or driver or used for rental vehicles. The fuel cards can be used to pay for fuel for state and rental vehicles, emergency vehicle repairs when away from Jefferson City, limited vehicle maintenance costs, and car washes.

As of March 2008, there were a total of 16,870 fuel cards in use. The fuel card processor has set up a network of 4,230 service stations in the state that accept the cards. The processor removes federal excise taxes from the state's billings. The state receives rebates based on volume, average purchase

¹ Some state departments have delegated procurement responsibilities to divisions or units. Agency refers to state departments, divisions within state departments or other state entities.

amount, and length of time from invoicing to payment. During fiscal year 2008, the state received about \$120,000 in rebates. See Appendix I for additional information on current usage.

Employee business travel cards result in no liability to the state

OA's Division of Accounting administers the contract for the business travel card program. Business travel cards are issued to state employees as a personal credit card to use for paying travel expenses. These cards are issued by a card contractor, and the state has no liability for purchases made on them. Business travel card balances are to be paid off by the individual every month. If an employee leaves state employment, his/her business travel card should be cancelled. Missouri receives a 1.44 percent rebate on all business travel card purchases. All rebates for business travel cards are deposited into the state's General Revenue Fund. During fiscal year 2008, the state received about \$69,000 in rebates. As of February 2008, there were 2,480 business travel cardholders.

Previous SAO Procurement Card Work

The State Auditor's Office (SAO) published a report in 2002 addressing issues related to the state's procurement card program.² We reported many procurement cardholders never used their cards, and spending limits were not based on needs analysis. OA now requires agencies to conduct an annual assessment of card usage, and to cancel cards or adjust limits as necessary. However, as discussed on page 21, some agencies have not complied with this requirement.

We also reported attractive or easily pilfered property items purchased with procurement cards were not adequately identified and tracked as required by state regulations.³ During our current audit work, we found no significant problems in this area.

Finally, we reported state employees did not give preference to Missouri businesses, as required by law.⁴ During our current audit work, we found no significant problems in this area.

² SAO, *Oversight of the State's Procurement Card Program*, August 29, 2002 (Report No. 2002-60).

³ 15 CSR 40-2.031 requires departments to implement appropriate procedures for adequate controls and perform annual inventories for items considered "attractive or easily pilfered" such as televisions and power tools.

⁴ Sections 34.070 and 34.100, RSMo.

Previous SAO Fuel Card Work

The SAO published a report in 2003 addressing issues related to the state's fuel card program.⁵ We reported the state was not receiving rebates on fuel card usage and recommended the contract be re-bid. State officials re-bid the contract in 2005, and the contractor now provides rebates.

We also reported card purchases were not always cost effective, with some purchases being made at full service pumps and for premium-grade fuel. We recommended OA establish uniform instructions for the use of fuel cards by state agencies. OA implemented this recommendation in November 2006. These instructions state full-service and mid-grade fuel can be purchased if priced the same as self-service, regular-grade fuels and full-service or premium grades of gasoline are not to be purchased unless required by the vehicle manufacturer.

Finally, we reported state personnel had complaints about the fuel cards, and we recommended these issues be addressed. Some specific complaints involved the availability of network stations and the inability to recover exempted federal excise taxes paid. We found the number of stations in the network has increased and the contractor now bills the state net of federal excise tax.

Scope and Methodology

To analyze agency procedures and controls related to procurement cards, we conducted work at the Departments of Conservation, Corrections, Economic Development, Elementary and Secondary Education, and Transportation; the Missouri State Highway Patrol; the Missouri Veterans Commission; the OA; and the Office of State Courts Administrator. We also conducted work at the veterans home in Mount Vernon. We selected agencies for review that had high dollar amounts of card usage, were new to the procurement card program since our 2002 audit, or were reviewed during the prior audit. We interviewed knowledgeable officials and reviewed program documentation and/or data needed to accomplish objectives. We also performed limited work at the Department of Natural Resources.

To evaluate other state procurement card programs, we reviewed the survey results of a study conducted by the National Association of State Auditors, Comptrollers and Treasurers. We also spoke with procurement staff in the states of Arizona, Iowa, and Oklahoma regarding aspects of their procurement card programs.

⁵ SAO, *State Vehicle Maintenance Facility and Fleet Fuel Card Program*, October 22, 2003 (Report No. 2003-107).

To analyze transactions for reasonableness, we obtained procurement card transactions from January 1, 2006 to February 12, 2008, from the procurement card contractor. We selected approximately 600 transactions for review after sorting the data by state agency. We ensured completeness of the data by analyzing the date sequence of the data provided to us and by matching selected data to agency monthly statements.

