



**State of Colorado
Procurement Card Program
Performance Audit**

August 2003

Legislative Audit Committee
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August 27, 2003

Members of the Legislative Audit Committee:

This report contains the results of the performance audit of the State of Colorado's procurement card program. The performance audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The State Auditor contracted with KPMG LLP to conduct this performance audit. This report presents our observations, findings, and recommendations, and the responses of the Department of Personnel & Administration and applicable state agencies and higher education institutions.

Very truly yours,

KPMG LLP



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Report Summary

Performance Audit of the State of Colorado's Procurement Card Program

August 2003

Authority, Purpose, and Scope

The Office of the State Auditor engaged KPMG LLP to conduct a performance audit of the State of Colorado's procurement card program. We conducted this performance audit in accordance with auditing standards generally accepted in the United States of America. We gathered information through interviews, document reviews, and data analyses. Audit work was performed between April 2003 and July 2003. This report contains observations and six recommendations to assist the Department of Personnel & Administration and other state agencies and higher education institutions in strengthening internal controls as well as increasing the procurement card program's efficiency and effectiveness. We acknowledge the efforts and assistance extended by Department of Personnel & Administration staff, state agencies, higher education institutions, and others who participated in our performance audit. The following summary provides highlights of the comments and recommendations contained in this report.

Overview

Pursuant to Section 24-102-202(2)(f), C.R.S., the Department of Personnel & Administration (Department) is responsible for developing programs to evaluate and reduce the administrative costs of the statewide procurement function. Accordingly, the Department's Division of Finance and Procurement (Division) is responsible for statewide implementation and administration of the procurement card program. The program was established in 1995 to allow state agencies and higher education institutions to use a credit card to make small purchases. The goal of the program is to make it easier for state employees to acquire goods and services needed to conduct state business while providing more timely payment to vendors and reducing the number of small dollar payments.

We have found procurement card programs to be very effective in many different organizational settings, including the federal General Services Administration's (GSA) SmartPay® Program and private companies. In Colorado, currently there are about 12,000 state procurement cards in circulation. Although this is a significant number, we still believe there are opportunities to increase procurement card usage statewide.

State Agency and Higher Education Institution Controls

We evaluated the controls over procurement card use at six state agencies and higher education institutions with the largest dollar volume of activity from July 2001 through March 2003. We found that controls were generally in place over the program. We did note certain instances at the University of Colorado and the Department of Natural Resources, however, where cardholders and approving officials were not adhering to established policies and procedures. For example, not all of the transactions we reviewed included monthly statements signed by both the cardholder and the approving official. In addition, there was no supporting documentation for some transactions.

Maximizing Procurement Card Benefits

In 2002 the Office of the State Auditor conducted a performance audit of the program. The 2002 audit recommended that the Department mandate use of the card wherever possible to maximize operating savings and reduce annual costs while still maintaining agency-level flexibility. In response to the audit, the Department issued a new fiscal rule but this new rule does not require all agencies to institute a program. The rule states that agencies and higher education institutions should enter into an agreement to participate. We believe that all state agencies and higher education institutions should be required to implement a procurement card program and maximize program benefits accordingly. Furthermore, the Department should work with the General Assembly to modify the system for utilizing the program's rebate revenues to provide participation incentives for agencies and higher education institutions and also work to develop meaningful program performance measures.

Our recommendations and responses from the Department, state agencies, and higher education institutions can be found in the Recommendation Locator section of this report.

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1	15	Improve procurement card program administration by: a) enhancing communication with and training cardholders and approving officials regarding their responsibilities, b) reevaluating the current audit function to identify internal control weaknesses, develop plans to address such weaknesses and issue violations warnings, and c) continuing to ensure that potential split transactions are identified and resolved and that warnings are issued.	University of Colorado	Agree	December 2003
2	17	Improve procurement card program administration by: a) finalizing and implementing the revised audit process, b) continuing to communicate with cardholders and approving officials regarding their responsibilities, and c) issuing warnings to cardholders and approving officials for policy violations.	Department of Natural Resources	Agree	January 2004
3	19	Expand guidance and education programs for state agencies and higher education institutions administering procurement card programs.	Department of Personnel & Administration	Agree	December 2003
4	21	Improve the use of the procurement card vendor's reporting capabilities.	Department of Personnel & Administration	Agree	November 2003
5	23	Work with state agencies and higher education institutions to identify and implement relevant best practices for managing a procurement card program.	Department of Personnel & Administration	Agree	December 2003
6	29	Maximize the benefits of the procurement card program by: a) working with the General Assembly and the Governor's Office as necessary to formalize program responsibilities, b) increasing acceptance and usage of the card including, working with the General Assembly to modify the distribution of rebate revenues to user agencies, and c) developing appropriate performance measures.	Department of Personnel & Administration	Agree	February 2004

Description of the Procurement Card Program

Overview

Pursuant to Section 24-102-202(2)(f), C.R.S., the Department of Personnel & Administration (Department) is responsible for developing programs to evaluate and reduce the administrative costs of the statewide procurement function. Accordingly, the Department's Division of Finance and Procurement (Division) is responsible for statewide implementation and administration of the procurement card program. The program was established in 1995 to allow state agencies and higher education institutions to use a credit card to make small purchases. The goal of the program is to make it easier for state employees to acquire goods and services needed to conduct state business while providing more timely payment to vendors and reducing the number of small dollar payments.

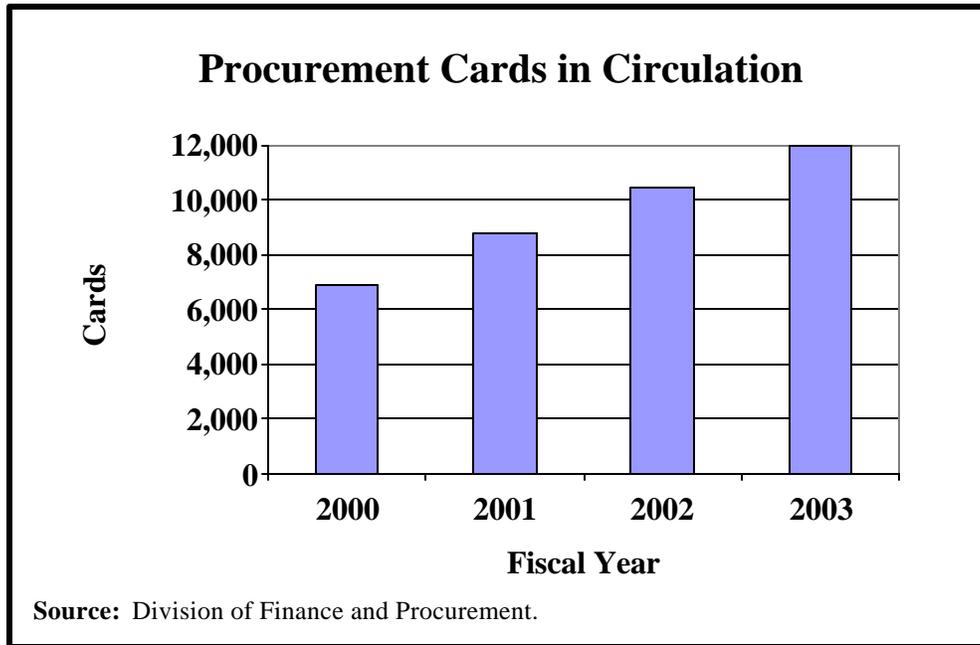
The Department's vision of the statewide program is to:

- Support and streamline purchase and payment systems for the State;
- Empower organizations and card users to manage small dollar purchases in a more cost-effective manner by reducing the number of warrants issued for payments;
- Provide a purchasing payment and data information system; and
- Improve customer service.

