

**Joint Legislative Committee on Performance
Evaluation and Expenditure Review (PEER)**

Report to
the Mississippi Legislature



**A Review of State Agencies' Use of
Procurement Cards**

PEER: The Mississippi Legislature's Oversight Agency

The Mississippi Legislature created the Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER Committee) by statute in 1973. A joint committee, the PEER Committee is composed of seven members of the House of Representatives appointed by the Speaker and seven members of the Senate appointed by the Lieutenant Governor. Appointments are made for four-year terms, with one Senator and one Representative appointed from each of the U. S. Congressional Districts and three at-large members appointed from each house. Committee officers are elected by the membership, with officers alternating annually between the two houses. All Committee actions by statute require a majority vote of four Representatives and four Senators voting in the affirmative.

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The Committee assigns top priority to written requests from individual legislators and legislative committees. The Committee also considers PEER staff proposals and written requests from state officials and others.

PEER Committee
Post Office Box 1204
Jackson, MS 39215-1204

(Tel.) 601-359-1226
(Fax) 601-359-1420
(Website) <http://www.peer.state.ms.us>

The Mississippi Legislature

Joint Committee on Performance Evaluation and Expenditure Review

PEER Committee

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RAY ROGERS
PERCY W. WATSON

TELEPHONE:
(601) 359-1226

FAX:
(601) 359-1420

Post Office Box 1204
Jackson, Mississippi 39215-1204

James A. Barber
Executive Director

www.peer.state.ms.us

OFFICES:
Woolfolk Building, Suite 301-A
501 North West Street
Jackson, Mississippi 39201

December 15, 2015

Honorable Phil Bryant, Governor
Honorable Tate Reeves, Lieutenant Governor
Honorable Philip Gunn, Speaker of the House
Members of the Mississippi State Legislature

On December 15, 2015, the PEER Committee authorized release of the report entitled **A Review of State Agencies' Use of Procurement Cards.**

A handwritten signature in cursive script that reads "Becky Currie".

Representative Becky Currie, Chair

This report does not recommend increased funding or additional staff.

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A Review of State Agencies' Use of Procurement Cards

Executive Summary

Background

Procurement cards are credit cards issued to public employees to make purchases on behalf of the state. Mississippi adopted a procurement card program in 2002, thus reducing the state's use of traditional purchase order methods (e. g., disbursement of paper checks).

The Office of Purchasing, Travel, and Fleet Management, an office within the Department of Finance and Administration, is responsible for administering the procurement card program. Procurement cards are provided to the state through UMB Bank, a financial institution located in Kansas City, Missouri.

Spending in Mississippi's procurement card program more than quadrupled between calendar years 2010 and 2014. Mississippi has spent approximately \$93 million through procurement cards over the past four years, following the national trend of increasing program spending. OPTFM intends to increase the amount of spending conducted through the program by encouraging more state entities to participate in the program.

Procurement cards provide users with cost and time savings through electronic (versus paper-based) procurement. Procurement card programs typically generate monetary rebates, which then may be spent at the discretion of the users.

How does the state manage and oversee the procurement card program?

Procurement cards eliminate the mandatory use of traditional methods designed to prevent purchasing abuse and misuse (e. g., paper-based requisitions, multiple approval signatures). Therefore, strong management and oversight become vital to protect the use of state funds.

The Office of Purchasing, Travel, and Fleet Management (OPTFM) has designated one employee, the Procurement Card Administrator, to manage the state procurement card program. The administrator is primarily responsible for the day-to-day management of the program and has collateral duties related to contracts and travel. OPTFM has put forth guidelines for participating agencies' use of procurement cards.

OPTFM requires that each program participant have a designated procurement card coordinator who is to oversee appropriate use of the card at the agency level. Agencies' procurement card coordinators are responsible for training, reconciliation, and distribution of information about the procurement card program. OPTFM also requires that each cardholder sign an agreement acknowledging liability and that he or she adheres to purchasing laws, maintains receipts, safeguards the card, and reviews monthly statements for accuracy.

Have state agencies complied with procurement card guidelines?

PEER used transaction data to select three state agencies (a small, medium, and large agency based on the amount of procurement card expenditures and frequency of card transactions in July 2015) to test for compliance with procurement card guidelines.

In the three state agencies selected for a review of compliance with procurement card guidelines, PEER found sixty instances in a sample of FY 2015 transaction data in which agencies did not comply with three specific OPTFM requirements for the procurement card program (i. e., itemized receipts, no payment of sales tax, and documentation). Collectively, the sixty violations translated into a twenty-three percent rate of noncompliance for the transactions reviewed. Additionally, PEER found other instances of noncompliance, including lapses in agencies' security over procurement cards. These incidences of noncompliance demonstrate OPTFM's inability to ensure the accuracy and legitimacy of purchases made with procurement cards at the individual agency level.

PEER believes that the causes of noncompliance with procurement card guidelines in the three agencies reviewed may be traced back to deficiencies in training, monitoring, and auditing related to the procurement card program.

Has the state received the full benefit of the rebates from the procurement card program?

State law lacks provisions that provide guidance to OPTFM regarding state agencies' accrual of, access to, and use of procurement card rebates. As a result, certain agencies are not aware that they have earned a monetary rebate. The state procurement card guidelines do not address monetary rebates and agencies are not informed about rebates they have earned unless they are receiving the rebates directly. Rebates are an indisputable benefit of the program, yet little attention has been paid by the state to ensure that this benefit is distributed and accounted for in a transparent manner.

Recommendations

1. OPTFM should mandate testing and training (either face-to-face or online) for program coordinators, cardholders, and approving officials to participate in the procurement card program. Training material should be tailored to the specific roles involved in the procurement card process (i.e., coordinators, approving officials, and cardholders). For example, training for a reconciler might include a hands-on review about how statements should be reviewed each month. OPTFM should develop written guidelines that address what actions enrollees should take if they do not have a designated program coordinator for an extended period.
2. OPTFM should:
 - delegate day-to-day management of the program (i. e., granting exceptions) to a UMB bank representative;
 - request support from the bank (e. g., auditing software, quarterly reports with updates of relevant program data) to review comprehensive reports on program activity;
 - encourage or require agencies to monitor program activity holistically and consistently;
 - employ scientifically supported auditing and sampling methods, whether those methods be utilized electronically or in person;
 - create internal systems to manage and track overrides (exceptions) and revise procurement card guidelines to distinguish clearly between purchasing on back order and online purchasing;
 - if OPTFM's resources (e. g., time, staff, and finances) are not sufficient to oversee all 28,000 plus cards, reduce the number of participants in the program to reflect the amount of resources OPTFM has available to oversee the program;
 - cease accepting new cardholders into the program until the concerns about oversight and internal controls are addressed;
 - require UMB to perform a full eradication of all errors related to program data and increase the reliability of program data; and,

- if UMB cannot meet needs of OPTFM to assist in overseeing the program (e. g., take over daily management of the program, provide spending reports regularly, expand their administrative view to include more than one month), OPTFM should pursue another financial institution to sponsor the program.
3. The Legislature should amend MISS. CODE ANN. Section 31-7-23 (1972) to include a provision specifically related to rebates generated through the state procurement card program. The provision should include detailed, objective criteria outlining how rebates should be distributed and appropriated. Further, OPTFM should revise the *State Procurement Card Guidelines* to include a detailed description of rebates (e. g., which agencies can receive them, in what instances, how to obtain escalation authority) in an effort to inform participants of benefits that could potentially be due to them.

OPTFM's vendor contract for procurement card services should outline the rebate agreement.

For More Information or Clarification, Contact:

PEER Committee
P.O. Box 1204
Jackson, MS 39215-1204
(601) 359-1226
<http://www.peer.state.ms.us>

Representative Becky Currie, Chair
Brookhaven, MS

Senator Thomas Gollott, Vice Chair
Biloxi, MS

Senator Sampson Jackson, Secretary
DeKalb, MS

A Review of State Agencies' Use of Procurement Cards

Introduction

Authority

The PEER Committee reviewed state agencies' use of procurement cards pursuant to the authority granted in MISS. CODE ANN. Section 5-3-57 (1972). PEER acted in accordance with MISS. CODE ANN. Section 5-3-51 et seq.

Problem Statement

The use of procurement cards has emerged, locally and nationally, as a preferred tool for making small purchases in government. Spending in Mississippi's state procurement card program has more than quadrupled since 2010. According to Mississippi's procurement card contractor, UMB Bank, in Calendar Year 2014, Mississippi's state agencies expended over \$33.5 million through the use of such cards.

