

B8595 HC

2.P65-5

Copy 4

**CPM Project**

**Evaluation of the Procurement Card Program and  
Development of a Model Audit Program for Procurement Card Purchases**

**Bessie Watson**

**Division of Internal Audit and Performance Review**

**South Carolina Budget and Control Board**

**1201 Main Street, Suite 715**

**Columbia, SC 29201**

**Phone: 803-737-0869**

***E-mail: watson@dio.state.sc.us***

**S. C. STATE LIBRARY**

**AUG 6 2004**

**STATE DOCUMENTS**

**February 26, 2004**

# Table of Contents

<b>Introduction.....</b>	<b>1</b>
<b>Project Development and Implementation.....</b>	<b>2</b>
<b>Why Use the Procurement Purchasing Card? .....</b>	<b>3</b>
<b>Statistical Data from the Controller General's Office and Bank of America.....</b>	<b>4</b>
<b>Overall Feedback from the Agencies.....</b>	<b>6</b>
<b>Current Purchasing Card Usage by State Agencies.....</b>	<b>9</b>
<b>Projected Purchasing Card Usage by State Agencies.....</b>	<b>10</b>
<b>Misuse of the Card.....</b>	<b>10</b>
<b>So Who is Responsible for Internal Controls? .....</b>	<b>11</b>
<b>Conclusion.....</b>	<b>13</b>
<b>Best Practices.....</b>	<b>14</b>
<b>Bibliography.....</b>	<b>15</b>
<b>Exhibit A</b>	<b>Process Savings</b>
<b>Exhibit B</b>	<b>Number of SC Program Participants</b>
<b>Exhibit C</b>	<b>SC Procurement Card Transaction Volume</b>
<b>Exhibit D</b>	<b>SC Purchase Volume</b>
<b>Exhibit E</b>	<b>Card Program Analysis for 2002</b>
<b>Exhibit F</b>	<b>Bank of America 2003 Review Account Statistics</b>
<b>Exhibit G</b>	<b>Bank of America 2003 Review Top Tier Accounts by Volume</b>
<b>Exhibit H</b>	<b>Top 10 Users by Volume for Fiscal Years 2002 and 2003</b>
<b>Exhibit I</b>	<b>Top 10 Agencies Purchasing Card Program Statistics</b>
<b>Exhibit J</b>	<b>Richard Palmer - Fraud Statistical Data</b>
<b>Exhibit K</b>	<b>SLED Data on State Government Credit Card Fraud 1999 - 2003</b>
<b>Exhibit L</b>	<b>Survey Instrument</b>
<b>Exhibit M</b>	<b>Model Audit Program, and Internal Control Questionnaire</b>

# Evaluation of the Procurement Card Program and Development of a Model Audit Program for Procurement Card Purchases

## Introduction

The purpose of this project is to address controls related to the State's procurement card purchases and to develop a program model that can be used by management to conduct self monitoring and audit of the procurement card transactions of the Budget and Control Board to assess compliance of state procurement activities.

As the procurement card program continues to grow, oversight of purchases becomes critical to insure the integrity of the program. As a result, there is a need for management to institute self audits that would detect problems and evaluate controls in place and deter violators. *Management often designs internal controls that are procedural in nature. If the procedures are good then the organization must be in control. Usage of separation of duties and monitoring controls are a major component.* <sup>(1)</sup>

An effective procurement card purchasing system would include controls over the use of the procurement card and compliance with the State Procurement Code and Budget and Control Board policies. This could be accomplished through periodic audits of card use and charges for appropriateness through the use of Infospan's on-line reporting system and monitoring to ensure compliance, and allow management to perform monthly, quarterly or whenever necessary audits of the procurement purchases to enhance controls, detect unauthorized purchases, address billing errors or disputes or suspected fraud involvement.

The program model could be used on a continuous basis by Internal Operations, the financial custodian of the Board's procurement card program and Board Management to monitor and assess the procurement transactions for propriety and querying to detect card mismanagement or fraud.

Included in this project will be statistical data on the procurement card fraud cases that were investigated by SLED, the reporting of lost or stolen cards as well as feedback from state agencies on procurement card misuse and fraud detected within their agency, and on how well the procurement card program is working for the agencies.

### **Project Development and Implementation**

The purpose of this project is five dimensional: (1) identify the benefits associated with state agencies usage of purchasing cards, (2) document both past and current purchasing card spending by the state, (3) evaluate the success of the top 10 purchasing card programs within state agencies, (4) identify drawbacks to the card use – misuse and fraud probability (5) develop a program model that could be used by management to conduct self monitoring and audit of the procurement card transactions of the Board.

The CPM project included 5 distinct phases:

1. Developing and conducting questionnaire to survey key procurement personnel on the management, benefits and abuses of the card.
2. Obtaining statistical data on procurement card purchases and users.
3. Interviewing agency internal audit units and obtaining examples of audit programs from other agencies.
4. Obtaining data on procurement card fraud cases investigated by SLED.
5. Analyzing survey results and statistical data.

Initially submitted a questionnaire to the list server of the State Internal Auditors Association (of about 250 individuals) requesting information about procurement card audits that had been performed within the agencies, but only a few responses were received. However, what was interesting was I received requests from some of the respondents from other agencies for an audit program model when it's developed, and that a copy be forwarded to them for their use as well. So there is a real need within other offices as well.

Contacted Larry Sorrell, Audit and Certification Manager, and he gave me an overview of Materials Management Office's (MMO) procedures for auditing the agencies procurement card transactions. This audit is selective and is not specific to the procurement card activity, which are included as a part of the normal expenditure testing done by MMO. I reviewed MMO's audit program and the on-line audit reports that had been issued. These audits were for cumulative years, which included testing on specific blocks of transactions and do not monitor on-going activity.

Contacted Voight Shealy, Materials Management Officer and requested a listing of agency information on procurement card usage for state agencies. I was directed to Vic Traywick at the Comptroller General's Office, and was provided with a listing of the Top 10 state agencies by volume dollar for FY2002. The CGO also provided data from Bank of America for FY2003.

Contacted SLED and requested any information obtainable on credit card fraud cases in state government since the inception of the procurement card program.

#### **Why Use the Procurement Purchasing Card?**

- Reduce process costs associated with small dollar purchases (small dollar purchases defined as any purchase under \$1,500).
- Increase process efficiency / streamline purchasing and payment procedures (move check purchases to procurement card. *Exhibit A – shows the process savings by using the procurement card.*)
- Reduce resources associated with the procurement process.
- Reduce time needed to obtain good/services
- Reduce number of paperwork errors occurring in purchasing process
- Increase control over spending / obtain better data about spending
- Generate rebates

Typically, these transactions represent 80% of agencies' total purchases but only 20% of total dollars spent.

*Purchasing cards have evolved from “best practice to common practice.” Purchasing card use by state and local government has shown dramatic growth. Purchasing cards were developed in the late 1980s as a means of helping federal government agencies acquire small-dollar goods without subjecting their vendors to payment delays associated with the red tape of the procurement processes at that time.*

*In addition to expediting payment, purchasing cards have been found to have numerous other important benefits, principally relating to the reduction or elimination of the voluminous paperwork associated with requisitions, purchase orders, and invoices for thousands of small-dollar transactions. The elimination of the bureaucratic red tape that is typically required to process small-dollar purchases empowers procurement and payables personnel to focus on issues of greater importance.*

*Although the growth and benefits of federal government usage of purchasing cards have been widely reported, little is known about the effects of these cards on state and local government operations. Specifically, no study to date has examined the impact of purchasing cards on the cost, efficiency, or cycle times of state and local government procurement practices. This article reports the results of a survey on purchasing card usage by state and local (i.e., city and county) governments. <sup>(2)</sup>*

#### **Statistical Data from the Comptroller General’s Office**

The Comptroller General’s Office (CGO) provided a listing of the Top 10 State agencies based on dollar volume for FY2002. These 10 agencies represent 83.5% of the total dollar volume (\$123,870,861) of the State’s total procurement card purchases in 2002. The Top 10 included seven colleges and universities and 3 other agencies as shown in *Exhibit H*.

Bank of America is the card administrator for the State agencies. Bank of America maintains 71 State agencies and 42 Political Subdivisions on the card program. Bank of America provided a listing of the Top 10 agencies based on dollar volume for FY2003. These 10 agencies represent 81% of the total dollar volume (\$146,472,712) of the State's total procurement card purchases in 2003. See *Exhibit G*.

In FY2002, 561,086 transactions were processed (86.3 per card) these smaller transactions were shifted from a paper-based procurement process to a card-based process. Per the CGO, the state saved more than \$50 in administrative costs per purchasing card transaction for a total of \$28,054,300. Rebates from card issuers to the state for discounts paid by vendors generated \$420,958 in 2002 alone. A total savings of \$28,475,258 was attributable to use of the purchasing card in 2002. See *Exhibit E*.

In FY 2003, 622,927 transactions were processed, and based on the \$50 in administrative costs savings per purchasing card transaction the state saved \$31,146,350. In addition, the rebates from card issuers to the state generated another \$497,780 for a total savings of \$31,644,130 attributable to use of the purchasing card. See *Exhibit F*.

#### **Questionnaire Administered**

I concluded that the scope of the project would be limited to the Top 10 agencies. I contacted each agency to obtain statistical data and survey information for the purpose of this project. A questionnaire was administered to both the key procurement personnel and the Internal Audit Department for each of the Top 10 agencies to assess management of the agencies' procurement card program. The questionnaire and statistical data was obtained through the use of the agencies email system along with phone surveys. Developed a database with the survey results and charted the statistical data obtained from each agency. Survey participation was 100% (See *Exhibit I*). The questionnaire identified both strengths and opportunities for improvement within the procurement card program.

## **Overall Feedback from the Agencies**

### **1. Success of the Program**

The purchasing card program has reduced the tremendous amount of paperwork, faxes, telephone inquiries, checks processed and other administrative expenses while maintaining the highest level of accountability in the expenditure of public funds. The Purchasing Card Program empowers departments to manage their expenditures and has also simplified the purchasing process for managing low dollar supply purchases with vendors receiving immediate payment from Bank of America. The card allows one payment to be processed to Bank of America instead of numerous checks for each small purchase. The Purchasing Card Program has proven to be an extremely efficient and cost-effective payment mechanism for the agency and for the State.

### **2. Evaluation of Controls**

Controls are adequate. Some of the agencies have their policies and procedures located on the web. Procedures kept current, and are working well, with few deviations.

### **3. Quality of Agency Provided Training**

Adequate training provided in-house to include: each cardholder must successfully complete cardholder training before they receive the card; upon completion of the training, the cardholder must sign a cardholder agreement form indicating they will abide by the procurement card policies and procedures; and there are procedures in place for violations if they do not follow the procedures of the program.

### **4. Audits/Monitoring of Procurement Card Transactions**

The Procurement Card program is monitored/audited by the department liaisons/administrators, the agencies' internal auditors, the external auditors, and State MMO auditors. Bank of America customer service also reviews the

daily transaction purchases for any unusual purchases that are not consistent with the cardholders purchase history, and the bank also has a fraud department that oversees irregularities and new cards issued. Cardholder transactions are audited routinely (daily on-line, monthly). Infospan's software from Bank of America is used for all the procurement card transaction information. This software has been the best tool for managing this program.

**5. Billing Discrepancies**

All the staff at Bank of America is very knowledgeable and very willing to help with any problems the agencies have. Bank of America is instrumental in helping research information for any particular transaction(s) and applies credit instantly if the purchase warrants a credit.

**6. Unauthorized Purchases / Fraud**

An unauthorized procurement is an act obligating the State in a contract by a person without the requisite authority to do so or the purchase exceeds the agencies' procurement authority. The effect would be violation of the purchasing card guidelines and or that state assets could be misappropriated and go undetected resulting in a loss to the state.

The agencies responded that the card program has experienced some fraud from cardholders, or cardholders not keeping the card secure and random active account numbers being picked-up and used illegally by others. Like anything else there is always potential for fraud but with the procurement card, information can be reviewed and the situation addressed immediately. Of the 10 agencies, only one agency reported a case of fraud to SLED for investigation, most cases of abuse or fraud are handled within the agency and investigated by the Internal Audit Department. The employee is asked to make recompense and is usually terminated if it was considered fraud.

See *Exhibit J- Fraud Statistical Data and Exhibit K – SLED Data on State Government Credit Card Fraud*.

## **7. Optimizing Card Use**

The card could be even more effective if limits could be lifted and allow for payment of services. Some agencies because they are colleges and universities are exempt from the South Carolina Procurement Code and are allowed more flexibility and are approved for higher cardholder transaction limits. MUSC mandated the PCard be used for all purchases under \$1,500. Also, the MUSC pagers and cell phone contracts are processed with a PCard account number for vendor payment. These type areas should be considered for other agencies.

## **8. Opportunities for Improvement**

Agency comments and suggestions for changes to the program include:

- Stipulate that vendors must be able to accept the card
- Agencies allowed authority to tailor the spending and controls over transactions to the department requirements, and not have to maintain the rigid guidelines imposed by the CGO.
- Reduce paperwork required for all small dollar purchases. Need to open up codes for “services, meals and hotel expenses, and repair parts”. Wasting tax dollars to process a check for these expenses.
- Emergency procurement procedures need to be put in place for purchases needed during inclement weather conditions. Had to call Vic Traywick at his home to have codes unblocked for previous weather situation to accommodate emergencies.
- Card provides too much academic freedom to educators, better monitoring needed - have added procedures to curtail.
- One agency commented that using the card for a payment method is just as much work to do as a voucher. That the work has just been shifted down the line with the charges being processed at the departmental level and has eliminated the accounts payable staff, but has placed additional administrative work on the departments. The card is a convenience, but noted that they were unsure about the cost savings based on the additional work.
- Small offices unable to have separation of duties enforced – cardholder

and card liaison the same person.

- Not enough staff to review transactions.
- On-line purchases have more potential for fraud, risk is extremely high. Card numbers can be obtained and used illegally. Biggest concern and the most problems encountered were purchases off the internet.
- Need better description on support for purchases, sometimes hard to read the invoices.
- Managers have access to monitor on-line activity.
- Card numbers have been lifted off the statement or the invoice.
- Some folks are fearful about using the card, should be able to use the card without feeling like putting oneself at risk when on official business.
- Limited training being done, unauthorized purchases done out of ignorance or inadvertently.
- Not near optimizing benefits because of CGO restrictions.

