SPECIAL REVIEW –

SMALL PURCHASE

CHARGE CARD PROGRAM

FOLLOW-UP REPORT

APRIL 2, 2004

Auditor of Public Accounts

COMMONWEALTH OF VIRGINIA

EXECUTIVE SUMMARY

The Department of Accounts (Accounts) implemented the Small Purchase Charge Card (Purchase Card) program in 1996. This program provides an efficient and effective means to streamline the Commonwealth's purchasing process.

In performing our review, we found that Accounts has taken positive steps to improve controls over the purchase card program in response to our 2000 review of the program. In addition, Accounts has worked with the contractor, American Express (Amex), to streamline the monthly data exchange process. Currently, Amex provides automated billing statements and is working towards providing automated reconciliation and allocation of charges. Automating the reconciliation and charge allocation process will significantly increase program efficiencies.

In performing our review of Purchase Card program, we have identified several key issues.

- Mandated use of the Commonwealth's online purchasing system (eVA) has negated certain Purchase Card program efficiencies. As a result, some agencies are refusing to process Purchase Card transactions through eVA or choosing to purchase through eVA using means other than the Purchase Card.

  In order to keep use of the Purchase Card program from decreasing and to preserve the original intentions of the program to reduce administrative time and paperwork, Accounts should work with the Department of General Services to consider the cost/benefit of requiring Purchase Card purchases to be executed through eVA and explore other ways in which to capture Purchase Card data in eVA's data warehouse for analysis and reporting purposes.

- Accounts should require the contractor to maximize purchasing details and expedite the availability of software that will allow agencies to automate their reconciliation and allocation processes. These enhancements would streamline the reconciliations and allocation processes and would enhance monitoring and review of charge card purchases.

- Accounts should require the charge card contractor to comply with the contract and not process transactions for cancelled or expired cards or issue cards with variances and limits greater than the statewide allowed maximums.

- Accounts should consider implementing policies and procedures to mitigate inherent risks of the Purchase Card Program. However, Accounts must determine whether the benefits of implementing such policies and procedures outweigh the costs involved.

- Agency administrators should follow established policies and procedures and require cardholder supervisors to perform initial and annual cardholder analysis in writing for the Administrator to review and keep on file. Administrators should adjust limits and cancel cards based on results. An analysis is the only way to determine if cardholders have the appropriate limits or if a need still exists for a card.

- T A B L E O F C O N T E N T S -

Transmittal Letter	1-2
Introduction	3
Effect of Mandated Use of eVA	3-4
Automating Reconciliation and Charge Allocation	5
Purchase Card Activity	5-6
Policies and Procedures	6-7
Card Issuance and Cancellation	6-7
Cardholder Usage	7
Supervisor Review	7
Payment	7-8
Training	8
Inherent Risks	8-9
Statistics and Results	9
Inadequate Annual Analysis	10
Inadequate Review of Gold Cardholders with Multiple Cards	10
Contract Allowing Limits Set Greater than Maximum and Purchases with Cancelled Card	10-11
AGENCY RESPONSE	12-13

Commonwealth of Virginia

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Walter J. Kucharski, Auditor

April 2, 2004

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Lacey E. Putney
Vice Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

Gentlemen:

We have completed a review of the Commonwealth's **Small Purchase Charge Card Program**.

Objective and Scope

The objectives for our review of the Purchase Card program were to review changes to the program including the utilization and monitoring procedures over the Gold Card program and the effectiveness of the control environment to minimize the risk of undetected, unauthorized, and determine fraudulent use of the purchase cards. As part of our review, we also followed up on the status of recommendations made in our prior report dated December 1, 2000.

To achieve these objectives, we reviewed the adequacy of Commonwealth charge card policies and procedures. We also analyzed charge card data for fiscal years 2003 and 2002 to identify and examine trends and potentially fraudulent and abusive card activity. In addition, we conducted interviews of agency personnel to determine the impact of Purchase Card program changes on agencies. This report also summarizes the actions taken by Department of Accounts (Accounts) and provides the status of Accounts' efforts to implement the recommendations we made in our previous report.

Results of Review

In following up on issues in our previous report, we found that Accounts had resolved several of the issues. A small number of exceptions from the previous report remain uncorrected, and these are included in this report.

We discuss our specific recommendations later in this report.

