

LEGISLATIVE AUDIT DIVISION

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MEMORANDUM

TO: Legislative Audit Committee Members

FROM: Joe Tschida, Performance Auditor

CC: John Lewis, Director, Department of Administration
Mike Manion, Deputy Director, Department of Administration
Cheryl Grey, Administrator, State Financial Services Division
Meghan Holmlund, Chief, State Procurement Bureau

DATE: November 2020

RE: Performance Audit Follow-Up (21SP-02): *Oversight of State Agency Procurement Card Use* (orig. 18P-02)

ATTACHMENTS: Original Performance Audit Summary

Introduction

The *Oversight of State Agency Procurement Card Use* (18P-02) report was issued to the Legislative Audit Committee in May 2019. The audit included three recommendations to the Department of Administration (DOA). In November 2020, we conducted follow-up work to assess implementation of the report recommendations. This memorandum summarizes the results of our follow-up work.

Overview

Our original audit found procurement card (procard) cardholders did not consistently document purchases throughout state agencies, centralized oversight of agency and cardholder procard policy compliance was lacking, and opportunities existed to further expand procard use to maximize rebates to the state. We recommended that DOA revise state procard policy to clarify documentation expectations for procard purchases and require agencies to report intentional misuse of procards. We also recommended that DOA develop and implement a centralized oversight process to periodically analyze the risk of inappropriate purchases and evaluate agency compliance with procard policies. Our final recommendation was to create a process to expand procard use and encourage agencies to move payments to procards when feasible. Through our follow-up work, we found that two recommendations had been implemented and one is in the process of being implemented.

Background

Established in 1996, DOA manages a statewide procard program. The procard, which is a term used to denote a credit card used by state employees, is a tool to manage purchasing and accounting resources and is an aspect of overall procurement practices. The program offers significant benefits to the state from reduced administrative costs and increased flexibility to make small or routine purchases. State agencies are also permitted to use procards for larger purchases when appropriate, such as bulk computer software and hardware. Infrastructure for the program is provided as part of a commercial card contract and requires little state investment. State law requires DOA to adopt rules governing the procurement process,

decide policy, supervise the procurement of supplies and services needed by the state, and maximize the purchasing value of public funds. While overall management and administration of the procard program is a function of DOA, administrative rules provide for the delegation of purchasing authority to state agencies. As of March 2018, there were 8,879 cards in circulation, and in fiscal year 2018 transactions totaled over \$100 million.

The program also enables the state to leverage its purchasing resources through rebates. Under the current contract, procard purchases return approximately two cents on every dollar spent in rebates. Rebates are similar to credit card reward programs that incentivize individual cardholders to increase card use. From fiscal year 2016 to 2017, the overall rebate increased from \$1.7 million to \$2.2 million due partly to increased state spending, but mostly because of the aggregate rebate provided as part of a new contract which accounted for an increase of \$464,654. Statewide procard use has steadily increased since 1996 which has also resulted in increased rebates to the state.

Audit Follow-up Results

During our follow-up, we reviewed documentation of new policies and procedures DOA implemented as a result of the audit and materials that they provided to agencies about the changes. We also interviewed staff at agencies who are responsible for procard administration and staff at DOA who conduct agency procurement audits about the implementation of policy changes, the process of encouraging cardholders to move payment to procards, and the new compliance audit process. Finally, we reviewed selected compliance reviews to determine if DOA was assessing agency compliance with policies and analyzing the risk of inappropriate purchases. The following sections summarize the progress toward implementation of the report recommendations.

RECOMMENDATION #1

We recommend the Department of Administration revise state policies related to procards to more clearly outline documentation expectations that are needed to understand the nature of the purchases.

Implementation Status – Implemented

In our original audit work, we did not identify any fraud or misuse not already identified by the agency and procard purchases were generally reasonable. However, we determined agencies did not consistently document and support procard transactions because state policies lacked clarity. For example, in our random sample of 527 transactions we identified 34 that lacked supporting documentation to understand the apparent business need for the transaction. State policy only required a receipt for a purchase, and the receipt did not have to be itemized. Agencies also had different practices for documenting purchases. Some did not require any documentation in addition to the receipt, relying on staff knowledge for justification of purchase, while others tracked purchases in a log which included details about what was purchased and how it met a business need. Consequentially, we recommended that DOA revise their policies to clarify expectations for documenting purchases and their appropriateness. As part of our follow-up work, we obtained and reviewed updated procurement card program policies in the Montana Operations Manual (MOM). The policy now explicitly requires an itemized receipt and an explanation for purchases if it “appears unusual or the business need is not apparent.” The policy also now includes examples of appropriate documentation for purchases made outside the statewide contracts for office supplies, travel related purchases, and gift card purchases. In our interviews, both DOA and agency staff stated that DOA made multiple efforts to communicate the policy changes to agency procurement administrators regarding the new expectations regarding the nature of procard purchases.

