



A REPORT
TO THE
MONTANA
LEGISLATURE

PERFORMANCE AUDIT

Oversight of State Agency Procurement Card Use

Department of Administration

MAY 2019

LEGISLATIVE AUDIT
DIVISION

18P-02

**LEGISLATIVE AUDIT
COMMITTEE**

REPRESENTATIVES

KIM ABBOTT

Kim.Abbott@mtleg.gov

DAN BARTEL

Danbartel2@gmail.com

TOM BURNETT, VICE CHAIR

Burnett.tom@gmail.com

DENISE HAYMAN

Denise.Hayman@mtleg.gov

EMMA KERR-CARPENTER

KC@mtleg.gov

MATT REGIER

Matt.Regier@mtleg.gov

SENATORS

DEE BROWN

senatordee@yahoo.com

JASON ELLSWORTH

Jason.Ellsworth@mtleg.gov

JOHN ESP

Johnesp2001@yahoo.com

PAT FLOWERS

Pat.Flowers@mtleg.gov

TOM JACOBSON

Tom.Jacobson@mtleg.gov

MARY McNALLY, CHAIR

McNally4MTLeg@gmail.com

MEMBERS SERVE UNTIL A
MEMBER'S LEGISLATIVE TERM
OF OFFICE ENDS OR UNTIL A
SUCCESSOR IS APPOINTED,
WHICHEVER OCCURS FIRST.

§5-13-202(2), MCA

FRAUD HOTLINE
(STATEWIDE)
1-800-222-4446
(IN HELENA)
444-4446
LADHotline@mt.gov.

PERFORMANCE AUDITS

Performance audits conducted by the Legislative Audit Division are designed to assess state government operations. From the audit work, a determination is made as to whether agencies and programs are accomplishing their purposes, and whether they can do so with greater efficiency and economy.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the 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 a reasonable basis for our findings and conclusions based on our audit objectives. Members of the performance audit staff hold degrees in disciplines appropriate to the audit process.

Performance audits are conducted at the request of the Legislative Audit Committee, which is a bicameral and bipartisan standing committee of the Montana Legislature. The committee consists of six members of the Senate and six members of the House of Representatives.

AUDIT STAFF

WILLIAM SOLLER

MARGARET WALLACE

Reports can be found in electronic format at:
<https://leg.mt.gov/lad/audit-reports>

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

May 2019

The Legislative Audit Committee
of the Montana State Legislature:

This is our performance audit of the Oversight of State Agency Procurement Card Use.
The procurement card program is managed by the Department of Administration.

This report provides the legislature information about state agency procurement card (procards) use, and state rebate savings earned because of procards use. This report includes recommendations for clarifying state policies related to documenting procards expenditures, increasing the department's oversight role, and increasing procards use to maximize rebate savings to the state. A written response from the department is included at the end of the report.

We wish to express our appreciation to department personnel for their cooperation and assistance during the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

TABLE OF CONTENTS

Figures and Tables.....	ii
Appointed and Administrative Officials	iii
Report Summary	S-1
CHAPTER I – INTRODUCTION AND BACKGROUND	1
Introduction.....	1
Program Background	1
Growth of the Procurement Card Program	3
Types of Purchases Made With Procards	4
Growth of Rebate Savings to the State.....	4
How Rebates Are Used	5
DOA Role in Administering Procards	6
The Role of State Agencies.....	6
Audit Scope.....	7
Audit Objectives.....	8
Audit Methodologies.....	8
Report Contents.....	9
CHAPTER II – REVISING STATE POLICY WILL INCREASE TRANSPARENCY AND IMPROVE OVERSIGHT	11
Introduction.....	11
Agency Transaction Review Selection.....	11
Data Analysis Informed Targeted Transaction Reviews.....	12
Categories of Purchases Raised Questions	14
Targeted Sample of Transactions Reviewed Were Reasonable	14
Random Sample of Transactions Reviewed Were Reasonable	16
Survey Found Agency Procard Coordinators Are Satisfied With Guidance Received	17
State Agencies Inconsistently Document Procard Transactions	18
Documentation Showing Procard Purchase Met Business Need	19
Documentation for Office Supplies Not Purchased Through Exclusive Contracts	19
Documentation of State Travel Purchases.....	20
Documentation of Gift Card Purchases.....	20
Clarification Needed in Procard Policies to Increase Transparency	20
No Statewide Entity Responsible for Monitoring State Procard Policies or Reporting Instances of Misuse.....	21
Industry Best Practices and Other States Call for a Centralized Review Process	21
Improving Procard Oversight and Monitoring	22
CHAPTER III – MAXIMIZING STATE PROCUREMENT CARD BENEFITS.....	23
Introduction.....	23
Credit Card Transaction Processing and Fees.....	23
Rebates Applicable to State Procard Purchases.....	24
Untapped State Rebate Savings Exist in Accounts Payable	25
Not All Accounts Payable Can Be Moved to Procard Payments.....	26
DOA Has Made Efforts to Increase Savings to the State	26
Additional Actions Can Be Taken to Increase Statewide Procard Usage	27
DEPARTMENT RESPONSE	
Department of Administration	A-1

FIGURES AND TABLES

Figures

Figure 1	Procard Program Structure	2
Figure 2	Increase of Statewide Procard Use.....	3
Figure 3	Increase in Statewide Rebates Earned Relative to Procard Expenditures	5
Figure 4	Types of Purchases Lacking Documentation in Sampled Transactions	18
Figure 5	Procard Transaction Process	24

Tables

Table 1	Most Common State Procard Purchases in 2017	4
Table 2	Procard Rebate Distribution	5
Table 3	Selected State Agency Transaction Numbers	13
Table 4	Targeted Transactions Reviewed at Selected State Agencies.....	15
Table 5	Randomly Generated Transactions Reviewed at Selected Agencies	16
Table 6	Rebates Applicable to State Procard Purchases.....	25

APPOINTED AND ADMINISTRATIVE OFFICIALS

Department of Administration

John Lewis, Director

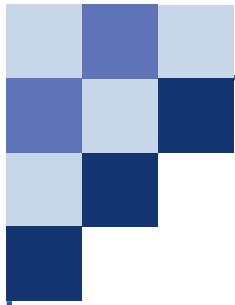
Mike Manion, Deputy Director

Cheryl Grey, CPA, Administrator, State Financial Services Division

Matt Pugh, Deputy Administrator, State Financial Services Division

Mark Bruno, CPA, Chief, Office of Finance and Budget

Meghan Holmlund, Chief, State Procurement Bureau



MONTANA LEGISLATIVE AUDIT DIVISION

PERFORMANCE AUDIT

Oversight of State Agency Procurement Card Use

Department of Administration

MAY 2019

18P-02

REPORT SUMMARY

State government agencies spend approximately \$100 million in procurement card purchases annually. The procards, which is a term used to denote a credit card used by state employees, is a tool to manage purchasing and accounting resources. The steady increase in cardholders and transaction volume and the decentralized nature of the program make effective management of procards imperative to lessen the risk of inappropriate use. Our statewide review of procards did not identify fraud or misuse not already identified by an agency. However, we found purchases are not consistently documented across state agencies. Policy clarifications are needed to increase transparency and oversight of procards. Furthermore, there are additional opportunities to increase statewide procards use to maximize the value of public funds.

Context

State law requires the Department of Administration (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 procurement card (procards) program is a function of DOA, administrative rules provide for the delegation of purchasing authority to state agencies. The program offers significant benefits to the state, from reduced administrative costs and increased flexibility to make small routine purchases to increased savings to the state through rebates. Infrastructure for the program is provided as part of a multi-state commercial card contract and requires little state investment.

We conducted a performance audit to determine if state agencies have implemented policies and processes to prevent or detect inappropriate use of state procards, and if DOA maximizes savings to the state by optimizing

the statewide procards program. Our analysis of sampled transactions within ten state government agencies determined agencies have implemented policies and processes to prevent or detect inappropriate use of state procards. We also found most purchases were supported by documentation and appeared reasonable. While limited documentation issues were identified, our analysis did not identify evidence of fraud or misuse that had not already been identified by an agency. Our examination found the need for state policy clarifications in the areas of general documentation, purchases not made through state exclusive contracts, travel related purchases, and gift card purchases. We also identified a need for DOA to develop and implement a centralized process to monitor procards policy compliance by agencies and report cardholder misuse. Lastly, although Montana's use of procards has grown considerably, our work identified additional opportunities to increase procards use and subsequent rebate benefits.