### **Current Purchasing Card Usage by State Agencies**

Overall, the impact of purchasing cards on state agencies has been significant. State agencies report an average per transaction savings in administrative paperwork handling of \$50 and an average reduction of seven - ten days in the time elapsed from determination of employee need to the receipt of the ordered good. The attached exhibits provide comparatives of purchasing card statistics on Corporate Accounts of State Agencies and Political Subdivisions from 1997 through 2003.

**Exhibit B** – shows the number of program participants, **Exhibit C** – shows state agency purchasing card usage in transaction volume, and **Exhibit D**– shows state agency purchasing card usage in dollar volume.

## **Projected Purchasing Card Usage by State Agencies**

Purchasing card spending by state agencies increased tremendously between 1997 and 2003 as shown in the *Exhibits I*. This phenomenal growth in purchasing card usage by state agencies can be attributed to three things. First, the average state agency spending per transaction increased. Second, the dissemination of purchasing cards to a larger percentage of the state agency employees as authorized cardholders. And third, fewer restrictions on usage of the card. Agencies restrict usage by imposing spending limits or constraining allowable categories of purchases.

*Exhibit H* shows current and projected state agency purchasing card usage in dollar volume for the Top 10 agencies. *However, the aggressive purchasing card usage of the past few years may have reached a plateau. Projected growth in purchasing card spending is expected to be modest for state agencies due to budget cuts and the restrictions on allowable purchases.*<sup>(3)</sup> There was a 1.14% increase in 2003 in card purchases from 2002 and a 1.11% projected increase for 2004 by the CGO. The greatest penetration of card purchases is in the category of office supplies.

## **Misuse of the Card**

The agencies experienced very minimum areas of concern and deviations from procedures. However, there were examples where unauthorized purchases were made or the purchases were split to circumvent procedures which violate the Procurement Code. The coordinators felt that in most cases the errors were not deliberate but were inadvertently done as a result of the newness of the program and need for additional training or that the individual inadvertently used the card instead of their personal charge cards. In all cases detected the associated dollar value was not material with only a few exceptions. *Card misuse is not the problem it is made out to be. Overall, card misuse dollars are small. Misuse incidents are not uncommon, but organizational impact -- in terms of dollars or personnel action--is minute.*<sup>(4)</sup> See also *Exhibit J and Exhibit K*.

## **So Who is Responsible for Internal Controls?**

*Everyone plays a part in the internal control system. Ultimately, it is management's responsibility to ensure that controls are in place. That responsibility is delegated to each area of operation. Every employee has some responsibility for making this internal control system function. Therefore, all employees need to be aware of the concept and purpose of internal controls.*

*The concept of accountability must be shared by everyone and, to recognize the importance of internal controls. The risk of fraud can be reduced, detected or even prevented by educating employees on what fraud is, providing a comfortable method for them to report fraud, utilizing internal or external auditors, and utilizing internal controls.*

*Management also needs to define a business ethics which supports good management practices, not just written documents distributed to employees when they first begin work for the organization, but repeated reinforcement of the commitment backed with action applied uniformly. <sup>(1)</sup>*

*The procurement process can be one of the most costly items for an organization. And because of the costs, the temptations of fraud might be greater. Credit card fraud is rampant on the internet. The U.S. Secret Service estimates that half a billion dollars are obtained each year by operators who obtain credit card and calling card numbers from on-line databases. <sup>(5)</sup>*

### **Fraud Facts**

*80% of fraud is committed in cash receipts & disbursements.*

*46% of frauds are discovered by tips from employees, customers, vendors or others*

*31% are discovered by internal or external audit*

*23% are discovered by internal control procedures or other.*

*Organizations with fraud hotlines cut their fraud losses by approximately 50%.  
Background checks also significantly reduce fraud losses.<sup>(6)</sup>*

SLED investigated 14 cases of fraud from 1999 to 2003. The cases involved one telephone credit card, two fuel credit cards and eleven purchasing cards as shown at *Exhibit K*. In five instances the card was stolen, for 6 cases the card number was used illegally and in three instances fraud was committed by state employees. Nine of the 14 cases involved the Department of Transportation.

From discussion with the SLED investigator, the biggest risk is safeguarding of the card. Employees have a tendency to leave the card in their desk drawer, where it can be picked-up by someone in the cleaning crew. However, securing the support documentation is just as important. Employees need to be instructed to safeguard the cards as well as the invoice or card information.

The State should perform background checks on all new employees. In the instance of the \$10,000 fraud case shown in Exhibit K, page 3, the individual had previously been convicted twice of armed robbery, but no background check was conducted prior to his hiring. This could have been avoided had a background check been performed.

In the September 17, 2003 State Newspaper article it was stated that: *"SLED charged Willie Harrison, 54, the head of procurement at South Carolina State University with misusing more than \$10,000 of the school's money. According to the indictments, Harrison used a university-issued credit card to buy for himself a TV, furniture, garden supplies and other items worth at least \$5,000. He also is accused of converting purchase orders so he could rent vehicles for himself and his family.*

*Harrison was hired in April 1995 after working at the state Public Safety Department. Harrison worked at the Police Academy, a division of Public Safety, as a prison trusty while serving time for armed robbery, according to government documents. He was paroled in May 1976, prison records show. The academy hired*

*him as a paid employee, who worked there and became its director in 1982. Harrison has twice been convicted of armed robbery, according to his police records. Harrison was described as trustworthy and a hard worker. It was not known whether the college routinely conducts criminal background checks on prospective employees who handle public money.”* <sup>(7)</sup>

*In a well designed management control system the agency must emphasize factors, such as personnel practices that attract and retain competent persons of integrity; a culture that strives to prevent and detect fraud; and internal and external audits that deter fraudulent practices and allow the agency to assess the success of control initiatives.* <sup>(1)</sup>

## **Conclusion**

Overall the program is working well, however there were several recommendations for improvement of the program as addressed below. In addition, the developed model audit program has been implemented. Management has received instruction on how it could be used to conduct continuous monitoring and assessment of the procurement transactions of the Board for propriety and querying to detect card mismanagement. *(See Exhibit M)*. The model has also been shared with other state agencies to use as a monitoring mechanism within their agency.

**Proactive Management** - As stated in the MAP Commission report, “Expand and improve the procurement information system and minimize the processing complexities for purchases less than \$25,000, and maximize the expenditure of procurement dollars with in-state small business vendors where feasible”.

To this regard the state as well as the vendors benefit from use of the Procurement card because they receive their payment quicker and increase their cash flow. This could be used as a negotiating leverage to reduce cost of goods and could mean lower prices back to the state agencies.

- Use data for discount negotiations

- Analyze spending patterns with vendors to identify areas of opportunity for increase procurement card spending
- Provide more latitude to the level of purchasing and increase the limit from \$1,500 which, would ease the entire procurement process and be more advantages to the state.

**Program Administration** - If all state agencies optimized use of purchasing cards to the extent possible, the state would benefit substantially from the savings, inducing savings of millions of dollars in non-value-adding paperwork processing charges. *Management could reduce concerns over purchasing card use through electronic controls over cardholder choices.* <sup>(4)</sup> Perhaps with such controls in place, agencies would utilize the cards to the fullest extent and optimize savings to the state even more.

### **Best Practices**

- 1) Elicit ongoing Senior Executive support by sharing information and encouraging involvement.
- 2) Benchmark other agencies and commercial companies to gain additional perspectives.
- 3) Incorporate P-Card acceptance into contracts, schedules and blanket purchase agreements.
- 4) Mandate use of purchase card where ever possible. Optimize use of the card/ minimize use of PO's for all purchase card eligible purchases.
- 5) Utilize Purchasing Card for higher spend categories/revolving payments.
- 6) Utilize data monitoring and querying to detect card mismanagement.
- 7) Monitor Procurement performance via a scorecard that links cost, quality, time and user satisfaction to strategic objectives.

## BIBLIOGRAPHY

- (1) W. T. Geary, "Financial Control," in *Behavioral Accounting*, eds. G. Siegel and H. Ramanauskus- Marconi (Cincinnati, Ohio: South-Western, 1989), p. 74.
- (2) *2002 Government Finance Review* article, research by R. Palmer, M Gupta, A. Davila, and T. Mills
- (3) R. Palmer, L. Green, and M. Ventura, "Are *Corporate Procurement Cards for You?*" Management Accounting (September 1996): 23-30.
- (4) "*Corporate Purchasing Card Benchmark Survey*," by R. Palmer, M. Gupta, and A. Davila, [www.napcp.org/palmersurvey](http://www.napcp.org/palmersurvey).

RICHARD J. PALMER is the Lumpkin Distinguished Professor of Business at Eastern Illinois University. Dr. Palmer is a frequent speaker at purchasing card training and user conferences, and he has authored more than 40 publications on cost management and electronic commerce topics, including award-winning studies on industry use of corporate purchasing cards. MAHENDRA GUPTA is an associate professor at the Olin School of Business at Washington University in St. Louis. He received his doctorate from Stanford University in 1990 and his master's degree from Carnegie Mellon University in 1981. Professor Gupta currently studies issues in strategic cost management, benchmarking, and performance measurement. ANTONIO DAVILA is an assistant professor at the Graduate School of Business at Stanford University. He received his doctorate from the Harvard School of Business in 1998 and a telecommunications engineering degree from the University of Catalunya,

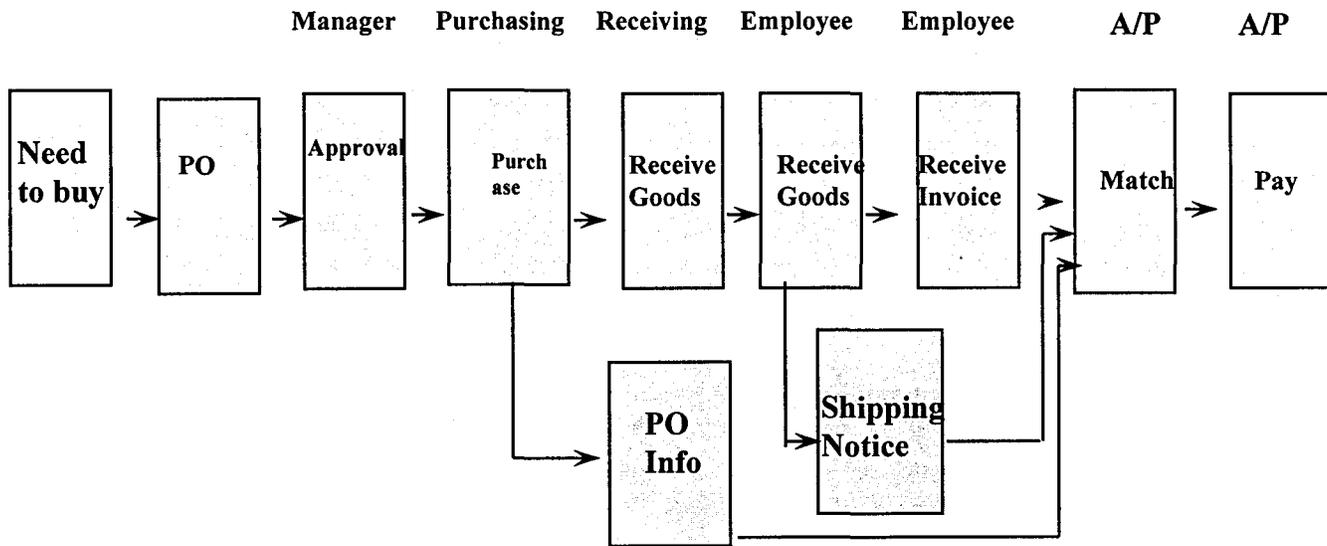
Spain. Dr. Davila's research interests include the design and use of cost management systems, control systems for implementing strategy, and performance measurement. TIM MILLS is an associate professor at Eastern Illinois University. He received his doctorate from Louisiana Tech in 1989. Dr. Mills' research interest is governmental accounting.