RECOMMENDATION #2

We recommend the Department of Administration develop and implement a centralized process and policy to:

- A. Periodically analyze the risks of inappropriate purchases and evaluate agency compliance with procard program policies.**
- B. Require agencies to report to the Department of Administration intentional misuse of procurement cards by cardholders, in addition to statutory reporting requirements.**

Implementation Status – *Implemented*

- A. In our original audit work, we found that there was no centralized process for reviewing agency procard transactions. We also found that DOA did not monitor agency procard purchases to identify instances in which state policy was not followed. In response to the audit recommendation, DOA incorporated a procard review into their new compliance review process. The review requires DOA staff to identify if the audited agency has a process to periodically assess procard transactions for reasonableness. The review also requires DOA staff to obtain a list of all agency procard transactions for the prior 18 months and judgmentally select 9 for review. The DOA reviewer then determines if each of the 9 transactions were adequately supported and whether the expenditures comply with procard program policies. As part of our follow-up work, we reviewed two completed compliance reviews and found that DOA staff were following this process to identify and evaluate instances when state policy was not followed. In our interviews, both DOA and other state agency staff stated they think the process works well and the requirements are clear.
- B. Our original audit also identified DOA staff were also not always aware of procard fraud occurring in other state agencies because state policy did not require agencies to report procard fraud to DOA. As a result, we recommended that DOA require agencies to report instances of intentional misuse of procards to DOA, in addition to statutory reporting requirements. In response to our recommendation, DOA revised MOM policy for the procurement card program. The new policy states that in cases of intentional employee misuse, the agency must submit a Procard Employee Misuse Form to DOA, to which the policy provides a link. In our interviews, DOA staff stated that they informed agencies of the new policy via emails, with agency staff indicating they were now aware of the new requirement. As of completion of this report, there has been one report of intentional misuse. An employee was found to have made a fraudulent transaction and upon further investigation found to have submitted multiple altered receipts and falsified other records. As a result of the misuse, the employee left the agency. The agency reporting the intentional misuse used the proper form indicated in MOM.

RECOMMENDATION #3

We recommend the Department of Administration implement a process to:

- A. Examine and implement opportunities for expanded procurement card use to optimize rebates to the state, and**
- B. Communicate with and encourage agencies to move payments to procurement cards when feasible.**

Implementation Status – *Being Implemented*

- A. We found through our original audit work that there are opportunities for the state to increase its use of procurement cards, which would result in increased rebate revenues and reduced

procurement costs. We found that DOA did not actively evaluate agency transactions to identify further opportunities for procard use. While not all payments can be moved to procards, our original analysis revealed that there was a potential for up to \$284,000 in additional rebates. To address this opportunity, DOA modified their agency compliance review procedure to include a procard analysis step to be conducted on an annual basis. In this step, DOA staff will request a record of all agency Accounts Payable payments for the prior state fiscal year and review the records to determine if any payments could have been made via procard. DOA then will share the results of these reviews with each agency procard coordinator. DOA has not conducted this review since the policy was recently amended but is planning to conduct it by the end of this year, pending receipt of annual reports from several agencies. They are actively reaching out to the agencies that have not yet submitted reports in order to start that process as soon as possible. They also plan to continue working their commercial card contractor to identify opportunities to expand use and increase rebates.

- B. In interviews for our original audit, we found agency personnel were open to increasing procard use. We recommended DOA encourage agencies to move payments to procards when it was feasible. To implement this recommendation, DOA encouraged expanded use at the annual procurement conference and sent emails to agency procard coordinators encouraging them to expand use. They will also encourage expanded use in discussions during compliance reviews. Finally, they plan to continue working US Bank, their contractor, to identify opportunities to expanded use and increase rebates.