(continued on back)

Results

Audit recommendations address the need for DOA to clarify state procards policies, increase oversight, and make additional efforts to increase procards purchases and rebate revenue to the state. Recommendations include:

- ◆ Clarify state policies related to procards to more clearly outline documentation expectations needed to understand the nature of purchases.
- ◆ Develop and implement a centralized process to periodically analyze the risks of inappropriate purchases; evaluate agency compliance with procards program policies; and implement a policy to require agencies to report intentional misuse of procards by cardholders.
- ◆ Develop and implement a process to expand procards use to optimize rebates to the state, and communicate with and encourage agencies to move payments to procards where feasible.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0

Source: Agency audit response included in final report.

For a complete copy of the report (18P-02) 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 <https://leg.mt.gov/lad/audit-reports>

Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail LADHotline@mt.gov.

Chapter I – Introduction and Background

Introduction

The Montana Procurement Act requires the Department of Administration (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. As part of these duties, the State Procurement Bureau (SPB) located within the State Financial Services Division (SFSD) of DOA manages a statewide multi-state procurement card (procard) contract, and administers the statewide program. DOA's Office of Finance and Budget also plays a role in administering the program, including making statewide payments and distributing rebates. 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.

The procard, which is a credit card used by state employees, is a tool to manage purchasing and accounting resources and is an aspect of overall procurement practices. Currently, state government agencies spend approximately \$100 million in procard purchases annually. The program offers significant benefits to the state, including 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. 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. Based on the volume of program transactions and an interest in fully leveraging rebate benefits to the state, the Legislative Audit Committee prioritized a performance audit of the statewide procurement card program.

Program Background

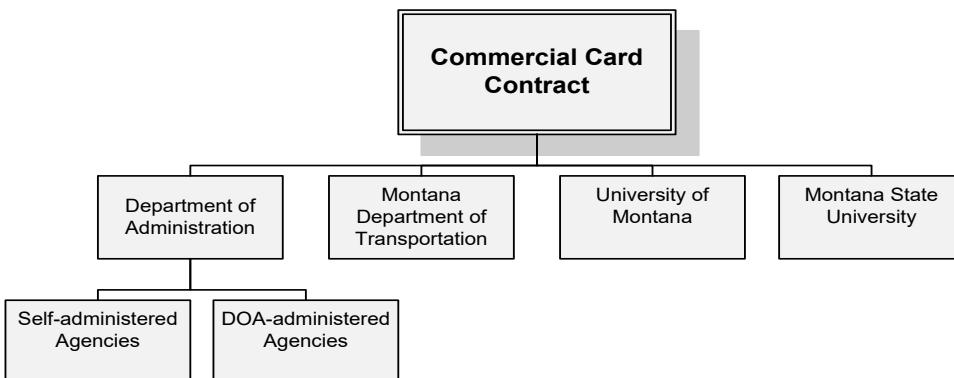
The procard program was established by DOA in 1996. When the initial commercial card contract expired in 2004, DOA began contracting with another banking institution to provide procard services for the state of Montana. In 2014 DOA negotiated a new multi-state contract through the Western States Contracting Alliance/National Association of State Procurement Officials, (WSCA/NASPO) Cooperative Purchasing organization. NASPO is a nonprofit association formed by procurement officials for the 50 states and Washington, D.C. that competitively issues and awards cooperative contracts while leveraging the demand of multiple states to achieve the best possible contracts. The Western State Contracting Alliance is an arm of NASPO and is comprised of 15 western states' purchasing directors. Through the multi-state

contract, the same banking institution continues to provide commercial card services for the state.

As part of the original contract from 1996, four separate “nodes” were established to accommodate different statewide accounting systems. A node simply represents an administering entity within the statewide procard program. The four nodes include DOA, the Montana Department of Transportation (MDT), and the two university system units. In addition to compliance with statewide procard policy, each administering entity or node has established written policies defining appropriate card use by cardholders, and is responsible for the entire process of cardholder administration, from cardholder applications to the reconciliation of transactions. Within DOA’s node, which includes 34 state government agencies except MDT, 14 agencies are self-administered. Self-administered agencies include: the Departments of Administration; Commerce; Corrections; Environmental Quality; Fish, Wildlife & Parks; Justice; Labor and Industry; Military Affairs; Natural Resources and Conservation; Public Health and Human Services; Revenue; and Transportation; as well as Montana State Fund and the Office of Public Instruction.

Self-administered agencies function more like separate nodes in that they handle all card administration, including ordering cards, changing limits, terminating cards, and contacting the bank. However, as with agencies that are administered by DOA, new procards are sent from the bank to DOA and distributed to self-administered agencies by DOA. Self-administered agencies are typically larger, with more resources available to administer the program. Figure 1 depicts the current structure of the statewide procard program, including the commercial card banking institution that provides procard services to the state and the four administrative nodes.

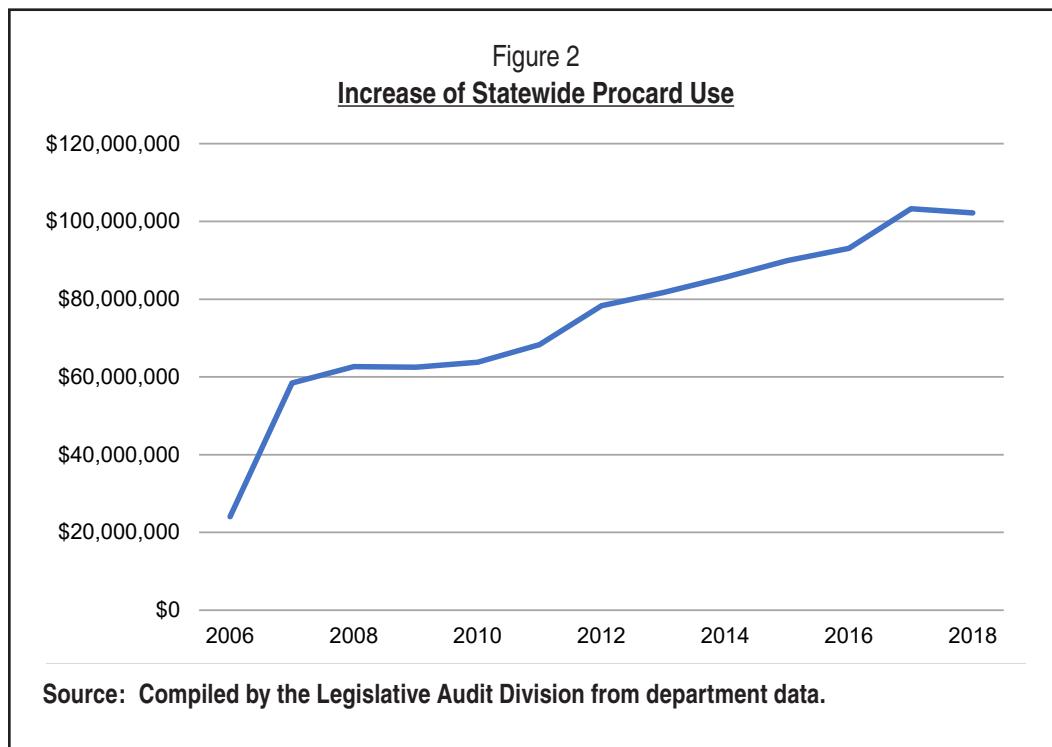
Figure 1
Procard Program Structure



Source: Compiled by the Legislative Audit Division from department records.

Growth of the Procurement Card Program

Since the inception of the program in 1996, statewide use of procards has grown significantly. In 1997, the first full year all the nodes used procards, 402 cards were in circulation, and cardholder transactions totaled \$2.1 million. As of March 2018, there were 8,879 cards in circulation, and in fiscal year 2018 transactions for all nodes totaled over \$100 million. Figure 2 illustrates the increase in annual transaction amounts from fiscal year 2006 to 2018.