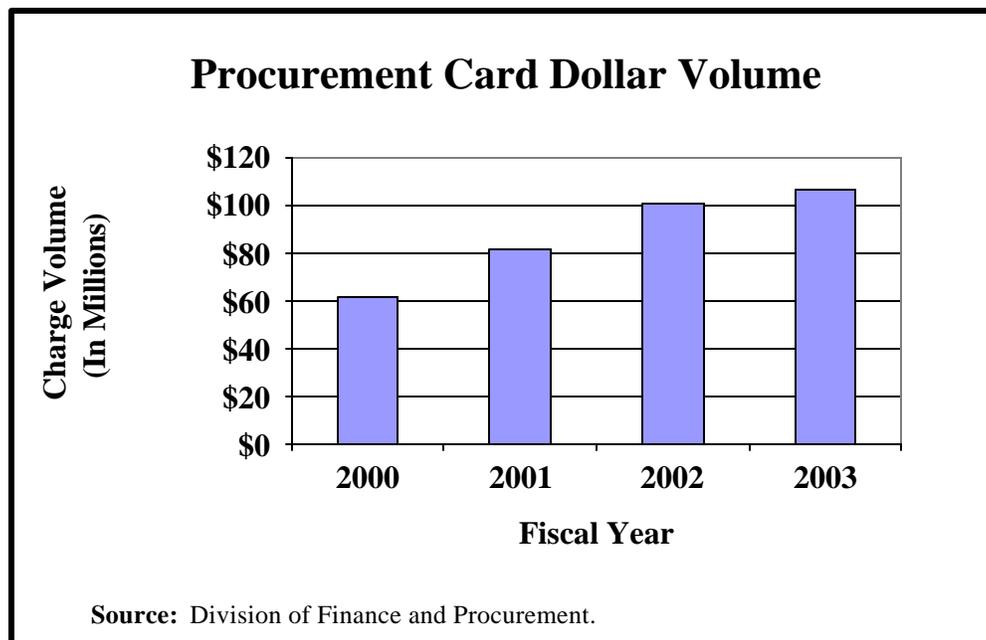
Program Statistics

Currently there are about 12,000 state procurement cards in circulation. Program participation varies widely statewide with some agencies using procurement cards for over 80 percent of their small dollar purchases and others not participating at all. Program rules currently state that procurement cards cannot be used for personal use, cash and cash advances, travel, entertainment, and other purchases determined by state or agency policy to be unacceptable. State agencies and higher education institutions have the discretion to assign purchasing limits for their cards; however, cards may not be used for single purchases costing more than \$5,000 without approval of a state agency's or higher education institution's controller.

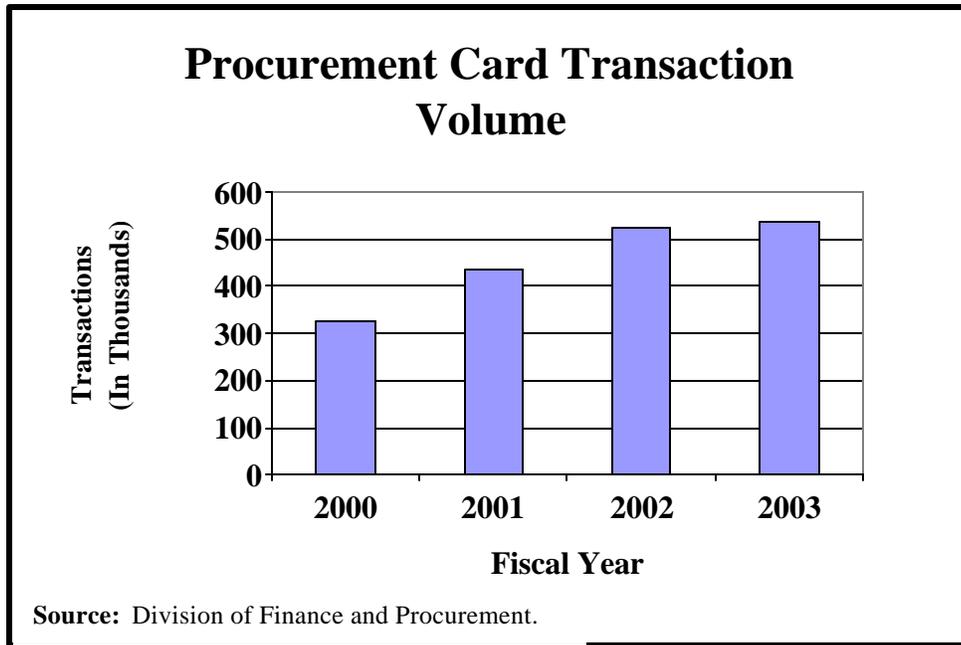
Since the program was instituted there has been a steady increase in both the number of procurement cards in circulation and the number of card transactions. For example, the following chart shows that from Fiscal Year 2000 to Fiscal Year 2003, the number of procurement cards in circulation increased from about 6,900 to almost 12,000, or approximately 74 percent.



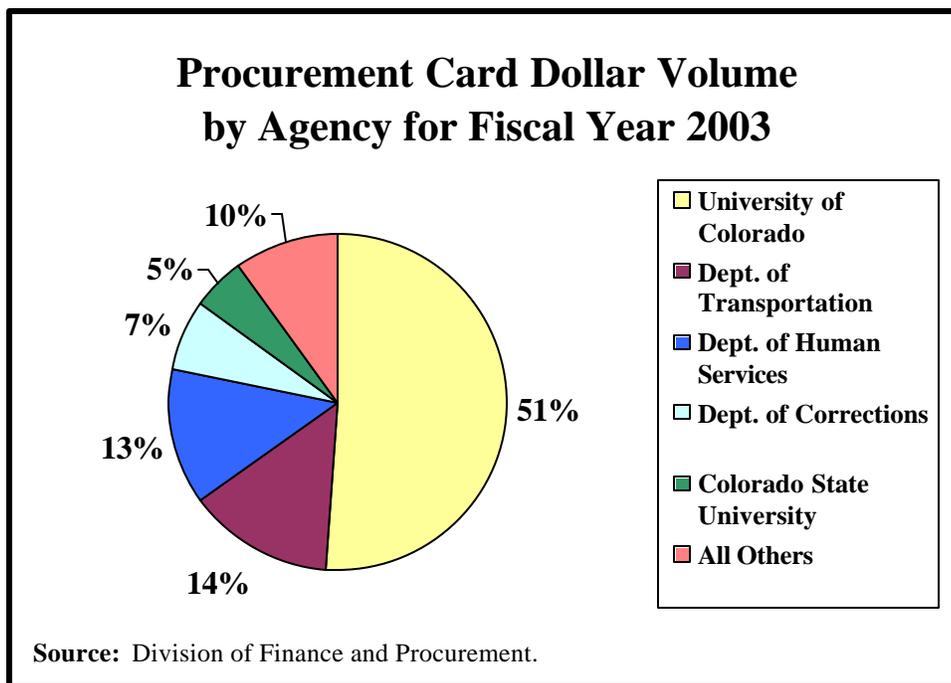
The following chart shows that over the last four fiscal years, there has been an increase in procurement card dollar volume from approximately \$62 million to \$107 million, or about 73 percent.



The number of procurement card transactions also increased over the period Fiscal Year 2000 to 2003. The chart below shows an increase from about 327,000 transactions to almost 540,000 transactions, or about 65 percent.



Lastly, the University of Colorado accounted for about 51 percent of card use statewide in Fiscal Year 2003. Five state agencies and higher education institutions comprised about 86 percent of the total dollar volume for the procurement card in this year.



Our audit included an evaluation of statewide guidelines for the procurement card program and tests of controls at six state agencies and higher education institutions. In addition, we identified opportunities for improving the methods and tools used by agencies and institutions to oversee their programs. Finally, we address some administrative options that the State should consider to clarify program accountability and provide incentives to increase the utilization of procurement cards and maximize program benefits.

Controls over Procurement Cards

Chapter 1

Overview

Procurement cards provide organizations with substantial benefits that include reduced costs and opportunities for increased revenues through vendor rebate programs. Colorado is one of many states, along with the federal government, that has experienced increased use of the procurement card in recent years. Although Colorado's use of the card has grown considerably, opportunities for increasing the use and the subsequent benefits remain. However, concerns over possible card abuse can cause agency managers to be reluctant to implement a procurement card program. It is essential, therefore, for the State to have effective and appropriate internal control systems in place to address the possible risks associated with such a program. With proper controls entities can obtain the considerable efficiencies available with procurement cards while limiting the risk of abuse.

The purpose of this audit was to perform a review of controls over the State's procurement card program, including specific controls in place over individual programs at agencies and higher education institutions. With respect to controls, we first evaluated the *Suggested Minimum Guidelines (Guidelines)* issued by the Department of Personnel & Administration, which outline the basic controls that agencies and institutions should have in place to ensure that policies and procedures are followed and that the risk of misuse is adequately addressed. The *Guidelines* address areas such as procedures for processing employee card applications, training, and cardholder and approving official agreement requirements. The *Guidelines* were updated in May 2003 to incorporate certain aspects of the new procurement card vendor contract, which was effective in March 2003. See Appendix B for a summary of the *Guidelines*.

We also tested the controls in place over the procurement card programs at six state agencies and higher education institutions with respect to the requirements established in the *Suggested Minimum Guidelines*. The entities selected for review were those that have established programs and relatively high transaction volume compared with other state agencies and institutions. Finally, we identified improvements the Department could make in the State's program to enhance the ability of state agencies and higher education institutions to monitor transactions and ensure that personnel comply with established policies and procedures.

Evaluation of Controls at Specific Agencies and Institutions

Our review included an evaluation of whether selected agencies and higher education institutions had proper controls in place over key aspects of their procurement card programs. The agencies and institutions selected included:

- University of Colorado
- Department of Natural Resources
- Colorado State University
- Department of Transportation
- Department of Human Services
- Department of Corrections

These entities were chosen because they represent the majority of current program activity as described later in this section.