To analyze the contract with the procurement card contractor, we reviewed the current procurement card contract, as well as prior contracts and bidding documentation. We reviewed suggested industry practices to ensure they were included in the contract. We reviewed the contractor's website and interviewed knowledgeable officials to evaluate contract compliance.

To analyze agency procedures and controls related to fuel cards, we conducted work at the Departments of Conservation, Social Services, and Transportation and the Missouri Veterans Commission. We interviewed knowledgeable officials and reviewed program documentation and/or data needed to accomplish objectives.

To analyze transactions for reasonableness, we obtained⁶ fuel card transactions for calendar year 2007, from the fuel card contractor. We ensured completeness of the data by analyzing the date sequence of the data provided to us and by matching selected data to agency monthly statements.

⁶ Obtained through the OA.

Fraudulent Card Usage at One Agency

A Missouri Veterans Commission (MVC) employee made improper procurement and fuel card purchases, and this activity remained undetected for at least 20 months. The agency's internal control process did not use many of the procedures outlined in guidance provided by the OA.

Improper Fuel and Procurement Card Transactions

In late February 2008, MVC officials discovered an employee had been improperly using procurement and fuel cards for personal use since June 2006. Initially, MVC officials identified \$11,771 in questionable fuel and procurement card purchases. While conducting audit work shortly after the officials identified the problem, SAO audit staff identified additional questionable transactions. MVC officials also subsequently determined these transactions were improper. These transactions plus additional related transactions the officials identified totaled \$2,467.

MVC officials alerted law enforcement and terminated the employee. The former employee was prosecuted and provided restitution of \$17,665⁷ to the state for all identified fraudulent transactions.

Poor Controls Allowed the Fraud to Occur and Remain Undetected

The fraud occurred and was not identified in a timely manner because of (1) a lack of segregation of duties regarding fuel cards; (2) employees sharing procurement cards and not always preparing or reconciling their own log of purchases, and supervisors not performing detailed reviews; and (3) a weakness in accounting system security settings coupled with officials not regularly reviewing available procurement card reports. An MVC official said staffing and budget limitations in the agency's accounting section had impacted review procedures.

Lack of segregation of duties factor in fuel card fraud

Beginning in June 2006, the employee charged \$4,608 to fuel cards for fuel used for personal purposes. This situation occurred and was not identified for 20 months due to a lack of segregation of duties. The employee had access to the fuel cards and was also responsible for reconciling fuel receipts to the monthly billing statements. Records show the employee inaccurately reported this fuel card usage on the report she prepared for her supervisor. During 2007, fraudulent fuel purchases accounted for more than 20 percent of all central office⁸ fuel purchases for the agency.

Prior to January 2008, the employee used only one fuel card for fraudulent purposes. In January 2008, this employee requested and received from the fuel card contractor four additional fuel cards. According to agency

⁷ Included in the \$17,665 is \$3,427 in expense report fraud identified by agency officials, unrelated to procurement or fuel card fraud.

⁸ Unit in which the employee worked.

officials, no one else at MVC was aware these cards had been requested. The employee began to use three of these four cards in February 2008, shortly before the detection of the fraud. MVC records show all the employee's cards were cancelled in March 2008.

Following discovery of the fraud, an MVC official said the agency began to limit access to fuel cards and to use a log to track employee fuel card use. However, at the time of our work, the employee reconciling the fuel card statement details to supporting documentation also had access to the fuel cards.

Employee used co-worker's procurement card

The employee charged \$2,889 in personal expenditures to a co-worker's procurement card beginning in September 2006. This situation occurred and was not identified for 17 months because (1) card sharing was an accepted practice, (2) the cardholder was not preparing or reconciling his own log, and (3) the cardholder's supervisor did not conduct a thorough review of the cardholder's procurement card transactions.

Records show the employee used a co-worker's card to make purchases with a valid business purpose, and therefore, had access to the card number for making personal purchases. Although OA guidance prohibits the sharing of procurement cards, an MVC official said the agency allowed card sharing to limit the number of employees with cards.

MVC records show the employee prepared the card log for her co-worker, and the co-worker only signed the log. The co-worker said he did not realize that documentation was missing for some business related and personal purchases, because he did not agree all billed transactions to supporting documentation.

The cardholder's supervisor did not perform a thorough review of the cardholder's log. Our review of the logs identified purchases without supporting documentation. In addition, documentation showed purchases shipped to the employee's spouse, postage stamps shipped to the employee's home address, and payment of private business telephone bills of the employee's spouse.

The employee's supervisor told us she identified a personal charge for shipping made by the employee using the co-worker's card in April 2007. Records show the employee reimbursed the state for the charge. The supervisor said she reminded the employee that the procurement card should never be used for personal purchases; however, no changes to internal control procedures were implemented.