Types of Purchases Made With Procards

Types of procard purchases vary across state agencies. Office supplies and travel-related purchases are among the most common, but state procard purchases can include building construction items, clothing, catering for business meetings, and payments to telecommunications companies. Table 1 (see page 4) illustrates the top ten categories (dollar volume) of purchases made with procards for the 230,935 transactions in calendar year 2017. These purchasing categories totaled \$57 million and made up over half of state spending in calendar year 2017. The “Wholesale Trade” category is mostly comprised of office supply retailers, but also includes grocery and department stores. “Business Expenses” include telecommunications companies, and the “Other” category includes courier delivery services and outdoor sporting goods retailers, among others.

Table 1

Most Common State Procard Purchases in 2017

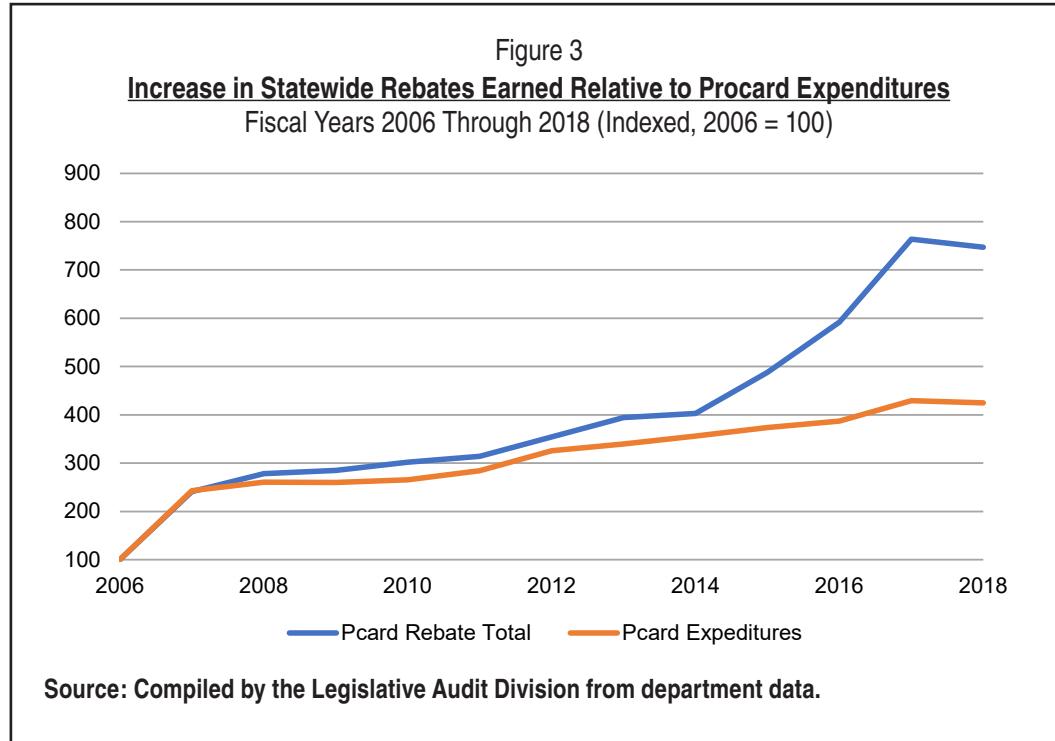
General Purchase Type (Banking Categories)	Total Calendar Year 2017 Purchases
Wholesale Trade	\$28,452,493
Hotels	\$6,752,152
Business Expenses	\$5,753,509
Offices Supplies	\$3,763,378
Other*	\$2,955,243
Office Services	\$2,337,077
Mail/Telephone	\$2,327,631
Airline	\$2,209,593
Vehicle Expenses	\$1,234,493
Eating/Drinking	\$823,353
Building Services	\$816,007

Source: Compiled by the Legislative Audit Division from department transaction data.

*Includes courier delivery services and retailers.

Growth of Rebate Savings to the State

One of the key benefits of the procard program is rebates that return a portion of procard purchases to the state. Rebates are similar to credit card reward programs that incentivize individual cardholders to increase card use. There are five types of rebates provided as part of the commercial card contract. These include rebates for the quarterly volume of transactions, large ticket items, the timeliness of payments, and another rebate based on annual statewide purchases. Four rebates are paid quarterly, and one is paid annually. The recent move by DOA to the multi-state commercial card contract has enabled the state to more effectively leverage its purchasing power. From fiscal year 2016 to 2017, the overall rebate increased from \$1.7 million to \$2.2 million. This was due partly to increased state spending, but was mostly because of the aggregate rebate provided as part of the 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. Figure 3 (see page 5) illustrates the percentage increase in transaction volumes relative to collective state rebates for all nodes since fiscal year 2006. The larger increase in rebates in fiscal year 2017 was due to participation in the new multi-state procard contract.



How Rebates Are Used

All procurement card contract rebates are deposited in a fund managed by DOA and may only be used to: administer the state's procurement card programs; administer term contracts established by DOA; and reimburse applicable funds to the federal government. The unexpended balance of the funds collected must be deposited in the general fund by the close of each fiscal year. In practice, DOA receives quarterly and annual rebates from the bank and distributes them to each node based on the transaction volume of each node. Each node is charged an administrative fee to share the costs of administering the program. In fiscal year 2017, the collective administrative fee was \$62,199, which was split between the four nodes. Interviews with the two universities and MDT indicated rebates go toward reimbursing the federal government and offsetting costs associated with administering the program. Table 2 represents the rebate allocation for fiscal year 2017. As shown, rebates are dispersed to the other nodes, used for program administration,

Table 2

Pcard Rebate Distribution

Fiscal Year 2017 Rebate Allocation	Amount
Program Administration	\$67,355
Federal Government (DOA node)	\$296,913
Other Nodes	\$1,024,471
General Fund	\$868,400
Total Rebate Revenue	\$2,257,139

Source: Compiled by the Legislative Audit Division from department data.

and reimbursed to the federal government based on procard expenditures allocated to federal programming, with the remaining unexpended balance deposited into the general fund.

DOA Role in Administering Procards

In addition to managing the contract, the State Procurement Bureau (SPB) and Office of Finance and Budget (OFB) perform a range of administrative and managerial activities related to the procurement card program. The program is managed with daily transaction information provided by the bank, which DOA uploads into the state accounting system. In addition to daily uploads, DOA grants administrative access to system functions and transaction information to individuals in each agency. Self-administered agencies and nodes can grant access to individuals within their node or agency, and agency management determines what level of information each person can access. Administrators are granted access as needed to view transactions and change cardholder information to properly manage the program. DOA also makes monthly payments to the bank, distributes quarterly and annual rebates to the three other nodes, and maintains a link on its transparency website to all transactions completed in the DOA node. The transparency website includes transaction information by agency from fiscal year 2013 to present. Other activities required to maintain the program include: annual agency training regarding cardholder usage; fraud monitoring by the bank; cardholder maintenance activities; merchant trouble-shooting; back-up administrative services for agency coordinators managing the procard program at respective agencies; and maintenance of statewide procard policies. DOA also indicated it is developing online training for cardholders and training specific to agency coordinators. Additionally, DOA is working to include in the statewide accounting system specific information on individual products purchased using procards known as Level III data. This data is available on a limited basis from individual vendors, and includes information contained on the actual receipt of purchase, such as product codes and descriptions of purchases. Access to this data will increase the transparency of purchases made by state agencies.

The Role of State Agencies

DOA has developed policies for state procard use that apply to all state agencies and nodes. All agencies must comply with state procard policy, but may implement more restrictive policies at the agency level. For example, while the state procard policy permits food purchases associated with employee travel, some agencies do not allow food purchases at all. Procards are issued in the cardholders' names, but are considered the state's property and can only be used for state business. Statewide procard policy requires employees to read and sign an agreement indicating they will adhere to policy requirements before receiving the card. As a measure to limit inappropriate purchases,

the state also blocks purchasing from various Merchant Category Codes such as jewelry stores and pawn shops. The default spending limit for an individual card is \$5,000 per month. However, card limits can be increased or decreased based on the cardholder's job description and responsibilities. Each agency must also have a designated agency coordinator who manages the procurement card on behalf of the agency or division.