The procurement card program offers several benefits, including cost and time savings and monetary rebates to entities that utilize these programs. However, the convenience of procurement cards must be balanced by proper management and oversight. As with other types of state government purchasing, transparency and accountability in the spending of state funds are vital.

Scope and Purpose

PEER sought to answer the following questions:

- How does the state manage and oversee the procurement card program?
- Have state agencies complied with procurement card guidelines?
- Has the state received the full benefit of the rebates from the procurement card program?

Method

PEER reviewed the following documents:

- the Office of Purchasing, Travel, and Fleet Management's *State Procurement Card Guidelines* (October 2013);
- financial records kept by UMB Bank, which has held the contract for the state's procurement card program since 2010;
- information regarding government procurement card programs disseminated by the federal government, including:
 - *OMB Circular A-123, Appendix B*, published by the Federal Office of Management and Budget (January 2009);
 - the Government Charge Card Abuse Prevention Act of 2012 (PL 112-194);
 - the *Department of Defense Government Charge Card Guidebook for Establishing and Managing Purchase, Travel, and Fuel Card Programs* (May 30, 2014);
 - *Managing GSA SmartPay Purchase Card Use*, published by the U. S. General Services Administration (August 12, 2015); and,
 - *Audit Guide: Auditing and Investigating the Internal Control of Government Purchase Card Programs* (2003), published by the Government Accountability Office (GAO).

PEER also:

- analyzed procurement card transactions of three of the state agencies that participate in the procurement card program (see additional information in the Appendix on page 30);
- interviewed staff of appropriate state agencies; and,
- conducted telephone interviews with the administrators of procurement card programs in Alabama, Tennessee, and Louisiana.

Background

What is the state procurement card program?

Procurement cards are credit cards issued to public and private entities to make purchases. Mississippi adopted a procurement card program in 2002, thus reducing the state's use of traditional purchase order methods (e. g., disbursement of paper checks).

According to the Association of Government Accountants, procurement cards (i. e., credit cards issued to public employees to make purchases on behalf of the state; also known as “p-cards”) were proposed during a reform initiative for enhancing efficiency and cost savings in government suggested by the National Performance Review in 1993.

The state of Mississippi adopted a procurement card program in 2002. The Department of Finance and Administration's Office of Purchasing, Travel, and Fleet Management (OPTFM) reported that as of August 7, 2015, there were over 28,000 cards in circulation¹ and 151 entities enrolled in the state's procurement card program. Procurement cards provide a convenient way to make small purchases of goods, services, and commodities under \$5,000. Procurement cards replace the traditional, paper-based purchasing method of requisitions, purchase orders, invoicing, and check disbursement. In Mississippi's program, procurement cards are used by state agencies, governing authorities, universities, colleges, and school districts.

How does state government administer the procurement card program?

The Office of Purchasing, Travel, and Fleet Management, an office within the Department of Finance and Administration, is responsible for administering the procurement card program. Procurement cards are provided to the state through UMB Bank, a financial institution located in Kansas City, Missouri.

The Department of Finance and Administration's Office of Purchasing, Travel, and Fleet Management is responsible for administering the program for Mississippi state government. The program encompasses procurement, travel, and Education Enhancement Fund cards, which are distributed to teachers in school districts throughout the state. This report deals primarily with use of the procurement cards specifically at state agencies.

The program offers two types of procurement cards:

¹PEER was unable to verify the total number of cards in circulation with documentation provided by OPTFM. UMB Bank did not provide PEER with basic program information (e. g., the total number of each card type in circulation) given a six-week time frame.

- *Individual* cards are assigned to specific employees and list the employees' names on the cards.
- *Departmental* cards can be signed in and out by multiple employees. These cards list the name of the agency and are not assigned to one specific employee.

UMB Bank of Kansas City, Missouri, is the current contractor for the procurement card program. The effective date of the initial contract with UMB was April 1, 2010, through March 31, 2013, with additional extensions through March 31, 2016. The OPTFM selected the contractor through a request for proposals (RFP) process. UMB Bank was selected over Bank of America during final consideration of RFP candidates.

How much have state agencies spent through the procurement card program?

Spending in Mississippi's procurement card program more than quadrupled between calendar years 2010 and 2014. Mississippi has spent approximately \$93 million through procurement cards over the past four years, following the national trend of program spending growth. OPTFM intends to increase the amount of spending conducted through the program by encouraging an increase in program enrollment.

According to documentation provided by OPTFM and the procurement card contractor, state agencies' spending through the procurement card program grew from approximately \$8.9 million in Calendar Year 2010 to approximately \$33.5 million in Calendar Year 2014. (See Exhibit 1, page 5.) Hardware stores, bookstores, and grocery stores/supermarkets were the top three most frequently used merchant codes for procurement cards in Calendar Year 2014. Nationally, spending on procurement cards has consistently increased since 1993. The RPMG Research Corporation reports that spending on procurement cards is expected to reach \$377 billion by 2018. Mississippi's program has replicated this national trend with spending totals more than quadrupling in the last four years. OPTFM staff reported that the office plans to expand the program further by increasing spending on the procurement cards.

Exhibit 1: State Agencies' Procurement Card Spending, Calendar Years 2010 through 2014

Calendar Year	Total Procurement Card Spending
2010	\$ 8,974,823.32
2011	12,868,887.99
2012	16,291,424.04
2013	21,347,825.38
2014	33,518,199.14
Total	\$93,001,159.87

SOURCE: UMB Bank (furnished by OPTFM).

What are the benefits of the procurement card program?

Procurement cards provide users with cost and time savings through electronic (versus paper-based) procurement. Procurement card programs typically generate monetary rebates, which then may be spent at the discretion of the users.

The primary benefits of procurement cards include savings, efficiency, and rebates.

- *Savings*--A 2014 RPMG Research Corporation report showed that it costs \$90.20 to process a traditional paper-based purchase order and \$20.38 to process a plastic purchasing card payment.
- *Efficiency*--Simplifying the purchasing process allows staff to redirect their time to be spent on other value-added aspects of their jobs. According to the same 2014 RPMG report referenced above, procurement card users save an average of eight days when procuring an item. Typically, using the procurement card allows purchasing staff to reduce the amount of manager approvals from 2.3 to 1.4. Removing steps at the beginning of the purchase process (i. e., requisitions, purchase orders, invoicing, and check disbursement) enables entities to receive the goods they need in a more timely manner.
- *Rebates*--The state procurement card program allows users to earn monetary returns, or rebates, on spending conducted on the card. Exhibit 2, page 6, shows various levels of spending and the accompanying rebate percentage the state of Mississippi should receive if procurement card bills are paid within twenty days. Currently, Mississippi benefits from a 1.33 rebate percentage on over \$33 million of spending.²

²Mississippi is in the D spending category (see Exhibit 2, page 6), but receives a rebate percentage of 1.33 because not all participants in the procurement card program pay their bills within a twenty-day period.

Exhibit 3, below, shows the rebates Mississippi received from calendar years 2010 through 2014.

Exhibit 2: Current Rebate Percentages Based on Amount of Procurement Card Spending by State Agencies

Spending Categories Used by UMB Bank	Amount of Procurement Card Spending	Rebate Percentage (If Bill is Paid Within Twenty Days)
A	< or = \$10,000,000	1.01%
B	\$10,000,001-\$20,000,000	1.16%
C	\$20,000,001-\$30,000,000	1.30%
D	\$30,000,001-\$40,000,000	1.39%
E	\$40,000,001-\$50,000,000	1.46%
F	\$50,000,001-\$60,000,000	1.51%
G	> or = \$60,000,001	1.56%

SOURCE: UMB Bank (furnished by OPTFM).

Exhibit 3: State Agencies' Amount of Rebates Received, Calendar Years 2010 through 2014

Calendar Year	Rebate Received
2010	\$ 85,260.82
2011	141,557.77
2012	165,283.30
2013	220,381.51
2014	328,721.01
Total	\$941,204.41

SOURCE: UMB Bank (furnished by OPTFM).

How does the state manage and oversee the procurement card program?

The procurement card eliminates the mandatory use of traditional methods designed to prevent purchasing abuse and misuse (e. g., paper-based requisitions, multiple approval signatures). Therefore, strong management and oversight become vital to protect the use of state funds.

The convenience of a procurement card is often exchanged for decreased transparency and accountability regarding the items being purchased. Verifying the legitimacy of purchases takes place at the end of the purchasing process rather than the beginning, which increases opportunities for abuse, misuse, or waste to occur.