Following the detection of the fraudulent card usage in 2008, MVC officials said they eliminated the sharing of procurement cards, improved log preparation and review, and began conducting more thorough reviews of billings.

Employee approved her own transactions

The employee charged \$6,741 in personal expenditures to a procurement card issued in her name beginning in June 2007. This situation was not detected timely because the employee bypassed her supervisor's approval of transactions by approving her own documents in the state's accounting system, and her supervisor did not routinely review transaction reports available from the contractor.

The state's accounting system has security settings to prevent employees from approving documents they enter into the system. However, security settings for this employee were not set up correctly, at least partially because of limitations in the system at that time. An OA official said until the discovery of the fraudulent card usage, OA staff did not know some employees were able to enter and approve payment of procurement card transactions in the state's accounting system. The OA official said OA staff have identified a solution to the system weakness and are working with applicable state agencies to ensure security settings for all employees with access to the state's accounting system are appropriate.

An MVC official said following a procurement card training meeting in late February 2008, she decided to review transaction reports available from the card contractor. She said review of these reports allowed her to identify the fraudulent card usage; however, she has not been routinely reviewing these reports as part of overall program monitoring.

Conclusions

MVC officials have taken steps to segregate fuel card program duties; however, the employee who reconciles the fuel card statement details to supporting documentation continues to have access to the fuel cards.

The officials have taken steps to improve controls related to the procurement card program. They have prohibited card sharing, improved log preparation and review, and required detailed supervisory reviews. However, officials should ensure employees are aware of and comply with these policies.

The officials have not been reviewing procurement card transaction reports available from the contractor on a regular basis. Review of these reports provides another tool for program monitoring.

A procurement card program has more risk than a typical purchase order system; however, with appropriate control and monitoring procedures the most significant risks can be mitigated. The changes made by MVC management and the other recommended improvements should allow for increased prevention and timely identification of any future problems.

Recommendations

We recommend the Missouri Veterans Commission:

- 2.1 Ensure fuel card duties are segregated. Eliminate access to fuel cards for the employee responsible for reconciling the fuel card statements or establish an appropriate compensating control for any segregation weaknesses.
- 2.2 Continue to monitor and evaluate the procurement card program, and make changes as necessary, to ensure controls are in place and employees comply with established procedures.
- 2.3 Utilize procurement card contractor reports in program monitoring and review these reports on a regular basis.

Agency Comments

The Missouri Veterans Commission provided the following comments related to the recommendations.

MVC has implemented additional controls.

MVC has assigned custody of the fuel cards to an employee who does not have access to the fuel card bill.

MVC will continue to monitor and evaluate the procurement card program and make changes as necessary to ensure controls are in place and employees comply with established procedures. Training will continue to be encouraged.

MVC is in the process of performing regular reviews of cardholder activity by working with the contractor to customize reports. Regular transaction reports will be sent electronically to the cardholders and customized employee transaction reports will be sent to cardholders' supervisors. New and current cardholders receive ongoing training as well as a copy of the state purchasing card manual.

The Missouri Veterans Commission provided additional comments unrelated to the recommendations.

MVC officials discovered fraud and immediately reported it to the State Auditors Office and Office of Administration and the former employee has made full restitution.

MVC officials internally detected 87 percent of the total identified fraud prior to the audit and provided the documentation to the auditors. The auditors discovered \$2,427 of the total identified fraud. Seventy percent of the fraudulent transactions identified during audit fieldwork were the same types of transactions already identified by MVC officials prior to the audit. All of the misappropriated funds have been restored to the state by the former employee. Upon detecting fraud, MVC officials immediately began a detailed investigation, confronted the former employee, referred the case to local law enforcement and the Prosecuting Attorney's Office, and notified appropriate state officials, including the Governor's Office, the State Auditor's Office and Office of Administration (OA). The MVC worked with OA to notify the fidelity bond carrier of a potential claim. The case was settled by the Prosecuting Attorney's Office after the former employee pled guilty and paid restitution to the state.

MVC detected most of the fraud within eight months of occurrence.

Over half of the total identified fraud was detected by MVC officials within the same fiscal year that the transactions were fraudulently entered in the state financial system by the former employee. This was within 8 months of over half of the fraud occurring. Additional loss was prevented, and the fraud was detected timely by MVC officials, considering that it was only 1/100 of a percentage of the total MVC budget. Well over half of the fraud was done by the former employee through bypassing the established review and approval process. The fraudulent transactions were individually small, which made them difficult to detect.

Fraudulent activity on the new fuel cards requested by the former employee was detected with the first bill that was received by MVC.