The most important oversight function of state procard purchases rests with supervisors who are approving them at agencies. State policy requires the cardholder to obtain a receipt for each transaction, and all receipts must be approved by a supervisor. Per state policy, agencies can approve purchases in several ways. Approval options include signing the receipt, signing a monthly statement or online banking transaction report with attached receipts, or using an agency form to log, attach, and approve receipts. All receipts are then submitted to the agency's accounting office. Each agency is responsible for reconciling cardholder transactions in the state's financial system. Documentation of purchases is filed and retained according to individual agency policies and procedures. State policy states that each agency is responsible for policy enforcement.

Audit Scope

The increase in cardholders and transaction volumes and the decentralized nature of the procard program makes an effective internal control system imperative to ensure procards are used appropriately. With proper procard management, agencies can realize purchasing efficiencies while limiting the risk of abuse. Due to the high volume of transactions and dispersed nature of the program, audit work focused on state government agencies, excluding the university systems. While procard information and criteria were gathered from the two universities, they were not included as part of the examination of transactions. Our work focused on state government agency transactions in calendar year 2017, which totaled approximately \$37.9 million. The evaluation was twofold: a general data analysis performed on a large data set to identify purchasing trends and anomalies, and a sampling of transactions for hard copy review. The sampling process included random and targeted hard copy reviews of transactions to determine if purchases were supported by documentation and followed state policy. Targeted transactions were procard purchases we identified that raised questions about the business need supporting the purchase. Our assessment work also determined the state may not be fully leveraging its purchasing power through procard use. We examined accounts payable data and conducted vendor research to identify potential ways to optimize procard use at state government agencies and increase rebate savings to the state.

Audit Objectives

Based on audit assessment work, we developed two audit objectives:

1. Have state government agencies implemented policies and processes to prevent or detect inappropriate use of procards?
2. Does the Department of Administration increase savings to the state through the systematic optimization of the procurement card program at state government agencies?

Audit Methodologies

To address our audit objectives, we completed the following methodologies:

- ◆ Obtained and reviewed state laws, rules, and policies related to state procards.
- ◆ Obtained and analyzed data related to current and historical statewide transactions and card number volumes.
- ◆ Surveyed agency coordinators to obtain their perspective regarding the state procard program. Out of a possible 89, there were 51 responses to the survey received for an overall response rate of 57 percent.
- ◆ Conducted data analysis of fiscal year 2017 transactions to identify potential anomalies and purchasing trends at state government agencies to focus audit review work on transactions with an unidentified business justification.
- ◆ Conducted a hard copy review of transactions at ten selected agencies to determine if purchases appeared reasonable and were appropriately supported by documentation and supervisory approval.
- ◆ Identified and reviewed reporting capabilities offered through the online banking system.
- ◆ Interviewed DOA personnel regarding the data analysis and hard copy transaction review work to obtain their perspective on procard oversight activities.
- ◆ Interviewed procard staff at the ten selected agencies regarding the data analysis and hard copy transaction review to obtain their views on procard management activities.
- ◆ Interviewed staff of the Department of Transportation and the two universities to assess procard management practices in other administrative nodes.
- ◆ Interviewed procard administrative staff from Alaska, Arizona, Colorado, and Washington to identify best practices and obtain comparative information.
- ◆ Obtained and analyzed accounts payable data at ten selected state agencies to identify opportunities to increase procard usage.
- ◆ Interviewed state vendors not currently receiving procard payments to determine if they were amenable to procard payments.

Report Contents

The remainder of this report includes additional background and details of our work, conclusions, and recommendations. It is organized into two chapters:

- ◆ Chapter II presents information regarding our review of procard transactions to identify if purchases were supported by documentation and in compliance with state policies, and offers recommendations for additional policy clarification and a centralized review of procard transactions.
- ◆ Chapter III discusses the rebate aspect of the state procard program and identifies opportunities for DOA to further optimize card utilization to increase state rebates.

Chapter II – Revising State Policy Will Increase Transparency and Improve Oversight

Introduction

This chapter addresses our first objective to determine if state government agencies have implemented policies and processes to prevent or detect inappropriate use of procurement cards (procards). As part of our work, we conducted an analysis of all transaction data from calendar year 2017 at ten state agencies to identify purchasing trends and anomalies. Our data analysis allowed us to target specific transactions for review to determine if those transactions were business-related. Targeted transactions were procard purchases we identified that raised questions if purchases met agency business needs or may have been made for personal purposes by the cardholder. We also conducted a file review of sampled transactions at the ten agencies to review supporting documentation, approval for purchases, and evaluate if purchases followed state policy.

Overall, our data analysis and file review found agencies we reviewed implemented policies and processes to effectively manage state procards. We also found procard purchases were generally reasonable and supported by documentation, and we did not identify instances of fraud or misuse in the work we conducted not already identified by an agency. However, we found state agencies do not consistently document and support procard transactions due to a lack of clear state policy expectations. We also found the Department of Administration (DOA) could improve agency monitoring of certain aspects of procard activities. This chapter discusses our findings, conclusions, and recommendations related to procard documentation and monitoring state agency compliance with state procard policies.

Agency Transaction Review Selection

To conduct our work, we classified agencies into three categories: large, medium, and small. The selection of agencies for audit work were representative of the varied sizes and financial activity levels of state government agencies. Based on 2017 calendar year data, state agencies with over \$1 million in transaction volumes were classified as large, agencies with transaction volumes between \$200,000 and \$1 million were considered medium, and agencies with transaction volumes below \$200,000 were considered small. In addition to classifying the agencies into three categories, other factors were considered when selecting agencies. For example, we considered if the agency is self-administered and if audit work had been recently conducted at the agency. There were four agencies selected from the large category, three agencies from

the medium category, and three from the small category, for a total of ten agencies reviewed. Since agency procard documentation is retained in regional offices, we also conducted a review of transactions at the Montana State Hospital in Warm Springs and the Missoula vocational rehabilitation office. The following is a list of selected agencies.

- ◆ **Large**
 - ◊ Department of Corrections
 - ◊ Department of Justice
 - ◊ Department of Labor and Industry
 - ◊ Department of Public Health and Human Services
- ◆ **Medium**
 - ◊ Department of Revenue
 - ◊ Office of Public Instruction
 - ◊ Office of the State Auditor
- ◆ **Small**
 - ◊ Public Employee Retirement Administration
 - ◊ Public Service Commission
 - ◊ Secretary of State

Data Analysis Informed Targeted Transaction Reviews

According to private credit card monitoring companies, procard management should include a thorough review of transactions and encourage administrators to manage from a central perspective. This means reviewing transactions for legitimacy in addition to the supervisory review, whether through data analysis or manual reviews. We determined reviewing every transaction was not feasible due to the high volume of transactions. In calendar year 2017, there were 90,322 total transactions in our sample of 10 agencies. Table 3 (see page 13) illustrates the number of transactions in each sampled agency for calendar year 2017.

Table 3
Selected State Agency Transaction Numbers

Agency	2017 Calendar Year Transaction Count
Department of Corrections	20,670
Department of Justice	14,976
Department of Labor and Industry	15,590
Department of Public Health and Human Services	26,725
Department of Revenue	4,209
Office of Public Instruction	4,728
Office of the State Auditor	1,155
Office of the Secretary of State	1,027
Public Service Commission	801
Public Employee Retirement Administration	441
Total	90,322

Source: Compiled by the Legislative Audit Division from 2017 calendar year transaction data.

We used several data analytic tools to help focus our review of targeted transactions. For each sampled agency, we reviewed individual cardholder purchasing behavior, holiday purchases, and conducted keyword searches that could indicate personal purchases made by the cardholder. We also included in our review of targeted transactions any purchases identified by way of the following analyses.