During our review, we found that the six agencies and higher education institutions had fully developed policies and procedures that were made available to cardholders, approving officials, and reallocators. Reallocators are accounting officials who ensure that procurement card transactions are charged to the appropriate accounts. For the most part, organizations also had properly designed processes to ensure program risks were minimized. The following table summarizes the typical controls we identified:

**Procurement Card Program
Typical Internal Controls at Selected State Agencies &
Higher Education Institutions**

Area	Typical Controls
Are cardholder credit limits appropriately established?	<ul style="list-style-type: none"> • Cardholder completes applications that are reviewed and authorized by approving officials and the card administrator.
Has the agency provided adequate training?	<ul style="list-style-type: none"> • Cardholders and approving officials are required to attend training provided by procurement card administrators. • After training, tests are required to assess knowledge of the policies and procedures. • Additional training is offered as needed to cardholder and approving officials.
Is adequate supporting documentation maintained for purchases?	<ul style="list-style-type: none"> • Written documentation policies are in place. • Approving officials and reallocators reconcile statements to receipts to ensure adequate documentation is maintained.
Are monthly purchase bills reconciled and agreed to supporting documentation for individual purchases?	<ul style="list-style-type: none"> • Cardholders are required by written policy to reconcile monthly statements to supporting documentation. • Approving officials and reallocators reconcile statements to receipts on a monthly basis to ensure adequate documentation is maintained.
Are purchases routinely reviewed for appropriateness by a supervisor or another approving official?	<ul style="list-style-type: none"> • Supervisors or approving officials review and authorize cardholder statements and individual transactions each month.
Is the procurement card only used for allowable purchases? Types of improper purchases would include items/services purchased that were not for official state business, split purchases in which the cardholder circumvents single-purchase limits, and purchases from improper sources.	<ul style="list-style-type: none"> • Written policies document types of purchases that are allowable and unallowable. • The vendor has established controls that do not allow cards to be used at certain merchants. • Approving officials review and authorize cardholder statements each month to ensure purchases are for official state business. • Audit functions review a specified number of cardholders and approving officials each year. • Split purchase reports are reviewed regularly by procurement card administrators and appropriate follow-up is conducted on questionable purchases.
Are transactions accurately and completely recorded in the financial records (e.g., is the account coding appropriate, does the amount agree to supporting documentation)?	<ul style="list-style-type: none"> • Default codes are assigned to each cardholder based on his/her department. • Transactions are reallocated to the appropriate account codes by a business manager or reallocator to ensure proper expenditure coding.
Has the agency established disciplinary actions for improper use of cards and/or violations of rules and program guidelines? Does the agency enforce established disciplinary actions?	<ul style="list-style-type: none"> • Written policies outline types of violations and consequences. • Audit functions review a specified number of cardholders and approving officials each year to ensure compliance with procurement card policies. • Card cancellations and other disciplinary actions are utilized for violations of agency policy.
Source: KPMG analysis of agency policies and procedures.	

We selected a judgmental sample of 350 transactions from five of the six agencies and institutions selected for review to determine the adequacy of internal controls and compliance with rules and regulations. In the case of the sixth entity, Colorado State University (CSU), we reviewed a recent audit conducted by the CSU Internal Audit Department. The results of this review are discussed later in this section. For the five entities where we performed transaction testing, we noted that proper controls were documented at each entity. In certain instances, however, we found that cardholders, approving officials, and reallocators did not carry out their responsibilities in accordance with the established policies and procedures. The five entities represent about \$146 million or 79 percent of the total statewide volume of procurement card purchases during the period July 1, 2001 through March 31, 2003. The number of transactions tested at each entity and the results are listed in the table below. A detailed discussion of our testing results by agency follows.

**Procurement Card Program
Summary of Test of Internal Controls
For the Period July 1, 2001—March 31, 2003**

Entity	Transactions Tested	Dollar Amount Tested	Number of Total Exceptions	Dollar Amount of Total Exceptions	Number of Transactions with Exceptions	Percent of Transactions with Exceptions
University of Colorado	100	\$97,332	33	\$46,928	16	16%
Dept. of Natural Resources	50	\$58,028	33	\$44,844	24	48%
Dept. of Human Services	75	\$115,415	0	0	0	0%
Dept. of Transportation	75	\$8,717	0	0	0	0%
Dept. of Corrections	50	\$27,659	0	0	0	0%
Total	350	\$307,151	66	\$91,772	40	11%

Source: KPMG analysis of state procurement card data.

University of Colorado

The University of Colorado was one of the first state agencies to implement a procurement card program and currently has the most card activity. The University also played an important role in the creation of other state agency programs by providing source information for the Department's *Suggested Minimum Guidelines* and other practices in use throughout the State. We also found the University's guidance to cardholders and approving officials to be quite comprehensive.

In Fiscal Year 2003 there were about 4,000 cardholders at the University who used the card for 235,000 transactions totaling about \$54 million. During our audit we identified 33 exceptions in 16 of the 100 transactions tested (some transactions had more than one exception). These exceptions included:

- 15 instances in which neither the cardholder nor the approving official signed the monthly statement.
- 6 instances in which the approving official did not approve the monthly statement.
- 6 transactions for which no receipt was available.
- 4 instances in which the cardholder did not sign his or her monthly statement.
- 2 instances in which a transaction was split to circumvent the State's single purchase limit on transactions above \$5,000.

We noted no purchases in our sample that were unallowable per University policy.

In March 2001 the University's Internal Audit Department conducted an audit of the procurement card program. The Internal Audit Department also found that some approving officials were not reviewing cardholder documentation or addressing card violations, that appropriate documentation was not always on file, and that some purchases were inappropriate. The Internal Audit Department issued a recommendation to the University's Procurement Card Administration calling for "a review function appropriate to the level of risk involved, which includes monitoring of procurement card transactions for compliance with policies and regulations, and timely follow-up with cardholders and approving officials when violations are found." In response to this audit recommendation, the University's Procurement Card Administration implemented a quarterly review of exception reports of transactions that may violate University policies. The quarterly transaction audit utilizes special reports including risky merchants queries, unallocated transactions older than 45 days, declined transactions, and possible split transactions. These reports are described in further detail later in the report.

Although the quarterly transaction auditing process is helpful in identifying possible prohibited transactions, it does not allow the University to determine if internal controls are working as intended. On the basis of the exceptions we found and the other information we gathered, our concern is that this process will not be sufficient to ensure that adequate controls are in place to identify and address instances of program noncompliance. The *Suggested Minimum Guidelines* state that "agency program administrators should develop and document an approach and methodology for routinely reviewing selected transactions and the activities of program participants to ensure overall compliance with the program." Currently the University's Procurement Card Administration does not randomly select and review a representative sample of transactions made by approving officials or cardholders; rather, it relies on a review of exception reports to identify prohibited purchases. The University stated that it has not fully implemented random department audits due to the lack of resources within Procurement Card Administration, which has four staff to support the four campuses and the University's system office. The Procurement Card Administration has instead been

concentrating on developing policies, handbooks, training materials, and forms. However, the University has a high volume of transactions (i.e., 235,000 in Fiscal Year 2003) and consequently, it is critical to implement an effective periodic audit function to ensure that state resources are not misappropriated or misused. Furthermore, the current exception-reporting program should be reexamined to ensure that potential split transactions are identified and appropriate follow-up is performed.

If resources are an issue, the University should consider alternatives to address the need for improved monitoring. For example, one federal agency uses the concept of a “SuperUser” role, which is half trainer and half process auditor. The key activities and responsibilities of the role are as follows:

- Onsite trainer for card users in a department, office, or agency.
- First contact point for procurement cardholders when they have a question or a problem.
- Onsite auditor for the procurement card program owner or auditor of cardholder transactions to assure that each transaction is noted and approved by the supervisor.

A typical “SuperUser” would be a person with accounting experience who has received extra training in program operations. In the University environment, certain administrative officers could be trained to perform this role. For example, there could be one “SuperUser” within each campus department and this person could be responsible for performing random audits of cardholders and approving officials. Procurement Card Administration could develop audit tools for these campus resources that would complement its own audits. In addition, the appropriate entity should ensure that all exceptions identified during the audits are followed-up and resolved.

We further note that the University’s Internal Audit Department conducted another audit in 2003 that reviewed procurement card transactions related to federally funded projects at the Health Sciences Center. This review found exceptions similar to those discovered in the 2001 audit and recommended additional training for approving officials, among other suggestions. We agree that active participation of trained approving officials and supervisors is crucial to the overall success of a procurement card program. Approving officials must be held responsible for cardholder activities and overall compliance with policies and procedures. The University has a point system for cardholder violations, such as those exceptions noted above. Violations carry various consequences including card cancellation and requirements for additional training. Consequences, such as card cancellation or termination of approving official responsibilities, should be implemented if serious and/or recurring violations are noted. The University should enforce these practices with respect to the violations specifically identified in this and other audits and enhance communication with cardholders and approving officials as to their responsibilities under the procurement card program, including signature and reconciliation requirements.

