



# **COMPLIANCE AND CONTROL AUDIT REPORT**

## **Business Procurement Card Program: Reviewing for Fraud and Abuse**

**A Report to the Legislative Post Audit Committee  
By the Legislative Division of Post Audit  
State of Kansas  
May 2007**

# ***Legislative Post Audit Committee***

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## ***Legislative Division of Post Audit***

**THE LEGISLATIVE POST** Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$10 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U.S. Government Accountability Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. The standards also have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

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### **LEGISLATIVE DIVISION OF POST AUDIT**

800 SW Jackson  
Suite 1200  
Topeka, Kansas 66612-2212  
Telephone (785) 296-3792  
FAX (785) 296-4482  
E-mail: [LPA@lpa.state.ks.us](mailto:LPA@lpa.state.ks.us)  
Website:  
<http://kslegislature.org/postaudit>  
Barbara J. Hinton, Legislative Post Auditor

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**LEGISLATIVE DIVISION OF POST AUDIT**

800 SOUTHWEST JACKSON STREET, SUITE 1200  
TOPEKA, KANSAS 66612-2212  
TELEPHONE (785) 296-3792  
FAX (785) 296-4482  
E-MAIL: [lpa@lpa.state.ks.us](mailto:lpa@lpa.state.ks.us)

May 2, 2007

To: Members, Legislative Post Audit Committee

Representative Peggy Mast, Chair	Senator Nick Jordan, Vice-Chair
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This report contains the findings, conclusions, and recommendations from our completed compliance and control audit, *Business Procurement Card Program: Reviewing for Fraud and Abuse*.

The report includes several recommendations for improving the State's controls over the use of its business procurement cards and reducing the risk of inappropriate use. We would be happy to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other State officials.

Barbara J. Hinton  
Legislative Post Auditor

## Get the Big Picture

Read these Sections and Features:

1. **Executive Summary** - an overview of the questions we asked and the answers we found.
2. **Conclusion and Recommendations** - are referenced in the Executive Summary and appear in a box after each question in the report.
3. **Agency Response** - also referenced in the Executive Summary and is the last Appendix.

### *Helpful Tools for Getting to the Detail* 🔍

- In most cases, an “**At a Glance**” description of the agency or department appears within the first few pages of the main report.
- **Side Headings** point out key issues and findings.
- **Charts/Tables** may be found throughout the report, and help provide a picture of what we found.
- **Narrative text boxes** can highlight interesting information, or provide detailed examples of problems we found.
- **Appendices** may include additional supporting documentation, along with the audit **Scope Statement** and **Agency Response(s)**.

**EXECUTIVE SUMMARY**  
LEGISLATIVE DIVISION OF POST AUDIT

**Overview of the Business Procurement Card Program**

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**To simplify purchasing, the Division of Accounts and Reports offers a business procurement card program to all State agencies.** ..... page 3  
*Business procurement cards allow State agencies to process payments for day-to-day transactions more efficiently. The State also receives a cash-back rebate from the program. The State has about 5,500 business procurement cards, almost all assigned to State employees or State agency vehicles.*

**About 70 State agencies charged more than \$36 million to business procurement cards in fiscal year 2006.** ..... page 4  
*Individual agency programs range in size from 983 accounts at Kansas State University to single accounts at the Behavioral Sciences Regulatory Board and the Attorney General’s Office. Agencies that account for the most of the spending are the Department of Transportation and some of the State universities.*

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**Are the State’s Controls Over the Business Procurement Card Program Adequate, and Have Those Accounts Been Used Appropriately?**

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**The State’s adopted policies and procedures for the business procurement card program generally are in-line with best practices.** ..... page 5  
*With a few exceptions, Kansas’ adopted policies and procedures are well-designed. Of the nine State agencies we reviewed in more depth, two need to improve their controls over inactive accounts, and one needs to put its procedures in writing. The Division of Accounts and Reports’ 2006 review of 65 agency programs found few significant problems. The more significant problems were that six agencies had purchased prohibited items, and three agencies had bypassed spending limits.*

**We used data mining techniques to determine if there were problems in how business procurement cards were used.** ..... page 8  
*We analyzed transaction data from August 2005 to September 2006 involving 270,725 transactions totaling \$42.3 million. From those transactions, we identified about 2,300 that were likely to be problems, and chose 461 for detailed testing. About two of every three of those transactions actually turned out to be a problem, meaning this was a cost-effective way of focusing on certain items.*

**We found only four instances of transactions that represented fraud or abuse, but also found several other problem areas.** ..... page 9  
*In three cases, agencies caught fraudulent charges, questioned them, and didn’t*