- ◆ **Double-Dipping**
 - ◊ We compared cardholder procards to accounts payable data. This helped us determine if employees used procards to purchase an item, then requested reimbursement from the state for the same purchase.
- ◆ **Split Purchases**
 - ◊ We looked for transactions indicating purchases may have been intentionally split to avoid exceeding cardholder transaction limits and allow cardholders to purchase more than their card limit allows.
- ◆ **Gift Purchases**
 - ◊ We reviewed purchases from various gift shops and gift card purchases to verify the validity of the purchases, including evaluating if they were made for personal purposes.

Categories of Purchases Raised Questions

Our data analysis generally raised questions about procard purchases that did not appear to have an obvious business justification. We found purchases raising questions generally fell under four Merchant Category Code descriptions used to classify vendors by the type of goods or services provided. We reviewed procard transactions at selected agencies within these four category codes to verify purchases were for state business needs and not personal purposes. The four Merchant Category Codes included:

- ◆ **Eating & Drinking**
 - ◊ This category includes purchases from catering businesses, coffee houses, cafes, restaurants, etc. Per state procard policy, purchases of personal meals are prohibited unless the cardholder is in approved travel status.
- ◆ **Office Supplies (noncontracted vendors)**
 - ◊ The State of Montana has exclusive contracts with vendors from which state agencies purchase their office supplies. Purchases from noncontracted vendors, including online retailers, should only be used to purchase items not provided through these contracts or if items are offered at a lesser price.
- ◆ **Vehicle Expense**
 - ◊ Transactions in this category included car washes, tire stores, and equipment stores. Our work sought to verify if transactions were appropriate and complied with state fuel card policy.
- ◆ **Other**
 - ◊ Transactions in this category included purchases from department stores, award shops, and other stores that did not have an obvious business justification.

Targeted Sample of Transactions Reviewed Were Reasonable

Based on the data analysis of 2017 calendar year transactions, we reviewed all potentially split purchases, all gift purchases, and purchases selected from the four categories discussed above. Our data analysis did not reveal any indications of double-dipping. Table 4 (see page 15) illustrates the number of transactions reviewed in each category at selected agencies. The table includes potential split purchases identified, all gift purchases, and purchases selected from the four categories discussed above, including eating and drinking, office supplies, vehicle expenses, and other purchases.

Table 4
Targeted Transactions Reviewed at Selected State Agencies

Agency	Potential Split Purchases	Gift Purchases	Four Merchant Category Purchases
Department of Corrections	2	4	20
Department of Justice	0	2	20
Department of Labor and Industry	0	12	20
Department of Public Health and Human Services*	0	18	47
Department of Revenue	0	4	16
Office of Public Instruction	0	3	20
Office of the State Auditor	0	2	18
Office of the Secretary of State	0	7	19
Public Service Commission	0	0	15
Public Employee Retirement Administration	0	0	10
Totals	2	52	205

Source: Compiled by the Legislative Audit Division from targeted transaction review.

*Includes Warm Springs and Missoula offices.

Our review identified transactions raising questions regarding business need. However, based on further review of documentation for these transactions, as well as interviews with agency staff, we determined these procard purchases were reasonable. Throughout our work, purchases were considered reasonable if they had a valid business justification. For example, a women's apparel purchase from an online retailer initially raised questions about the nature of the purchase by the Department of Corrections. Additional work found the purchases were appropriately documented and described in staff interviews as necessary for a female inmate. Similarly, our analysis revealed frequent footwear purchases, as well as several purchases of women's and men's apparel by the Department of Justice. Interviews and documentation for these purchased found a clothing allowance is permitted for certain employees as part of agency contracts with labor unions. We also reviewed procard charges for dry cleaning by the Department of Revenue. Our work found these charges were for cleaning tablecloths needed for a department employee recruitment event. These examples and others we reviewed were supported by appropriate receipts, other supporting documentation, and interviews with agency personnel.

Overall, purchases reviewed in the four categories mentioned above appeared to be reasonable. In general, purchases in the eating and drinking category were related to agency business meetings, and were supported by appropriate documentation. We

verified purchases from noncontracted vendors included office items that could not be purchased from exclusive state contracts or that were offered at a lesser price. We also reviewed various miscellaneous purchases that raised questions regarding their business need. For example, we noted a procard transaction for the purchase of solar eclipse glasses around the time the solar eclipse occurred in 2017. These were purchased from an online retailer for residents of the Montana Veterans Home to view the solar eclipse. Regarding the vehicle expense category, we learned it is common for agencies to lease cars from the State Motor Pool Division, and not all vehicle costs are borne by Motor Pool. Some of the purchases for leased vehicles not covered by Motor Pool appeared in the sample, and did not violate state fuel card policy and appeared to be reasonable.

Random Sample of Transactions Reviewed Were Reasonable

In addition to our targeted review of transactions, we generated a random sample of procard transactions for review from the ten selected agencies. For each agency, we reviewed the sample of transactions to verify if state policies were followed, and we assessed the reasonableness of the purchases. The sample size at each agency was between 41 and 45 transactions depending on the total transaction volume. The table below illustrates the number of random transactions reviewed at each selected agency.

Table 5
Randomly Generated Transactions Reviewed at Selected Agencies

Agency	Number of Randomly Generated Transactions Reviewed
Department of Corrections	45
Department of Justice	45
Department of Labor and Industry	45
Department of Public Health and Human Services*	131
Department of Revenue	45
Office of Public Instruction	45
Office of the State Auditor	44
Office of the Secretary of State	43
Public Service Commission	43
Public Employee Retirement Administration	41
Totals	527

Source: Compiled by the Legislative Audit Division from our random transaction review.

*Includes Warm Springs and Missoula offices.

State procard policy requires a receipt for every transaction and approval by the supervisor. We reviewed a total of 527 randomly selected procards transactions at sampled agencies, out of 90,322 total transactions. Our review of these transactions identified 20 instances in which state procards policy was not followed, where there was either no receipt present, or no supervisory signature. The average error rate across the selected agencies was three percent, and the total dollar value of these 20 transactions was approximately \$11,000. Based on further review of the purchases and conversations with agency personnel, the 20 purchases appeared to be reasonable. These policy deviations did not appear to be a systemic issue, but were due to human error.

We did not find evidence of misuse or fraud that had not already been identified by the agency. There were two instances of accidental procards use that appeared in our sample. In each case the cardholder notified the agency, and the agency was subsequently reimbursed. There was one case of cardholder fraud in the sample that had already been identified by the agency. Once the fraud was confirmed by the agency, the cardholder was removed from employment, and the agency notified the Legislative Audit Division and the Attorney General's Office as required by law. Overall, 507 of the 527 purchases in the sample followed state policy and appeared to be reasonable. However, some purchases we reviewed were inconsistently documented, pointing to the need for state policy clarifications in several areas. These are discussed in the sections below.