Recommendation No. 1:

The University of Colorado should improve procurement card program administration by:

- a) Enhancing communication with and training for cardholders and approving officials regarding their responsibilities, including signature and reconciliation requirements.
- b) Reevaluating the current audit function to identify internal control weaknesses, develop plans to address such weaknesses, and issue violation warnings.
- c) Continuing to ensure that potential split transactions are identified and resolved and that warnings are issued to cardholders and approving officials for policy violations and employing consequences as appropriate.

University of Colorado Response:

Agree. The University agrees that the approving officials are critical components of the procurement card program and more effort needs to be devoted to develop and monitor this aspect of the program. Recognizing this fact the University will:

- a) Implementation Date: December 2003. Finalize a Web-based approving official training module, which will be mandatory to obtain and retain approving official authority. We will evaluate the advantages of providing cardholder training using a similar Web-based training philosophy after some experience has been gained from the approving official training.
- b) Implementation Date: September 2003. Expand transaction audits to include a more comprehensive review of the approving official's actions in reviewing and approving transactions. We will also introduce a random selection of additional transactions to our process.
- c) Implementation Date: December 2003. Continue to review transaction reports designed to identify potential split transactions. Also, in conjunction with the implementation of approving official training and increased review procedures, we will consider the appropriate remedial actions to take when approving officials do not fulfill their responsibilities, comparable to those currently in place for our cardholders.

Department of Natural Resources

The Department of Natural Resources had approximately 320 cards in circulation during Fiscal Year 2003 that accounted for about 9,000 individual transactions totaling approximately \$1 million. During our audit, we found that cardholders were not always signing statements evidencing their review and reconciliation to supporting receipts and that approving officials and supervisors were not always authorizing cardholder statements and reviewing receipts or other documentation. During our test work of 50 procurement card transactions, we noted 33 exceptions in 24 of the transactions tested. These exceptions included:

- 16 instances in which neither the cardholder nor the approving official signed the monthly statement.
- 11 instances in which the cardholder did not sign his or her monthly statement.
- 4 instances in which the approving official did not approve the monthly statement.
- 2 transactions for which no receipts were available.

As noted earlier, active participation of trained approving officials and supervisors is critical to the overall success of a procurement card program, and approving officials must be held responsible for cardholder activities and overall compliance with policies and procedures. However, there is little evidence that the Department issues violations and warnings to individuals who do not comply with procurement card program rules.

The Department of Natural Resources currently conducts audits of procurement card accounts twice per year. The Department noted a lack of required signatures on statements during its audit for the period July 1, 2001 through June 30, 2002. The Department addressed these exceptions in different forums, including highlighting exceptions and recommending actions in its training program. In the fall of 2002, the Department sent a letter to all cardholders and approving officials reminding them of their responsibilities, including the signature requirement. The Department is in the process of completing an audit of procurement card transactions from the first half of Fiscal Year 2003. Department staff report that there has been improvement in compliance with procurement card policies and controls. However, approximately one-half of the exceptions we identified were related to purchases made after July 1, 2002. The Department is currently revising its audit process to randomly select transactions and perform its function continually throughout the year. The Department should continue to enhance its audit process by implementing these proposed changes. In addition, the Department should ensure that both cardholders and approving officials are subject to audit selection.

Recommendation No. 2:

The Department of Natural Resources should improve procurement card program administration by:

- a) Finalizing and implementing the revised audit process.
- b) Continuing to communicate with cardholders and approving officials regarding their responsibilities, including signature and reconciliation requirements.
- c) Issuing warnings to cardholders and approving officials for policy violations and employing consequences as appropriate.

Department of Natural Resources Response:

Agree. The Department of Natural Resources will:

- a) Implementation Date: January 2004. Complete the final revised audit plan and process.
- b) Implementation Date: January 2004. Conduct on-going communication and training with cardholders and approvers. An improvement has already been noted in the current audit.
- c) Implementation Date: January 2004. Provide progressive consequences for procurement card violations through the final audit plan, as well as training materials.

Other Agencies and Institutions

Our audit also included a test of transactions at the Departments of Human Services, Transportation, and Corrections. We did not identify problems with internal controls or find exceptions during our testing at these agencies. With regard to the final entity selected for review, Colorado State University (CSU), the CSU Department of Internal Auditing released an in-depth review of its procurement card program in April 2003 that reviewed Fiscal Year 2002 data. After reviewing this report, we determined that the work performed was sufficient for the purposes of identifying the controls in place at CSU. Therefore, we did not test a sample of transactions and performed only limited inquiries.

Upon reviewing CSU's internal audit report, we noted that approving officials and supervisors were not always authorizing cardholder statements, reviewing receipts or other documentation, or detecting inappropriate transactions. Specifically, the internal auditors found that 49 of 246 procurement card purchases tested (20 percent) had one or more exceptions. Most of the exceptions were due to incomplete documentation (23 exceptions) and unsigned monthly transaction statements (21 exceptions). There were also five purchases found to violate CSU policy. Management had already detected and appropriately responded to three of the five prohibited transactions. The Department of Internal Auditing brought the remaining two transactions to the attention of the appropriate unit and the procurement card program administrator for further follow-up. Three of the five prohibited transactions were travel-related, one was for a non-employee video rental that was not reimbursed, and one was for an emergency computer replacement purchase that was split between transactions to circumvent the \$5,000 transaction limit. The procurement card program administrator agreed with the recommendations in the report and stated that the necessary improvements would be made. Nothing else came to our attention that required disclosure in our audit report regarding Colorado State University.

Evaluation of *Suggested Minimum Guidelines*

As discussed earlier, we reviewed the Department of Personnel & Administration's *Procurement Card Program Suggested Minimum Guidelines* and determined that they provide adequate guidance to agencies and institutions for establishing basic controls to mitigate the risk of cardholder misuse. The Department should, however, further improve the program by taking the following actions. Additional information could be disseminated through the *Guidelines* or the Department's Web site.

- Disseminate a summarized list of key controls. Although controls are documented in the *Suggested Minimum Guidelines*, a summary of controls is not included. The University of Colorado has a document that lists approximately 100 controls that are in place in its processes. Such a list would be beneficial to agencies already using the card as well as those that will be implementing new programs. For example, the University includes controls in categories such as card operations, training, agreements, handbooks, email communications, violations and consequences, and fraud prevention. We also found organizations in other states (e.g., the State of New York and the University of California at Berkeley) that provide a similar guidance to their users.

- Add a “Frequently Asked Questions” feature to the Web site. Many states and universities include questions and answers as a resource to procurement card administrators as well as cardholders, approving officials, and those who reallocate transactions to proper accounts codes.
- Disseminate additional monitoring and oversight tips. We found some useful guidance when reviewing the federal government’s program, including the following:
 - Card misuse and cases of fraud often start small and may not stop after only one action. No matter how small the misuse or fraud, it should be addressed immediately to prevent any future occurrences.
 - Government investigators report that in many instances, the approving official and/or procurement card administrator could have detected fraud earlier if an established review process had been followed.
 - Ensure that transactions are certified as soon as the cardholder receives them. Prompt certification, which includes reconciliation by the cardholder and approving official, allows for prompt remedial action in the event of misuse or fraud.
 - Random reviews of cardholder records by the procurement card administrator will discourage misuse and fraud since cardholders and approving officials know their actions are being monitored.

Enhancing the guidance to administrators will likely result in overall system improvements.

Recommendation No. 3:

The Department of Personnel & Administration should expand its guidance and education programs for state agencies and higher education institutions to include additional information on key controls for the procurement card program, “Frequently Asked Questions,” and guidance on monitoring and oversight.

Department of Personnel & Administration Response:

Agree. Implementation Date: December 2003. The Department will prepare a summarized list of controls, along the lines of those included in the audit, which were well-presented and very helpful. The Department will include suggested guidelines used by departments and institutions. A “Frequently Asked Questions” section will be added to the Web site. A method of periodically disseminating monitoring and oversight tips will be developed, probably through periodic dissemination of a news bulletin or other suitable publication, or a separate section on the Web site. Of course, resource constraints will limit the frequency and comprehensiveness of these guidance and education initiatives.

Vendor Reporting Capabilities

Timely access to a variety of information and data is critical for state agencies and higher education institutions to administer their procurement card programs effectively. State agencies and higher education institutions typically review reports with information such as split purchases to detect cardholders attempting to circumvent state single purchase limits on transactions in excess \$5,000, as well as reports on the number of cardholders and monthly charge volume.

The State's current procurement card vendor has identified certain standard reports that are available to user agencies and institutions. These reporting options are substantial and should be fully utilized by the Department and individual user agencies. The following narrative describes some of the reports that are now available and how they can be used to streamline program monitoring and oversight activities.