Exit Conference

We discussed this report with Accounts' management on April 12, 2004.

AUDITOR OF PUBLIC ACCOUNTS

JEP:whb
whb:XX

STATEWIDE CHARGE CARD REVIEW

Introduction

The Department of Accounts (Accounts) implemented the Small Purchase Charge Card (Purchase Card) program in 1996. This program provides an efficient and effective means to streamline the Commonwealth's purchasing process. The program has reduced invoices by consolidating multiple vendor payments into a single monthly payment to the charge card company, which has reduced administrative time and cost. Our office completed a special review report dated December 1, 2000. That report contained background on the program, identified charge card controls and training, and addressed weaknesses in the administration of the Purchase Card program that could hinder the timely detection of unauthorized use of small purchase charge cards.

We have completed a follow-up review of the Purchase Card program. The objectives for our review of the Purchase Card program were to (1) follow-up on the status of recommendations made in our prior report (2) review changes to the program including the utilization and monitoring procedures over the Gold Card program and (3) determine the effectiveness of the control environment to minimize the risk of undetected, unauthorized, and fraudulent use of the purchase cards. To achieve these objectives, we reviewed the adequacy of the Commonwealth's charge card policies and procedures. We also analyzed charge card data for fiscal years 2003 and 2002 to identify and examine trends and potentially fraudulent and abusive card activity. In addition, we conducted interviews of agency personnel to determine the impact of Purchase Card program changes on agencies. This report also summarizes the actions taken by Accounts and provides the status of Accounts' efforts to implement the recommendations we made in our previous report.

In performing our review, we found that Accounts has taken positive steps to improve controls over the purchase card program in response to our 2000 review of the program. In addition, Accounts has worked with the contractor, American Express (Amex), to streamline the monthly data exchange process. Currently, Amex provides automated billing statements (e-bill) and is working towards providing automated reconciliation and allocation of charges. Automating the reconciliation and charge allocation process will significantly increase program efficiencies. Also, during our review, we identified a concern that the mandated use of the Commonwealth's online purchasing system (eVA) has negated Purchase Card program efficiencies.

Effect of Mandated Use of eVA

Agencies may use the Purchase Card for three types of purchases, (1) point-of-sale, (2) eVA, and (3) non-eVA. Point-of-sale purchases are those made at the site of sale and picked up by the individual cardholder. eVA purchases are those made using the Commonwealth's online purchasing system. Upon approval, the system sends the purchase order to a supplier network. The vendor then obtains the purchase order from the supplier network. Non-eVA purchases are those where the agency purchases directly from the vendor either by phone or through the internet.

Before eVA implementation, agencies used the Purchase Card for point-of-sale purchases, and non-eVA purchases. With eVA implementation, the Administration directed agencies and institutions to use eVA to the fullest extent possible to collect statewide spending data. Effective July 1, 2002, the Department of General Services (General Services) directed agencies and institutions to make all purchases through eVA, with certain exceptions. As a result, agencies and institutions must use eVA for most Purchase Card transactions except for point-of-sale purchases. Our review did not include reporting on eVA; however, during our review, we determined ways in which the mandated use of eVA may affect the Purchase Card program.

For some agencies, using eVA for Purchase Card transactions may delay the receipt of goods. To comply with General Services' directives, some agencies may continue to use their existing enterprise systems by purchasing through their own system, and create an interface to transfer purchasing information to eVA, other agencies may elect to enter the information into both their system and eVA. Further, instead of using a real time process, some of these agencies transfer the purchasing information using a batch process. As a result, there may be a delay in uploading the purchase orders to the supplier network, and in turn the agencies may experience a delay in receiving ordered goods.

Entering Purchase Card transactions in eVA creates additional paperwork and adds to administrative time. For every Purchase Card transaction entered, eVA generates a requisition. The requisition follows eVA approval flow that requires an authorization, generates a purchase order, and then requires notification of receipt. Generating and processing a purchase order for Purchase Card transactions is a direct contradiction to the objective of the program to eliminate paperwork and administrative time. In addition, generating a purchase order for a Purchase Card transaction increases the risk that agencies may pay a vendor twice. Consequently, agencies may spend additional administrative time ensuring that this does not occur.

