



Legislative Audit Division

Performance Audit Summary

Purchasing Card Program

October 2001

Introduction

The Legislative Audit Committee requested a limited scope performance audit of the state's Purchasing Card Program (ProCard). The program provides credit cards (a MasterCard) to state employees to use for official state business. The program is administered by the Department of Administration (DofA), Montana Department of Transportation (MDT), The University of Montana (UofM), and Montana State University (MSU). We reviewed program controls and card usage at the universities and 11 state agencies.

Background

In 1996 DofA, MDT, The UofM, and MSU entered into a four-year agreement with GE Capital Financial, Inc. to provide the state of Montana with purchasing cards and software to track transactions. The four entities renewed the contract for one year in 2000 and again in 2001, and there is one more renewal option.

The purchasing card is a tool to manage purchasing and accounting resources by concentrating low-dollar purchases in a less paper-intensive process. The purpose of the card is to make the process for small purchases more efficient.

The card is to be used by state employees only for business-related purchases. Each employee is responsible for the card provided, but card use information is not recorded on the employee's individual credit history.

Software Provided to Track Transactions

GE Capital provided the state with four copies of the card activity reporting software – Purchasing Accounting Reporting Information System (PARIS). Each of the four state entities party to the contract maintains a copy of the software on the respective agency's computer system. Each copy is referred to as a node. The DofA copy is used by all state agencies except MDT and the university units.

PARIS records all the transactions by agency/department, the vendor, and, in some cases, what was purchased. PARIS can also generate a number of reports by agency/department, an entire node, or individual cardholder.

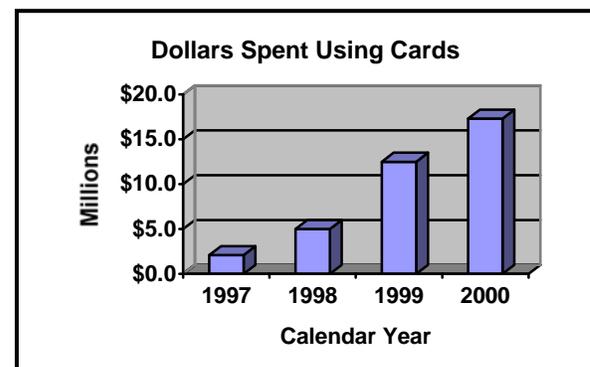
Use Limits Placed on Cards

Employees cannot use the card for personal use, cash advances, state-related lodging that exceeds authorized limits, or meals.

Purchasing limits are also placed on the cards. These include single purchase dollar limits (\$5,000), daily dollar limits (\$25,000), daily transaction limits (25 purchases per day), and monthly dollar (\$50,000 total) and transaction (100) limits. Individual card limits can be changed when requested by the node's coordinator.

Card Use

Calendar year 1997 was the first full year all the nodes used purchasing cards. That year 402 cards were used. Cardholders made 12,939 transactions totaling \$2.1 million from 2,912 vendors. In calendar year 2000, 1,647 cards were used. Cardholders made 70,268 transactions totaling \$17.3 million from 14,994 vendors.



The types of items purchased with the ProCard range from office supplies to building materials. The vendor with the most dollar sales in calendar year 2000 through October 31, was Dell Computers. The vendor with the most transactions in 2000 through October 31, was Staples for office supplies.

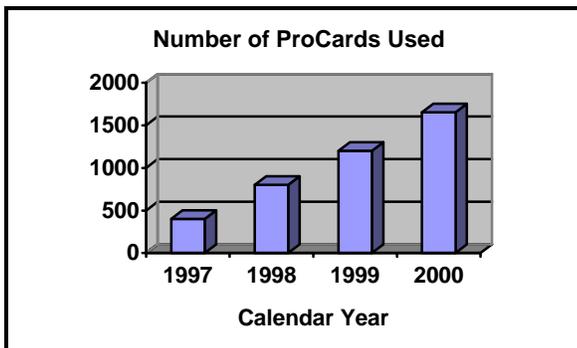
Rebates Based on Card Use

The contract with GE Capital provides rebates to the state based on card use (dollar volume) and timeliness of payments. The state has received the timeliness payment rebate since the program began. In fiscal year 1999-00, the state received a volume discount because total use was greater than \$10 million. The total rebate for fiscal year

1997-98 was \$2,963. The total rebate for fiscal year 1999-00 was \$24,123. The rebate is divided among the four administering entities based on percent of expenditures compared to total expenditures with ProCards. The nodes use the rebates to offset program costs.

ProCard Program Growing

In calendar year 1997 there were 402 cards. By the end of calendar year 2000, the number had increased to 1,647 cards, a 300-percent increase.



Vendors like ProCard use because there is less paperwork for them and they are paid faster. Employees like the cards because they can make purchases when needed and do not have to wait for purchase orders to be generated.

Some agencies use ProCards on a limited basis and other agencies do not have cards. We sampled seven agencies with cards in fiscal years 1997-98 and 1998-99 to determine if card use is increasing. We found the Departments of Administration and Labor and Industry increased their use of ProCards between the two years by 30 to 40 percent.

ProCard Controls

We determined policies/procedures we thought would constitute a good control system over ProCard use. The controls included an adequate system to prevent misuse and enhance management of the usage. The controls that should be in place included:

Basic Card Use Controls:

- Receipts are reconciled to monthly statements.
- Card administrators conduct follow-up to ensure all receipts are received.
- The cardholder’s supervisor reviews or approves purchases either before or after the purchase.
- Someone other than the cardholder reconciles transactions to PARIS.
- There is a separate review and approval of the card administrator’s changes made to PARIS.

Desirable Management Controls:

- Cardholders are required to complete a separate log or form listing purchases made each cycle.

- Card limits are based on the person’s responsibilities and function in the agency/department.
- Policies and procedures are tailored to the specific department/agency.
- New cardholders receive training about appropriate card use.

We determined which of the above controls were established for each agency/department. We then reviewed a random sample of at least ten transactions for each sampled cardholder (or all the transactions if less than ten) to verify the controls were operating as described. Our sample encompassed 114 of 1,367 cards in 11 state agencies and the 2 university systems. We sampled approximately 8 percent of the cards used and 6 percent of total ProCard expenditures in the agencies/units.

Purchases Reasonable

Based on our testing, purchases made with ProCards are reasonable. Controls the card administrator described as established for the agency/unit were generally present. All the entities reconciled purchases to PARIS. We also found that almost all of the transactions we reviewed were supported by receipts.

Since some agencies have weaker purchasing controls there is a higher risk of staff purchasing items for personal use. However, these risks also exist under the “conventional” purchasing system requiring purchase orders and vendor invoices. The advantage with ProCards is that purchasing information is more timely since the transaction is posted to PARIS within hours or days and monthly statements are sent to the agency/department. Purchase orders and invoices might not be sent to the agency/department for over a month.

Some Agencies Could Increase Controls

While some agencies established all or most of the controls, other agencies could incorporate more of the controls in their system.

We sent letters to each agency/university unit we visited. We identified controls that could be improved and asked for a response. Copies of our letters, and the subsequent responses, were placed in the Legislative Audit Division’s agency files. The control environment we identified, and changes in procedures made by the agencies, can and are being used by financial compliance auditors to establish the level of control testing and detail of testing needed in conducting biennial audits of each agency.

For a complete copy of the report (01P-03) or for further information contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>.