- **Standard Reports**

- The *Account Activity Report* shows all activity for an individual account for each billing cycle. The report provides details on each transaction such as transaction date, merchant name, and dollar amount. This report may be used to sort transactions by dollar size, merchant, date, or type. This report is particularly useful for identifying suspicious activity and unusually high spending patterns.
- The *Unusual Spending Activity Report* can be used to identify transactions that may warrant further review (e.g., card use at businesses that might constitute a policy violation).
- The *Declined Authorizations Report* identifies cardholders who have attempted to use a card to buy an item (1) for which they are not authorized, (2) that exceeds their single purchase limits, (3) that exceeds their monthly purchase limit, or (4) from a business that is assigned an incorrect merchant category code.
- The *Disputes Report* identifies date, merchant, reason code, dollar amount, and status of each dispute filed by a cardholder. This report can be used to identify cardholders with excessive disputes, which may indicate that the cardholder needs training or may be trying to disguise misuse or fraudulent activity.

- **Exception Reports** are based on a feature called “Business Rules” that lets the state agency or higher education institution specify unique criteria applied against its database. For example, agencies may create reports to identify card use at merchants that might indicate a policy violation (e.g., travel vendors).
- **Custom Reports** are available if a report cannot be created using the vendor's reporting tool.

In order to assist state entities with improving their administration of procurement card programs, the Department of Personnel & Administration should institute additional exception and summary reporting programs for the Department's procurement card administrator and user agencies and higher education institutions. Examples include reports that review:

- Large-dollar or high-volume transaction suppliers with which the State does not have a supply agreement. Information from these reports could be used to negotiate state price agreements, which could potentially save the State money.
- Transaction amounts and volume by month for comparison with total agency purchase volume to identify opportunities to increase card usage. The Department will have to work with state agencies and higher education institutions to determine what information is readily available to achieve this review.

The Department should also identify and communicate examples of reports that specific agencies have developed. For example, the University of Colorado utilizes special reports as part of its quarterly transaction auditing including:

- *Risky Merchants Queries*. This report provides queries by merchant category code such as airlines, hotels, florists, and restaurants. These categories are typically unallowable purchases. Furthermore, state employees are expected to use the State's travel card for business travel-related expenses, not the procurement card.
- *Unreallocated Transactions Older Than 45 Days*. This report can help detect purchases that may be for personal use or other unallowable expenditures. It can also be used to ensure proper accounting for purchases in the general ledger.
- *Declined Transaction Report from the Bank*. This report can help monitor card usage and help detect purchases that may be for personal use or other unallowable expenditures.
- *Possible Split Transactions Report*. This report can help detect cardholders attempting to circumvent state limits on single transactions for goods and services in excess of \$5,000.

Recommendation No. 4:

The Department of Personnel & Administration should assist state agencies and higher education institutions in better utilizing procurement card reporting capabilities by adding a section in its *Suggested Minimum Guidelines* and/or Web site that explains available reporting functions, including sample reports, and how reports can be used to enhance program management.

Department of Personnel & Administration Response:

Agree. Implementation Date: November 2003. The Department will integrate into its Web site and periodic information dissemination, key reporting capabilities and tips concerning their use. The Department will contact experienced users of the reports and integrate their recommendations into the guidance.

Best Practices

During our audit, we observed that state agencies and higher education institutions had a number of best practices in place. The following table summarizes these policies and procedures at the agencies included in the scope of our audit. The table is not all-inclusive of controls that should be in place for a procurement card program, but instead should be considered in conjunction with the Department's *Suggested Minimum Guidelines*, outlined in Appendix B.

Procurement Card Program Internal Controls Best Practices	
Are cardholder credit limits appropriately established?	<ul style="list-style-type: none"> Require department heads to approve new cardholders or periodically report the current cardholders to their respected department heads.
Has the agency provided adequate training regarding procurement card processes?	<ul style="list-style-type: none"> Send electronic reminders to cardholders, approving officials, and reallocators outlining their program responsibilities. Develop in-depth guidance and make it available online to cardholders, approving officials, and reallocators.
Is adequate supporting documentation maintained for purchases?	<ul style="list-style-type: none"> Note in guidance who should maintain documentation and for how long.
Are purchases routinely reviewed for appropriateness by a supervisor or other approving official?	<ul style="list-style-type: none"> Send electronic reminders to cardholders, approving officials, and reallocators outlining their program responsibilities.
Is the procurement card only used for allowable purchases? Types of improper transactions would include purchases of goods and services not for official state business, split purchases, in which the cardholder circumvents single-purchase limits, and purchases from improper sources.	<ul style="list-style-type: none"> Identify and utilize different reports as part of transaction auditing. Involve internal audit in monitoring the program.
Has the agency established disciplinary actions for improper use of cards and/or violations of rules and program guidelines? Does the agency enforce established disciplinary actions?	<ul style="list-style-type: none"> Request that legal counsel formally review procurement card certification forms, agreements, and handbooks to determine if they appropriately describe responsibilities and actions that may be taken by the state agency or higher education institutions. Develop a point system for violations with various consequences. Review periodically and ensure that proper actions are taken when warranted.
Source: KPMG analysis.	

Some additional controls we identified from corporate and other governmental organizations include:

- Encouraging procurement card administrators to review cardholder status and make appropriate changes on an annual basis.
- Canceling cards with little or no activity and interviewing cardholders to find out why the card is not being used.
- Introducing a SuperUser program to continuously train card users. (See previous discussion under the University of Colorado section.)
- Considering factors such as classification, position, and training history when appointing approving officials to ensure they can successfully perform their duties.
- Using standardized forms to provide additional information to procurement card administrators on questionable transactions.
- Instituting processes that verify each transaction and random auditing by accounts payable staff as measures for reconciling the procurement card invoice/debit for payment.

The recent growth of procurement card programs in government agencies has caused some governments to identify new and different ways of implementing and administering their programs. The above listed items provide examples of methods that can be used to maximize the benefits of the procurement card programs while maintaining adequate and cost-effective controls to mitigate associated risks.

Recommendation No. 5:

The Department of Personnel & Administration should work with state agencies and higher education institutions to identify and implement relevant best practices for managing a procurement card program.

Department of Personnel & Administration Response:

Agree. Implementation Date: December 2003. The sampling done during the audit indicates that information is available to departments and institutions necessary to develop adequate controls. However, the Department will develop a means for identifying and disseminating information concerning “best practices” for managing the procurement card program. The audit provided useful summarization of best practices as a starting point.

Maximizing Procurement Card Benefits

Chapter 2

Overview

The Department of Personnel & Administration's *Procurement Card Program Suggested Minimum Guidelines* state that the Department has the responsibility for statewide implementation and administration of the program. The Department's Division of Finance and Procurement is further responsible for establishing and updating the policies and procedures contained in the *Guidelines*. The *Guidelines* provide state agencies and institutions of higher education with information on how to implement a procurement card program, including the responsibilities of various officials. The *Guidelines* do not, however, describe the Department's responsibilities with regard to the program. During our discussions, Department staff told us they consider their responsibilities to include:

- Negotiating the contract with the procurement card vendor.
- Monitoring vendor compliance with the master contract.
- Providing education and training to state agencies and higher education institutions.
- Assisting agencies in implementing programs and ensuring proper accounting for procurement card transactions.
- Analyzing reports that will assist in maximizing the State's purchasing power and ensuring compliance with applicable policies and procedures.

Although the Department performs these basic tasks, we noted certain issues that make ownership of the statewide program more difficult. For example, we found that many of the recommendations from the Office of the State Auditor's 2002 performance audit had not been implemented. Specifically, the 2002 audit report made seven recommendations to the Department that focused on maximizing program benefits including mandating card use statewide for all eligible small purchases. The Department issued a new fiscal rule at the beginning of Fiscal Year 2004 to address some of the recommendations from the prior audit. However, the new rule does not require state agencies to develop and implement a procurement card program, nor does it require card use for all eligible transactions. The Department reported that the intent of the rule was to strongly encourage, but not to mandate, use of the procurement card statewide. As noted in 2002, we believe that the procurement card program should be required statewide because of the substantial benefits that will accrue. Specifically, using the procurement card for all small-dollar transactions provides the State with the following benefits:

- Rebate revenues through the program contract.
- Cost avoidance through reducing the number of warrants and payment vouchers issued by accounting personnel.
- Proven low risk of fraud and misuse of the procurement card when appropriate controls are in place.

The procurement card program provides the Department with an opportunity to reduce the State's overall procurement costs and increase revenues without substantial effort or investment. The following sections describe the activities we believe are necessary for the State to maximize program benefits.

Program Administration

The Department is statutorily responsible for managing procurement for the Executive Branch by establishing statewide policies and rules. Although the *Suggested Minimum Guidelines* place the responsibility for statewide program implementation and administration on the Department, there is no specific statutory language creating the procurement card program or assigning state-level program responsibilities to the Department. As such, the Department has made the program optional for state agencies and higher education institutions.