The fraudulent activity on the three additional fuel cards requested in January 2008 by the former employee was identified by the supervisor with the first bill that was received by MVC. The former employee was responsible for reconciling the fuel tickets to the monthly bills and preparing a summary sheet for coding into the financial system. The supervisor relied on the reconciliations prepared by the former employee

and reviewed the summary sheets prepared by her before approving the bills in the financial system.

The former employee had access to the card numbers because that was an essential function of her job as the accountant for MVC.

The former employee who made fraudulent charges on the co-worker's card had access to the card number because she was an accountant, and her duties included entering bills for payment into the financial system. The supervisor reviewed the log and charges every month on the purchasing card. The supervisor spot-checked the supporting invoices against the log and card statement but relied on the former employee and cardholder to perform a detailed review. A large volume of bills were bundled into this card statement every month to reduce the number of checks written by the state and number of documents entered into the financial system. The former employee's personal shipping charge mentioned in the audit finding that was discovered in April 2007 was for \$10, and at that time there was no basis for suspicion or indication that fraud had occurred. The former employee stated it was a mistake and promptly paid that portion of the bill. The former employee was reminded by her supervisor that the card should never be used for personal purchases.

Fraud was detected by MVC officials from the cardholder activity on the contractor website.

The fraud on the card in the former employee's name was detected through the supervisor's review of cardholder activity from the contractor website. Fraudulent purchasing card transactions were paid by the former employee through automated documents in the financial system, which allow any user with final approval authority in the system to run them for payment. These documents do not distinguish between who entered the document and who approved it. This is because the document is created through an automated interface with the purchasing card contractor. The former employee bypassed the supervisor and approved these documents in the financial system on her own. MVC no longer allows employees with final approval authority in the financial system to be cardholders.

The person who committed the fraud was a former employee of the State Auditor's Office.

The MVC relied on this former employee because she was hired directly from her employment with the State Auditor's Office (SAO) as a Senior Auditor with over six years of auditing experience. She was hired by MVC only after obtaining positive references from the State Auditor's Office.

Prior to her employment at the MVC, she audited the MVC as an employee of the SAO. Because of her employment background and her prior responsible position with the SAO, MVC hired her to perform and oversee accounting functions to fill an accountant vacancy. As an employee of MVC, she was a member of the Institute of Internal Auditors and attended numerous training courses related to accounting and auditing, including subjects pertaining to fraud.

Elaborate checks and balances are not feasible given that MVC had funding for only two employees for accounting and budgeting.

The MVC central office accounting and budgeting staff consists of two employees. The former employee was one of these employees, and her supervisor is the other member of the team. This staffing level has not changed since at least fiscal year 1994. In fiscal year 1994 the MVC budget was only \$16.5 million. The fiscal year 2009 budget is over \$76 million, which is 4.6 times the size of the fiscal year 1994 budget. Over these 15 years, the number of Veterans homes has increased from five to seven plus the number of beds in existing Veterans homes has increased by 200, four Veterans cemeteries have opened (with a fifth cemetery on the way), the Veterans Service Officer Grant Program was established, the number of Veterans Service Officers has increased, and the State Veterans Ombudsman Program was created. Also during this time period, final approval authority on payment documents was delegated to the MVC by the Office of Administration with no increase in accounting staff. All of the program expansions have increased the workload of the financial staff and requires the need for more oversight. The MVC officials have recognized this need for years and have submitted budget requests to increase the accounting staff, but until fiscal year 2009 the requested increases have not been funded. In fiscal year 2009 a partial full-time equivalent position was funded for an accountant. The MVC will use this employee to help with the increase in workload and improve internal controls.

See additional comments provided by the Missouri Veterans Commission at the end of Chapter 4, page 24.

OA Has Made Improvements in Card Programs, but Other Improvements Are Needed

OA has made improvements in the procurement card program, but additional areas, such as internal control reporting, allocation of rebates, and vendor discounts, still need to be addressed. Also, OA officials were unaware employees at some agencies received pre-activated cards.

OA Needs to Address Additional Issues

The OA's oversight of the procurement and fuel card programs and guidance to state agencies has improved. In May 2008, OA officials revised the state procurement card policies and procedures manual to address new topics including not allowing transaction splitting, use of online payment services, payment of convenience fees, and improved controls over (1) accounts with no apparent activity, and (2) payment approval in the state's accounting system. In addition, effective with the 2007 contract, Missouri's 1.44 percent rebate from the procurement card contractor is one of the highest identified in a state procurement card survey we reviewed.⁹

However, the following areas need additional consideration:

- Inclusion of procurement and fuel card controls in agency internal control plans
- Allocation of rebates
- Vendor discounts

Internal control plans did not always address cards

Agency internal control plans did not always address procurement and fuel card controls. State agencies annually file or update internal control plans with the OA. These plans are required as part of Cooperative Agreements the agencies have with the OA regarding approval of certain payment transactions.