Survey Found Agency Procard Coordinators Are Satisfied With Guidance Received

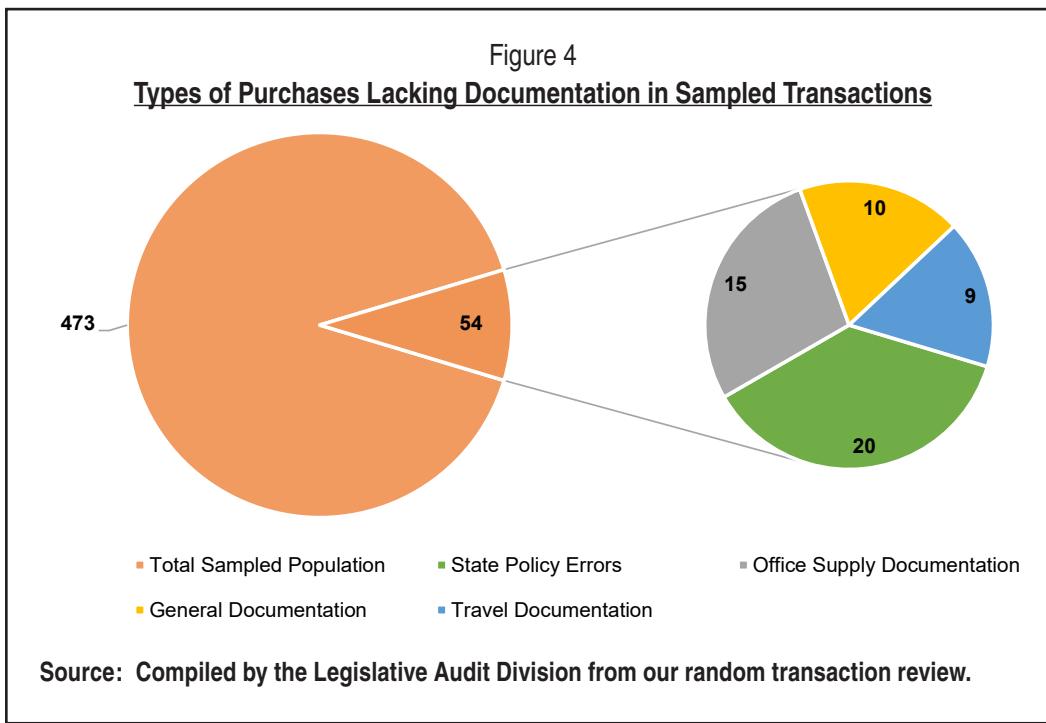
Due to the decentralized nature of the procards program, we interviewed agency procards coordinators at the ten selected agencies. We also surveyed agency coordinators across all state government agencies to obtain input about management of state procurement cards. In general, questions aimed to understand the agency coordinators' perspective about statewide policy guidance and administration of the procards program by DOA. We received 51 responses for an overall response rate of 57 percent. All but one agency coordinator thought there was enough guidance in state policy to manage the procards program. Additionally, 96 percent of respondents indicated existing procards policies at respective agencies were effective at preventing or detecting inappropriate procards use. Ninety-three percent of agency coordinators surveyed indicated communication with DOA regarding procards was sufficient. The survey also found almost 90 percent of agency coordinators had received training related to procards. Our survey of statewide agency coordinators indicated policies, lines of communication, and training opportunities related to procards are generally in place.

CONCLUSION

State government agencies have policies and processes in place to help ensure appropriate procard use and prevent or detect inappropriate procard use. However, we determined policies can be clarified to improve procard documentation and increase transparency.

State Agencies Inconsistently Document Procard Transactions

Our review of procard transactions found agencies do not always consistently document and support procard transactions. This made it more difficult for agencies to explain the nature of these purchases. Our review found approximately 3 percent of the purchases we reviewed did not have receipts or were not reviewed by a supervisor as required by state policy. Additionally, 34 procard transactions lacked supporting documentation on why office supplies were not purchased through state exclusive contracts, why state agencies purchased gift cards, state travel related purchases, and others. These 34 purchases did not represent deviations from state procard policy, but lacked documentation needed to understand the business need behind the purchase. Figure 4 illustrates the total random transactions we reviewed and the types of issues we identified.



The 34 transactions were all similar in that the lack of supporting documentation made it difficult to understand the business justification for the purchase. Agency personnel were able to provide verbal justification for all purchases in the sample. However, a lack of documentation reduces transparency and limits agency and DOA's ability to show procard transactions relate to a defined business need.

Documentation Showing Procard Purchase Met Business Need

State policy does not address the level of documentation required for procard purchases beyond obtaining a receipt. It also does not specify if receipts should be itemized. Because of this, we identified purchases where there was no supporting documentation available, so the business justification for the purchase was not clear. Some agencies require cardholders to track purchases using a log. We generally found agencies tracking procard purchases with a log had information available showing what the purchase was and how it met a business need. By comparison, other agencies relied on staff knowledge for justifications of purchases. For example, seven purchases lacking supporting documentation were food items we later determined were for business meetings. Per one agency policy, purchases for meetings are required to include an agenda, with place and time, as well as a list of participants. Other agencies simply supplied a receipt and relied on staff knowledge for the business justification behind the purchase.

Documentation for Office Supplies Not Purchased Through Exclusive Contracts

Most office supplies throughout the sample were purchased through the state's exclusive contracts. However, in cases where off-contract purchases were made, agencies did not always document the reasons for doing so. For example, one agency used a procard to purchase a computer adapter from a local department store. Interviews revealed that the adapter was not available through an exclusive contract, but there was no documentation providing justification for the purchase. State policy allows agencies to make off-contract purchases when prices are less than what is available through exclusive contracts. In most cases, agencies listed a lower price was available or a purchase was needed for expediency, but this was not always documented in agency procards files. Without documentation agencies cannot demonstrate items were less expensive through another vendor. In our survey of agency coordinators and in interviews, agency personnel expressed a need for more explicit policy guidance on when it is acceptable to make off-contract purchases. It should be noted DOA conducts quarterly reviews of off-contract purchases made by agencies. While this is a good business practice conducted after purchases are made, we found the need for policy clarification to guide agencies before purchases are made.

Documentation of State Travel Purchases

State travel policy requires pre-approval of all out-of-state and foreign travel and provides a form to document the approval. Both forms include places for supervisory signatures and typically include the reason for the travel-related purchase. There were instances in our sample where no approval form or voucher was present in the procard file. For example, we reviewed receipts for baggage fees, car rentals, and lodging that did not include a business reason as part of procard documentation. Based on interviews with agency staff, none of the travel purchases appeared to be unreasonable. We also acknowledge these travel forms are not required to reside with procard documentation. Only in cases where no documentation existed explaining the business need for the travel did we consider the transaction to lack supporting documentation. This lack of documentation made it more difficult to understand the business need behind travel purchases.

Documentation of Gift Card Purchases

We also had questions about the appropriateness of gift card purchases. While the overall frequency of gift card purchases in the sample was low, gift card purchases were common across state agencies. Gift cards are more easily subject to theft or loss than other types of purchases, and determining who received the gift card can be difficult. Our work identified an incident involving gift card fraud at a selected agency. This instance involved a new employee who made fraudulent purchases soon after being issued the procard, including several thousand dollars in gift card purchases. The fraud was identified in a timely manner by the agency and appropriately addressed, but the incident highlights the inherent risk of gift card purchases. Additionally, some of the gift card purchases we reviewed had limited business justification, and it was not clear to whom the gift card was given. For example, we reviewed gift card purchases indicating they were for employee engagement, but it was not clear to whom the cards were given or if the purchases were an appropriate use of state funds. However, we did find purchases of gift cards may be necessary and appropriate under certain circumstances. For example, participants in work training programs who do not have sufficient financial resources may require gas cards provided by an agency to travel for work-related purposes. State policy should address allowable uses of gift cards and related documentation requirements.

Clarification Needed in Procard Policies to Increase Transparency

Due to the decentralized nature of the procard program, state procard policy is broad. Because of this, state policy lacks clarity in certain areas. As discussed above, our file review of transactions found a need for state policy clarifications in the areas of general

documentation, purchases not made through state exclusive contracts, travel-related purchases, and gift cards. Because supporting documentation did not always exist, the business justification behind purchases was not always clear or supported. Our work in other states indicated they are similar in their decentralized nature, but we found certain states had more clearly defined procard documentation requirements in state policy. For example, Colorado requires cardholders to have itemized receipts from the vendor, and an explanation of the reason for the purchase if it appears unusual. Without clear support for procard transactions, there is a lack of transparency regarding the expenditure of public funds. DOA staff acknowledged there were opportunities to clarify policies related to procards, and indicated they were currently reviewing all policies issued by the Procurement Bureau.

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 purchases.

No Statewide Entity Responsible for Monitoring State Procard Policies or Reporting Instances of Misuse

Given state government agencies spend approximately \$100 million in procard purchases annually, program monitoring activities are critical to program integrity and the transparency of public funds. We found due to the decentralized nature of procard activities, there is no centralized review or oversight of agency procard transactions for reasonableness and if they follow state policy. Presently, DOA does not monitor state agency procard purchases to identify areas where state policy is not followed. Additionally, agencies are not required by DOA to report instances of employee procard misuse or fraud. Discussions with DOA staff found they were not always aware of procard fraud when it occurred in other state agencies.