Without specific statutory authority, the Department is reticent to impose requirements on state agencies and higher education institutions regarding the card. As noted previously, use of the procurement card is increasing, however, there are still several state agencies and institutions that have minimal or no card use. In addition, agencies with established programs still use other procurement methods for some small-dollar transactions. The Department should work with the General Assembly to determine if it is in the best interest of the State to formalize the creation and administration of the procurement card program in the Department or at the agency level through either statutory or rule changes or an Executive Order. In formalizing the placement of administrative responsibility for the program, consideration should be given to the use of rebate revenues as an incentive for increased card usage, as discussed below. Alternatively, this change could be effected through modifying the language of State Fiscal Rule 2-10 to mandate a program in each agency. Currently, the rule states that agencies and higher education institutions *should* enter into an agreement to participate; however, this language leaves the decision up to the agency or higher education institution. Department staff told us that the intent of the rule was to strongly encourage but not to mandate use of the procurement card by all state agencies and institutions of higher education. Modifying this rule to mandate use of the card for all eligible purchases is one option for the Department to consider when determining the best way to increase program participation statewide. If an agency or higher education institution still desires to opt out of the program, it could use the fiscal rule waiver process to document its reasons for nonparticipation.

Card Usage

In addition to these suggestions, we believe there are additional actions that can be taken either by the Department or at the agency level to increase usage of the procurement card. The procurement card program represents a change in how state agencies and higher education institutions purchase goods and services. Cultural changes such as this do not occur easily in all organizations. During the audit, we identified ways that the Department and individual agencies can promote use of the procurement card and alleviate fears over potential misuse. Two key benefits of increasing card use are reduced transaction costs and increased rebate dollars. Estimating the actual savings accruing from eliminating small-dollar purchases is difficult. However, increased rebate revenues are easily quantified. Rebates are offered under the contract with the vendor to provide an incentive based on card usage. Total state card activity of approximately \$101 million generated about \$640,000 in revenues for Fiscal Year 2002. Rebate revenues are expected to increase under the current contract because of additional rebate opportunities. Specifically, rebate revenues are estimated to total approximately \$1 million for Fiscal Year 2004.

Currently the Division of Finance and Procurement receives the total appropriation for all statewide rebate revenue and uses the funds for its operating expenses. This revenue stream more than covers the Division's annual program administration expenses, which the Division estimates to be about \$50,000. The remaining \$590,000 funds the other activities within the Division of Finance and Procurement. Consequently, we believe that changes are needed so that rebate revenues can be shared among the state agencies and higher education institutions responsible for their generation. This would provide users with real financial benefits for maximizing card usage. We believe the Department of Personnel & Administration should work with the General Assembly to return some of the rebate revenues, on a proportionate basis, to the agencies in the form of cash fund exempt spending authority. This will require the various state agencies and institutions of higher education to "earn" the spending authority and maximize the use of the procurement card. However, in order to make this incentive truly successful, the Department and General Assembly should not reduce existing appropriations to those agencies and higher education institutions sharing in rebate revenues. Instead, this money should be in addition to current appropriations. A baseline funding level should also be established for supporting those Department operations that currently rely on this funding source.

We also identified several best practices that can further increase card usage, including the following:

- Requiring accounts payable officials to return any invoice that could be paid with a procurement card to the purchaser for payment using a card.
- Identifying employees with low card usage and contacting them to see if they have a question or an issue that is inhibiting them from using their procurement card.

- Sending out a letter authored by the executive director or higher education president encouraging the use of the procurement card within their organization and explaining why card use is beneficial for the organization and the State.
- Preparing a report listing the items processed by accounts payable that did not use the procurement card, by dollar value (e.g., transactions under \$50, under \$250, under \$500, under \$1,000) and presenting this information to key managers to encourage card use.
- Preparing an implementation guide for agencies that encourages card use and includes action steps to begin the process. For example, Kansas and the University of California at Berkley have program implementation checklists that provide steps for establishing a procurement card program and implementation kits that include all the application paperwork and information departments need to get started.
- Providing a procurement card to each accounts payable department supervisor and encouraging them to use it in payment of specific supplier invoices such as phone company bills, utility bills, and certain size invoices. A separate profile for the accounts payable supervisor can be set up with specific instructions to pay routine bills.

Outcome Measures

Finally, the Department of Personnel & Administration should expand the statewide data on the procurement card program to assist individual agencies and higher education institutions with assessing their success in promoting card usage. Currently, the Department reports on the dollar volume and number of transactions for agencies and institutions that use the procurement card. Both the dollar volume and transaction volume has been steadily increasing since the program began in Fiscal Year 1995. However, we believe that a reporting measure that details the use of the procurement card as a percentage of the total eligible transactions would be worthwhile and would show how much eligible procurement activity is not on the card. These measures should be tracked by the Department on a statewide level by agency and institution and presented to the General Assembly annually.

In addition to improving the statewide data on the procurement card program, we found that some state agencies and higher education institutions do not set goals for their programs nor do they monitor progress toward goal achievement. Two agencies that have established goals include the Department of Human Services and Colorado State University. Specifically, the Department of Human Services includes the following performance measures in its annual plan: 1) percentage increase in dollar amount of procurement card purchases, and 2) percentage increase in number of purchasing transactions through the procurement card. Colorado State University has established an aggressive goal for the procurement card program that seeks to use the card for at least 80 percent of small dollar purchases. Other agencies and higher education institutions have

informal goals, most of which focus on the number and dollar amount of procurement card transactions.

Staff at certain agencies and higher education institutions indicated that it may be difficult to accumulate information necessary to measure results of their program. If that is the case, agencies and higher education institutions should develop relevant performance measures that are cost-effective and relatively easy to monitor. One example is to identify potential suppliers who could receive a procurement card as payment and monitor the type of purchases with these suppliers. Accounting officials could then periodically develop a ranked listing of payments made with warrants to these suppliers to identify those routinely receiving payments under the procurement card threshold.

Recommendation No. 6:

The Department of Personnel & Administration should maximize the benefits of the procurement card program by:

- a) Working with the General Assembly and the Governor's Office as necessary to formalize program administration responsibilities through fiscal rule changes, statutory changes, or through an Executive Order.
- b) Identifying and implementing the appropriate best practices suggested for increasing acceptance and usage of the procurement card, including working with the General Assembly to modify the distribution of the rebate revenues provided by the program vendor.
- c) Developing appropriate performance measurement systems to gauge program success.

Department of Personnel & Administration Response:

Agree.

- a) Implementation Date: February 2004. The Department has assumed responsibility for developing an effective, efficient payment method by contracting with the procurement card vendor, administering the contract, and disseminating program administration and controls information. Fundamentally, however, each department and institution must assess availability of resources necessary to administer the program and implement necessary controls. Section 24-17-102, C.R.S., requires "each principal department of the executive department of the state government . . . [to] institute and maintain systems of internal accounting and administrative control within said department." The Department does not believe that a statutory or executive order prescription to establish a

procurement card program is advisable. However, the Department will amend the Fiscal Rules language to mandate establishment of a procurement card program, requiring submission of a written waiver request and justification if an agency or institution believes it cannot implement a program.

- b) Implementation Date: November 2003. The Department will work with the General Assembly as necessary to modify the distribution of the incentive rebates. However, the Department has previously communicated to both OSPB and the JBC the dissatisfaction in higher education (in particular) with handling of the incentive rebates. In particular, the issue of the use of the incentive rebate was highlighted in the 2001 Footnote 67 Report to the JBC.
 - c) Implementation Date: November 2003. Although financial reporting systems are somewhat limited in identifying candidate expenditures for the procurement card (as explained in the 2002 audit responses), the Department will develop simple milestones using common candidate commodities, such as office supplies expenditures. The Department will issue letters to nonparticipating agencies/institutions (excluding the General Assembly and elected officials) highlighting advantages from the procurement card.
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APPENDIX A. Disposition of 2002 Performance Audit Recommendations

Overview

In May 2002 the Office of the State Auditor issued a report on results of its performance audit of the State's procurement card program. The 2002 report made seven audit recommendations. The disposition of these audit recommendations as of July 2003 was as follows.

Partially Implemented	4
Not Implemented	<u>3</u>
Total	7

Our current performance audit included procedures to determine the implementation status of the 2002 recommendations. The following are the 2002 audit recommendations, the Department of Personnel & Administration's responses, and our evaluation of the actions taken to date. The Department should identify what actions are needed to fully implement these recommendations and develop an action plan to ensure they are addressed in a timely manner. The Department should also monitor the implementation status of the recommendations until resolved.