Based on the dollar amount and number of purchases represented by Mississippi's procurement card program and the flexibility agencies have to conduct purchasing with procurement cards without the same internal controls as the traditional purchase order process (e. g., mandatory paper-based request, multiple approval signatures), strong management and oversight become vital to ensure that participants utilize the program properly.

Responsibilities of the Department of Finance and Administration's Office of Purchasing, Travel, and Fleet Management Regarding Procurement Cards

The OPTFM has designated one employee, the Procurement Card Administrator, to manage the State Procurement Card Program. The administrator is primarily responsible for the day-to-day management of the program and has collateral duties related to contracts and travel. OPTFM has put forth guidelines for participating agencies' use of procurement cards.

Procurement Card Administrator

The Department of Finance and Administration's Office of Purchasing, Travel, and Fleet Management has designated one of its employees as the Procurement Card Administrator to manage and oversee the state's procurement card program. The Procurement Card Administrator receives support from other OPTFM staff when necessary, but is ultimately responsible for the management of the entire program. At the time of this review, day-to-day program management consisted of assisting cardholders with questions and concerns related to the card and authorizing exceptions (i. e., overrides) for purchases. The Procurement Card Administrator also has other work responsibilities, including management of several state contracts and duties related to state employees' travel.

Procurement Card Guidelines

The OPTFM has developed a manual entitled *State Procurement Card Guidelines* to serve as a user's guide for agencies that participate in the procurement card program. The manual contains OPTFM's policies and procedures regarding the card and its use. The manual states that agencies participating in the procurement card program must:

- have operating procedures and designated personnel to manage the program (e. g., an agency-level procurement card coordinator);
- comply with state purchasing requirements; and,
- adopt their own expenditure limits and purchase restrictions, which may be stricter than those included in the manual.

According to the *State Procurement Card Guidelines*, the procurement card may be used for goods, services, and commodities under \$5,000, with the following general restrictions:

- no payment of state or local sales taxes;
- no purchase of backordered items;
- no travel-related expenses;³
- no cash advances;
- no "split orders" (i. e., dividing purchases to circumvent the \$5,000 single purchase limit);
- no personal items, gifts, or entertainment; and,
- no equipment purchases.

Other guidelines include the following:

- Food may be purchased with the procurement card, but it must be for a legitimate business purpose with more than one person present, no alcohol may be purchased, and a gratuity of over 20% must be accompanied by written justification. Food forms provided by OPTFM are to be completed for each food purchase regardless of the purpose (e. g., meeting, conference). An individual cannot purchase food with a procurement card while traveling.
- Cardholders are to keep procurement cards separate from their personal credit cards and refrain from carrying the cards on personal vacations, weekends, and/or holidays.

³Travel-related expenses cannot be made on procurement cards, but may be made on travel cards, which are also provided through the state procurement card program. Travel cards are a separate category of procurement cards.

- Agencies with departmental cards should maintain sign-in/sign-out sheets to document when the card is used and by whom. Procurement card coordinators should ensure that the information on these sheets is complete and accurate.
- For each purchase on the procurement card, there should be an itemized receipt or invoice provided by the purchaser and kept on file. The program coordinator should complete an OPTFM affidavit form for any lost or missing receipts or invoices.

The guidelines specify that all procurement cards in the state program will be audited by the respective agency-level procurement card coordinators. The guidelines also state that OPTFM, the Bureau of Financial Control, and the Office of the State Auditor will audit the cards randomly. The guidelines provide a checklist of documents that program participants should have on file to prepare for procurement card audits.

The full text of the *State Procurement Card Guidelines* is available on the Office of Purchasing, Travel, and Fleet Management's website through the Procurement Card Services link.

Responsibilities of State Agencies Participating in the Procurement Card Program

OPTFM requires that each agency participating in the procurement card program have a designated procurement card coordinator who is to oversee appropriate use of the card at the agency level. Agencies' procurement card coordinators are responsible for training, reconciliation, and distribution of program information. OPTFM also requires that each cardholder sign an agreement acknowledging liability for purchases made on the card and adherence to state purchasing laws. Cardholders are expected to maintain receipts, safeguard the cards, and review monthly statements for accuracy.

Each state agency enrolled in the program assigns its own procurement card coordinator to communicate with OPTFM, perform reconciliations, and oversee the program at the agency level. The guidelines set out the responsibilities of the agency's procurement card coordinator, specifically noting that the coordinator is responsible for distributing pertinent information to the agency's staff, ensuring that cardholders have receipts and/or invoices for purchases, ensuring that cardholders are trained, and reviewing statements to assure that only proper purchases are made.

The guidelines require that each cardholder sign a statement verifying that he/she has read the minimum requirements for procurement card use, plus any additional requirements that have been established by the agency, and that he/she is personally liable for any purchase made that is not in compliance with the requirements. The cardholder has specific responsibilities set forth in the guidelines, including using the card only for proper purchases (as outlined in the guidelines manual), safeguarding the card, obtaining invoices or receipts for each purchase, and reviewing his/her monthly statement to ensure accuracy.

Have state agencies complied with procurement card guidelines?

To assess agencies' compliance with state procurement card guidelines, PEER reviewed utilization of the program at three state agencies.

In the three state agencies selected for a review of compliance with procurement card guidelines, PEER found sixty instances in which agencies did not comply with three specific OPTFM requirements for the procurement card program (i. e., itemized receipts, no payment of sales tax, and documentation). Collectively, the violations translate into a twenty-three percent rate of noncompliance for the transactions reviewed. PEER believes that the causes of noncompliance with procurement card guidelines in the three agencies reviewed may be traced back to deficiencies in training, monitoring, and auditing related to the procurement card program.

Selection of State Agencies for the Compliance Review

PEER used transaction data to select three state agencies (a small, medium, and large agency based on the amount of procurement card expenditures and frequency of card transactions in July 2015) to test for compliance with procurement card guidelines.

To select state agencies for a review of compliance with procurement card guidelines, PEER used transaction data from July 2015.⁴ Utilizing the dollar amount of expenditures and frequency of transactions, PEER plotted and graphed the transaction data. Three distinct categories of agencies emerged--small, medium, and large, as shown below.

Agency Category	Amount of Procurement Card Expenditures in July 2015	Number of Procurement Card Transactions in July 2015
Small	< or = \$50,000	< or = 250
Medium	\$50,001 - \$98,000	251-450
Large	> or = \$98,001	> or = 451

SOURCE: PEER analysis.

PEER then rank-ordered agencies within each category based on the average distance from the mean of each group on both variables. Based on the rankings, PEER selected one state agency from each category to conduct an in-depth review of its FY 2015 transaction data, as well as procurement card policies and procedures.

⁴The final selection of agencies to be reviewed did not include governing authorities, school districts, or organizations.

See additional information on PEER's methodology in the Appendix, page 30.

Noncompliance with Procurement Card Guidelines

In its review of the sample of FY 2015 transaction data for small, medium, and large agencies, PEER found sixty instances of noncompliance with OPTFM's requirements for itemized receipts, sales tax, and OPTFM-required forms. Additionally, within the three agencies reviewed, PEER found other instances of noncompliance, including lapses in agencies' security over procurement cards. These incidences of noncompliance demonstrate OPTFM's inability to ensure the accuracy and legitimacy of purchases made with procurement cards at the individual agency level.

Once the three agencies were selected for review using July 2015 data, PEER extracted all FY 2015 data for each agency and selected a random sample of cardholder transactions. After completing its initial review of FY 2015 transaction data for the three agencies, PEER discovered that the data supplied by UMB Bank contained significant flaws. (See page 18 regarding problems with the reliability of program data.) In response to this knowledge, PEER modified its sampling method and decreased the number of transactions reviewed at the medium and large agencies. PEER then selected purposive samples that included transactions that appeared suspicious because of the type of vendor, purchase amount, or structure of payment (e. g., possible split transaction).

Exhibit 4, page 12, shows the extent of the agencies' noncompliance with procurement card guidelines represented in the sample of FY 2015 transactions. The exhibit reports noncompliance in regard to:

- the presence of an itemized receipt;
- whether sales tax was paid; and,
- whether all required documentation (e. g., food forms, affidavits) was present.

In the three agencies reviewed, PEER found a collective total of sixty instances of noncompliance, a 23.1% rate of noncompliance for these three agencies for the 260 transactions reviewed. As an example of the types of noncompliance found in PEER's review, one Wal-Mart purchase of \$4,209.31 was accompanied by payment of \$179.11 in sales tax. Payment of sales tax is prohibited by the guidelines and the agency's records did not include documentation reporting that the tax had been refunded. In this instance, both the cardholder and reconciler failed to notice and correct the violation.