Currently, eVa does not have a field designated to accept a Purchase Card Identification Number (CID). A CID number is a four digit number located above the card number and is an industry standard security feature. Some vendors contractually choose to collect, both the CID number and the card number from their customers and use it as additional purchase verification with Amex. Without the CID number, Amex will decline Purchase Card transactions for these vendors. As a temporary solution, agencies can enter the CID number as part of an eVA user's profile. The vendor must either modify their programming to automatically attach the CID number or enter the CID number manually before submitting the Purchase Card information to Amex for authorization. Currently, Accounts is aware of only one vendor doing business with the Commonwealth that requires a CID number; however Accounts expects the number of vendors to increase. Until eVA designates a specific field to record a CID number that allows vendors to capture the information without modifying their programming, Accounts considers this to be a continuing issue.

As a result of the issues discussed above, some agencies are refusing to process Purchase Card transactions through eVA or choosing to purchase through eVA using means other than the Purchase Card. However, beginning the second quarter of fiscal year 2004, Accounts may charge the agency for deciding not to use the Purchase Card for purchases where the vendor accepts the card. For every purchase less than $5,000, paid for with a method other than the Purchase Card, Accounts will charge agencies a transaction fee. The fee is determined by applying a $1 transaction fee to 67 percent of those noncompliant transactions. While Accounts has had the authority since the inception of the program, they recently began charging the fee to increase program usage to the fullest extent possible.

Agencies are also reporting that some of their smaller vendors who previously accepted the Purchase Card are no longer accepting it for eVA purchases. To register with eVA, vendors must pay a registration fee and a 1 percent fee (capped at $500) of the transaction amount for orders processed with them through eVA. Vendors already pay a fee of approximately 2 percent per purchase to American Express for accepting the Purchase Card. Since vendors must register with eVA to do business with the Commonwealth, they must accept the eVA fee. However, by indicating on eVA that the vendor does not accept the Purchase Card, agencies make purchases not using the card, and the vendors avoid the paying the American Express fee.

Recommendation: In order to keep use of the Purchase Card program from decreasing and to preserve the original intentions of the program to reduce administrative time and paperwork, Accounts should work with General Services to consider the cost/benefit of requiring Purchase Card purchases to be executed through eVA and explore other ways in which to capture Purchase Card data in eVA's data warehouse for analysis and reporting purposes.

Automating Reconciliation and Charge Allocation

In response to our December 2000 recommendation for the contractor to provide automated billing statements and maximize purchasing details, Amex now offers an electronic bill (e-bill). The e-bill allows agencies the ability to receive the bill several days prior to when they would receive it with regular mailing, but it does not provide any more purchase detail than the paper bill. Agencies cannot manipulate the file and find printing difficult. Less than half of the agencies are receiving the e-bill.

Amex also offers a report (1022), which is an electronic file that agencies can download into various formats for data manipulation and query. While the file contains the same information as the e-bill, it also contains additional data such as cost center and sales tax amount to allow for more detailed analysis, vendor reporting and provides some efficiencies for allocating charges. Accounts is aware of the need for agencies to obtain this information efficiently, and is currently working on documenting the best process to do this.

The contractor provides an online service called AMEX@Work that Administrators can use to maintain cardholder accounts online as well as download some standardized reports including a detailed transaction report of all purchases made for the month. Our interviews of 13 agencies found that Administrators find AMEX@Work extremely helpful for managing accounts and for the reporting features although the reports are difficult to manipulate and there is no querying feature available. No reports offered so far by the contractor contain enough detail for an Administrator to be able to see exactly what cardholders are purchasing because the contractor does not capture purchasing details to that level. Most Administrators only use these reports as their review and never even see the cardholder purchase reconciliations.

During eVA planning stages, General Services thought that eVA would provide a mechanism to perform automated reconciliation. However, two issues exist, which makes automated reconciliation through eVA difficult. First, as we have mentioned previously, agencies do not process all Purchase Card Transactions in eVA, specifically point-of-sale purchases. As a result, point-of-sale purchases could not be reconciled using eVA. In addition, vendors collect purchase data at different levels, some more detailed than others. Because some vendors capture data at a summary level, eVA is unable to use this data to perform an automated reconciliation. Currently, Amex is in the process of offering a web-based tool that will allow agencies to automate both reconciliation and allocation processes. Since the tool is web-based, agencies will not require additional software, and Amex will supply this tool at no added cost to the Commonwealth.