In 2007, only 5 of 28 applicable agency internal control plans included controls addressing procurement cards, 18 agencies did not include this information, and 5 agencies did not submit updated plans in 2007. OA officials said agencies implementing procurement card programs must establish procedure manuals approved by OA which include program internal controls. OA personnel told us during review of the 2007 internal control plans, they also began recommending agencies include controls specifically related to procurement cards in the plans. We also reviewed 13 of 18 internal control plans for 2008 that agencies had submitted as of June

⁹ Study performed by the National Association of State Auditors, Comptrollers and Treasurers, issued July 2007, <<http://www.nasact.org/memonly/downloads/statecard07/ToC.cfm>>, accessed July 23, 2008.

2008. Of the 13¹⁰ plans reviewed, 7 included controls related to procurement cards.

OA has not recommended agencies include a section on fuel card controls. OA personnel said OA had not considered fuel card internal controls until staff started evaluating procurement card controls. OA officials said they may recommend documenting all purchasing card controls after reviewing the 2008 plans.

Policy on rebates
needed

OA personnel have not established a statewide written policy regarding allocation of card rebates to federal funding sources. The state's contracts with card contractors require specific rebates on purchases made using the state's procurement and fuel cards. For fiscal year 2008, the state received rebates of about \$533,000 and \$120,000 for the procurement and fuel card programs, respectively. State agency officials inform OA which fund or funds should receive the agency's portion of rebates. Some rebates result from purchases charged to federal programs.

Federal rules¹¹ state that costs paid with federal funds must be net of all applicable credits to be allowable under federal awards. The guidance describes applicable credits as those receipts or reductions of expenditure-type transactions that offset or reduce expense items allocable to federal awards. Such transactions include purchase discounts and rebates.

OA personnel said they have discussed this issue with other states and the procurement card contractor, but as of July 2008 have not implemented a statewide policy for agencies to consider regarding rebate allocation. OA personnel said at least two agencies have established their own solutions. One agency conducted an expenditure analysis and found approximately 50 percent of procurement card purchases were from federal funding and requested rebates be allocated accordingly. At another agency, officials do not allow procurement card purchases from federal funds.

No vendor discounts

Missouri's procurement card program does not include discounts when cards are used at participating vendors. In 2004, the GAO¹² reported on federal government agency efforts to obtain discounts on procurement card

¹⁰ Plans are submitted throughout the year and 10 agencies with procurement cards had not submitted 2008 plans for all divisions at the time of our review. Three of these 10 agencies included procurement card controls in their 2007 plans.

¹¹ Federal Office of Management and Budget Circular A-87, Attachment A, Sections C.1.i and 4.a.

¹² GAO, *Agencies Can Achieve Significant Savings on Purchase Card Buys*, GAO-04-430, March 2004.

transactions. A 2007 research study¹³ on state procurement card programs indicated negotiation of volume discounts with vendors was one method states used to promote best value purchases with procurement cards.

State purchasing staff in Arizona told us with each contract bid the state asks for vendor acceptance of procurement cards as a method of payment and seeks discounts from the vendor if payment is made by procurement card. State purchasing staff in Iowa told us for the statewide office supplies contract the vendor provides a rebate quarterly based on timing of payments. Payments made by procurement card and electronic funds transfer help increase the potential rebate.

OA officials said they are trying to get more detailed transaction information regarding vendor transactions from the card contractor to evaluate which vendors might be willing to provide discounts. The officials also said as statewide contracts are established or renewed, terms are being changed or set up requiring vendors to accept procurement cards as a method of payment.

Agencies Received Pre-activated Cards

OA officials believed all procurement cards required activation¹⁴ by the cardholder after receipt; however, we determined employees from 8 of the 28 agencies using procurement cards received pre-activated cards. A pre-activated card can immediately be used by anyone receiving it, increasing the risk of misuse if the intended card recipient never receives the card. After we discussed this issue with OA officials in March 2008, the officials said they contacted the card contractor to correct this problem. A card contractor official told us pre-activated cards will no longer be sent to any state agencies.

Conclusions

Expanded state agency use of procurement and fuel cards increases the importance of state agency internal control systems. Inclusion of internal control procedures over these cards in the internal control plans will provide the OA a more comprehensive picture of an agency's payment controls.

A statewide written policy regarding allocation of card rebates to federal funding sources would help ensure agencies appropriately consider rebates in federal program reporting.

¹³ AGA Corporate Partner Advisory Group Research, *The State Purchase Card: Uses, Policies and Best Practices*, AGA CPAG Research Series: Report No. 7, February 2007.

¹⁴ To activate a card, the cardholder would have to contact the card contractor to verify receipt of the card and identification information.