Exhibit 4: Transactions Reviewed from a July 2015 Sample at Three Agencies and Rates of Noncompliance with Three Selected OPTFM Procurement Card Policies

Agency	Number of Transactions Reviewed from a FY 2015 Sample	Instances of Noncompliance with OPTFM's Procurement Card Policies			
		No Itemized Receipt	Sales Tax Paid	Lack of Required Documentation	TOTAL
Small	136	5	9	7	21 (15.4%)
Medium	60	4	4	4	12 (20%)
Large	64	2	3	22	27 (42.2%)
TOTAL	260	11 (4.23%)	16 (6.15%)	33 (12.69%)	60 (23.1%)

SOURCE: PEER analysis.

While reviewing records and conducting interviews at the three selected agencies, PEER also identified other instances of noncompliance with OPTFM's procurement card guidelines as described below.

- *Card security*--Two of the three agencies PEER reviewed reported that they had cardholders that kept their procurement cards with them at all times in their personal wallets. The guidelines indicate that cards should not be taken on weekends or vacations and should be kept separate from personal credit cards. This precaution decreases the likelihood of the card being lost or misused for a personal purchase.

The medium agency reported that its cards were kept in accordance with the procurement card guidelines; however, staff members were unable to provide PEER with evidence that the cards were kept in a secure location (e. g., sign-in/sign-out sheets showing that the card was kept in a set location and properly accounted for).

- *Agencies' written policies and procedures*--The state procurement card guidelines mandate that agency program coordinators establish written internal procedures consistent with the state's guidelines. Two of the three agencies reviewed reported that they had written internal procedures; however, of those two agencies, only one had detailed internal procedures.

The medium agency had a sixteen-page procurement card standard operating procedures manual available both in print

and electronically. The manual detailed pertinent information that included actions to take for lost or stolen cards and how to complete a dispute form for incorrect charges made to the card. Conversely, the large agency's procurement card policies and procedures consisted of two paragraphs that were primarily targeted to the use of procurement cards managed through one of the agency's thirty departments.

It was common for the agencies reviewed to use institutional knowledge instead of objective, written criteria to verify whether a purchase had been made legitimately. For example, when asked why items from Sally's Beauty Supply had been purchased, one agency's reconciler stated that she knows that the agency's youth program typically purchases items of that nature. The reconciler reported that she does not have documentation that supports the need to purchase items at Sally's; she "just knows" from working at the agency so long that the purchase was legitimate.

- *Information on sign-in/sign-out logs for departmental cards--*At the large agency, the sign-in/sign-out logs related to departmental procurement cards were not accurately maintained. The logs were sometimes incomplete, lacking pertinent information such as the date and time the card was signed in and out. In other instances, one employee signed the card out and a different employee signed the card back in.

The procurement guidelines were put in place to ensure that the cards are appropriately used and secured. Noncompliance increases opportunities for state funds to be abused, misused, or wasted. Abuse, misuse, or waste mitigate and diminish the potential benefits the state receives for having a procurement card program.

Potential Causes of Agencies' Noncompliance with Procurement Card Guidelines

PEER believes that the causes of noncompliance with procurement card guidelines in the three agencies reviewed may be traced back to deficiencies in training, monitoring, and auditing related to the procurement card program.

No Mandatory Formal Training for Procurement Card Coordinators or Cardholders

OPTFM offers procurement card training at specialized events and meetings and upon request, but does not require formal procurement card training for all procurement card coordinators, cardholders, or approving officials.

The purpose of training is to ensure that participants, especially cardholders and approving officials (i. e., those responsible for signing off on the purchases of other employees), are informed of their roles and responsibilities and how to implement the program effectively. Cardholders, approving officials, and other

relevant purchasing staff should receive comprehensive training before receiving procurement cards.

PEER found the following regarding training in the three agencies reviewed:

- *Training of Cardholders*--Of the three agencies PEER reviewed, only one agency conducted formal, mandatory training with cardholders and encouraged approving officials to attend. The other two agencies reported that they informally discussed program “dos and don’ts” with individual cardholders.

The large agency reported that employees using departmental cards maintained by its administrative office were not required to receive training. The rationale provided for the training exemption was that purchases for departmental cards had to be pre-approved and that any unauthorized purchases would be detected during the approval process or by the cardholders’ approving official.

Only the medium agency required formal refresher training with cardholders and encouraged approving officials to attend. Procurement card best practices suggest that procurement card training should be revisited at minimum every three years.

- *Training of Program Coordinators*--The program coordinator is typically responsible for training cardholders and keeping them abreast of changes to the program and procurement laws. Two of the three agencies reviewed had coordinators that were either not formally trained by OPTFM or had not received refresher training. The large agency reported that its procurement card coordinator had not had any training from OPTFM. The medium agency indicated that its procurement card coordinator had not had training since 2010. At the small agency, the procurement card coordinator position was vacant for almost a year. During that time, the procurement card program was a collateral duty of one of the agency’s higher-level administrators, who had not had formal training on the program.
- *Training of Agencies’ Approving Officials*--During the review, PEER found that a significant amount of purchase decision-making power was entrusted to the respective agencies’ departmental supervisors. In some instances, supervisors were responsible for pre-approving purchases⁵ and then reconciling those purchases before the purchases were submitted to the procurement card coordinator. The small agency completely excluded approving officials from training. The medium agency made training optional for such officials. The large agency included general procurement card training as a part of the approving officials’ agency-wide rotation in which such officials were responsible for learning about the function of each of the agency’s thirty departments.

⁵Requiring pre-approval of procurement card purchases is left to the discretion of the agency. All three of the agencies PEER reviewed required pre-approval, either verbal or written.

OPTFM does not require formal mandatory training for coordinators, approving officials, or cardholders. OPTFM offers procurement card training during Certified Mississippi Purchasing Agent (CMPA) and Mississippi Association of Governmental Purchasing and Property Agent (MAGPPA) training sessions. CMPA and MAGPPA are two specialized purchasing meetings that provide information on a myriad of purchasing topics. Procurement card coordinators and cardholders might attend these meetings, but are not required to do so. OPTFM reported that it sends monthly purchasing notes outlining changes and reminders regarding the program, but not all procurement card coordinators receive this information (e. g., if they did not sign up for the monthly purchasing notes in CMPA class or via email).

OPTFM makes staff available to conduct procurement card training at individual agencies if the agencies initiate the request for training. OPTFM has posted PowerPoint presentations about the procurement card program on its website for participants who take the initiative to view them. OPTFM reported that training usually takes place at the agency level.

PEER believes that the lack of mandatory formal training is caused by the amount of discretion that OPTFM gives to agencies to create their own internal policies and procedures for the procurement card program. Agencies are not required to report their policies and procedures to OPTFM nor does OPTFM review agencies' policies and procedures. For example, the guidelines say that program coordinators should conduct training sessions to provide individual employees with information about the procurement card and state purchasing laws. PEER observed that two agencies interpreted that to mean making a phone call to cardholders and/or providing a general overview of "dos and don'ts." Conversely, the other agency interpreted that guideline to mean holding a formal, mandatory training that attempts to engage all employees involved in the procurement card process. A lack of formal training could result in increased purchase errors, procurement card regulation violations, incidences of abuse and fraud, or improper reconciliation techniques.

Procurement card programs in Alabama, Tennessee, and Louisiana require program participants to be formally trained before receiving a card, whether the training is delivered online or face-to-face. According to a telephone interview with Alabama's procurement card administrator, a representative from its contracting bank personally comes in and trains agency program coordinators face-to-face. Tennessee and Louisiana require program coordinators and cardholders to take an online exam and pass with a certain score before receiving a procurement card. Alabama is in the process of establishing a formal examination for procurement card program participants.

Lack of Comprehensive Program Monitoring by OPTFM or the Agencies Reviewed

Neither OPTFM nor two of the three agencies reviewed monitored monthly or yearly activity reports of procurement card transactions for abuse in a comprehensive manner. Agencies' approving officials were responsible for a large number of cardholders, which means that they had little time to conduct a thorough review of each purchase.

No Review of Comprehensive Activity Reports

Neither OPTFM nor two of the three agencies reviewed monitored comprehensive monthly or yearly activity reports of procurement card transactions for possible incidents of abuse.