Industry Best Practices and Other States Call for a Centralized Review Process

Best practices in procard management call for a thorough manual review of transactions and encourage administrators to manage from a central perspective. In our review, we found other states have more expectations of state agencies using procards than in Montana. For example, Arizona policies indicate they may perform audits of agencies or examine internal controls before issuing procards to agencies. Arizona also employs

a policy and compliance team at the central office responsible for reviewing agency programs to ensure state law and policy are followed. The Alaska program administrator has established statewide misuse reporting as part of its program. We also found best practices being implemented at two other nodes that participate in Montana's procards program. Staff at the Department of Transportation conduct monthly, quarterly, and annual audits of transactions. Montana State University contracts with a private company that reviews all procards transactions on a regular basis.

Improving Procard Oversight and Monitoring

DOA must balance its role as the policy-setting agency of a decentralized procards program with its responsibility to supervise all statewide purchases. As the oversight body, DOA should also be aware of statewide cardholder misuse to understand breaches in management controls and ensure the efficacy of state procards policies. Without a centralized review of procards transactions or reporting of instances of fraud or misuse, DOA is unable to effectively ensure that state agencies comply with state policies and that state funds are being expended appropriately. Our work highlighted the importance of the active participation of supervisors in ensuring purchases are reasonable. However, supervisors often have multiple, competing priorities, which can sometimes lead to a perfunctory review of transactions. Therefore, it is critical to implement a periodic review process to ensure state resources are not misappropriated or misused. Processes to review purchases could include data analysis techniques or the manual review of transactions at agencies. DOA recognizes the need to develop and implement a centralized review process to monitor agency procards policy use. According to DOA management, this review work is currently being planned as part of on-site reviews of general procurement processes at state agencies.

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 procards 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.*
-

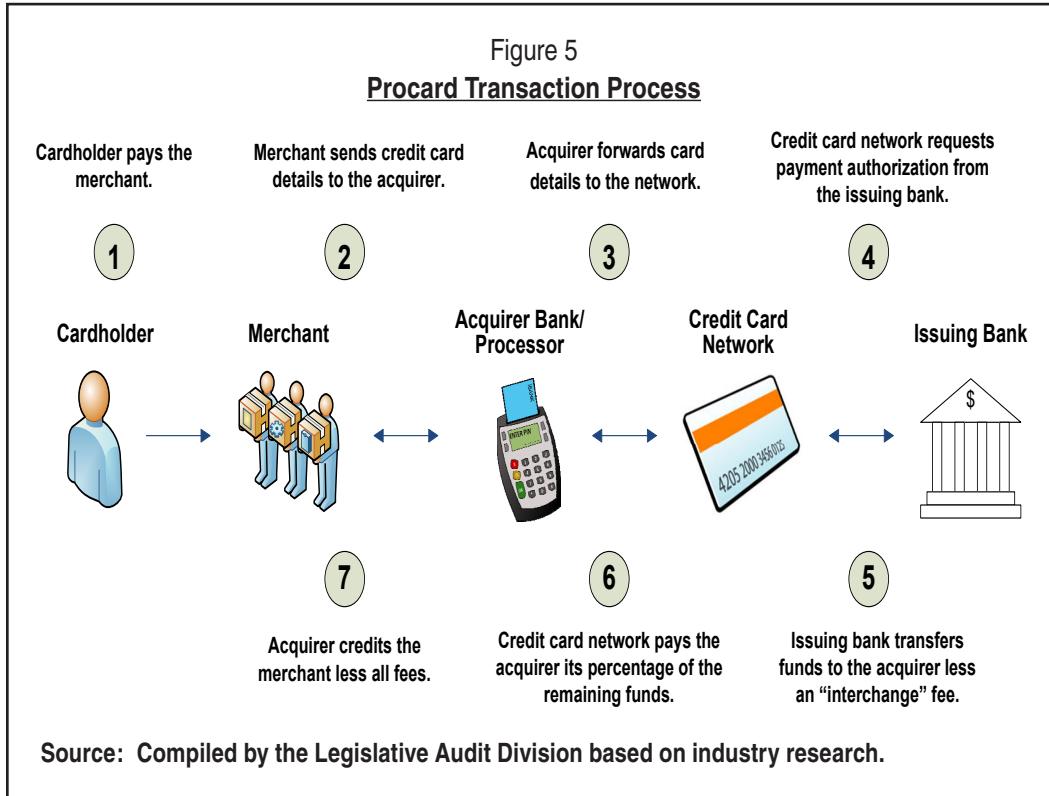
Chapter III – Maximizing State Procurement Card Benefits

Introduction

Although Montana's use of state procurement cards (procards) has grown considerably, and rebates in calendar year 2017 totaled approximately \$2.2 million, opportunities for increasing use and subsequent benefits remain. The procards program provides the Department of Administration (DOA) with an opportunity to reduce the state's overall procurement costs, reduce warrants against the state, and increase revenues without substantial effort or investment. As part of our second objective, we evaluated DOA's efforts to increase savings to the state through the systematic optimization of the procurement card program at state government agencies. This chapter discusses the types of rebates provided as part of the commercial card contract and DOA's efforts to increase rebates to the state. We also discuss opportunities to further increase the value of available public funds by maximizing procards program rebates. DOA has increased the value of rebates due to participation in a multi-state commercial bank contract. However, it does not actively evaluate state agency financial transactions to determine if there are additional opportunities to increase procards use and associated rebates. This chapter presents information on how rebates are calculated, and how they can be further optimized as part of the state's procurement card program.

Credit Card Transaction Processing and Fees

There are several participants in every transaction made with a procards. After using a procards to purchase a good or service, procards details are sent to the merchant's acquiring bank or processor. The acquiring bank or processor forwards procards information to the credit card network. The credit card network then clears payment and requests authorization from the issuing bank. Once authorization is received, the issuing bank places a hold in the amount of the purchase, and the merchant's terminal collects approved authorizations at the end of the business day. Merchants also pay a price to accept credit cards as payment and service from acquiring processors. These "interchange" fees paid by merchants are paid to the issuing bank to cover handling costs and the risks involved with approving payment. Interchange fees are not static, but are typically between 2 and 3 percent to as much as 5 percent of the total purchase price. At the end of the transaction the issuing bank transfers the funds less the interchange fee, which it shares with the credit card network. The credit card network pays the acquiring bank and processor their respective percentages from the remaining funds. Per Montana's commercial card contract, a portion of these fees paid to the issuing bank are returned to the state in rebates. Figure 5 (see page 24) depicts the transaction process from the cardholder to the bank issuing payment to the merchant.



Rebates Applicable to State Procard Purchases

Per state law, all procurement card contract rebates are initially credited to DOA. They may only be used to administer the state's procurement card programs and contracts and reimburse applicable funds to the federal government. The unexpended balance of rebate funds must be deposited in the general fund. There are five types of rebates provided as part of the commercial card contract with the bank. Four rebates are paid quarterly, and one is paid annually. These five rebates include: rebates for the quarterly volume of transactions, large ticket items, the timeliness of payments for both quarterly transactions and large ticket items, and an aggregate rebate based on annual statewide purchases.

Quarterly rebates on volume are calculated at 130 points, or 1.30 percent of the total volume of quarterly purchases. Quarterly large ticket items apply only to participating vendors who have negotiated a different rate with their merchant processor. Based on negotiations, there is a lower merchant exchange fee on these purchases, and less rebate is given to the state because the bank receives a smaller rate on purchases. Large ticket items are calculated at 75 points, or .75 percent of quarterly purchases. The third type of rebate is based on the state's prompt payment of the credit balance to the bank. The state can maximize the prompt payment rebate by paying the bank on the first

available day after the cycle ends. Prompt payment rebates are awarded at .45 points, or .45 percent of quarterly transactions. For each day of the 45-day payment cycle the rebate point decreases. If the state makes a payment on the second day after the cycle it will receive .44 points, and if the state pays on the third day post-cycle it is eligible for .43 points, and so on. Rebates provided on a quarterly basis use an average payment time based on three months' of payments. The fifth rebate is based on the annual statewide transaction volume and is calculated at .45 percent. Table 6 illustrates the types of state rebates provided by the contract with the bank and the totals in calendar year 2017.