**DEPARTMENT OF PERSONNEL & ADMINISTRATION
STATUS OF PERFORMANCE AUDIT RECOMMENDATIONS FROM MAY 2002**

Recommendation No. 1: The Department of Personnel & Administration should maximize operating savings, reduce annual costs, and maintain agencies' flexibility when making small purchases by: a) determining on an agency by agency basis the feasibility of making all small purchases with a procurement card, including the identification of alternative transaction thresholds or methods as necessary; b) mandating the use of procurement cards for small purchases wherever feasible through statutory changes or executive order; c) establishing and charging a transaction fee such as the \$9 extra cost for a payment voucher as identified by the New Century 2000 report, to offset the extra cost when agencies do not use procurement cards for all small purchases; d) working with the State Treasurer's office to establish a fund for the deposit of these fees to be used for administration of the procurement card program; and e) collecting information about cost avoidance and rebate opportunities for individual agencies and the State in total, and incorporating it into performance reporting in the Department's annual budget request.

Department of Personnel & Administration Response: Partially Agree

February 2003 Agency Update	June 2003 KPMG Evaluation
<p>In Progress.</p> <p>The State Controller's Office has published a notice of rulemaking for a fiscal rule revision encouraging the establishment of a procurement card program in each state agency and higher education institution. The anticipated effective date is July 1, 2003. The rule became effective at the beginning of Fiscal Year 2004.</p> <p>Despite several attempts, the West Virginia auditor's office, which administers their procurement card program, has not responded to inquiries about its penalty provision. However, the Department continues to believe that agencies are in the best position to determine when to use the card; therefore, we do not believe assessing a penalty on every non-procard transaction under \$5,000 is an appropriate incentive.</p> <p>At this time, the Department's limited resources are focused on finalizing the new vendor contract; however, we anticipate additional outreach and training efforts to increase usage after the contract is signed.</p>	<p>a) Implemented. b) Through d) Rejected. c) Not Implemented.</p>

**DEPARTMENT OF PERSONNEL & ADMINISTRATION
STATUS OF PERFORMANCE AUDIT RECOMMENDATIONS FROM MAY 2002**

Recommendation No. 2: The Department of Personnel and Administration should increase the transaction size rebate savings to the extent possible by: a) implementing policies to increase card usage and b) informing agencies and institutions about ways to analyze the opportunity to aggregate purchases such as looking at frequency of purchases, vendors most often used, and the average transaction size.

Department of Personnel & Administration Response: Agree

February 2003 Agency Update	June 2003 KPMG Evaluation
<p>In Progress.</p> <p>The State Purchasing Office has reorganized work assignments and is now able to devote approximately 0.5 FTE to the procurement card program rather than 0.33 FTE. The procurement card contract was resolicited during 2002, and the new contract is being negotiated. When the new contract is signed, this should enable the Office to devote more time to educating procurement card administrators about the Program. On November 21, 2002, the State Purchasing Office and the vendor held a statewide meeting with card administrators to discuss new card administration options that will be available under the new contract.</p> <p>While the overall rebate structure will be more favorable under the new contract, certain changes should be noted. First, in order to earn a rebate, the State's average transaction size must be over \$100. Based on present use, this should not be an issue. More significantly, transactions over \$4,500 are broken out into a separate rebate structure that begins with \$4,500-\$5,000 at 0.4 percent and declines as the average transaction size increases. Therefore, aggregation of purchases to amounts exceeding \$4,500 will actually reduce the rebate payable on the transaction from an estimated 0.85 percent to 0.40 percent. Transactions over \$4,500 also do not count toward meeting the necessary \$100 average transaction size.</p> <p>The State has raised the procurement card ceiling to \$5,000, which is expected to raise average transaction size.</p>	<p>a) Partially Implemented. The Department negotiated a new contract for the procurement card that includes greater incentives and rebate opportunities to the State.</p> <p>b) Not Implemented.</p>

**DEPARTMENT OF PERSONNEL & ADMINISTRATION
STATUS OF PERFORMANCE AUDIT RECOMMENDATIONS FROM MAY 2002**

Recommendation No. 3: The Department of Personnel & Administration should, with appropriate controls, reduce operating costs and increase rebates by requiring payment with a procurement card for purchases of \$5,000 or less wherever feasible.

Department of Personnel & Administration Response: Partially Agree

February 2003 Agency Update	June 2003 KPMG Evaluation
<p>In Progress.</p> <p>As stated in the response to Recommendation No. 1, the State Controller's Office is in the process of rulemaking to require each agency and institution to establish a procurement card program. However, the Department believes that agencies are in the best position to define appropriate use of the card and establish card limits.</p>	<p>Not Implemented.</p>

**DEPARTMENT OF PERSONNEL & ADMINISTRATION
STATUS OF PERFORMANCE AUDIT RECOMMENDATIONS FROM MAY 2002**

Recommendation No. 4: The Department of Personnel and Administration should work with the State Treasurer and the procurement card vendor to perform periodic analysis to determine if the State could net more dollars by paying early or by earning interest on its investments.

Department of Personnel & Administration Response: Agree

February 2003 Agency Update	June 2003 KPMG Evaluation
<p>Implemented.</p> <p>Representatives of the State Purchasing Office and the State Controller's Office met with a representative of the State Treasurer's Office in January to discuss this recommendation. At present interest rates, if it were possible for every agency to pay each of its credit card statements on the day received, the State could hypothetically net an average \$1.30 per \$1,000, thereby netting about \$123,000 per year, assuming \$9.5 million in average monthly volume. However, it should be noted that as interest rates rise, this amount will decline. Also, payment on the day received would require a fiscal rule waiver to allow agencies to pay prior to reconciliation, which is not considered advisable. We believe that at this time, the most efficient policy is to encourage agencies to pay as quickly as possible. The State Purchasing Office will meet with the State Treasurer's Office at least once per year to determine whether early payment is still advisable.</p>	<p>Partially Implemented. The Department conducted the analysis and met with the State Treasurer to determine if the State could net more dollars by paying early or by earning interest on its investments. However, to date, the Department has not issued any guidance to state agencies and higher education institutions as to the preferred course of action in this matter.</p>

**DEPARTMENT OF PERSONNEL & ADMINISTRATION
STATUS OF PERFORMANCE AUDIT RECOMMENDATIONS FROM MAY 2002**

Recommendation No. 5: The Department of Personnel & Administration should strengthen controls over the procurement card program by requiring the Division of Finance and Procurement to: a) develop plans, policies, and procedures for agencies to use to implement procurement card controls. These controls should cover monitoring, training, card transaction sampling plans, and reporting requirements; b) review agency reports to ensure and verify the adequacy and cost-effectiveness of procurement card controls; c) conduct analysis of card transaction data on a statewide and agency level as necessary; d) to the extent possible, reassign resources or ask for additional resources for its statewide procurement card program management responsibilities, including assigning appropriate reviewing and monitoring responsibilities to the Field Accounting Services Team; and e) address policies and procedures for ensuring accountability and the efficient and use of procurement cards in the fiscal and procurement rules.

Department of Personnel & Administration Response: Partially Agree

February 2003 Agency Update	June 2003 KPMG Evaluation
<p>In Progress.</p> <p>The State Purchasing Office will update the <i>Suggested Minimum Guidelines</i> for the Procurement Card Program to reflect the new contract within three months after the contract is signed.</p> <p>The Pathway Net reporting option available under the new contract allows agencies and the State Purchasing Office to create a variety of ad hoc reports. When the new program is operational, the State Purchasing Office will identify and create reports to improve oversight (July 1, 2003).</p> <p>Both the State Controller's Office and the State Purchasing Office have program-critical vacancies that cannot be filled. Therefore, no additional resources, beyond the small realignment of duties described in Recommendation No. 2 can be expected. However, in an effort to use other resources, the State Purchasing Office has initiated additional oversight of the procurement card activities through the peer review process. During a peer review the agency must answer several key procurement card questions and must provide copies of any completed violation forms. This process will ensure that oversight occurs on a regularly scheduled basis. Through a quarterly procurement card administrator's forum, the information received from these peer reviews will be evaluated and used as a training tool.</p>	<p>a) Partially Implemented. The Department updated its <i>Suggested Minimum Guidelines</i> for the Procurement Card Program" to reflect changes and provisions of the new contract. These standards reflect minimum controls for a procurement card program. However, the Department does not have plans or policies available to agencies on how to implement a procurement card program, including risks, pitfalls, and best practices.</p> <p>b) Not Implemented.</p> <p>c) Not Implemented.</p> <p>d) Partially Implemented. The Department did not assign additional resources to the program, beyond a small realignment of duties. Currently, 0.5 FTE is committed to the procurement card program.</p> <p>e) Implemented. A new fiscal rule was promulgated effective July 1, 2003, and the Department updated the <i>Suggested Minimum Guidelines</i> in May 2003.</p>

**DEPARTMENT OF PERSONNEL & ADMINISTRATION
STATUS OF PERFORMANCE AUDIT RECOMMENDATIONS FROM MAY 2002**

Recommendation No. 6: The Department of Personnel & Administration should identify trends and risks by scheduling regular reviews of state agency and higher education institution violation forms. The Department should use the data to improve procurement card regulations and provide training as needed throughout the State.