As procurement card programs grow, the potential for organizations to obtain vendor discounts increases.

Pre-activated cards increase the risk for potential card misuse. After we brought it to their attention, OA officials addressed the issue of some agencies receiving pre-activated cards. Monitoring this issue with the card coordinators at state agencies will help ensure it does not occur again.

Recommendations

We recommend the Commissioner of the Office of Administration:

- 3.1 Work with applicable state agencies to ensure procurement and fuel card controls are documented in internal control plans.
- 3.2 Establish a written statewide policy for state agencies to follow regarding allocation of rebates to applicable federal funding sources.
- 3.3 Evaluate opportunities for vendor discounts as state agencies increase procurement card usage.
- 3.4 Periodically verify with state agency procurement card coordinators that they are not receiving pre-activated cards.

Agency Comments

3.1 *We agree.*

OA revised the State Purchasing Card Policy & Procedure Manual in May 2008. This revision provided guidance to agencies regarding stronger internal controls. As a result of the revised manual, many agencies updated their own policies and procedures and submitted their revised manuals to Office of Administration, Division of Accounting for approval. The internal control plans submitted by agencies were not required to include a section on purchasing cards. This would be redundant as the information is already provided in the agency's purchasing card manuals.

We will recommend modified language in the agency control plans as needed to clarify this issue.

3.2 *We agree.*

OA is developing a rebate policy that will include guidance on this issue.

3.3 *We do not agree with the recommendation as stated because we do not believe there are significant opportunities for vendor discounts and any that may exist would be difficult to administer. We checked with State Purchasing Card officials in Virginia and Tennessee and they told us they have not experienced any vendors willing to give discounts for using the Purchasing Card.*

What we do and will continue to do is to identify opportunities to achieve better value for the State through the procurement process, for example, through bids and contracts.

3.4 *We do not agree with this recommendation. This was a one-time occurrence that was the responsibility of the card issuer. However, we have notified agencies about this issue and have encouraged them to report any future occurrences to us just as they should any unusual occurrences in card issuance and usage.*

We provided state agencies reviewed as part of this audit an opportunity to comment about the reported findings and results in Chapters 3 and 4. Two agencies (Missouri Veterans Commission and the Missouri State Highway Patrol) provided comments. See the end of Chapter 4 for the comments.

Agency Card Program Controls

State agency personnel did not always follow rules and guidance in OA's state procurement card policy and procedures manual. Agency best practices could be better communicated to other agencies.

Agency Control Weaknesses

Our review of procurement card procedures and transactions at eight agencies identified agency staff did not always (1) comply with rules and guidance in the state procurement card policy and procedures manual or other common program controls, (2) review documentation related to automatic payments, and (3) perform annual card assessments.

Purchasing rules not always followed

At all eight agencies reviewed, we identified noncompliance with purchasing rules or weaknesses in purchasing procedures. In general, agencies reviewed had established adequate procedures; however, compliance with those procedures did not always occur. The weaknesses primarily occurred on a limited number of transactions reviewed except for the MVC as discussed in Chapter 2. In some cases an agency's internal procedures had identified the problem with agency officials taking corrective action and/or providing training to applicable employees. Agency officials said the errors were generally an oversight, but sometimes staff was not aware of the requirement or control procedure.

Table 4.1 lists some of the weaknesses identified and the number of agencies impacted.

Table 4.1: Agency Compliance Issues

Problem	Number of Agencies Identified
Supervisory approval not documented	8
Sales tax paid and not removed	6
Split transactions	5
Shared cards	4
No receipt supporting the purchase	4
Necessary waivers ¹ not obtained	4
Cardholder did not sign log	4

¹ For items available for Missouri Vocational Enterprise, State Printing, etc.

Source: SAO analysis of agency provided documentation.

Automatically charged bills not always monitored effectively

Our review of transactions identified two instances where agencies incurred unnecessary costs at least in part due to billings being automatically charged to a procurement card.

In one instance, an agency continued to pay \$150 per month for information services after the contract expired in October 2007. An agency official told us following our questions about the business purpose of this service that staff determined this contract had expired and monthly payments had

continued. The official said the agency requested a \$1,200 refund (November 2007 to June 2008 billings) from the service provider, and the monthly billing ended. The official said the employee responsible for the card the service was charged to had been aware of the service cancellation, but had not reviewed his card billings effectively.

In another instance, an agency paid sales tax on telephone bills set up to be automatically charged to a procurement card. An agency official said the accounts had not been set up properly, personnel had not been aware of the tax issue, and review of the bills had not been sufficient. The official said the agency obtained a refund of more than \$200 for amounts paid in error. As of July 2008, the official had contacted another utility provider to evaluate other possible refunds.