Rebates Applicable to Credit Card Purchases	Rebate Percentage	Paid	2017 Calendar Year Totals
Quarterly Sales Volume	1.30%	Quarterly	\$1,287,985
Prompt Payment (x2)	0 - .45%	Quarterly	\$447,166
Large Ticket Items	0.75%	Quarterly	\$23,314
Annual Sales Volume	0.45%	Annually	\$459,829
Total			\$2,218,293

Source: Compiled by the Legislative Audit division based on department records.

Untapped State Rebate Savings Exist in Accounts Payable

The state procard program provides DOA with an opportunity to reduce the state's overall procurement costs and increase revenues without substantial effort or investment. Part of DOA's procurement role is to maximize the purchasing value of public funds. Per state policy one of DOA's goals is to provide an efficient, cost-effective method of procuring and paying for state supplies. To identify opportunities to increase procard usage, we compared accounts payable (AP) module data to state procard transaction data, and reached out to vendors to identify additional opportunities. The AP module contains accounting entries related to the state's payments to creditors. We obtained 2017 calendar year AP data for our ten selected state agencies in the transaction sample, and 2017 state procard transactions data for the DOA node. Based on matching records in AP vendor data, we identified nearly \$13 million in vendors that also appear in procard data. The data indicates these vendors are already accepting procard payments from agencies, and would likely accept additional procard payments. We then calculated the rebate based on quarterly and annual rebate percentages provided per the contract with the bank. Assuming all payments identified in the analysis could have been paid with a procard, and assuming none of the transactions

qualified for large ticket incentives, our work indicated there was approximately \$284,000 in potential rebates to the state at selected agencies in 2017. Additional work identified more opportunities in accounts payable to increase procard usage in utility and telecommunications payments. Rebates calculated with these payments offset any fees associated with procard use.

Not All Accounts Payable Can Be Moved to Procard Payments

Our accounts payable analysis represents a potential, not actual, rebate number. As mentioned above, as part of accepting procards, vendors are charged a procards transaction fee between 2 and 3 percent. Some vendors who receive traditional accounts payable may be unwilling to accept procards payments due to the fee. Additionally, some vendors in the data already receive electronic fund transfers (EFTs). These are vendors who receive electronic payments that do not include the procards transaction fee. Vendors who participate in this program would have little incentive to accept procards payments. We reached out to several vendors who contract with the state and receive EFT payments. The vendors indicated they were either unwilling to accept procards payments or said they would pass on the fee to the state to offset the transaction fee. Even with these caveats, conversations with DOA indicated there were opportunities based on the vendor data we analyzed to increase payments made with procards.

DOA Has Made Efforts to Increase Savings to the State

DOA has made efforts to increase savings to the state by moving to a new commercial card contract, moving state vendors to procards payments when feasible, and by making timely payments to the bank. DOA's move to the new commercial contract enables the state to leverage the purchasing power of multiple states, and has resulted in increases in rebates to the state. As part of the move to the new contract, DOA moved vendors to a program provided by the bank allowing vendors to receive electronic payments. These payments count toward the state's procards rebate, but also include transaction fees assessed on the vendor payment. DOA reports 122 vendors currently participate in this program. DOA is also maximizing the prompt payment rebates offered through the contract. An analysis of 2017 calendar year prompt payment rebates indicates on average DOA is achieving 44 out of a possible 45 rebate points, or .44 percent. Based on interviews with DOA and the commercial card carrier, we determined weekends and holidays are considered business days and count against the rebate points. Therefore, payments are occasionally completed by the department on the second or third day after the cycle ends, resulting in a lesser rebate. However, the department is maximizing prompt payment rebates within the terms of the commercial card contract.

Additional Actions Can Be Taken to Increase Statewide Procard Usage

Interviews with other states found while most have not actively examined opportunities to increase procard use, they recognize the importance of maximizing procard benefits. Program staff in Alaska, for example, indicated the optimization of procard use was a future program goal. Several states also highlighted the difficulty in requiring agencies to increase procard use when there is no clear incentive to do so. Incentivizing agencies is an important consideration, but should not preclude DOA from analyzing opportunities to increase statewide procard spending. Best practices in federal agencies call for strategic sourcing, which is the process of continually analyzing the way agencies spend funds to ensure agencies are leveraging their purchasing power by seeking opportunities to achieve savings or increase revenue. Throughout our work, interviews with agency personnel indicated openness to increasing procard use. With more attention given to potential procard payments by DOA, the state will be able to increase procard purchases and increase rebate revenue. DOA interviews indicated efforts to increase statewide procard use was desirable, and that discussions are currently taking place regarding how to incentivize agencies.

RECOMMENDATION #3

We recommend the Montana 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 where feasible.*
-

DEPARTMENT OF
ADMINISTRATION

DEPARTMENT RESPONSE



**MONTANA
DEPARTMENT OF
ADMINISTRATION**

Director's Office
Steve Bullock, Governor
John Lewis, Director

*RECEIVED
MAY 13 2019
LEGISLATIVE AUDIT DIV.*

May 13, 2019

Angus Maciver, Legislative Auditor
Legislative Audit Division
PO Box 201705
Helena, MT 59620

RE: Performance Audit 18P-02: Oversight of State Agency Procurement Card Use

Dear Mr. Maciver,

The Department of Administration (DOA) thanks you for the opportunity to respond to the “Oversight of State Agency Procurement Card Use” audit. A thorough review of the audit was conducted by the State Financial Services Division (SFSD) and DOA Director’s Office. The report is well written and provides constructive recommendations for the procurement card program. Thanks to you and your staff for your work and professionalism during this audit.

Our responses to the recommendations are as follows:

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.

Department Response: Concur

The Department will outline documentation expectations that are needed to understand the nature of the purchases in the Montana Operations Manual (MOM) policy.

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.

Department Response: Concur

- A. The Department has incorporated procard program compliance into its agency procurement compliance review program. The program includes a process for assessing risk, and randomly and judgmentally selecting agency procard transactions for review. It also includes a scoring system, the option to provide feedback, and the ability to verify corrective actions.
- B. The Department will implement changes to MOM policy requiring agencies to report intentional misuse of procurement cards by cardholders to the Department, in addition to statutory reporting requirements.

Recommendation #3 – We recommend the Department of Administration implement a process to:

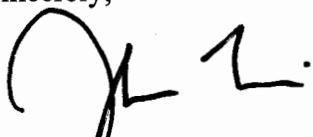
- A. Examine and implement opportunities for expanded procurement card use to optimize rebates to the state, and
- B. Communicate with and encourage agencies to move payments to procurement cards when feasible.

Department Response: Concur

- A. The Department will implement a process to assess and implement opportunities for expanded procurement card use to optimize rebates to the state.
- B. The Department will communicate with and encourage agencies to move payments to procurement cards when feasible.

We look forward to acting on the recommendations and appreciate your consideration of our comments.

Sincerely,



John Lewis, Director
cc: Cheryl Grey, Administrator
Enclosures - Corrective Action Plan

Department of Administration Corrective Action Plan (CAP): Audit Report 18P-02

Recommendation	Management View	Corrective Action Plan	Person Responsible	Target Date
<p>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.</p> <p>Recommendation #2: We recommend the Department of Administration develop and implement a centralized process and policy to:</p> <ul style="list-style-type: none"> 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. 	Concur	<p>The Department will outline documentation expectations that are needed to understand the nature of the purchases in the Montana Operations Manual (MOM) policy.</p> <p>A. The Department has incorporated procard program compliance into its agency procurement compliance review program. The program includes a process for assessing risk, randomly and judgmentally selecting agency procards transactions for review, and includes a scoring system, feedback, and verifying corrective actions.</p> <p>B. The Department will implement changes to MOM policy requiring agencies to report intentional misuse of procurement cards by cardholders to the Department, in addition to statutory reporting requirements.</p>	Meghan Holmlund, State Procurement Bureau Chief, SFSD	6/30/2019
<p>Recommendation #3: We recommend the Department of Administration implement a process to:</p> <ul style="list-style-type: none"> 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. 	Concur	<p>A. The Department will implement a process to assess and implement opportunities for expanded procurement card use to optimize rebates to the state.</p> <p>B. The Department will communicate with and encourage agencies to move payments to procurement cards when feasible.</p>	Meghan Holmlund, State Procurement Bureau Chief, SFSD	12/31/2019