- (5) Internet Website Lawyerviews.com designed by K. William Kyros
- (6) KPMG Peat Marwick, *Fraud Survey Results 1993* ( New York: KPMG Peat Marwick, 1993), p. 2.
- (7) The State Newspaper (Columbia, SC) Date: September 17, 2003  
Title: S.C. STATE OFFICIAL CHARGED WITH MISUSING MONEY

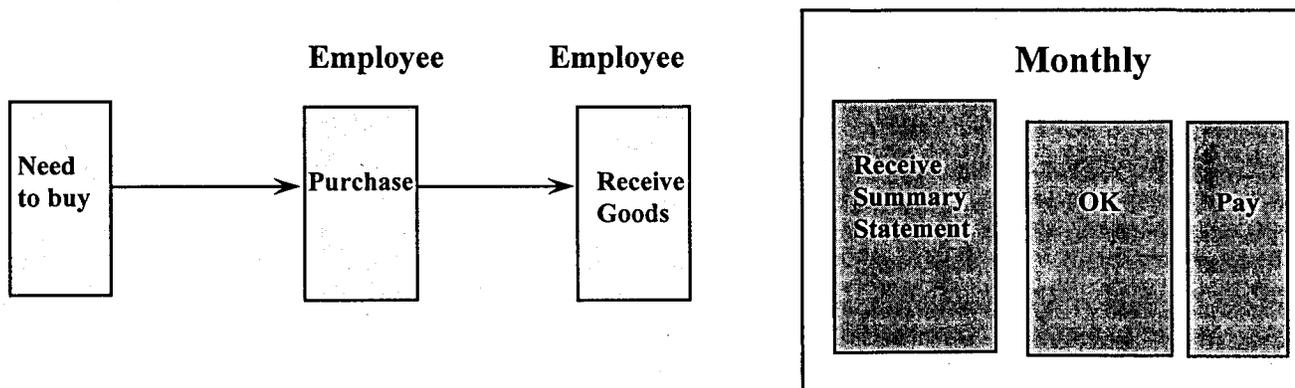
# Exhibit A

## Process Savings Estimate

**Typical PO Process Costs \$130 - \$150**



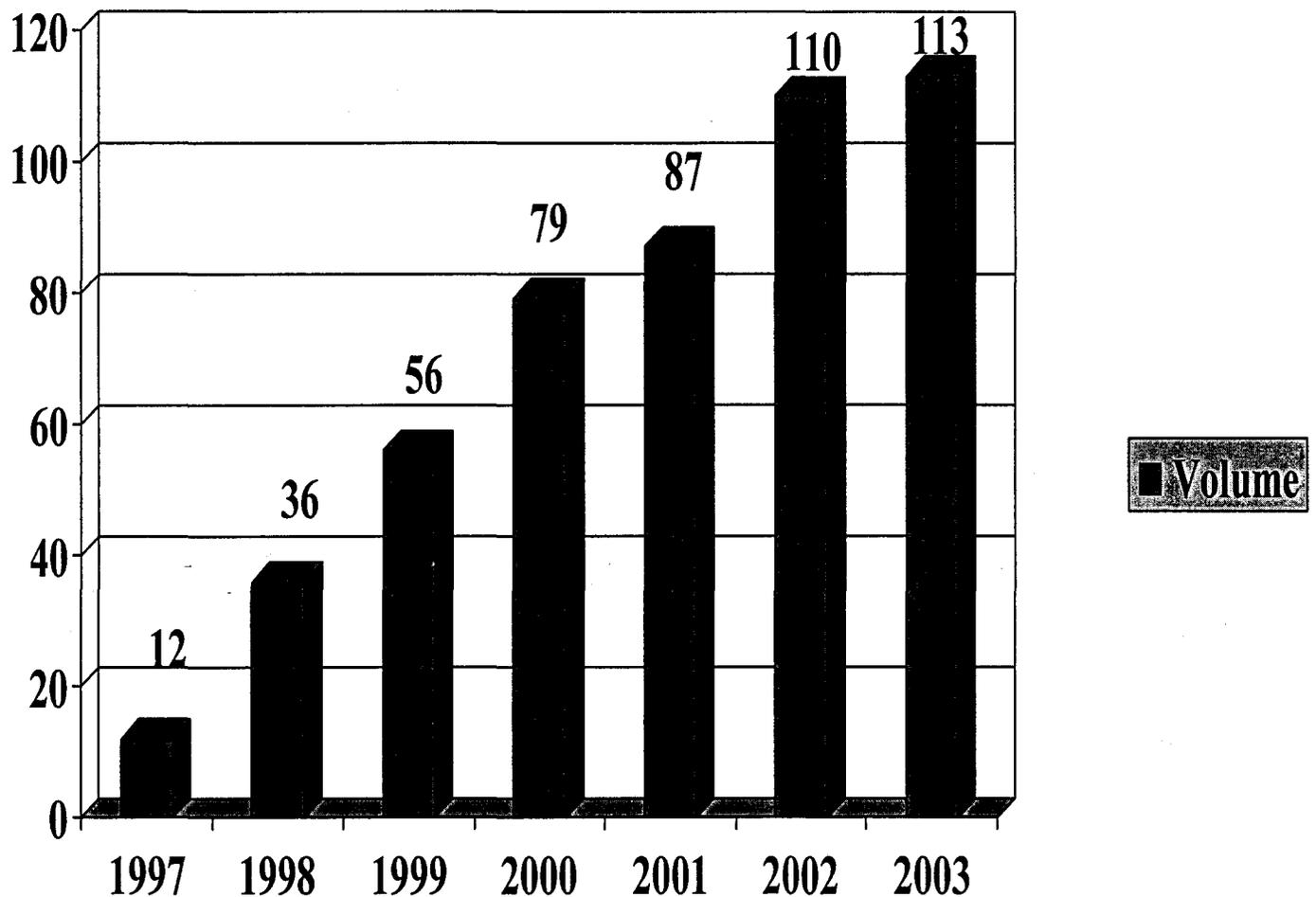
**Typical P-Card Process Costs \$15 - \$30**



# Exhibit B

## Number of SC Program Participants

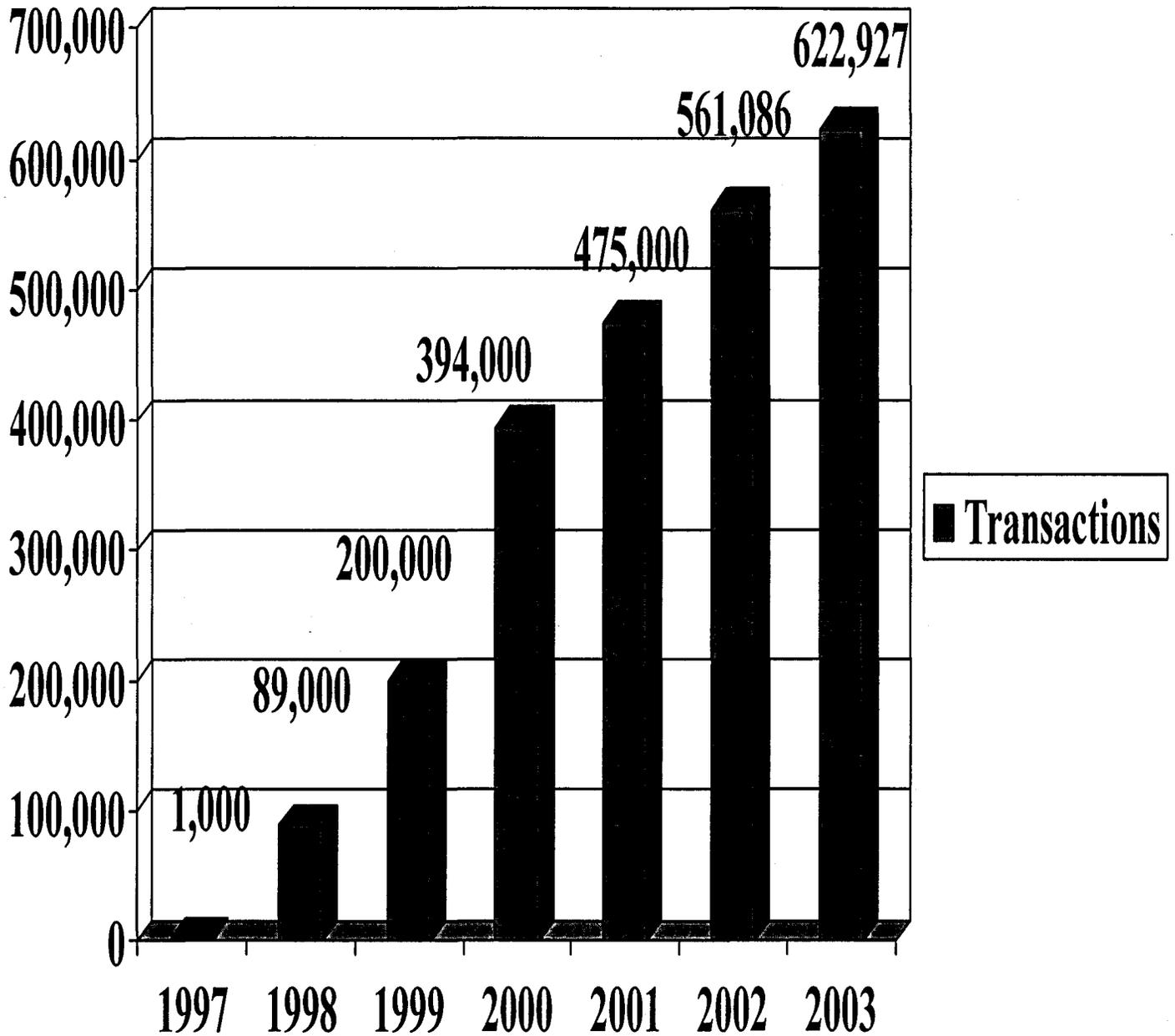
Corporate Accounts of State Agencies and Political Subdivisions



Information provided by SC Comptroller General's Office

# Exhibit C

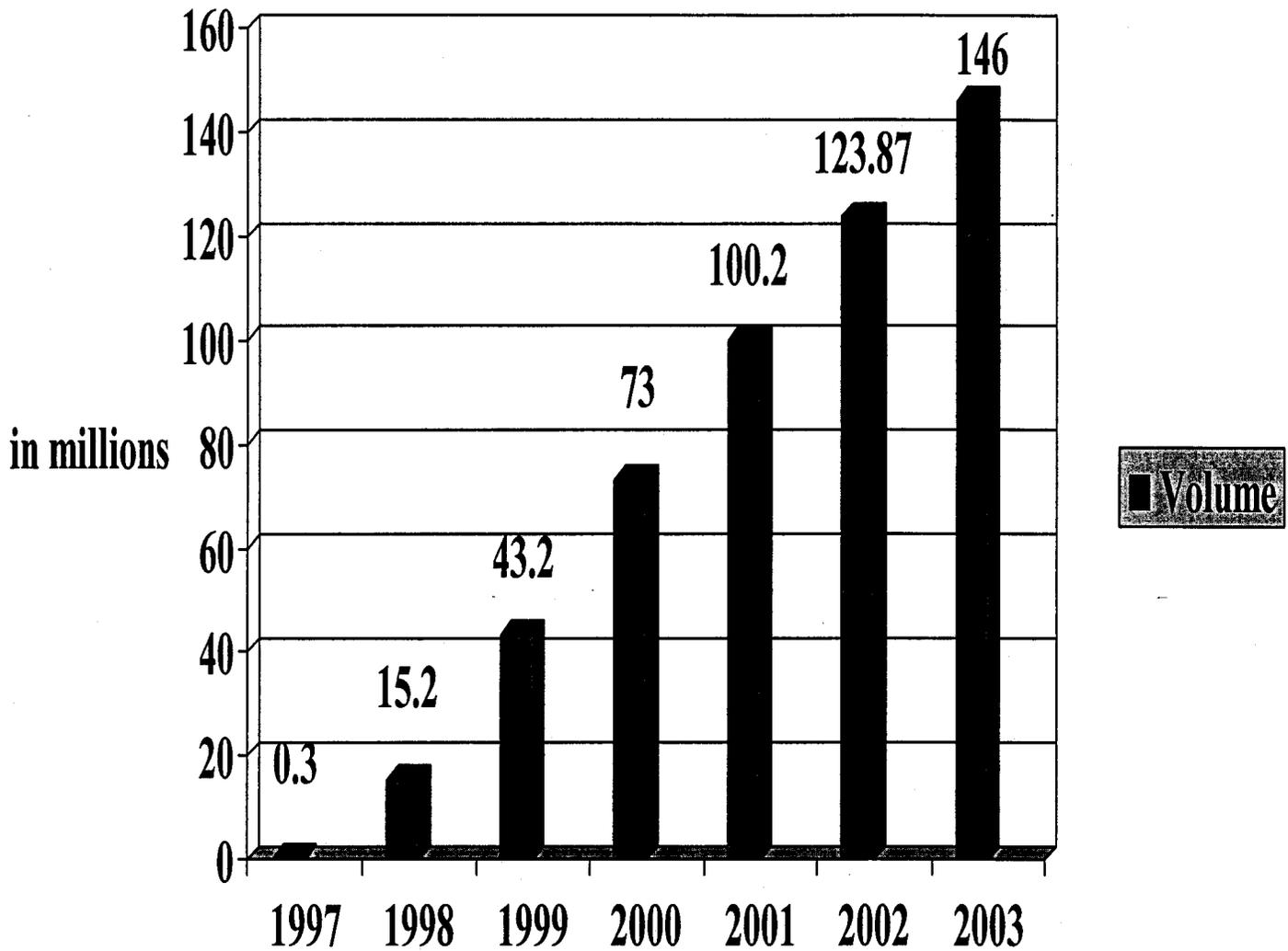
## SC Procurement Card Transaction Volume



Information provided by SC Comptroller General's Office

# Exhibit D

## SC Purchase Volume



Information provided by SC Comptroller General's Office

# Exhibit E

## Program Analysis for 2002

- Volume \$123,870,861
- Cards (open accounts) = 11,022
- 2002 Transactions = 561,086 (86.3 Per Card)
- Active Cards (active accounts) = 6,501 (59%)
- 2002 Per Month Average = 46,757 (4.4 Per Card)
- Savings = \$28,054,300 (at \$50 per trans)

Rebate Breakdown	
2003 Volume =	\$146,472,712
Rebate =	\$497,780
2002 Volume =	\$123,870,861
Rebate =	\$420,958.02
2001 Volume =	\$100,235,561
Rebate =	\$340,780
2000 Volume =	\$73,087,235
Rebate =	\$124,000

Information provided by SC Comptroller General's Office

Bank of America



## Exhibit F

### Bank of America 2003 Review *2003 Account Statistics*

State of  
South  
Carolina  
2003 Review

•Contract:  
Through July  
31, 2004

•Two, 1 year  
renewals  
remaining  
(2005  
&2006)

•Visa Platform  
with  
InfoSpan and  
Eagls

•Fiscal Year  
End: June 30

#### ❖ 2003 Volume **\$146,472,712**

- 18.2% increase from 2002
- \$134,142,469 State Agencies
- \$12,330,244 Local Governments

#### ❖ 2003 Transactions **622,927**

- Palmer study shows that agencies save \$62.34 per transaction
- The State should save around \$38.8MM+ not including savings for agencies who go through the CG and Treasurer's Office.

#### ❖ 2003 Cards **11,495**

- \$250 per transaction per card
- 81% active compared to 57% in 02.