According to Appendix B of OMB Circular A-123, the Government Charge Card Abuse Prevention Act of 2012, and *Managing your Program: Purchase Card Best Practices* by the General Services Administration, the activity within the procurement card program should be monitored regularly. Program activity should be monitored for abuse, misuse, and waste through comprehensive reviews of reports and audits.

OPTFM reported that it does not review reports regarding spending or potential abuse. OPTFM staff stated that they can view up to one full month of transactions at a time from an administrative online banking view provided by UMB. According to the Procurement Card Administrator, the administrative view is used to support the day-to-day management of the program, not to monitor program activity holistically. Instead, OPTFM reported that it blocks certain merchant category codes that cause the card to be declined when used at vendors that are likely to sell prohibited items (i. e., alcohol, jewelry) to prevent misuse of the procurement card. OPTFM also reported that it uses "smart chip" cards (with fraud prevention technology) and the mandatory signing of the cardholder agreement. These methods might be effective, but cannot prevent every potential problem.

As stated previously, the OPTFM Procurement Card Administrator's day-to-day management consists of assisting cardholders with questions and concerns related to the card and authorizing exceptions (i. e., overrides) for purchases. Program participants contact the procurement card office regularly to have blocked merchant codes overridden.

Of the three agencies PEER reviewed, only the large agency reported that it reviews spending reports to monitor the items that are being purchased. The large agency also reported that it only reviews purchases one month at a time. Reviewing purchase activity in one-month increments limits the conclusions agencies can draw about purchasing activity and the likelihood that abuse, misuse, or waste will be detected. The other two agencies reported that they did not monitor program activity for the purposes mentioned above.

By not monitoring purchasing decisions on a long-term basis, OPTFM and the participating agencies also miss opportunities to

identify categories of purchases that could be made by other means to obtain lower prices or use the procurement card as leverage to receive better deals and special offers (i. e., strategic sourcing). As an example of the amount of savings that could be yielded through strategic sourcing, in a 2014 audit of the Smithsonian Institution, the Inspector General reported that approximately \$251,000 could have been saved on office supplies that were purchased from October 2011 through December 2012 if strategic sourcing strategies had been implemented.

Inappropriate Span of Control: Ratio of Approving Officials to Cardholders

At two of the three agencies PEER reviewed, approving officials were responsible for a large number of cardholders, which means the approving officials were less likely to have adequate time to conduct a thorough review of each purchase for legitimacy.

In the context of this review of the procurement card program, *span of control* refers to the number of cardholders an approving official is responsible for monitoring. The *Department of Defense Charge Card Guidebook* notes that approving officials should not be responsible for more than seven cardholders. Limiting the number of cardholders an approving official is responsible for gives the official adequate time to conduct a meaningful review of the purchases being requested and made. When evaluating span of control, the Government Accountability Office suggests considering the number of cardholders assigned to the official, the number and complexity of transactions being reviewed during each period, and the demands of other responsibilities assigned to the approving official.

PEER found that the approving officials at two of the three agencies reviewed were responsible for more than the suggested amount of cardholders and large amounts of transaction data. At the small agency PEER reviewed, the approving official was responsible for pre-approving purchases for nine of the fourteen cardholders. At the largest agency, one approving official was responsible for eleven departmental cards that could be used by multiple employees within each of the respective departments. PEER observed at both agencies that the transaction data of one cardholder often could exceed more than two full pages. During their review of transactions, the approving officials have to take each individual transaction, locate it on the monthly UMB Bank statement, match the transaction to supporting documentation (e. g., itemized receipts, food forms) provided by the cardholder, and complete any additional internal documentation that may be required by the agency. Additionally, the approving officials were also required to sign detailed, itemized requisitions for purchases made by their employees. At all of the three agencies, approving officials had additional job responsibilities of high priority.

PEER believes that the inappropriate span of control of approving officials to cardholders is caused by the amount of discretion agencies are given to create their own internal policies and procedures for the program. OPTFM's guidelines or audits do not

address span of control. Being responsible for too many cardholders decreases the likelihood that purchases are thoroughly reviewed for legitimacy, which decreases the likelihood that abuse, misuse, or waste will be identified.

Unreliable Data Provided by the Contractor

The transaction data provided to PEER by the contractor for the procurement card, UMB Bank, was not reliable. PEER believes that at present, OPTFM cannot effectively use transaction data to monitor the procurement card program.

According to the U. S. Government Accountability Office, computer-processed data that is reliable encompasses completeness and accuracy. Completeness refers to the extent that relevant records are present and that the fields in each record are populated appropriately. Accuracy refers to the extent that recorded data reflects the actual underlying information.

During its review of the three agencies, PEER found that the transaction data provided by OPTFM from UMB Bank was not reliable, as described below.

- *The transaction data for the medium agency contained transactions of employees that worked for state agencies other than the agency PEER had selected for review.* PEER discovered data for at least five employees that were not employed by the agency under review.

The Procurement Card Administrator reported that she corrects these data errors as they are found through her daily interactions with the program and cardholders. The Procurement Card Administrator reported to PEER that neither OPTFM nor UMB Bank has completed a major system review to ensure that all errors are removed and rectified. Neither OPTFM nor UMB Bank was able to inform PEER of the extent of the errors present in the transaction data. The administrator reported to PEER that although the administrative view screen might contain errors, the purchases made by cardholders are still charged to the appropriate agencies.

OPTFM reported that UMB Bank had changed internal operating systems around January 2015. During the change, cardholders were incorrectly assigned to agencies in the bank's administrative database. PEER contacted the Vice-President of UMB Bank on August 28 and September 10, 2015, for an explanation of why the data provided contained significant flaws. As of October 1, 2015, UMB Bank had not provided a formal explanation.

- *The summary of the state's spending data for January 2010 through July 2015 included pages of spending data for agencies located in Kansas.* Although PEER did not detect that the Kansas data was included in the spending values for Mississippi's program, inclusion of the erroneous data signifies minimal attention to detail and a lack of quality assurance.

- *PEER compared its own internal records of procurement card spending with UMB's records and found that the data could not be corroborated. PEER's internal records for its CY 2013 procurement card spending differed from UMB's records by several hundred dollars.*

Unreliable data reduces the likelihood that program monitoring can be effectively implemented and that questions related to the performance of the procurement card program can be accurately answered. Further, OPTFM lacks access to reliable data to review for agencies' compliance with procurement card guidelines.

Without adequate monitoring from OPTFM or individual agencies, the benefits of the procurement card program cannot be fully realized.

Confusion Surrounding Authority to Audit and Poor Auditing Practices and Methods

Although the procurement card guidelines specifically state that OPTFM will conduct audits of the procurement card program, OPTFM staff lack clarity concerning their authority to audit participants in the program. Also, PEER found that OPTFM's auditing practices were not scientifically supported. PEER notes that effective auditing alternatives are available for agencies with limited personnel and fiscal resources.

Lack of Clarity Surrounding Authority to Audit

OPTFM staff were unclear about their auditing authority.

Although the procurement card guidelines specifically state that the OPTFM will conduct audits of the procurement card program, based on PEER's interviews with OPTFM procurement card staff, the staff members are unclear about their authority in regard to auditing the program. According to the Director of OPTFM, the office does not have the authority to audit agencies, only "review" them and "reviewing" is no longer the primary role of the Procurement Card Administrator.

PEER reviewed summaries of investigations of the procurement card program conducted by OPTFM. In those summaries, the word "audit" was used to describe their investigations and findings. Further, based on the guidelines and contractual agreement with UMB, OPTFM has the authority to revoke procurement cards and discontinue services, which would be the desired outcome if inappropriate uses of the cards were discovered during a "review."

Weak Auditing Methodology

OPTFM's auditing practices were not scientifically supported.

When "reviews" are conducted, the Procurement Card Administrator performs the investigation. According to OPTFM, the first reviews of the procurement card program began in 2013. The review process is as follows:

- The Procurement Card Administrator requests the agency's procurement card statements and supporting documentation for the previous calendar year.
- The Procurement Card Administrator reviews the transaction data and notes instances in which policies in the procurement card guidelines have been violated.
- OPTFM crafts a letter to the agency detailing the violations that were found. Agencies are given two weeks to respond to the violations identified by OPTFM.

According to OPTFM, common agency responses to the reviews include, "We did not know this was an error and we cannot correct this error [because the error occurred over one year ago]." Based on PEER's review of the summaries provided by OPTFM, its standard response to agencies was, "Based on the responses provided by your agency, OPTFM has determined that no further action is required." It appeared that regardless of the findings from the review, no consequences or follow-up reviews were employed by OPTFM to ensure that the violations were corrected.