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have to pay for them. In a fourth case, a cardholder at the Kansas School for the Deaf was able to finance her own personal computer using State dollars because an initial mistake in how that purchase was charged wasn't corrected appropriately. In addition, we identified the following cases where cardholders did not follow program guidance:

- 141 cases where cardholders split purchases into two or more transactions to avoid transaction limits. For example, a cardholder with a \$2,000 individual transaction limit used 3 transactions to purchase a \$4,995 software package.
- Four cases where cardholders were able to make purchases from "blocked" vendor types, probably because the vendors were able to override the block. For example, a cardholder used a card to rent storage space from a blocked vendor without receiving approval from the Division of Accounts and Reports.
- 50 cases where cardholders didn't get prior approval for their purchases as required for such things as purchasing hospitality items and buying from PayPal vendors.

**Despite the State's policies, many business procurement cards aren't cancelled in a timely manner.** .....page 13  
*We found 56 business procurement cards that weren't cancelled in a timely manner when the cardholders left State employment. Some of those cards weren't cancelled until more than a year after. Following up on that finding, we found about \$36,000 in purchases made on accounts of people who already had left State employment—all of it for legitimate State business. Most of the time, the cardholders passed their cards on to their replacements.*

**We identified four cardholders who were affiliated with State agencies but who weren't State employees.** .....page 15  
*Business procurement card program guidelines require cardholders to be State employees. We found four cardholders who weren't. Although these cardholders are affiliated with State agencies—three university military science staff members and one university student union employee—they aren't employees of the State.*

**Conclusion** .....page 15

**Recommendations** .....page 15

**APPENDIX A: Scope Statement** .....page 17

**APPENDIX B: Agency Response** .....page 18

This audit was conducted by Randy Tongier and Levi Bowles. Scott Frank was the audit manager. If you need any additional information about the audit's findings, please contact Randy at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call us at (785) 296-3792, or contact us via the Internet at [LPA@lpa.state.ks.us](mailto:LPA@lpa.state.ks.us).

## **Business Procurement Card Program: Reviewing for Fraud and Abuse**

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The State of Kansas makes a business procurement card program available to State agencies. Under this program, State employees can be issued procurement cards (VISA) by UMB Bank. The cardholders use the cards to make certain types of purchases on credit, the Bank accumulates the charges and bills the applicable State agency monthly, and the agency pays for those purchases with a single monthly payment. The Division of Accounts and Reports oversees the program.

Because purchases made with business procurement cards aren't subject to the same level of control as other State purchases, the risk of inappropriate use is increased. In fact, recent federal audits of procurement card procedures and use have found significant weaknesses in controls and numerous instances of inappropriate use of those cards.

As part of the ongoing compliance and control audit work authorized by the Legislative Post Audit Committee to address the risk of fraud and abuse, Legislative Post Audit conducted audit work reviewing the adequacy of the State's controls over its business procurement cards, and whether those cards have been used appropriately.

This audit answers the following questions:

- 1. Are the State's procedures adequate to ensure that only authorized State employees hold business procurement cards, and that only appropriate purchases are made with those cards?**
- 2. Are any business procurement cards held by people other than authorized State employees?**
- 3. Have inappropriate purchases been made with State business procurement cards?**

To answer these questions, we interviewed agency officials about business procurement card procedures, examined written guidance provided to cardholders regarding procedures to be followed and limits placed on the use of cards, checked to see that cardholders were State employees, and examined documents related to selected purchases made under the program.

In addition, as approved by the Legislative Post Audit Committee, we applied “data mining” audit techniques to this area. These techniques make use of modern technology—both hardware and software—to increase the likelihood of finding fraud and abuse if it exists. Compared to traditional audit approaches, data mining allows us to:

- Analyze entire groups of transactions, cardholders, etc., instead of just samples.
- Identify specific transactions or situations most likely to be fraudulent or abusive, and focus the audit effort on those items.
- Compare large data sets belonging to different agencies or divisions that wouldn’t normally be compared.

While no audit approach can guarantee that existing fraud and abuse will be found, this audit approach significantly increases that likelihood.

A copy of the scope statement for this audit is included in *Appendix A*. For reporting purposes, we’ve collapsed these three questions into one.

In conducting this audit, we followed all applicable government auditing standards. Our findings begin on page 5, following a brief overview.



## Overview of the Business Procurement Card Program

***To Simplify Purchasing, The Division of Accounts And Reports Offers a Business Procurement Card Program to All State Agencies***

Business procurement cards are credit cards issued to certain employees of State agencies. These cards are used to make day-to-day purchases, especially in cases where the normal system of processing vouchers is less efficient.