Department of Personnel & Administration Response: Partially Agree

February 2003 Agency Update	June 2003 KPMG Evaluation
<p>In Progress.</p> <p>The Department will include suggestions for reviewing the "Procurement Card Violation Warning Forms" for trends and risks in its revision of the <i>Suggested Minimum Guidelines</i>, and the State Purchasing Office has initiated additional oversight of the procurement card activities through the peer review process. (See Recommendation No. 5)</p>	<p>Not Implemented.</p>

**DEPARTMENT OF PERSONNEL & ADMINISTRATION
STATUS OF PERFORMANCE AUDIT RECOMMENDATIONS FROM MAY 2002**

Recommendation No. 7: The Department of Personnel & Administration should improve its monitoring of unauthorized and inappropriate purchasing trends by working with the procurement card vendor to develop and acquire transaction data needed to conduct card use analysis on an agency and statewide level. The Department should also review the state's procurement card data needs when the current contract expires.

Department of Personnel & Administration Response: Agree

February 2003 Agency Update	June 2003 KPMG Evaluation
<p>In Progress.</p> <p>The Pathway Net reporting option available under the new contract allows agencies and the State Purchasing Office to create a variety of ad hoc reports. When the new program is operational, the State Purchasing Office will identify and create reports to improve oversight (July 1, 2003). Also, the State Purchasing Office will obtain and evaluate violation forms through the peer review process.</p>	<p>Partially Implemented. A new procurement card contract is now in place. The contract and related response to the request for proposal summarizes the Pathway Net reporting option as well as a variety of ad hoc reports. The new program is scheduled to be available in July 2003. At that time, the Department plans to determine what type of reports are available to help improve its oversight.</p>

APPENDIX B. Department of Personnel & Administration's *Suggested Minimum Guidelines*

The following table presents the *Suggested Minimum Guidelines* as well as our assessment of program compliance of the six agencies and higher education institutions subject to our review. Our assessment was based on review of procurement card program policies and procedures, inquiries of Procurement Card Administrators and internal audit departments, and testwork over a sample of procurement card transactions.

Note: ✓ = meets or exceeds minimum guidelines. ◆ = minimum guidelines not met based on policy review, inquiries and test work; related recommendations included in this report. Colorado State University (CSU); University of Colorado (CU); Department of Human Services (DHS); Department of Natural Resources (DNR); Department of Corrections (DOC); and Colorado Department of Transportation (CDOT).

Minimum Guidelines	CSU	CU	DHS	DNR	DOC	CDOT
Requesting a Card						
A purchasing card cardholder account form must be completed to start the application process. The form includes cardholder information reporting hierarchy, cardholder controls (limits), and the default accounting code for transaction charges. The cardholder's supervisor must approve the form and submit it to the liaison or the program administrator who reviews it for completeness. The program administrator approves the request and submits it to the vendor. The bank issues the card in about ten days and mails it to the administrator who retains it in safekeeping until provided to the cardholder. Cards are issued to cardholders after mandatory training is completed and a cardholder agreement is signed.	✓	✓	✓	✓	✓	✓
Training and Agreements						
All new cardholders and their approving official are required to attend training on the use of the procurement card. The training includes: description of the program, expectations for cardholders and approving officials, use of mandatory and permissive price agreements, prohibited purchases, statement review and reconciliation, and attendee sign-in and evaluation of training.	✓	✓	✓	✓	✓	✓
All cardholders and approving officials are also required to sign cardholder and/or approving official agreements before a card is issued. These agreements outline important responsibilities and expectations. The agreements must be submitted to the program administrator or his or her designee and maintained in a secure file.	✓	✓	✓	✓	✓	✓

Minimum Guidelines	CSU	CU	DHS	DNR	DOC	CDOT
Credit Limits						
Credit limits and other controls are established when the card is authorized and approved. The card may not be used for single purchases costing more than \$5,000. Agencies may establish lower single-purchase limits. Each card will have the following spending limits based on anticipated needs: 1) single dollar purchase limit - \$x,xxx or less, as determined by the program administrator or recommended by the supervisor; 2) spending dollar limit per monthly cycle; 3) dollar amount per day (optional); 4) maximum number of authorizations per day; and 5) maximum number of transactions per monthly cycle.	✓	✓	✓	✓	✓	✓
Transaction Documentation						
The cardholder is responsible for ensuring that every transaction has valid supporting documentation. Valid source documentation includes: 1) an itemized receipt and card transaction slip from the vendor; 2) a signed delivery packing slip; 3) order forms for dues, subscriptions, registrations, or similar documents; 4) detailed invoice showing credit card payment; 5) email confirmation from the merchant.	◆	◆	✓	✓	✓	✓
Source documentation must include: 1) merchant name; 2) date of purchase; 3) description, price, and quantity of each item purchased; 4) total cost of the order; 5) cardholder name and/or card number; 6) signature of cardholder or designee demonstrating receipt; 7) official function form, if applicable; and 8) explanation of the reason for the purchase, if it appears unusual.	◆	◆	✓	✓	✓	✓
Tracking Purchases						
The program administrator should establish guidelines on the manner to track purchases. Two alternative approaches to tracking purchases include: 1) retain documentation in a file or envelope including letters, emails, hand-prepared order information with signatures, etc.; or 2) retain the authorizing documentation and maintain a log of all purchases. Some supervisors may require employees to maintain a log. However, this may not be cost-beneficial. The program administrator should consider the additional cost of maintaining a log contrasted with any potential benefit.	✓	✓	✓	✓	✓	✓
Reconciling the Statement						
At the close of each billing period (agency cycle date), the cardholder will either receive or prepare (print) an individual statement, listing purchases posted within the billing cycle. Purchases made near the end of the billing cycle may not appear on the statement.	✓	✓	✓	✓	✓	✓

Minimum Guidelines	CSU	CU	DHS	DNR	DOC	CDOT
The cardholder must review transactions as follows: 1) verify that each listed charge is valid and matches the transaction documentation; 2) ensure that account coding is accurate unless the agency assigns this responsibility to others such as the allocator or approving official; 3) identify any disputed charges; 4) reconcile credits in the same manner as charge transactions; 5) attach all supporting documentation and a copy of the transaction log (if used) to the statement; and, 6) sign the statement and forward it to the approving official.	◆	◆	✓	◆	✓	✓
Allocating/Reallocating Transactions						
Agencies need to develop a process for reallocating charges to other account codes. A default accounting code is established when a card is authorized. Transaction charges are initially posted to the default accounting code. However, cardholders may determine that the charges should be recorded under a different account code string if the default codes do not apply.	✓	✓	✓	✓	✓	✓
Approving Official Review						
Approving officials must review and sign-off (approve) each account statement. Review each statement to ensure: 1) supporting documentation is attached for each transaction including disputed transaction or lost or unavailable transaction information forms; 2) transactions are in accordance with guidelines and there are no violations such as personal purchases, split or cash transactions, and/or patterns of lost documentation; and, 3) violations should be reported to the liaison or program administrator in accordance with department/agency guidelines.	◆	◆	✓	◆	✓	✓
Record Retention						
Cardholder statements with supporting documentation and signed by the cardholder and approving official will be stored in accordance with department or agency guidelines. Records will be retained for the current fiscal year and three additional fiscal years. Transactions involving federal or grant funds may require a longer retention period.	✓	✓	✓	✓	✓	✓
Payment and Reconciliation						
The agency needs to establish and document a mechanism for making monthly payments by electronic funds transfer (wire) or Automated Clearinghouse (ACH) to an account designated by Bank One. In accordance with contractual terms, payments should be made within 14 days of the cycle date.	✓	✓	✓	✓	✓	✓
Personal Services - 1099 Reporting						
The state procurement card may be used for the purchase of services in those agencies that are prepared to capture payments in a 1099 reporting system. (■ = do not allow personal services to be purchased on the card)	■	■	■	■	■	■

Minimum Guidelines	CSU	CU	DHS	DNR	DOC	CDOT
Program Monitoring and Audit						
The agency program administrators should develop and document an approach and methodology for routinely reviewing selected transactions and the activities of program participants to ensure overall compliance with the program. The results of reviews (audits) should be documented and retained for review by other program participants and/or internal and external auditors. Records should be retained for a period of three years plus the current fiscal year.	✓	◆	✓	✓	✓	✓
Violations and Consequences						
It is the cardholder's responsibility to purchase only items that are necessary to carry out the cardholder's job requirements and to comply with state procurement rules, fiscal rules, and program guidelines. Program administrators in conjunction with their human resource organization should consider developing and documenting guidelines for disciplinary action for violations of rules and program guidelines. Disciplinary actions should be uniformly and consistently applied throughout the agency. Violations and disciplinary action should be documented and maintained in a secure file.	✓	✓	✓	✓	✓	✓

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