The absence of consequences for agencies that violate procurement card guidelines decreases the likelihood that agencies will diligently comply with policies and procedures set forth by the guidelines. According to OPTFM, its reviews exclude an assessment of the agencies' internal procurement card policies and procedures, which would enable weak internal controls, such as an inappropriate span of control, to go undetected. At the individual agency level, PEER found that only one of the three agencies reviewed reported that it conducts regular, internal audits. The other two agencies either did not conduct internal audits or had conducted only one audit within the past ten years.

Also, OPTFM used and continues to use non-statistical sampling methods to review participants' use of the procurement card. Agencies are selected based on their distance from OPTFM in Jackson. OPTFM reported that reviews had not been conducted beyond Pearl, the city bordering Jackson on the eastern side. Using non-statistical sampling instead of statistically valid random sampling means that agencies participating in the procurement card program do not all have the same opportunity to be selected for review.

Louisiana uses five procurement staff members, known as the compliance review team, to audit that state's procurement card program. The compliance team reviews agencies consistently throughout the year using a prescribed formula to randomly select different agencies each month.

If resources (e. g., personnel and finances) are unavailable to review the procurement card program using a scientifically supported sampling method, data analysis techniques should be used to target potentially inappropriate use of procurement cards by state agencies.

Alternative Auditing Practices

Effective auditing alternatives are available for agencies with limited personnel and fiscal resources.

According to an audit conducted by Maryland's Office of Legislative Audits, procurement card transactions can be evaluated holistically by using simple computer-matching processes to determine potentially inappropriate use of procurement cards. Examples of these types of transactions could include:

- rejected procurement card transactions, the number of times rejections occurred for each cardholder, and the nature of the establishments where the purchases were attempted;
- high-dollar volume of purchases by one cardholder from an obscure vendor; or,
- purchases made that might be structured to avoid transaction limits.

Data related to rejections and high-dollar purchases could help the oversight agency identify potential efforts to misuse the card without physically going to multiple agencies. The last type of transaction data enables reviewers to evaluate procurement card transactions for split purchases, which would violate Mississippi's \$5,000 single transaction limit.

PEER found that OPTFM's auditing practices were not scientifically supported and not utilized regularly. Without using auditing techniques that produce representative samples of program participants, incidences of abuse, waste, or fraud could go significantly underreported.

Additional Problems with the Procurement Card Program

Under certain circumstances, OPTFM grants agencies exceptions to guidelines (e. g., allowing cardholders to make purchases from blocked or prohibited vendors). PEER determined that in some cases, exceptions submitted to OPTFM lacked detailed justifications and evidence of the procurement card coordinator's approval. Further, OPTFM failed to manage and track the requests effectively. Additionally, OPTFM's procurement card policies related to backordered items could present

challenges for participants that would negatively impact compliance, program spending, or rebate proceeds.

OPTFM Lacks a Formal Process for Managing Exceptions and Overrides

OPTFM does not have a formal process to track or manage agencies' requests for exceptions and overrides in the use of procurement cards.

The State Procurement Card Guidelines state that exceptions (i. e., uses of the procurement card outside of the policies set forth by the guidelines) should be submitted to the Procurement Card Administrator in writing but that in the event of an emergency, exceptions can be provided over the phone.

OPTFM does not have a formal process to manage and monitor participants' requests for exceptions (i. e., overrides). Although the guidelines state that requests for an exception should be submitted in writing, the guidelines do not specify what information should be provided by agencies or how the exceptions will be tracked and managed by OPTFM.

PEER reviewed email exchanges (provided by OPTFM) between the Procurement Card Administrator and program participants regarding overrides from the months of June, July, and August 2015. In some instances, the email request simply listed the name of the cardholder needing the override and the vendor, without a detailed justification for the purchase.

The guidelines fail to identify which employees are qualified to make exception requests (i. e., the coordinator only). This allows employees who might not have the approval of their supervisor and the coordinator to receive exceptions. PEER discovered an example of this when reviewing the small sample of exception email exchanges. One employee who was not the agency's primary or secondary program coordinator requested overrides at least ten times in the sample of emails provided. The email did not include an approval signature or statement from the agency's designated coordinator. OPTFM reported that it does not track the frequency of overrides and that overrides are granted over the phone, sometimes at the point of sale.

The high volume of requests for exceptions received, both electronically and via telephone, by the Procurement Card Administrator decreases the likelihood that each request is thoroughly investigated and evaluated. The high volume is coupled with the frequency of "justifications" that lack pertinent details, such as the reason the exception is needed. Failure to track requests diminishes OPTFM's ability to monitor exception trends that could inform management changes to increase efficiency and productivity. For example, if multiple agencies consistently request exceptions for the same vendor, OPTFM might consider encouraging the agencies to find an alternative vendor or removing the vendor

from the blocked merchant code list, if warranted.⁶ Instead, the program's sole staff member repeatedly spends time that could be spent on other important duties granting exceptions, in some cases to the same agency and or employee. Each of these factors increases the procurement card program's risk for abuse, misuse, or waste, which translates into the mismanagement of scarce state funds.

Louisiana's procurement card program had about 30,000 cards in circulation and over \$210 million in spending in FY 2014. In Louisiana, procurement card program participants submit written requests for exceptions or overrides to the oversight agency. Participants are required to provide a statement of justification for the exemption, the relevant procurement card policy that prohibits the purchase, and the agency program coordinator's signature. The oversight agency maintains files of approved exceptions and refers to the files before granting overrides.

Confusion Over Back Orders and Online Purchases

OPTFM's procurement card guidelines do not distinguish between purchasing on back order, which is prohibited, and making online purchases, thus creating confusion for cardholders regarding whether they can use the card for certain purchases.

Successful programs of any sort generally have clear expectations and guidelines for program participants. As programs continue to expand and change, expectations and guidelines should be revisited to ensure that both remain relevant and feasible.

As noted on page 8, the procurement card guidelines prohibit the purchase of backordered items, probably because purchasing items that are not available until another date means that funds are leaving agencies without the items being received or without infallible proof that the items will be received.

The guidelines state that "the card may be used for purchases in person, over the phone, via fax, on the internet, or by mail." With the growing use of technology (e. g., online ordering), distinguishing between backorders and non-backorders becomes increasingly challenging. For some procurement card program participants, all online orders could be considered "backorder" because typically, purchases made online are not available until a later date. In some instances, the purchaser may be unaware that the item is on "backorder" until after the payment has been made. This confusion could discourage some agencies from engaging in online ordering, which negatively impacts program spending and rebate proceeds. Conversely, agencies could be violating the policy unintentionally or

⁶Some vendors are added to the blocked merchant code category on the basis of prohibited items or services they sell, even if the procurement card user is not attempting to make a prohibited purchase. For example, according to documentation provided by OPTFM, lodging is a prohibited merchant category. However, program participants are allowed to use their procurement cards at lodging vendors to pay for visitors of the state (e. g., guests, speakers, job applicants) and to pay for meeting and conference rooms at hotels.

struggling to maintain compliance. The purchaser would then have to complete the entire process over again, decreasing efficiency and cost savings.

From an auditing perspective, the ambiguity surrounding this policy makes determining compliance difficult. During its review of the three state agencies, PEER observed an invoice at the small agency that indicated that the item purchased was on back order. When questioned, the coordinator of the small agency reported that the item was not paid for until the item in question was shipped. At the large agency, PEER reviewed transactions that were paid on June 23 and not received until July 7. The documentation provided was dated July 8, one day after the items were received. The documentation failed to provide adequate information concerning whether the items were backordered. Without clear guidelines and policies from OPTFM, PEER was unable to determine whether these purchases were in compliance with the procurement card guidelines. Further, PEER reviewed the summary of an internal review of the Department of Finance and Administration (DFA) conducted by OPTFM staff. OPTFM reviewers discovered that DFA employees had purchased items on backorder. The response indicated that the employees were re-educated about relevant policies, further indicating a lack of understanding concerning the backorder policy.

Summary Regarding Agencies' Compliance with Guidelines

OPTFM's management of the procurement card program is more reactive than proactive. Large amounts of time are spent on the daily management of merchant category codes and other cardholder problems rather than on monitoring the overall performance of the procurement card program. Without using auditing techniques that produce representative samples of program participants, incidences of abuse, waste, and fraud could go significantly underreported. Furthermore, failing to monitor program spending and activity sufficiently reduces some of the potential financial benefits gained from using procurement cards (e.g., lower pricing or special discounts and offers).