Annual assessments not always completed

Agencies did not always perform an annual assessment of card usage and transaction limits. The state procurement card policy and procedures manual says such an assessment should be done at each agency. Three of the eight agencies reviewed had not completed annual assessments in the past year. An official at one agency said staff began the 2007 assessment, but failed to complete it. The agency had completed assessments in prior years. Officials at another agency said they perform informal procedures to review these issues, but do not perform a formal assessment. An official at the third agency said staff focused on expanded use of the procurement cards in 2007 and did not perform an assessment. OA officials said beginning in 2008, agency coordinators must report assessment results to OA by an established deadline.

Noteworthy Procedures at Some Agencies

The state holds an annual conference and quarterly roundtable meetings for state agency personnel to discuss procurement card issues. Best practices are discussed at these conferences; however, OA staff has not prepared a comprehensive list of identified practices for agencies to consider. Our review identified the following best practices being used by state agencies:

- The Department of Natural Resources has created a report to assist staff in identifying purchases made through the state's accounting system that could have been made with a procurement card. Agency officials said report results are used to educate employees and encourage them to make purchases with the procurement card, if possible.
- In addition to providing training for new cardholders, the Department of Transportation conducted a separate training session for division card coordinators in 2008. According to MoDOT officials, this

training was beneficial because cardholders will go to these individuals when they have questions about their procurement cards.

- The Department of Natural Resources requires cardholders to go through training every 2 years before renewing their procurement cards.
- Department of Transportation officials said they determined the central travel desk card numbers, used to make hotel reservations for many employees, had a higher risk of being stolen and inappropriately used than other cards, so they began a process of replacing this card each quarter.
- The Department of Corrections procurement staff monitors all cardholder statements, and records problem transactions on a log. Department officials said the log is then used to identify weak areas and to educate employees as needed.
- The Department of Economic Development and the Office of State Courts Administrator have been using reports prepared from the card contractor's website to aid staff in reviewing purchases.
- The Department of Transportation tracks timeliness of payments for all invoices, and places great importance on having all payments, including procurement card payments, made within 30 days of invoice date.

OA officials said some best practices are not applicable statewide, since each agency has its own processes. However, OA officials are aware some agencies have taken initiative to implement best practices, and intend to share these practices at future roundtable and forum meetings.

Agency procedures have resulted in increased rebates

State agency employees have increased card usage in the last several years resulting in the state receiving more rebates. Examples of recent card usage changes at some agencies include:

- Effective August 2007, the Department of Conservation requires all purchases of \$1,500 or less to be made with the procurement card, unless the purchase is not allowed with the card or the vendor does not accept the card. Rebates increased from \$8,600 in the second quarter of 2007, to \$33,700 in the second quarter of 2008.
- In late 2006, the Missouri Veterans Commission began charging pharmaceutical purchases from the Department of Veterans Affairs

and other businesses to procurement cards. Rebates received have increased from \$1,850 in fiscal year 2006 to \$153,007 in fiscal year 2008.

- A Department of Corrections procurement official at one department facility said he uses the procurement card for all eligible purchases. This official said using the card speeds up receipt of shipments. During calendar year 2007, the employee charged \$90,000 in facility expenditures to procurement cards generating about \$1,300 in rebates. Department of Correction personnel said the employee made a presentation at a July 2008 staff conference on his card usage procedures.

Conclusions

Improvement in agency compliance with OA program guidance is needed to better identify errors and inappropriate transactions occurring in the procurement process. With the expanded card usage at many agencies, effective agency review and monitoring of card transactions is even more important.

Some state agencies have implemented procedures to improve their procurement card programs. Providing all agencies detailed information on these practices will better allow agency officials to identify and implement useful controls.

Recommendations

We recommend the Commissioner of the Office of Administration:

4.1 Work with state agencies to improve compliance with program guidance.

4.2 Collect and distribute identified agency best practices to state agencies.

Agency Comments

4.1 *We agree.*

The Office of Administration, Division of Accounting, collaborates with Agency Purchasing Card Coordinators in an ongoing manner through use of the quarterly roundtable meetings and annual purchasing card forum. In addition, the State Purchasing Card Coordinator and Administrator provide guidance to agencies and assist with questions or concerns.

The Office of Administration, Division of Accounting, also conducts expenditure reviews on a quarterly basis, evaluating purchasing card documentation and compliance in the program. When noncompliance

issues are identified, agencies are given recommendations and guidance to improve the purchasing card program.

4.2 We agree.

The Office of Administration, Division of Accounting, maintains a purchasing card website with all relevant information to the program. As part of the division's commitment to optimizing the program, when best practices are identified which would benefit state agencies, the information will be posted to the website or communicated through purchasing card email distribution lists.