#### ❖ 2003 Corporate Accounts **113**

- 71 State Agencies
- 42 Political Subdivisions



# Exhibit G

## Bank of America 2003 Review *Top Tier Accounts by Volume for 2003*

State of  
South  
Carolina  
2003 Review

### ❖ Colleges and Universities

- Medical University Hospital Authority  
\$48.8MM
- Medical University of SC  
\$17.3MM
- Clemson  
\$13.7MM
- University of South Carolina  
\$13.0MM
- Winthrop University  
\$3.4MM
- College of Charleston  
\$3.0MM
- Coastal Carolina  
\$1.7MM
- The Citadel  
\$1.6MM

### ❖ Agencies

- SC Department of Transportation  
\$13.5MM
- SC Department of Mental Health  
\$2.8MM
- SC Dept of Health & Environmental Control  
\$1.5MM
- SC Department of Social Services  
\$1.0MM

# Exhibit H

## Top 10 Users by Volume Fiscal Years 2002 and 2003

	2002	2003	2004 Projection
1) MUHA	\$36.7MM	\$48.8MM	\$55.1MM
2) MUSC	\$16.35MM	\$17.3MM	\$19.8MM
3) Clemson	\$13.4MM	\$13.7MM	\$15.1MM
4) DOT	\$12.9MM	\$13.5MM	\$15.1MM
5) USC	\$12.9MM	\$13.0MM	\$13.1MM
6) Winthrop	\$3.36MM	\$3.4MM	\$3.4MM
7) College of Charleston	\$3.36MM	\$3.0MM	\$3.2MM
8) DMH	\$1.7MM	\$2.8MM	\$2.3MM
9) Citadel	\$1.6MM	\$1.6MM	\$1.6MM
10) DHEC	\$1.2MM	\$1.5MM	\$2.5MM
<b>Total</b>	<b>\$103,470,000</b>	<b>\$118,600,000</b>	<b>\$131,700,000</b>

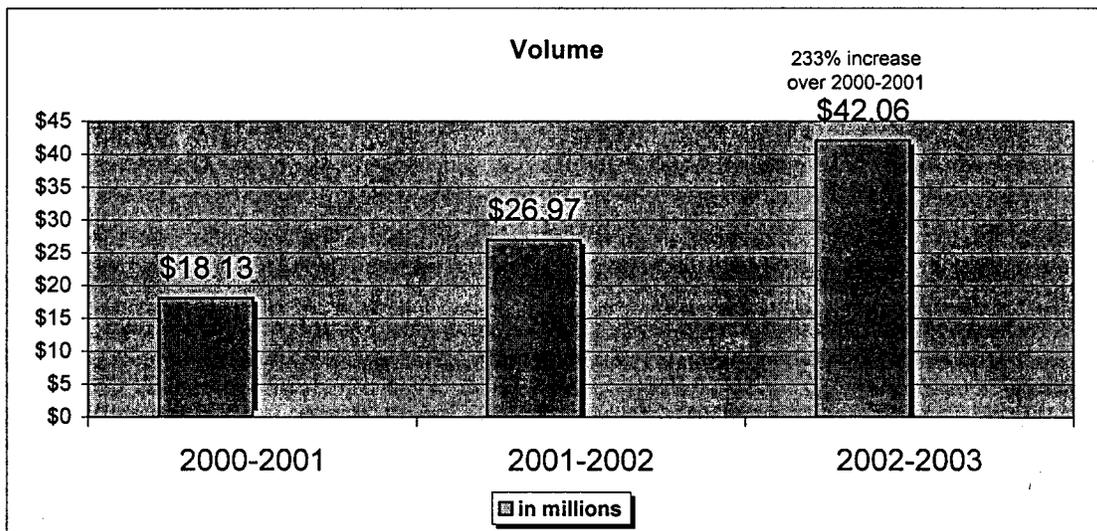
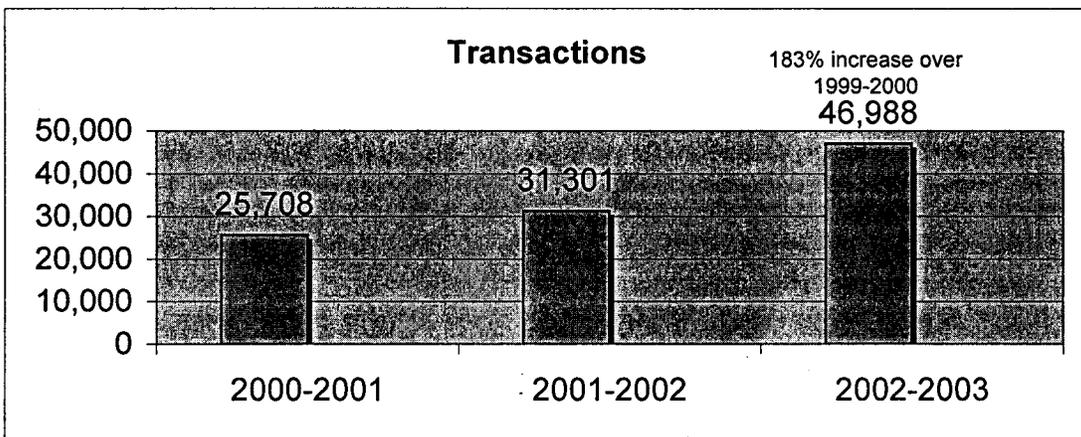
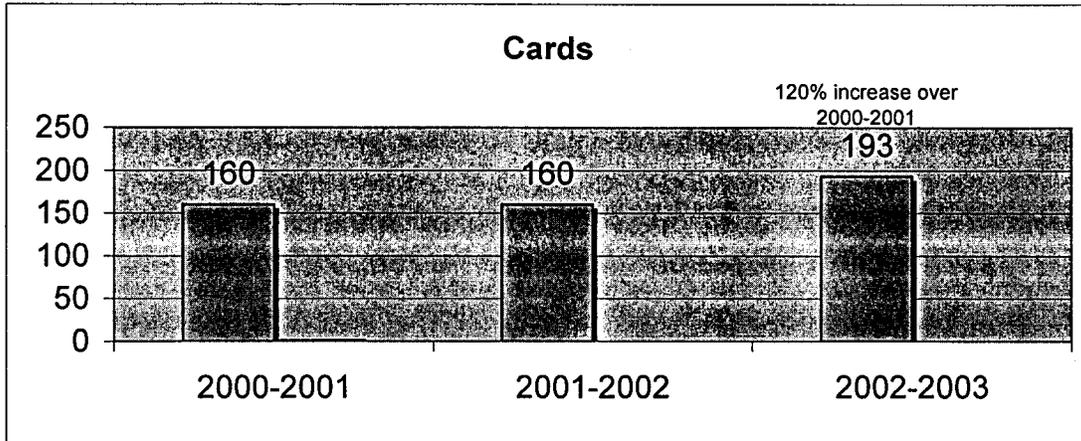
\*\*Some of these numbers vary slightly from the data submitted by the agencies in *Exhibit I*.

Information provided by Comptroller General's Office and Bank of America

# Exhibit I

## MUHA Purchasing Card Program Statistics

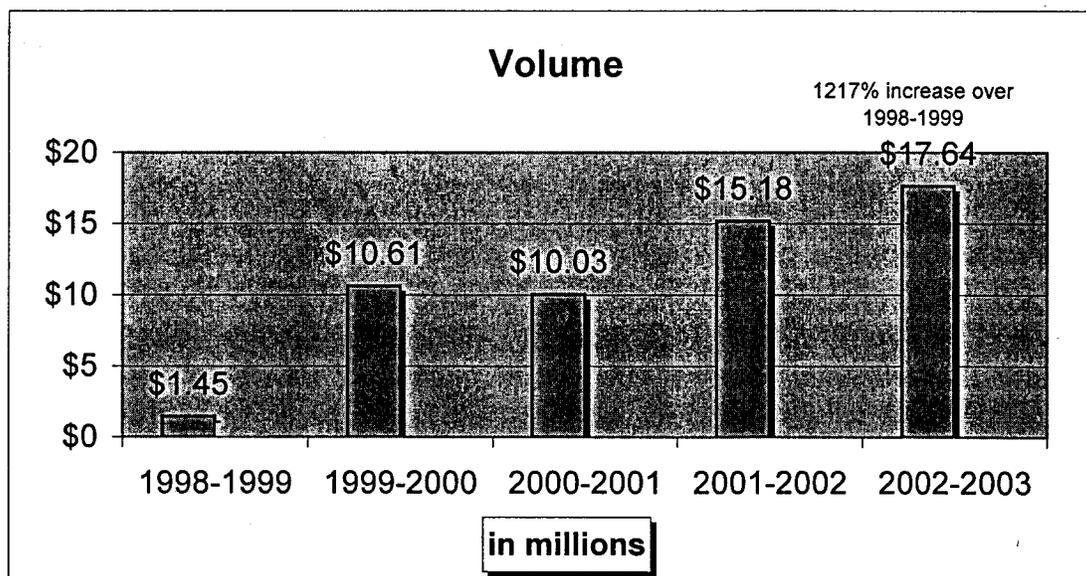
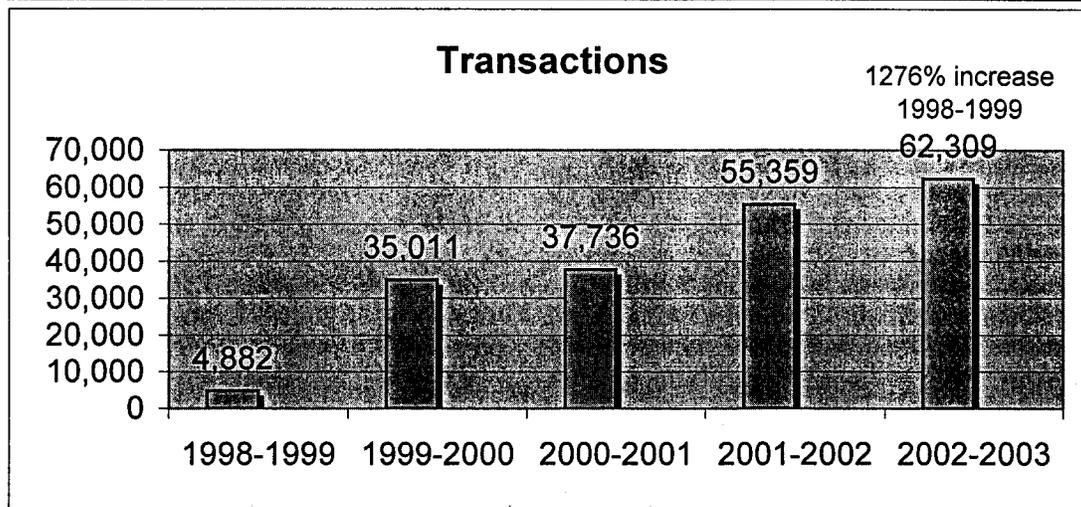
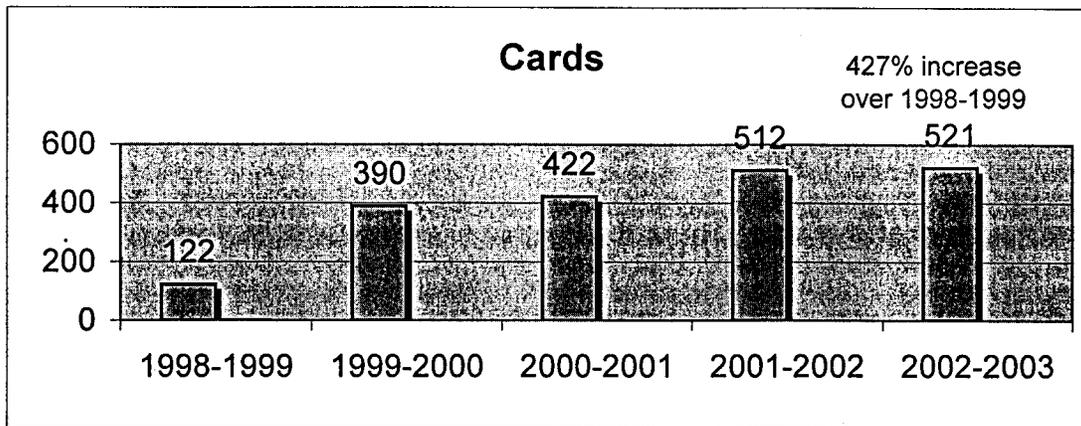
The Medical University Hospital Authority, commonly known as the MUSC Medical Center, became an Authority on July 1, 2000. Prior to that date, the purchasing card transactions were included in the Medical University of South Carolina's records.



Data obtained from agency.