OPTFM relies heavily on its contractor, UMB Bank, and program participants to manage and oversee the procurement card program. Based on PEER's conclusions from conducting this review, in order to ensure compliance with the guidelines and proper use of the procurement card, OPTFM must assume greater responsibility for the management and oversight of the program.

Has the state received the full benefit of the rebates from the procurement card program?

State law lacks provisions that provide guidance to OPTFM regarding state agencies' accrual of, access to, and use of procurement card rebates. As a result, some agencies are not aware that they have earned a monetary rebate. OPTFM has no authoritative source of guidance upon which it can base advice to agencies. Rebates are an indisputable benefit of the program, yet little attention has been paid by the state to ensure that this benefit is distributed and accounted for in a transparent manner.

In reviewing the use of procurement cards, PEER learned that the procurement card guidelines do not address the topic of rebates from UMB Bank (e. g., how the monies are distributed, to whom, and in what circumstances).

OPTFM staff reported that as far as they know, the only criterion used to determine whether an agency will receive a rebate is the agency's legislative authority to receive and expend the rebates. Generally, agencies that receive special funds such as private grants have a provision in their enabling legislation that allows them to receive grants and gifts. Additionally, such agencies often seek what is called *escalation authority* for inclusion of these funds in their appropriations bill. Escalation authority allows an agency receiving gifts or grants not quantifiable at the time of appropriation to expend these funds after seeking permission from the Department of Finance and Administration.

OPTFM supplied a list of agencies that requested escalation authority for FY 2016 to be able to receive their rebates. OPTFM then stated that receiving escalation authority does not necessarily guarantee that the agency will receive their rebate monies. When PEER inquired as to why certain agencies would request escalation authority if they did not have the authority to expend funds, OPTFM reported that the agencies would do so to "get authority to receive and expend rebates." OPTFM's response suggests that its staff is unclear about the relationship between escalation authority and receiving rebates. This further complicates the task of identifying the appropriate manner for procurement card rebates to be managed and disbursed. Additionally, PEER asked OPTFM how rebates were managed and distributed, but OPTFM did not provide an explanation of why certain agencies received their rebates directly and others had theirs deposited into the general fund.

Lack of Clear Statutory Guidance

MISS. CODE ANN. Section 31-7-23 (1972) governs the accrual and use of rebates related to articles and materials but excludes rebates generated through the procurement card program, a vendor service. Further, this section fails to provide

guidance on how agencies should be notified of their accrual of rebates, specifically those rebates accrued through the procurement card program.

The source of the confusion regarding rebates is most likely the lack of a clear standard in state law governing the accrual, receipt, and use of rebates.

Generally, MISS. CODE ANN. Section 31-7-23 (1972) governs the use and receipt of rebates for agencies purchasing commodities. This section provides:

Any rebates, refunds, coupons, merit points, gratuities or any article of value tendered or received by any agency or governing authority from any vendor of material, supplies, equipment or other articles shall inure to the benefit of the agency or governing authority making the purchase. The agency or governing authority may, in accordance with its best interest, either take delivery of the article of value tendered and use the same or convert it to cash by selling it for its fair and reasonable value, making use of the proceeds from such sale for the exclusive benefit of the agency or governing authority.

PEER notes that this section:

- speaks to articles and material, but not to rebates or other inducements provided by a vendor of services; and,
- is silent on how agencies would be notified of their accrual of rebates in the situation of dealing with procurement card rebates.

Lack of Training and Information on Rebates

Without adequate training and information, agencies that are accruing rebates are unaware of how to receive their rebates. There are no authoritative statutes concerning education related to rebates received through the procurement card program and OPTFM does not provide agencies with guidance on how to begin receiving rebates if they are not doing so already.

In general, this condition leaves the OPTFM without an authoritative source of guidance to extend to agencies that earn rebates and want to learn how to begin receiving them. An example of this problem involves one agency PEER discovered that was not aware of the possibility of receiving a rebate or that they could be entitled to one. OPTFM indicated that agencies are not informed that their rebate has been deposited in the general fund. OPTFM reported that it does not provide agencies with guidance on how to begin receiving rebates if they are not receiving rebates already.

Rebates are indisputably a tangible benefit of having a procurement card program. While procurement cards ensure that items are purchased in a more efficient manner, the benefits of the actual process (e. g., cost savings and efficiency) vary. Depending on the policies of the sponsoring institution, individual agency policies and structure, and the type of card (e. g., individual or departmental) the procurement card process could involve many of the procedures that the traditional process (e. g., requisition and multiple approval signatures) encompasses, thus mitigating the benefits. It appears that OPTFM has paid little attention to ensuring that this benefit is distributed and properly accounted for.

Recommendations

1. OPTFM should mandate testing and training (either face-to-face or online) for program coordinators, cardholders, and approving officials to participate in the procurement card program. Training material should be tailored to the specific roles involved in the procurement card process (i.e., coordinators, approving officials, and cardholders). For example, training for a reconciler might include a hands-on review about how statements should be reviewed each month. OPTFM should develop written guidelines that address what actions enrollees should take if they do not have a designated program coordinator for an extended period.
2. OPTFM should:
 - delegate day-to day management of the program (i. e., granting exceptions) to a UMB bank representative;
 - request support from the bank (e. g., auditing software, quarterly reports with updates of relevant program data) to review comprehensive reports on program activity;
 - encourage or require agencies to monitor program activity holistically and consistently;
 - employ scientifically supported auditing and sampling methods, whether those methods be utilized electronically or in person;
 - create internal systems to manage and track overrides (exceptions) and revise procurement card guidelines to distinguish clearly between purchasing on back order and online purchasing;
 - if OPTFM's resources (e. g., time, staff, and finances) are not sufficient to oversee all 28,000 plus cards, reduce the number of participants in the program to reflect the amount of resources OPTFM has available to oversee the program;
 - cease accepting new cardholders into the program until the concerns about oversight and internal controls are addressed;
 - require UMB to perform a full eradication of all errors related to program data and increase the reliability of program data; and,

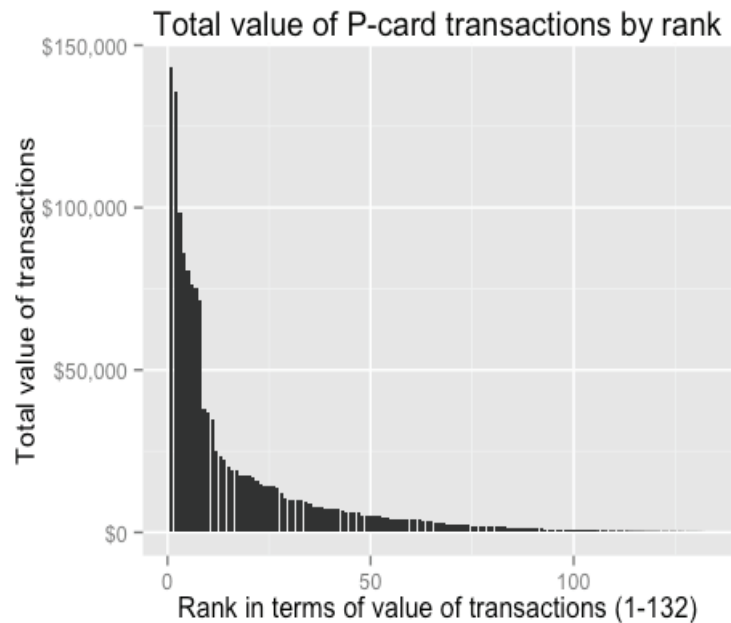
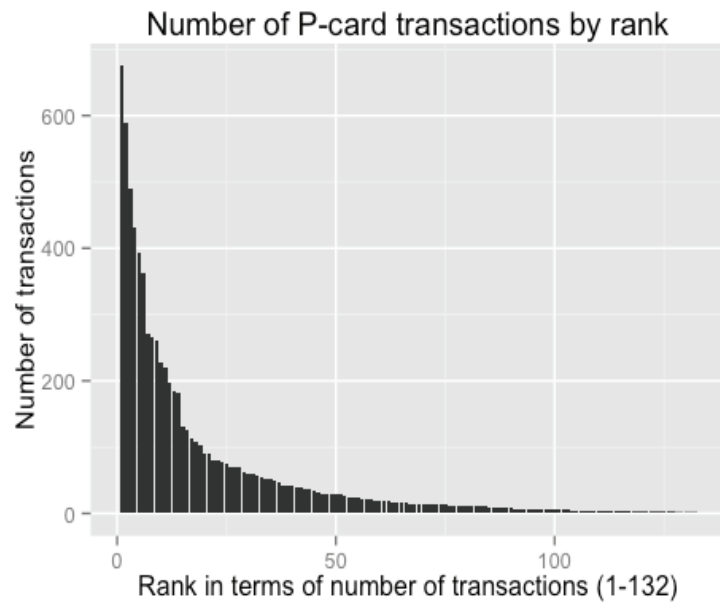
- if UMB cannot meet needs of OPTFM to assist in overseeing the program (e. g., take over daily management of the program, provide spending reports regularly, expand their administrative view to include more than one month), OPTFM should pursue another financial institution to sponsor the program.
3. The Legislature should amend MISS. CODE ANN. Section 31-7-23 (1972) to include a provision specifically related to rebates generated through the state procurement card program. The provision should include detailed, objective criteria outlining how rebates should be distributed and appropriated. Further, OPTFM should revise the *State Procurement Card Guidelines* to include a detailed description of rebates (e. g., which agencies can receive them, in what instances, how to obtain escalation authority) in an effort to inform participants of benefits that could potentially be due to them.