Recommendation: Accounts should require the contractor to maximize purchasing details and expedite the availability of tools that will allow agencies to automate their reconciliation and allocation processes. These enhancements would streamline the reconciliations and allocation processes and would enhance monitoring and review of charge card purchases.

Purchase Card Activity

The Purchase Card program grew significantly between its inception in fiscal year 1996 and 2001. Program spending still grew slightly in fiscal year 2002, but then declined for the first time in fiscal year 2003. A couple factors may have contributed to this decrease. First, agencies of the Commonwealth experienced budget reductions in fiscal year 2002 and even more in fiscal year 2003. In addition, as discussed earlier in our report, the mandated use of eVA has impacted Purchase Card activity. As a result, agencies may have less incentive to use Purchase Cards.

	Fiscal Years							
	1996	1997	1998	1999	2000	2001	2002	2003
Total Purchases(in millions)	$6.7	$31.0	$57.4	$92.8	$111.7	$131.2	$143.0	$135.7
Total Number of Transactions	N/A	196,000	328,000	445,000	526,000	617,540	655,690	619,885
Total Number of Cards	2,530	5,214	7,458	8,157	9,158	10,255	10,295	10,099

Two types of cards are available through the Purchase Card program. The first is the Purchase Card, which allows transaction limits up to $5,000 and monthly limits up to $100,000. This card type accounts for most of the activity listed in the table above. Accounts expanded on the program by offering the Gold Card in November 2001. The Gold Card allows transaction limits up to $50,000 and monthly limits up to $250,000.

The same policies and procedures govern both the Purchase Card and Gold Card with two exceptions. The main difference is that only certified purchasing professionals or agency head designated purchasing professionals are eligible to obtain a Gold Card. In addition, Accounts administers the Gold Card which includes establishing cardholder limits and card issuance and cancellations. When compared to the Purchase card, Gold Card activity is minimal, and the number of agencies utilizing the Gold card has only increased from 4 to 7 in fiscal years 2002 and 2003, respectively.

	FY2002	FY2003
Total Purchases	$727,526	$1,618,344
Total Number of Transactions	108	309
Total Number of Cards Outstanding	19	18

The State Comptroller's *Commonwealth Accounting Policies and Procedures Manual* provides authoritative guidance related to card issuance, usage, and monitoring. Since our last report, Accounts has strengthened statewide policies and procedures by limiting the number of program administrators, and requiring annual training for program administrators and an annual analysis of cardholder activities. In addition, Accounts has worked with the contractor, American Express (Amex), to streamline the monthly data exchange process. Amex now provides automated billing statements (e-bill), and has made some progress to increase purchasing details. Further, Accounts monitors all charge card transactions to detect cardholders exceeding the purchasing limits, provides ongoing training coordinated with Department of General Services, and monitors monthly payments so that the Commonwealth receives its annual refund.

In performing our review, we have found that one of the most important factors in preventing fraud, waste, and abuse of the purchase card program is strong control procedures at individual agencies and ongoing and timely program monitoring. At the agency level, three primary stakeholders maintain key internal controls. These three stakeholders include the cardholder, their supervisor, and the agency program Administrator (Administrator). While Accounts has adequately strengthened policies and procedures in most areas, we found the program contains inherent risks related to supervisor review. We discuss Purchase Card program policies and procedures, and inherent risks below.

Policies and Procedures

Card Issuance and Cancellation

Individually agencies administer the Purchase Card Program through their Program Administrator. Each participating agency has at least one Administrator. Accounts serves as the Administrator for all Gold Cards. Administrators are responsible for issuing and deleting cards. Further, Administrators are responsible

for ensuring overall program compliance with the Commonwealth's policies and procedures through training and monitoring of cardholders and their purchases.

Administrators must make sure that Amex issues Purchase Cards to only those individuals who have appropriate purchasing authority. When initially requesting a card for an employee and on an annual basis thereafter, the applicant's supervisor must provide the Administrator with documentation supporting the issuance of the card. The documentation includes an analysis of the potential type and level of card activity, and justification for transaction and monthly limits.