# Exhibit I

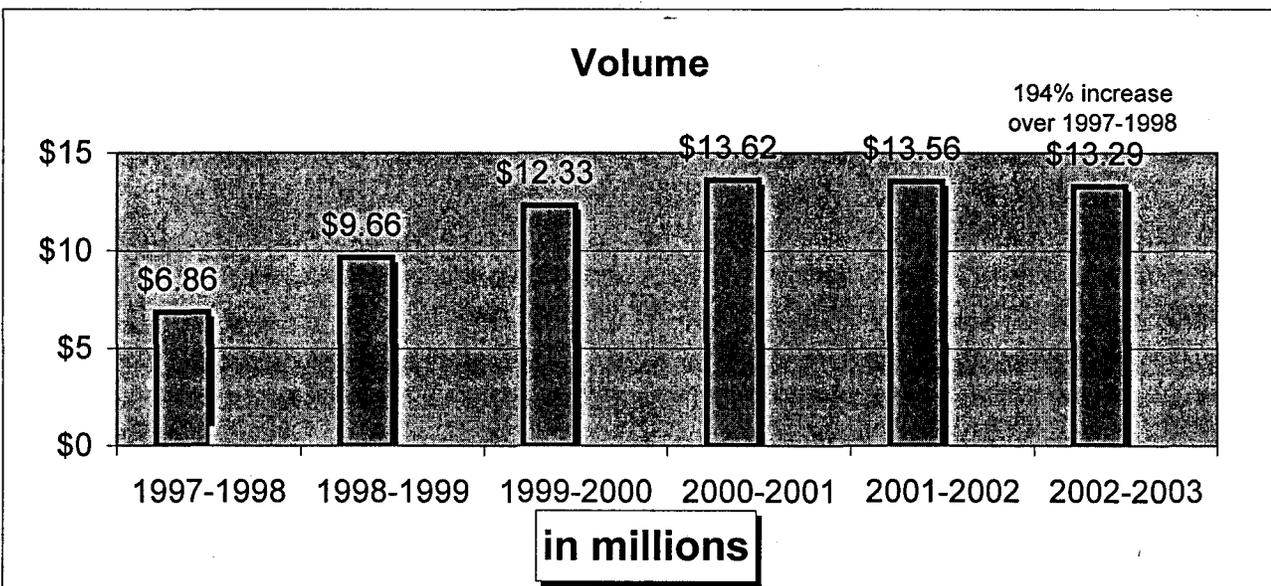
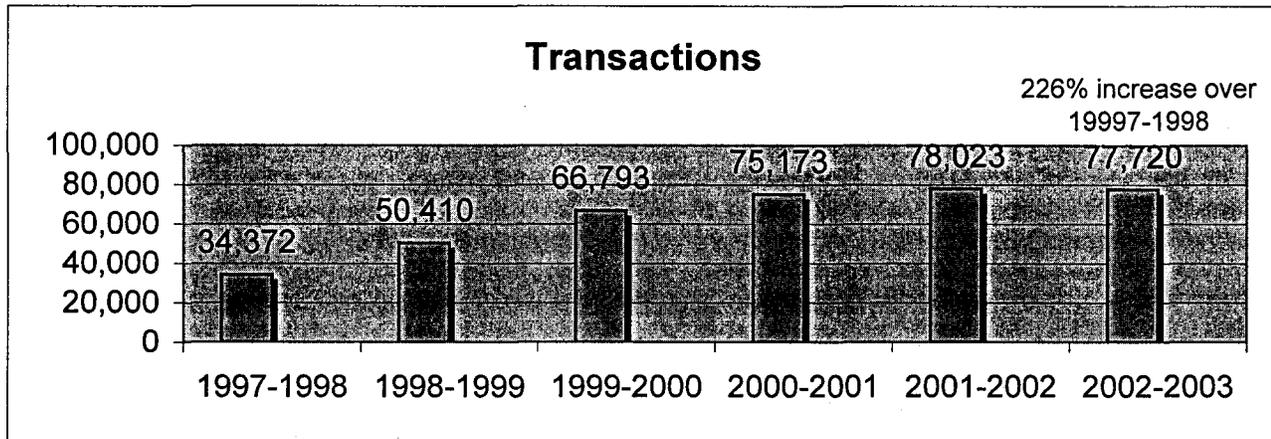
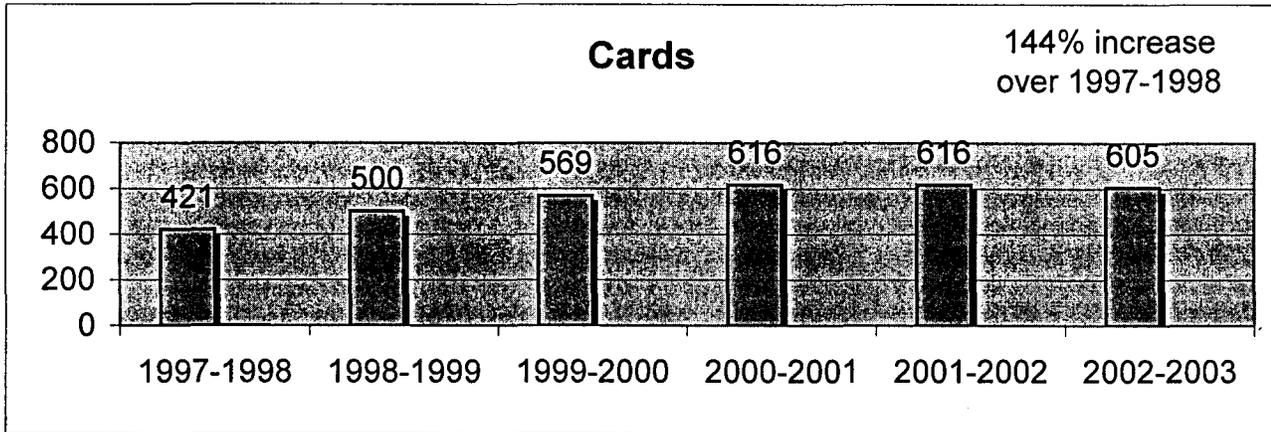
## MUSC Purchasing Card Program Statistics



Data obtained from agency.

# Exhibit I

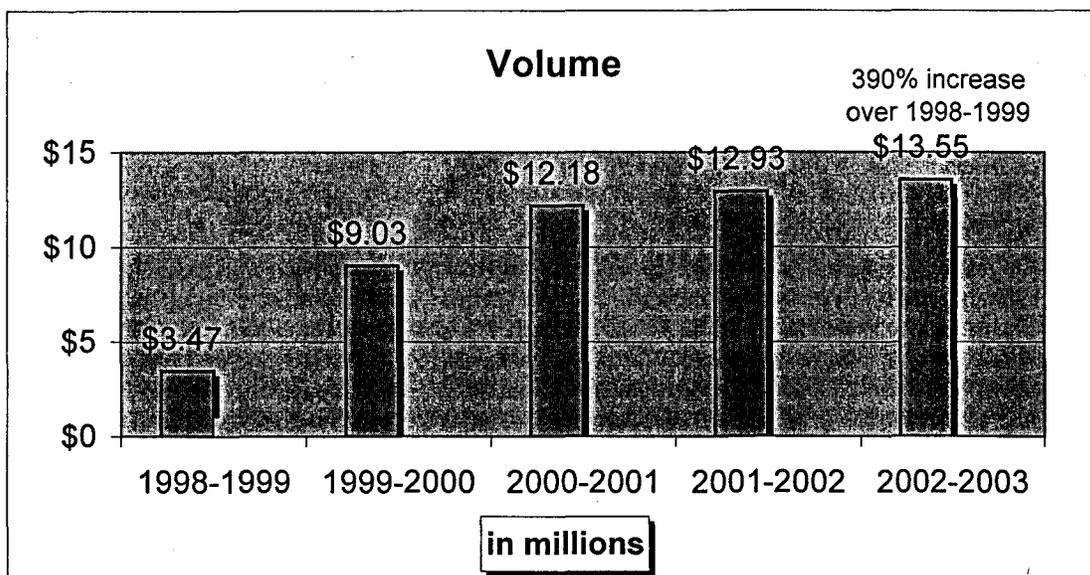
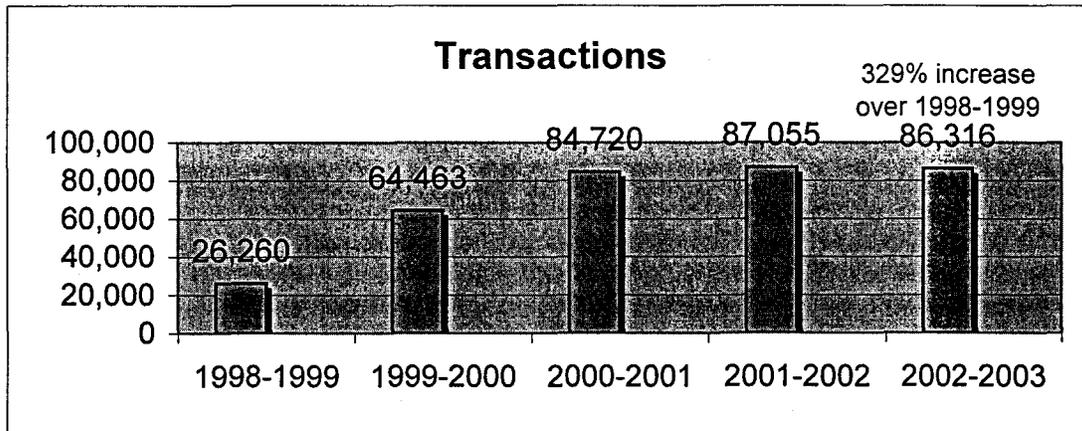
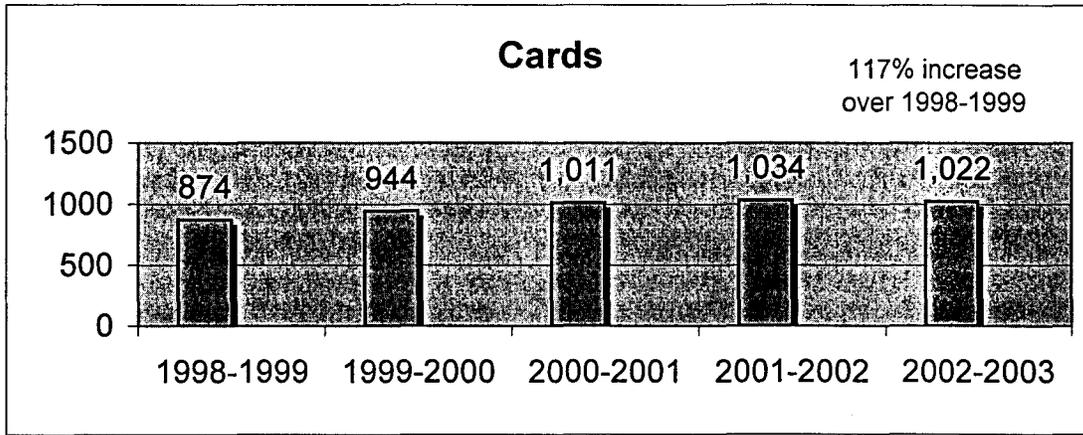
## Clemson Purchasing Card Program Statistics



Data obtained from agency.

# Exhibit I

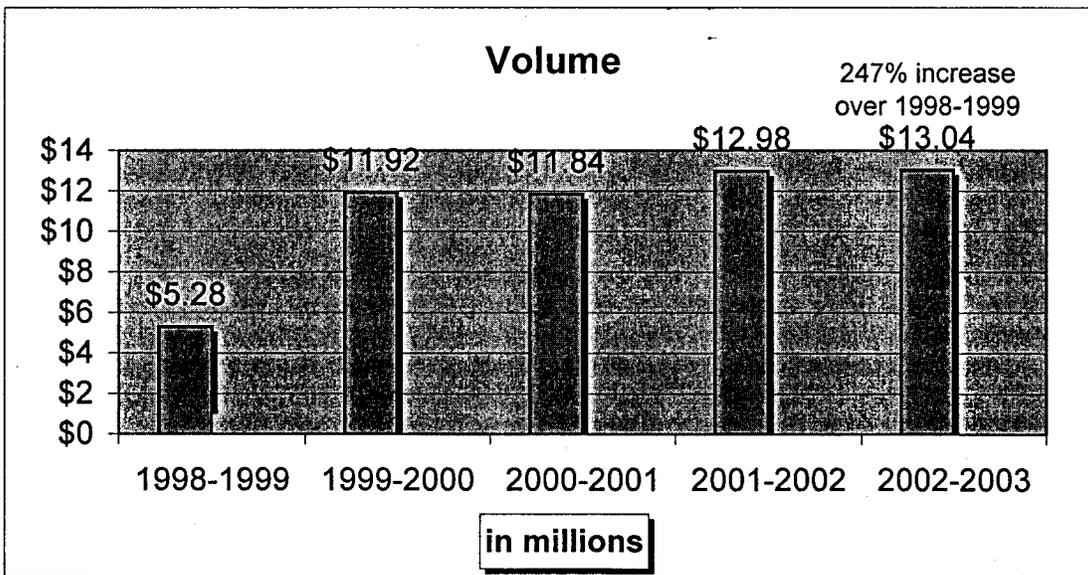
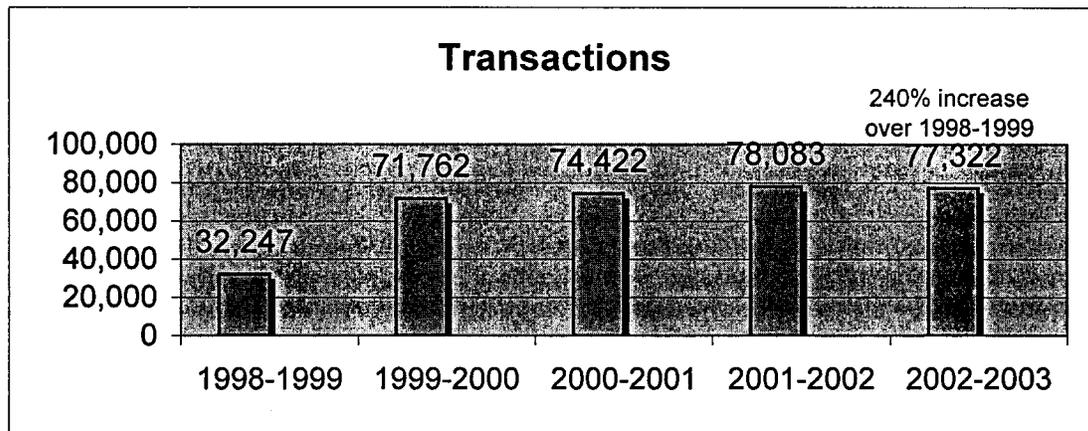
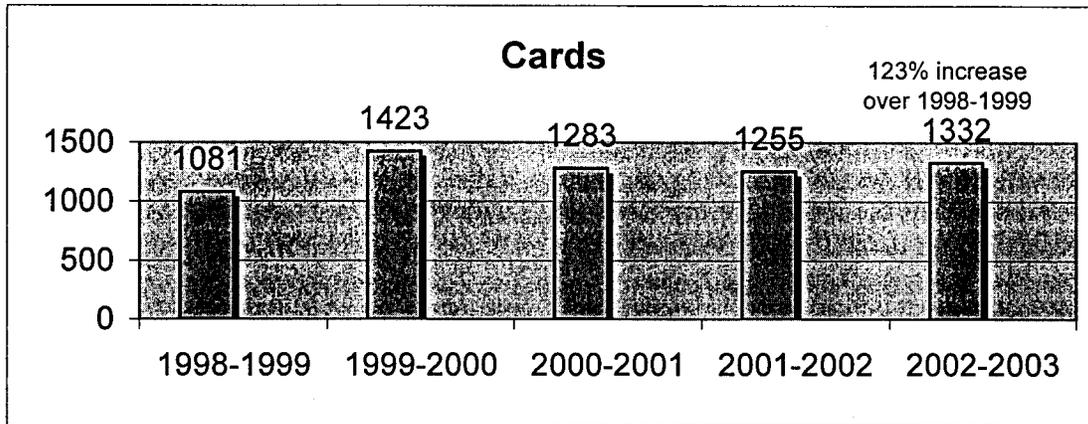
## Department of Transportation Purchasing Card Program Statistics



Data obtained from agency.