OPTFM's vendor contract for procurement card services should outline the rebate agreement.

Appendix: Method of Selecting Agencies for Compliance Review

The population consisted of a list of organizations using purchasing cards, along with facts about their card use behavior for July 2015. The goal was to select three organizations representing roughly “high,” “medium,” and “low” levels of card use.

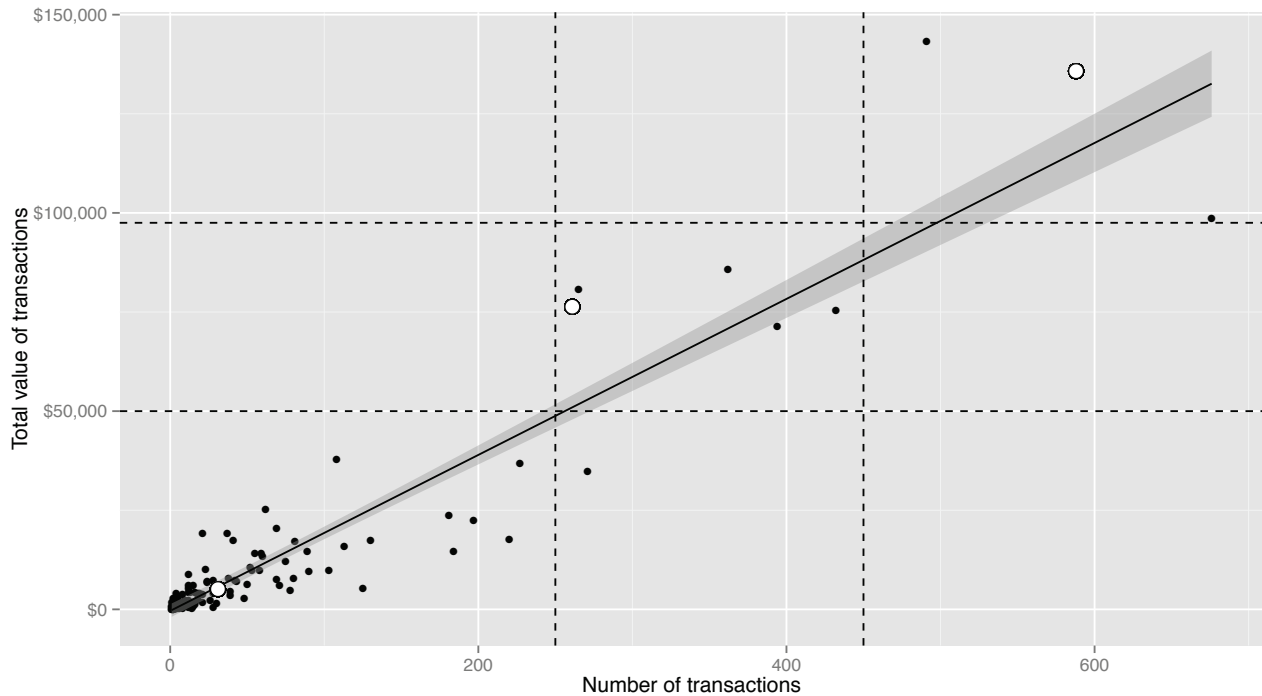
Of the variables available, the most interesting were number of transactions and total value of transactions. Exploratory analysis revealed that both of these quantities followed an approximate power law distribution in the population and furthermore that they were highly correlated with one another. Rank-ordered graphs of both variables show this distribution quite clearly.



The above graphs not only demonstrate the distribution in the population of interesting traits, they also suggest methods to use for selecting samples. PEER would not, for instance, want to select three members at the median and 75th and 25th quartiles; doing so would guarantee that we missed sampling any of the high-expenditure, high-transaction-volume members of the population. The total value graph, however, shows areas where the smoothness of the curve is broken; note the large vertical flat areas starting at around \$100,000 and somewhat below \$50,000. This discontinuity suggests that there are subgroups among the population. A graphic examination of the linear relationship between number and value of transactions makes the point even more clear.

Population groups by number and amount of P-card purchases

chosen samples indicated by larger white circles



The dotted lines in the graph above show that we can usefully divide the population into three distinct clumps--one with spending over \$98,000 and above 490 transactions, one with spending between \$50,000 and \$98,000 and between 250 and 450 transactions, and one with below \$50,000 in spending and below 250 transactions. There is only a single entity falling outside of the three diagonally arranged boxes (lower left to upper right) thus generated on the graph.

This single entity seemed unlikely to generate important bias, so for present purposes we treated the three groups as defined by transaction value alone, with the borders at \$98,000 and \$50,000. Having defined the groups, we took standardized measures of

distance from the new group means on both variables of interest; we then defined the most representative member of the group as the one with the lowest sum of standardized differences from group means on both variables of interest. The group members with the lowest sums on both variables are indicated by the larger white circles on the above graph.

SOURCE: PEER analysis.



STATE OF MISSISSIPPI
GOVERNOR PHIL BRYANT

DEPARTMENT OF FINANCE AND ADMINISTRATION
KEVIN J. UPCHURCH
EXECUTIVE DIRECTOR



December 7, 2015

James A. Barber, Executive Director
PEER Committee
501 North West Street
Woolfolk Building, 3rd Floor
Jackson, Mississippi 39201

Dear Mr. Barber:

Thank you for the opportunity to review the draft PEER Report entitled *A Review of State Agencies' Use of Procurement Cards*. In 2002, the Department of Finance and Administration (DFA) Office of Purchasing and Travel was authorized by the Mississippi Legislature to adopt purchasing regulations governing the use of procurement cards. In the ensuing years, DFA has worked diligently with several card vendors to develop and implement the program and is currently under contract with UMB Bank (UMB) as the result of a competitive process begun in 2009. Since 2009, the program has expanded to include travel cards and Education Enhancement Fund cards, increasing the number of cards in circulation from approximately 2,000 to now over 28,000. DFA intends to begin another competitive procurement process for a card vendor in early 2016.

The rapid growth of the program demonstrates the value of this service to its end users. Thousands of employees and educators across the state depend on the cards to effectuate efficient purchasing in government. We appreciate PEER's insight into areas in which the program may be improved upon, including suggestions regarding day-to-day management of the program and techniques for reviewing use of the program to ensure compliance with program guidelines. We look forward to discussing the recommendations in the report with UMB and we are confident the bank will assist us in achieving our goals.

We wish to thank the PEER Committee and its invaluable staff for their professionalism in preparing this report.

Sincerely,

A handwritten signature in black ink that reads "Kevin J. Upchurch".

Kevin J. Upchurch

PEER Committee Staff

James A. Barber, Executive Director

Legal and Reapportionment

Ted Booth, General Counsel
Ben Collins
Barton Norfleet

Administration

Barbara Hamilton
Larry Landrum
Rosana Slawson
Gale Taylor

Quality Assurance and Reporting

Ava Welborn, Director
Tracy Bobo

Performance Evaluation

Lonnie Edgar, Team Coordinator
David Pray, Team Coordinator
Jennifer Sebren, Team Coordinator
Kim Cummins
Matthew Dry
Matthew Holmes
Michael Surratt
Jenell Ward
Jade Watters
Sarah Williamson
Julie Winkeljohn
Ray Wright

Performance Accountability

Linda Triplett, Director
Kirby Arinder
Alicia Davis
Anna Johnson
Jessica Kelly
MeriClare Steelman