When issuing new cards, Administrators must change the default transaction and monthly limits. The contractor, Amex, has default transaction and monthly limits set 20 and 100 times higher than those allowed for the Purchase Card. In addition, Administrators must also change the allowed variance from the defaulted 10 percent to 0 percent. The variance is the percentage cardholders may exceed their limits without having the charge denied. As a mitigating control, Accounts regularly performs queries and analysis to identify such inconsistencies with policy.

Upon request by the Administrator or upon termination of employment (including retirement), a cardholder must surrender the purchasing card to his or her supervisor immediately. While the Administrator is responsible for deleting the card from the Amex system, the cardholder's supervisor is responsible for disposing of the card according to agency policy.

Cardholder Usage

Agencies assume ultimate liability for employees' use of the Purchase Card. Cards are limited to official Commonwealth of Virginia purchases, and all purchases must comply with Commonwealth procurement regulations. The authorized user is limited to only the person whose name appears on the face of the card and cardholders cannot loan the card to any other person.

When the cardholder makes a purchase, they are responsible for entering the purchase information on the cardholder purchasing log. In addition, the cardholder retains all documentation of the purchase, such as receipt and packing slip. Upon receipt of their monthly charge card statement, the cardholder reconciles the statement to the purchasing log and supporting documentation to verify that the statement accurately reflects their purchases.

Supervisor Review

As required by policies and procedures, supervisors are responsible for reviewing and approving the cardholder's transactions and supporting documentation on a monthly basis. This occurs when the cardholder forwards their monthly statement to his supervisor, along with supporting documentation and written certification of reconciliation. The reconciliation process and supervisor review is a very manual, time consuming process for both the cardholder and supervisor. Despite this fact, supervisory review is the most important control in mitigating fraud, waste, and abuse of the card. However, since supervisor training is not required; many supervisors may not understand the importance of their review.

Payment

Most agencies pay the bill upon receipt to ensure timely payment to Amex. After review and approval of the cardholder's reconciliation, the agency then reallocates charges to the appropriate account

coding structure for budgetary purposes. Like the reconciliation process, reallocation is a very manual and time consuming process.

Training

For Administrators, Accounts provides an online training program, which is required annually. In addition, Accounts notifies Administrators of changes to the program or its policies and procedures. Administrators ensure that each cardholder receives training before card issuance and notifies cardholders of program changes.

Cardholder training for Purchase Cards typically consists of a review of the agencies' policies and procedures governing the card. After training, cardholders are required to sign agreements indicating that they will use the Cards as intended.

Cardholder training for Gold Cards consists of the Administrator meeting with the cardholder and their supervisors to review the statewide policies and procedures governing the program and the supervisor's role in reviewing purchases. In addition, Accounts requires cardholders and their supervisors to both sign the gold cardholder agreement.

Supervisor training for Purchase Cards is not required. As a result, supervisors receive no specific guidance on the importance of the review and looking for fraud, waste, and abuse of the Purchase Card. We will discuss supervisor training and review in the section below.

Inherent Risks

As stated above, supervisory review is the most important control in mitigating fraud, waste, and abuse of the Purchase Card. It is also the area with the greatest inherent risk. With the procurement process, supervisory review is an internal control that agencies already rely on; however, it is even more important where the use of Purchase Cards is involved. In the normal procurement process, the requestor fills out a purchase order, sends it to their supervisor for approval, and then the goods are ordered. Someone other than the requester or the approver receives the goods.

With a Purchase Card, if the requester is the Cardholder, the Cardholder then exercises all of these functions. A Cardholder may or may not receive supervisor approval. Further, it is difficult to determine if the Cardholder received this approval since the required approval is only verbal. The Cardholder usually receipts the item, especially in a point-of-sale type of transaction. If the supervisor did not give approval and adequately review purchases, the agency may not be aware of unauthorized purchases until month end, after the payment of the bill.

In performing our study, we identified some issues related to supervisory review where Accounts may implement policies and procedures to mitigate inherent risk. Accounts must determine whether the benefits of implementing such policies and procedures outweigh the costs involved.

One area where Accounts may improve policies and procedures is supervisor training. Currently, supervisor training for purchase cards is not required. As a result, supervisors receive no specific guidance on the importance of the review and looking for fraud, waste, and abuse of the Purchase Card. This can have a significant impact in the Purchase Card program since supervisors are in the best position to know what cardholders should and should not be purchasing, and what their normal purchasing patterns are. Supervisors

are also in the best position to receive all of the details of a purchase because they are required to review receipts.