# Exhibit I

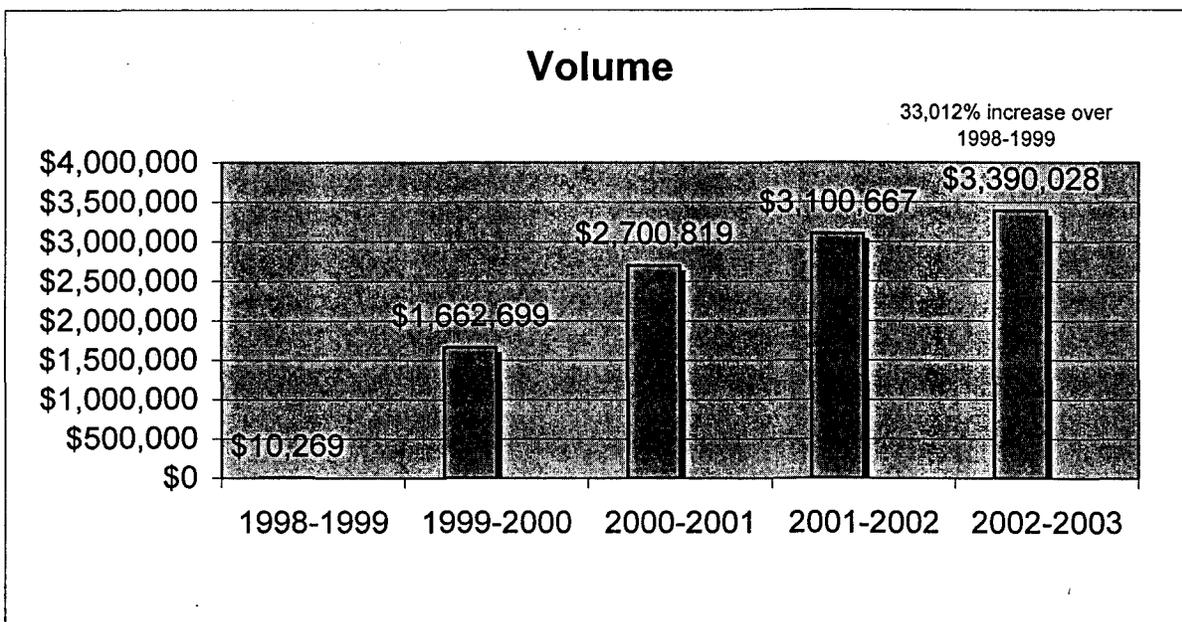
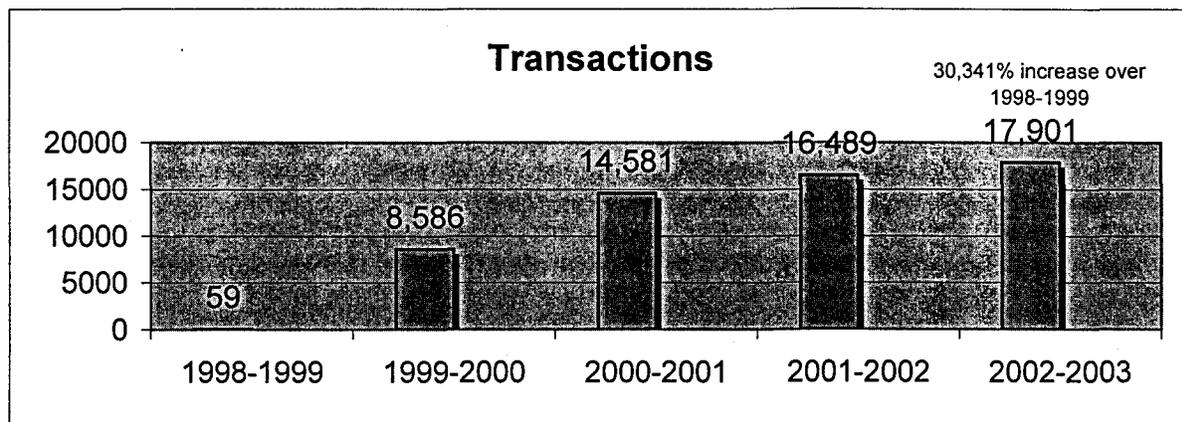
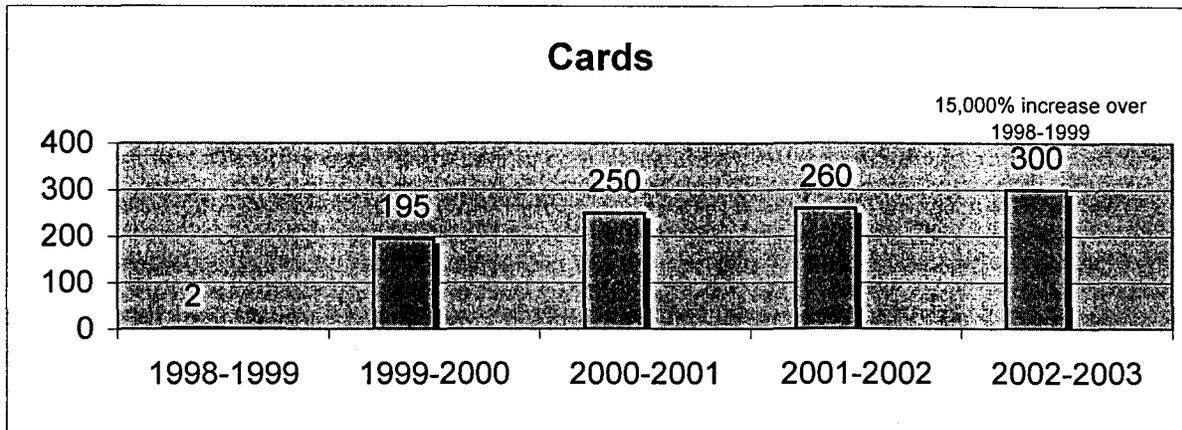
## USC Purchasing Card Program Statistics



Data obtained from agency.

# Exhibit I

## Winthrop Purchasing Card Program Statistics

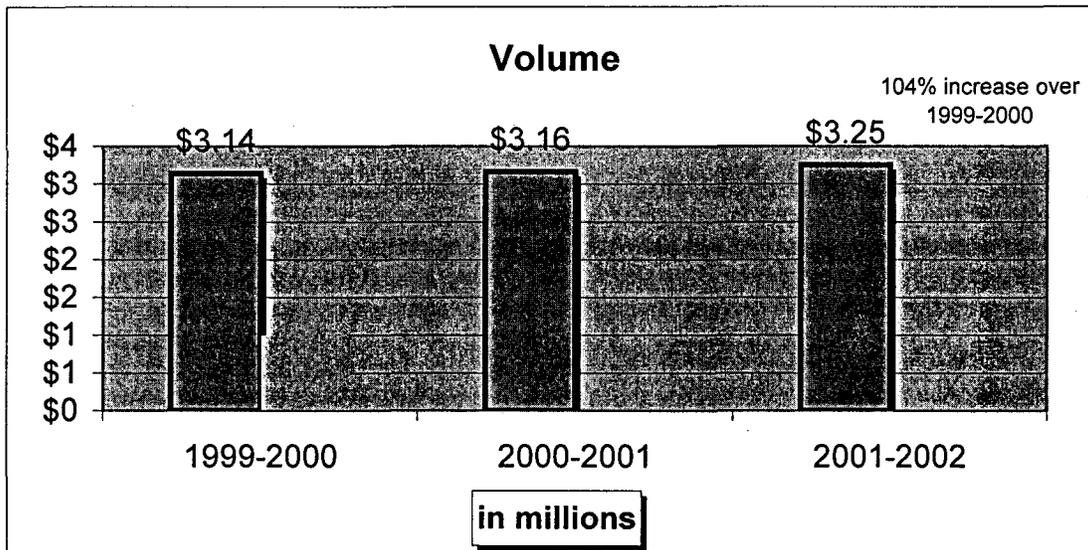
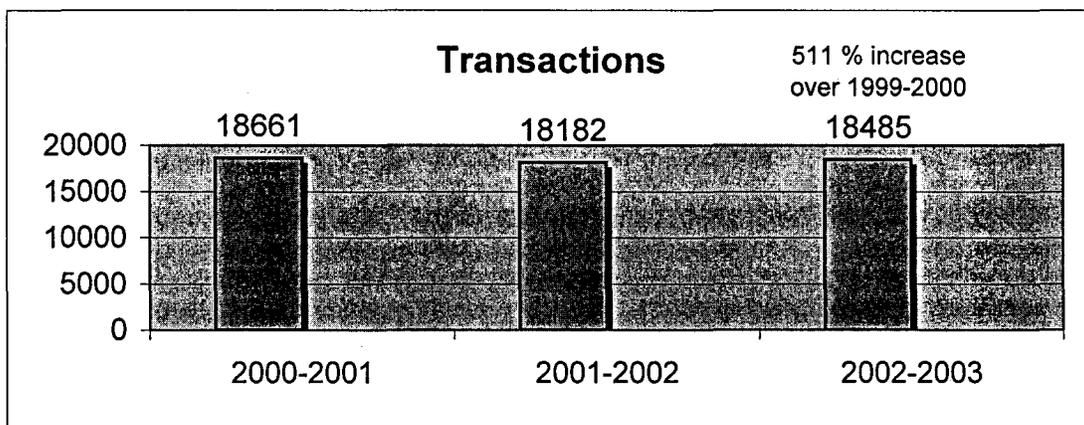
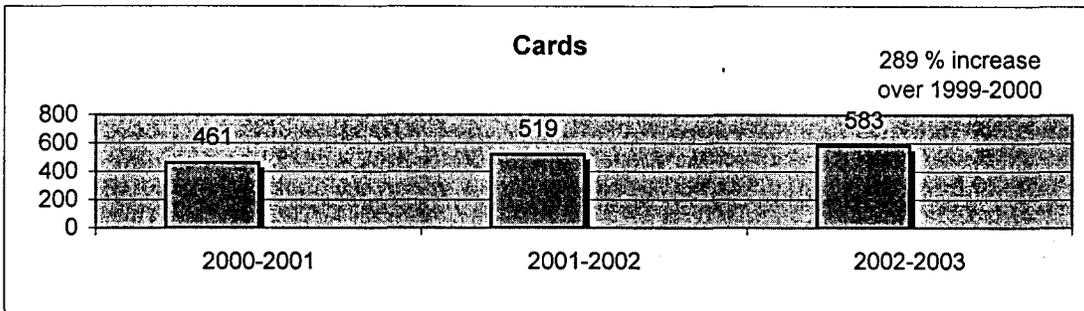


Data obtained from agency.

# Exhibit I

## College of Charleston

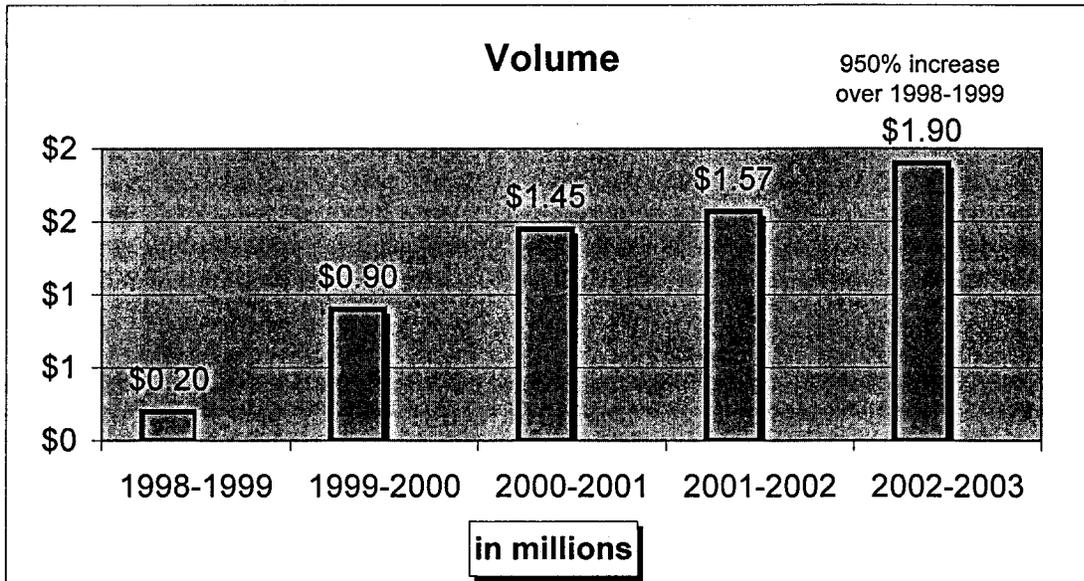
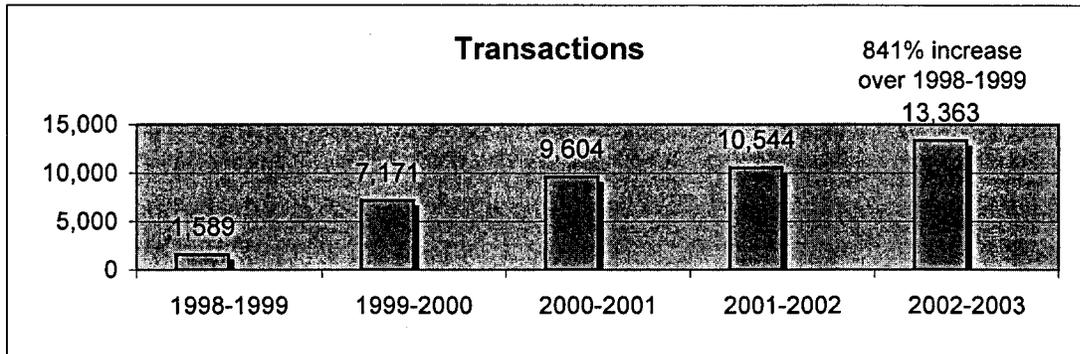
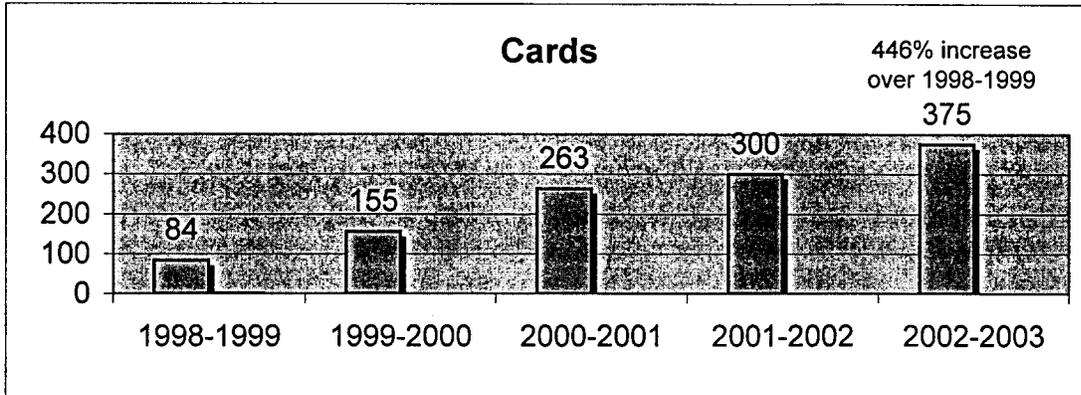
### Purchasing Card Program Statistics



Data obtained from agency.