We provided state agencies reviewed as part of this audit an opportunity to comment about the reported findings and results in Chapters 3 and 4. Two agencies (Missouri Veterans Commission and the Missouri State Highway Patrol) provided comments.

Missouri Veterans Commission comments

MVC took the initiative to expand the use of state purchasing cards to save the number of checks written by the state. Training for cardholders is offered, and attendance is encouraged.

MVC officials took the initiative to expand the use of the state purchasing cards in November 2006 with a purchasing card forum for potential MVC cardholders. Training was provided by the Office of Administration and the purchasing card contractor. After the forum, MVC's participation in the purchasing card program grew quickly. MVC immediately reduced the number of paper checks written by the state and increased rebate revenues to the state. In an effort to manage the purchasing card program growth, MVC initially limited the number of cardholders, while still increasing the volume of purchases on the cards. But after some experience with the increased use of the purchasing cards, MVC officials determined it was more effective to increase the number of cardholders to provide a link to the employees initiating the transactions. Since MVC was in a growth mode, limits were monitored and increased with supporting justification from the cardholders. Changes in credit limits have only been authorized with the approval of the Office of Administration and the purchasing card contractor. All MVC cardholders are notified of periodic OA purchasing card forums and are encouraged to attend.

MVC used existing resources to increase state revenues from purchasing card rebates by over \$150,000 annually.

The MVC fiscal year 2008 rebates were 29 percent of the total statewide rebates, and MVC's budget is only 0.3 percent of the total statewide budget. MVC accomplished this growth in revenues to the state with existing staff and resources. In fiscal year 2006 MVC purchasing card rebates were only \$1,850, in fiscal year 2007 rebates increased to \$25,253 and in fiscal year 2008 rebates grew to \$153,007. As shown in Table I.1 of this report, the MVC is second in statewide purchasing card expenditures, even with a much smaller budget than the larger agencies ranked below them. In January 2008 MVC filled a vacancy with an employee that has statewide purchasing card expertise to continue to manage the program growth. As a monitoring and assessment tool MVC officials have completed an annual purchasing card assessment as of August 28, 2008.

Missouri State Highway Patrol comments

We appreciate the work and cooperative efforts put forth by your employees to assist agencies in identifying strengths and weaknesses in their purchasing card systems.

The Patrol will continue to look for ways to ensure the purchasing card program works as efficiently as possible. The Patrol already has an internal control plan, and will continue to work with the Office of Administration (OA) to ensure our controls are adequately documented. In the past year, the Patrol has conducted agency-wide purchasing training, including a section on purchasing cards. We have also improved processes to ensure a more timely payment. One major change in procedures has been to obtain bills online, rather than receiving hard copies of statements thru the mail (which then had to be routed through several layers of staff before they could be paid). This streamlining saved about two to three weeks in the payment process. As OA is now sending out reports to use in conducting annual assessments of card usage, the Patrol will cancel cards and adjust limits as necessary.

The Patrol plans to use this audit report as a checklist to assist in compliance with established procedures, including supervisory approval of purchases, preventing the shared use of cards, and obtaining signatures of cardholders after their review of the log.

Agency Card Activity and Cards Outstanding

Tables I.1 and I.2 show the transaction activity and cards outstanding for the procurement and fuel cards for the periods identified.

Table I.1: Agency Procurement Card Activity

State Agency¹	Card Expenditures January 2006 to February 2008	Cards Outstanding at February 2008
Department of Transportation	\$19,865,946	1,225
Missouri Veterans Commission	11,509,383	80
Department of Conservation	6,495,080	1,492
Department of Natural Resources	2,661,855	302
Office of Administration	2,223,071	192
Department of Corrections	1,638,819	272
Missouri State Highway Patrol	1,277,017	192
Department of Elementary and Secondary Education	956,627	33
Department of Economic Development	935,123	119
Office of State Courts Administrator	807,335	10
Other	3,173,771	414
Total	\$51,544,027	4,331

¹ State departments with decentralized divisions are reported separately. These departments have delegated procurement responsibilities to the divisions.

Source: SAO analysis of contractor provided data.

Table I.2: Agency Fuel Card Activity

Agency	Card Expenditures Calendar Year 2007	Cards Outstanding at March 2008
Department of Conservation	\$2,709,764	1,447
Department of Transportation	1,465,591	7,367
Department of Public Safety	872,744	3,617
Department of Corrections	711,309	886
Department of Social Services	708,780	502
Department of Natural Resources	676,209	836
Department of Mental Health	499,047	890
Department of Agriculture	461,309	227
Department of Elementary and Secondary Education	263,111	176
Department of Revenue	252,615	127
Other	909,520	795
Total	\$9,529,999	16,870

Source: SAO analysis of contractor provided data.