We also found that Program Administrators are not required to maintain a list of approving supervisors. As a result, most Administrators did not know the number of cardholders or transactions each supervisor reviewed or approved. The number of cardholders and transactions a supervisor is required to review can significantly affect the quality of the review. Administrators could use this information to more effectively manage their agency's Purchase Card program. Further, Accounts could develop a guideline from which Administrators could determine the proper number of cardholders and transactions a supervisor should review.

Recommendation: Accounts should consider implementing policies and procedures to mitigate inherent risks of the Purchase Card Program. However, Accounts must determine whether the benefits of implementing such policies and procedures outweigh the costs involved. We have listed below, some of the policies and procedures Accounts should consider implementing.

Accounts should consider requiring that agencies provide supervisor training so that they understand the importance of review and detection of fraud, waste, and abuse of the card. Accounts should also consider requiring agencies to periodically "audit" supervisors to ensure that their review procedures are adequate. Accounts should also consider developing a guideline from which agencies can develop their supervisor training.

Accounts should consider requiring that Administrators maintain a list of approving supervisors. Further, Accounts should consider developing a guideline from which Administrators can determine the number of cardholders or transactions a supervisor should review. Maintaining this information would help ensure the proper quality of supervisor review.

Statistics and Results

While the frequency of occurrences has improved, our fiscal year 2003 and 2002 agency audits of the Purchase Card continue to find the following exceptions to the Small Purchase Card Policies and Procedures. Repeated nonadherence to established internal control policies and procedures, contribute to an erosion and weakening of the control system increasing the risk for fraudulent, wasteful and abusive purchases.

- Cardholders did not maintain purchase logs
- Cardholder purchasing logs did not have the required fields
- Cardholders did not perform purchase log reconciliations
- Cardholders did not have adequate supporting documentation for purchases made
- Cardholders paid sales tax on purchases
- Cardholders shared their card with unauthorized users
- Cardholders made inappropriate purchases
- Supervisors did not perform adequate reviews of purchases
- Agency policies and procedures were not compliant with the CAPP Manual

These types of violations are a result of cardholders not following policies and procedures and supervisors not performing adequate reviews. The information that Administrators and Accounts receive is not always adequate to determine when breaks in procedure and policy are occurring. It is the responsibility of the supervisor. As long as violations in the use of the Purchase Card continue to bypass supervisors, risk of misuse, fraud, and abuse of the program remains.

Inadequate Annual Analysis

For all cardholders, supervisors are required to perform and document in writing for the Administrator an annual analysis to determine if a need still exists for the cardholder to have a card (or multiple cards) and if assigned limits are appropriate based on the purchase history and duties of the cardholder.

Through our interviews with 13 agency Administrators in fiscal year 2003 we found that some agencies do not perform the analysis at all and some only require supervisors to inform the program administrator if they feel that a change in limits is necessary. During our test work in fiscal year 2002 we found that four out of 21 agencies tested (19 percent) did not conduct annual analysis as required. Further, we found little evidence that limits were set based on an analysis of cardholders' needs or past spending patterns. For example, our analysis found that 628 (6.2 percent) Purchase Card cardholders did not make a single purchase during fiscal year 2003.

Our review also found that 16 agencies have cardholders with multiple cards, and nine (56 percent) of those agencies have cardholders who did not utilize each of their cards. Issuing multiple cards and setting higher limits that do not support a Cardholder's authorized and expected use unnecessarily increases the Commonwealth's exposure to fraudulent, improper, wasteful, and abusive purchases. Limiting credit and cards available to cardholders is a key factor in managing the purchase card program and in minimizing the Commonwealth's financial exposure.

Recommendation: Administrators should follow established policies and procedures and require cardholder supervisors to perform initial and annual cardholder analysis in writing for the Administrator to review and keep on file. Administrators should adjust limits and cancel cards based on results. An analysis is the only way to determine if cardholders have the appropriate limits or if a need still exists for a card.

Inadequate Review of Gold Cardholders with Multiple Cards

Our review also found that 44 percent of Gold Card cardholders have multiple cards because they also maintain a regular Purchase Card. In this case, having multiple cards is unnecessary since the cardholder could make all purchases using the Gold Card.