# Exhibit I

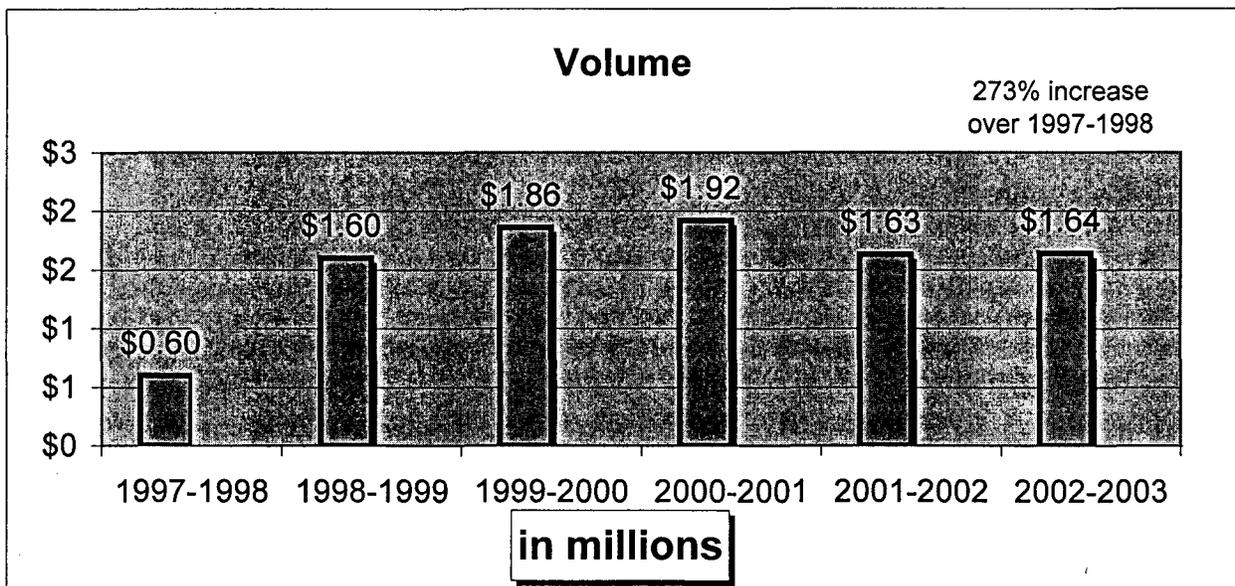
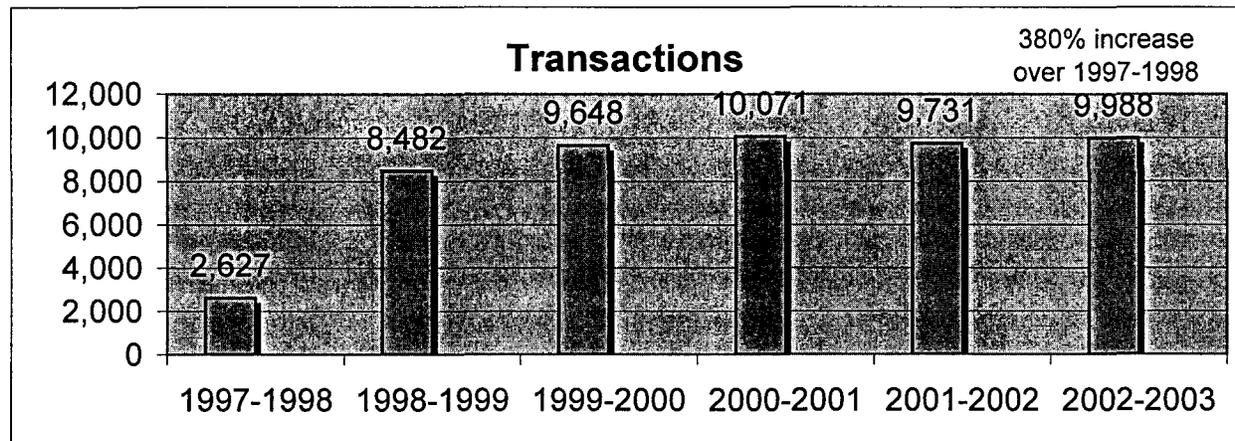
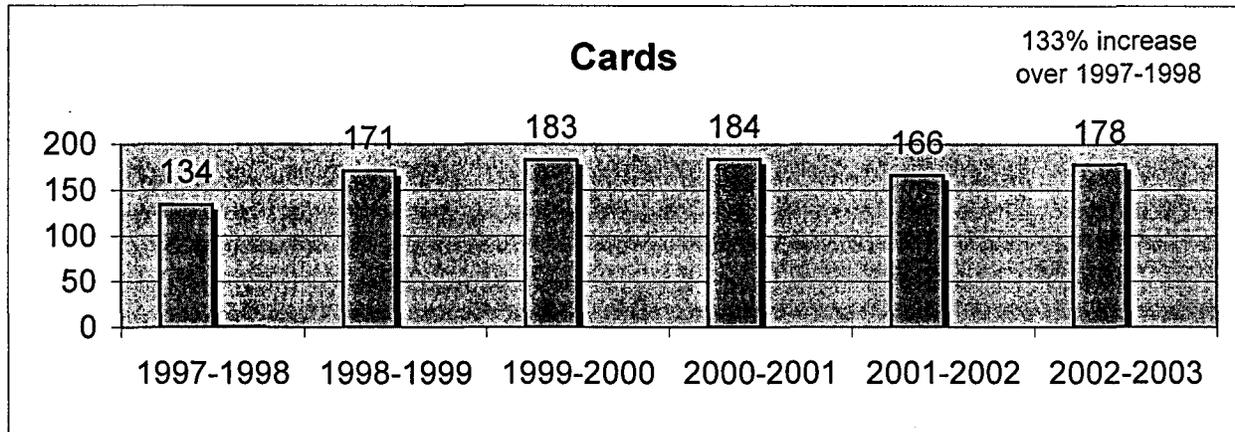
## DMH Purchasing Card Program Statistics



Data obtained from agency.

# Exhibit I

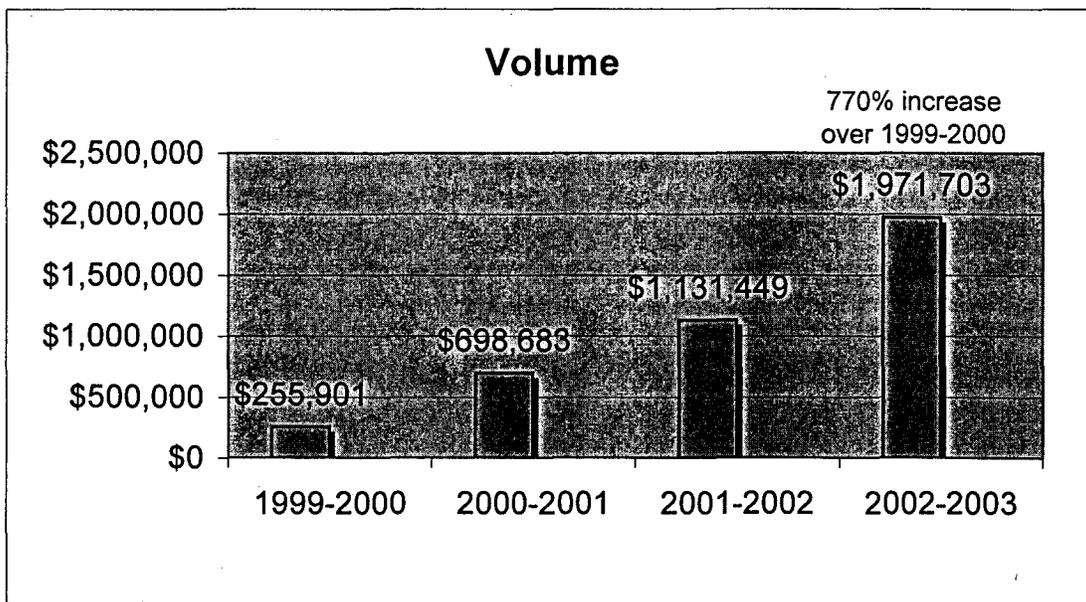
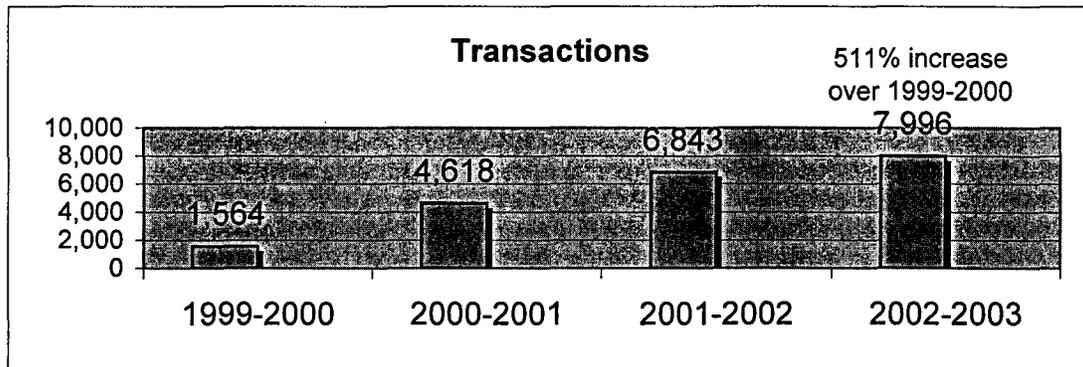
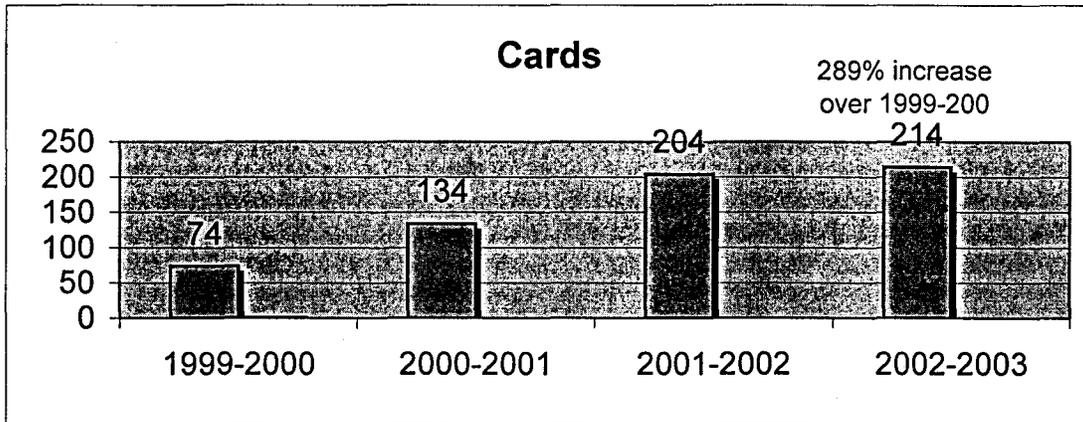
## Citadel Purchasing Card Program Statistics



Data obtained from agency.

# Exhibit I

## DHEC Purchasing Card Program Statistics



Data obtained from agency.

# EXHIBIT J

## RICHARD PALMER'S STUDY DATA ON CARD MISUSE

### 2003 Benchmark Survey

*A Review and Examination of Key Facts for the Sunshine Summit II, Jacksonville, Florida*

*October 6, 2003 - sponsored by Bank of America*

A study of the purchasing card market: size, trends, opportunities, and card misuse  
by Richard Palmer, *Eastern Illinois University* and Mahendra Gupta, *Washington University in St. Louis*

	Corps.	State and Federal Agencies	City/ County	Univs.	Overall
Dollars per incident	\$905	\$599	\$450	\$690	\$932
Median dollars per incident	\$575	\$400	\$100	\$325	\$500
Misuse dollars as % of annual purchasing card spend	0.020%	0.017%	0.091%	0.032%	0.027%
Annual misuse incidents per 1,000 cards	3.5	2.5	14.7	5.2	4.2
Annual misuse incidents per 10,000 transactions	0.51	0.47	3.22	0.99	0.70
Terminations to incident ratio	11.7%	13.1%	0.2%	7.1%	8.9%
Insurance waivers to incident ratio	6.7%	9.1%	3.2%	7.8%	6.1%

Surveyed 2,896 purchasing card using organizations which were either customers of one of 19 major card issuers-- including *Bank of America, Bank One, Bank of Montreal, BB &T, Comerica, Commerce Bank, JPMorgan Chase, Citibank, GE Corporate Payment Services, First Tennessee, MBNA, Mellon Bank, National Bank of Canada, PNC Bank, Scotiabank, SunTrust, U.S. Bank, UMB*

*Bank, and Wells Fargo-- 569 responses were received for a response rate of 20%.*

# **Exhibit J**

## **Card Misuse Results**

### **from 2003 Palmer Study**

- Card misuse is not the problem it is made out to be. Overall, card misuse dollars are small. Misuse incidents are not uncommon, but organizational impact -- in terms of dollars or personnel action--is minute.
- On the average state and federal agencies experience .47 incidents of card misuse per 10,000 card transactions. Serious card misuse is rare and isolated.
- Purchasing card misuse accounts for an average of 0.017% of purchasing card spending for state agencies.
- The Palmer Study found that card misuse as a percentage of purchasing card spending at state and federal agencies was the lowest of all organization categories examined.
- Agencies with high card use tend to have stronger controls and less misuse than agencies with 50% less spending volume and 83% fewer transactions.

# EXHIBIT K

## SLED Data on State Government Credit Card Fraud 1999 - 2003

	<u>Agency</u>		<u>Payment Type</u>	<u>Amount</u>	<u>Determination</u>
1	Department of Transportation	FY00	credit card	\$577.43	fictitious company card stolen card stolen number used number used number used number used number used
2		FY01	credit card	\$5,223.82	
3		FY01	credit card	\$4,000.00	
4		FY01	credit card	\$1,141.50	
5		FY03	credit card	\$469.02	
6		FY03	credit card	\$562.15	
7		FY03	credit card	\$2,900.00	
8		FY03	credit card	\$362.99	
9		FY03	credit card	\$98.95	
			<b>Total</b>	<u>\$15,335.86</u>	
10	Governors School for the Arts	FY99	fuel card	\$185.14	card stolen
11	Labor and Licensing and Regulation	FY00	telephone calling card	\$550.00	number used
12	State Highway Patrol	FY02	fuel card	\$5.00	employee fraud
13	S.C. State University	FY03	credit card	\$10,000.00	employee fraud
14	University of South Carolina	FY00	credit card	<u>\$3,588.25</u>	card stolen
	<b>Total Agencies</b>			<b>** <u>\$29,664.25</u></b>	

\*\*Relates to .02 % of the dollar volume of (\$146,472,712) FY03 procurement card purchases.

The fraud expenses for FY03 totaled \$14,393.11 relates to .01 % of the dollar volume of (\$146,472,712) FY03 procurement card purchases.

**EXHIBIT K**  
**SLED Data on State Government**  
**Credit Card Fraud 1999 - 2003**

# SOUTH CAROLINA LAW ENFORCEMENT DIVISION

MARK SANFORD  
*Governor*



ROBERT M. STEWART  
*Chief*

## MEMORANDUM

**TO:** Ms. Bessie Watson

**FROM:** Captain Larry Gainey 

**DATE:** November 25, 2003

**REFERENCE:** State Government Credit Card Fraud

At your request, a review of State Government credit card fraud cases investigated by the State Law Enforcement Division (SLED) was conducted for the calendar years 1999 to the present. Fourteen cases were identified involving credit cards issued to state agencies. The cases involved one telephone credit card, two fuel credit cards and eleven purchasing cards. The following are composites of the cases investigated by SLED:

- 1) Case 34-99-0027 (Closed)  
State of South Carolina Fuel Card (\$185.14)  
Agency: Governors School for the Arts  
Time frame: 11-04-98 until 12-24-98

The credit card was stolen from a motor pool car and was used at several gasoline stations in Greenville and Anderson counties. The card was cancelled; no leads were developed.



An Accredited Law Enforcement Agency

P.O. Box 21398 / Columbia, South Carolina 29221-1398 / (803) 737-9000 / Fax (803) 896-7041

State Government Credit Card Fraud

- 2) Case 32-99-0175 (**Closed**)  
Purchasing Card (VISA) (\$577.43)  
Agency: Department of Transportation  
Time frame: 07-03-99 until 07-14-99

The credit card was not stolen. Computer equipment was ordered from a fictitious address in New York City. The card was cancelled; no suspect was developed.

- 3) Case 32-00-0013 (**Closed**)  
Telephone calling card (over \$550.00)  
Agency: Labor, Licensing and Regulation  
Time frame: 09-99 until 01-11-00

The credit card was not stolen. Card was kept in an office. Security Guard, Ervin Russell arrested – P.T.I. Guard obtained card number and used the number to make personal phone calls. Security company was released from contract.

- 4) Case 32-00-0164 (**Active**)  
Purchasing card (VISA) (\$5223.82)  
Agency: Department of Transportation  
Time frame: 09-00 until 11-11-00

The credit card was stolen from inter-agency mail. William Tyler has been charged and is awaiting court.

- 5) Case 32-00-0144 (**Active**)  
Purchasing card (VISA) (\$4000.00)  
Agency: Department of Transportation  
Time frame: Discovered 09-12-00

The credit card was stolen from an office. Card was used at various stores, no suspects; card cancelled.

- 6) Case 32-01-0009 (**Active**)  
Purchasing card (VISA) (\$1141.50)  
Agency: Department of Transportation  
Time frame: Discovered 11-14-00

The credit card number was used. No suspect developed; card cancelled.

**Page 3**

State Government Credit Card Fraud

- 7) Case 34-01-0111 (**Closed**)  
Wright Express gasoline card (\$5.00)  
Agency: Highway Patrol  
Time frame: 08-09-01

Trooper J.M. Cole allegedly used the Wright Express card to fuel his patrol vehicle and then allowed his wife to fuel her vehicle. The Solicitor and the Attorney General's Office declined prosecution. The case was referred back to the Department of Public Safety, Office of Professional Responsibility.

- 8) Case 32-02-0043 (**Closed**)  
Purchasing Card (VISA) (\$469.02)  
Agency: Department of Transportation  
Time frame: 01-25-02 until 02-2-03

The card number was used to make calls from North Carolina to a pornographic site in California. Amount credited back to account. No suspects.

- 9) Case 31-02-0056 (**Active**)  
Purchasing Card (VISA) (over \$10,000.00)  
Agency: S.C. State University  
Time frame: Over 18 months

Willie Harrison, Procurement Officer at S.C. State University made purchases for personal use. As the Procurement Officer, these purchases signed by him were not questioned. This case may involve fraudulent use of the Wright Express card. Harrison has been charged and is awaiting trial.

- 10) Case 32-02-0118 (**Closed**)  
Purchasing Card (VISA) ( \$3588.25)  
Agency: University of South University  
Time frame: 12-30-99 until 01-23-00

Card was used by the husband of cardholder Renee Sturkie. Used at Wal-Mart. Husband had health problems (now deceased). Solicitor declined to prosecute.

**State Government Credit Card Fraud**

- 11) Case 32-02-0147 (**Active**)  
Purchasing Card (VISA) (562.15)  
Agency: Department of Transportation  
Time frame: Discovered 08-27-02

Card number was used, card cancelled; no suspects.

- 12) Case 32-02-0159 (**Active**)  
Purchasing Card (VISA) (\$2900.00)  
Agency: Department of Transportation  
Time frame: Discovered 09-25-02

Card number was used, card cancelled; no suspects.

- 13) Case 32-03-0008 (**Closed**)  
Purchasing Card (VISA) (\$362.99)  
Agency: Department of Transportation  
Time frame: Discovered 01-03

Card number was used, ordered merchandise from New York to the Republic of Senegal, Africa. The number was used mistakenly. Amount reimbursed to the account.

- 14) Case 32-03-0014 (**Active**)  
Purchasing Card (VISA) (\$98.95)  
Agency: Department of Transportation  
Time frame: Discovered 02-05-03

Card number used for purchases, no suspects; card cancelled.

Most of the cases referred to SLED have been the use of the credit card numbers that have been obtained and used via the telephone. Those cases that have involved fraudulent use by the cardholder have been successfully investigated.

## Exhibit L: Survey Instrument

<b>Procurement Card Program</b>	Yes	No
<b>Success of the Program</b>		
Has the Procurement Card Program been beneficial for the agency?		
Does the program provide identifiable cost savings to the state?		
<b>Evaluation of Controls</b>		
Do you have policies and procedures in place for the use of the card to include adequate documentation, accountability and reconciliation of card purchases?		
Are these procedures adequate for the control over the procurement card transactions or should changes be made to them based on current conditions?		
<b>Quality of Agency Provided Training</b>		
Are there procedures for training the cardholder and the card liaison?		
Are these procedures adequate or should more training be done?		
<b>Monitoring of Transactions</b>		
Is the Procurement Card program activity monitored routinely?		
<b>Audits of Card Program</b>		
Does the Internal Audit Department audit the procurement card program routinely?		
Is there an audit program specific for testing procurement card transactions?		
<b>Billing Discrepancies</b>		
Are there discrepancies with the bank?		
Does the bank work well with the agency to clear up disputes?		

<b>Unauthorized Purchases / Fraud</b>		
Have there been unauthorized purchases, or split purchases made to circumvent the system?		
Has there been any intentional wrongdoing or fraud detected?		
Was the incident handled in-house / investigated by the Internal Audit Department?		
Have there been any cases that have been forwarded to SLED for investigation?		
<b>Potential of Card Use</b>		
Is the program being utilized to its fullest extent?		
<b>Opportunities for Improvement</b>		
What are some of the drawbacks to the program?		
What would you change about the program?		

# EXHIBIT M

## Procurement Card Audit Program

---

### Objectives:

1. To determine that purchases using the procurement card represent bona fide purchases of the office in conformity with the State procurement code and the B&CB procurement policies.
2. To determine that expenditure was posted to the correct expenditure object code.
3. To determine that controls are in place and working within each Board office to ensure that adequate documentation is maintained to support the expenditure.
4. To determine that card activity is reconciled to monthly bank card statements.
5. To determine if any misuse of the card has occurred.

### Procedures:

1. Obtain a listing of purchases using Info Span sorted by vendor or MCC code for the Audit period.
2. Randomly select 2 months of purchases to test for each office.
3. Contact office and set date for visit. Request the office to have all procurement card files available for review.
4. Prior to visit determine the following from the analysis of available data:
  - a. Identify purchases requiring quotes prior to site visits and require documentation during the visit.
  - b. Evaluate purchases considering cardholder's job duties and responsibilities, and identify purchases for further review.
  - c. Note purchases that were made while employees were on leave or state holidays.
  - d. Evaluate purchase type, identify purchases:
    - Related to travel (e.g., gasoline, airfare, lodging, etc.)
    - Entertainment (e.g., tickets, food, beverage, etc.)
    - Personal Use (e.g., clothing, jewelry, medical supplies)

# EXHIBIT M

---

5. On-site: Obtain the monthly statements and receipts for the sample selected and determine the following:
  - original receipt present to support expenditure and has the following information:
    - Procurement Card number
    - Itemized description of goods purchased
    - Vendor name
    - Transaction date
    - Transaction total
  - cardholder has signed the receipt
  - look for signs of altered information
  - there are no cash advances indicated on the statement
  - verify that no single transaction exceeded the cardholder's approved limit
  - there is no evidence that single transactions were split to avoid the cardholders approved limit
  - receipts attached are in consecutive order (according to the statements)
  - monthly reconciliation of the statements is being performed
  - the bank card statement is signed by the cardholder and the approver
  - expense charged to the proper object code
  - identify prohibited object codes used
6. Determine if exceptions (corrections, variances, etc) have been adequately noted on the statement and/or corrected /resolved
7. Identify termination dates for cardholders, and research purchases made after the termination date.

Note Exceptions such as:

1. No receipt
2. Personal purchases
3. Inappropriate use (e.g., travel, cash advances, entertainment, etc.)
4. Lack of signatures of the purchaser, verifier or approver
5. Repeated procedural problems (indication that training is needed)

# **EXHIBIT M**

## **Data Analysis - Procurement Card**

### **Objective 1 - Determine that purchases are legitimate business purchases.**

- Sort purchases by vendor or MCC code. Based on the cardholder's physical location and job duties and responsibilities, identify unusual purchases. If vendors can be sorted by location, vendors that are not in the Columbia area can be extracted and those purchases evaluated to identify purchases for further review.
- Pull cardholder leave records. Lookup purchases that were made while employees were on leave. Extract purchases made on state holidays. Determine that purchases are legitimate.
- Identify purchases made on weekends. Evaluate purchases considering cardholder's job duties and responsibilities, and identify purchases for further review.
- Identify termination dates for cardholders, and research purchases made after the termination date.

### **Objective 2 - Determine that purchases are accurately coded in GAFRS.**

- Identify copier companies and organizations the board historically pays dues and membership fees, as well as registration fees or travel fees (airlines, hotels). Evaluate 0355 purchases made to these companies. Or, extract and consolidate vendors paid using object code 0355. Scan the vendors to identify potential coding errors.

### **Objective 3 - Determine that purchases are in compliance with the SC Procurement Code.**

- Purchases requiring quotes can be identified prior to site visits and required documentation can be requested during the visit.

# EXHIBIT M

## PROCUREMENT CARD QUESTIONNAIRE

Name \_\_\_\_\_

Date \_\_\_\_\_

Section \_\_\_\_\_



Procurement Card Questionnaire				
ITEM	RESPONSE			
	YES	NO	N/A	COMMENTS
1. Describe the process for purchasing using the procurement card.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
2. Does someone other than the cardholder reconcile purchases to the bank statement? Who?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Does the cardholder pick-up or receive the items purchased?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. Describe how the approver determines that purchases are valid business purchases relevant to the needs of the section.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
5. Have there been any cases where the cardholder did not have or was not able to obtain the original receipt for a purchase? Explain.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
6. If you are the liaison for your own card: - Who reviews/allocates your transactions? - How often are transactions reviewed by someone other than the cardholder?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
7. What should you do if you transfer or terminate employment?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
8. Where do you keep your card?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
9. Does anyone else have access to your card?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
10. Do you allow or have you ever allowed anyone else to use your card?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
11. Have you ever split invoices?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
12. How long have you been a cardholder?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
13. Has your card ever expired? If so, how did you receive a new one?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
14. Have you ever returned a purchase? How was the money refunded?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
15. Do you have receipts for all of your transactions?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
16. Have you had any billing disputes with the Bank of America, Procurement, or any vendors that you could not resolve?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
17. Do you access to the cardholder's policies and procedures? Do you understand the policies and procedures?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
18. Who should you notify if the card is stolen?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
19. Did you receive training before your card was issued? Do you feel the training was adequate?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
20. Are you comfortable being your own liaison?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	