Recommendation: Administrators should follow established policies and procedures and perform an annual analysis of cardholders with multiple cards to determine if a need exists for multiple cards. Only in rare circumstances should cardholders have more than 1 card. Accounts should cancel Purchase Cards to cardholders issued a Gold Card.

Contractor Allowing Limits Set Greater Than Maximum and Purchases with Cancelled Card

Our review found nine instances in fiscal year 2003 and 26 instances in fiscal year 2002 of monthly limits initially set greater than the maximum allowed. In addition, our 2003 review found one agency has cardholders with multiple cards with combined monthly limits exceeding the statewide allowed maximum. Our review also found 7 agencies in fiscal year 2003 and 10 agencies in fiscal year 2002 with unauthorized transaction limits set higher than the allowed maximum. In almost every case, Accounts or the agency's Administrator changed the limit. However, the contractor should not allow this to happen at all for monthly or transaction limits.

In addition, our review found 1 instance where the contractor allowed the billing of a monthly rental to a cancelled card.

Recommendation: Accounts should require the charge card contractor to comply with the contract and not process transactions for cancelled or expired cards or issue cards with variances and limits greater than the statewide allowed maximums.

COMMONWEALTH of VIRGINIA

DAVID A. VON MOLL, CPA
COMPTROLLER

Office of the Comptroller

P. O. BOX 1971
RICHMOND, VIRGINIA 23218-1971

April 12, 2004

Mr. Walter J. Kucharski
Auditor of Public Accounts
James Monroe Building
101 N. 14th Street
Richmond, Virginia 23219

Dear Mr. Kucharski:

This letter provides the Department of Accounts' responses to the recommendations contained in your report on the review of the Commonwealth's Small Purchase Charge Card Program. Thank you for the opportunity to publish this letter with your report.

DOA addressed many of the program weaknesses identified in your 2000 review of the program and we look forward to addressing the issues outlined in your most recent review.

1. **Accounts should work with General Services to consider the cost/benefit of requiring Purchase Card purchases to be executed through eVA.**

   The Department of Accounts and the Department of General Services will establish a work group to identify issues and alternatives related to maximizing usage of both programs/systems.

2. **Accounts should require the contract to maximize purchasing details and expedite the availability of tools that will allow agencies to automate their reconciliation and allocation processes.**

   American Express has a number of automated tools to assist agencies with program management, including reconciliations. DOA will work with Amex and line agencies to review these tools and implement those we find beneficial to the Commonwealth.

3. **Accounts should require … supervisor training … develop guidelines (for both Supervisors and Program Administrators).**

   Accounts agrees with this recommendation and will implement supervisor training and program guidelines.

(804) 225-2109 FAX (804) 786-3356 TDD (804) 371-8588

4. **Administrators should follow established policies and procedures ...**

   Accounts agrees with this recommendation and will remind Program Administrators of their responsibilities. Accounts will also develop and use additional analytical tools to aid in identifying non-compliant agencies.

5. **Administrators should ... perform an annual analysis of cardholders with multiple cards ...Accounts should cancel Purchase Cards to cardholders issued a Gold Card.**

   The policy of separating SPCC purchases (less than $5,000) from Gold card purchases ($5,000 or over) was implemented to allow for a closer review of the Gold card activity in the initial stages of the program. Accounts will revisit the policy of maintaining separate cards based on dollar amounts of the transaction.

6. **Accounts should require the charge card contractor to comply with the contract and not process transactions for cancelled or expired cards or issue cards with variances and limits greater than the statewide allowed maximums.**

   Although American Express's default limit for new cards exceeds our maximum, we require agencies to reset limits prior to card issuance. We have established the mitigating control to review these limits monthly to ensure agencies have reset the limits. However, DOA plans to revisit this issue with American Express in order to determine the feasibility under the contract to lower the default limit.

   As to the billing to a cancelled card, although American Express does not authorize purchases to cancelled or expired cards, if the vendor bypasses online validation and manually submits the purchase, American Express is legally obligated to post the purchase to the card's account. These types of occurrences are identified and addressed individually by Merchant Services (Amex) with the vendor. Invalid charges are "charged back" to the vendor and Amex credits cardholders accounts.

I appreciate the APA's comments and recommendations provided in this report. DOA plans to evaluate and where possible, address the issues raised.

Sincerely,

David A. Von Moll