**Business procurement cards allow State agencies to process payments for day-to-day transactions more efficiently.** Under the program, sponsored by the Division of Accounts and Reports, certain State employees are issued VISA procurement cards by UMB Bank. The cardholders use the cards to make credit purchases for their State agency, UMB Bank bills the agencies monthly, and the agencies pay UMB Bank for those purchases.

Some accounts are “cardless”—the cardholder has an account number to use for phone, fax, or Internet purchases, but not a card to take to a retailer. These cardless accounts generally are used for meeting registrations and for purchases under a Statewide open contract.

The program’s key advantages to the State are as follows:

- A given State agency and the Division of Accounts and Reports can pay for many purchases from several different vendors with a single payment.
- UMB Bank offers a cash-back rebate of 0.56% of the purchases under the program.

**Most business procurement cards are assigned to individual employees or to State agency vehicles.** Under the State’s business procurement card program, different types of accounts can be used for different kinds of purchases. The types of accounts are summarized in ***Figure OV-1***.

<b>Figure OV-1 Summary of Types of Business Purchasing Cardholders As of April 2006</b>		
<b>Type of Cardholder</b>	<b>Number of Accounts</b>	<b>Percent of Total</b>
Individual State employees—can be used for State agency expenses	3,569	64.9%
Vehicles—can be used for gasoline and maintenance by whichever employee is using the vehicle	1,681	30.6%
Rentals—can be used for gasoline by whichever employee is renting a vehicle	217	3.9%
Other—for example, cards assigned to the Adjutant General's Department in providing disaster assistance	29	0.5%
<b>Total</b>	<b>5,496</b>	<b>100%</b>
Source: Department of Administration business procurement card program data.		

***About 70 State Agencies Charged More Than \$36 Million to Business Procurement Cards in Fiscal Year 2006***

About 70 State agencies participate in the State’s business procurement card program. Individual agency programs range in size from 983 accounts at Kansas State University to single accounts at the Behavioral Sciences Regulatory Board and the Attorney General’s Office. A typical State agency has about 15 accounts.

During fiscal year 2006, State agencies charged more than \$36 million to business procurement cards. The Department of Transportation and the Board of Regents’ institutions were the largest users of the program. **Figure OV-2** shows the agencies that charged the largest amounts.

<b>Figure OV-2 Business Procurement Card (BPC) Spending By Agency, Fiscal Year 2006</b>			
<b>Agency</b>	<b>Number of Accounts</b>	<b>Amount Charged to BPC Accounts</b>	<b>Percent of All Statewide BPC Charges</b>
Department of Transportation	624	\$7,658,309	21.2%
Kansas State University	983	\$6,288,058	17.4%
Wichita State University	312	\$3,275,487	9.1%
Fort Hays State University	220	\$2,725,936	7.5%
University of Kansas	405	\$2,566,653	7.1%
University of Kansas Medical Center	160	\$2,178,335	6.0%
Pittsburg State University	220	\$2,000,171	5.5%
Department of Revenue	147	\$1,297,769	3.6%
Correctional System (8 agencies)	168	\$1,166,577	3.2%
Highway Patrol	545	\$1,144,789	3.2%
Department of Labor	70	\$1,040,447	2.9%
Department of Commerce	21	\$1,010,318	2.8%
Department of Wildlife and Parks	287	\$702,771	1.9%
Juvenile Correctional System (5 agencies)	48	\$550,121	1.5%
Emporia State University	117	\$529,105	1.5%
All Others (45 agencies)	1,169	\$2,031,073	5.6%
<b>Totals</b>	<b>5,496</b>	<b>\$36,165,919</b>	<b>100%</b>

Source: Department of Administration business procurement card program data.

## Are the State's Controls Over the Business Procurement Card Program Adequate, and Have Those Accounts Been Used Appropriately?

**ANSWER IN BRIEF:** *With some exceptions, the State's adopted procedures for the business procurement card program provide adequate controls over the accounts and their use, and accounts have been used appropriately. However, we found many instances where cardholders and agency officials acted inappropriately by not following program procedures and guidance. Among the problems we identified: cardholders splitting single purchases into multiple account charges to avoid the spending limits placed on their accounts, cardholders making purchases from unallowed vendor types or without required prior approvals, cardholders making inappropriate purchases (all of which were found by the cardholder's State agency), and State agencies not cancelling the accounts of terminated employees—sometimes long after they had left. Although most instances we saw were isolated, they illustrate the risks that exist with purchasing cards and the need for better implementation of systemic controls. These and other findings are discussed in the following sections.*

### ***The State's Adopted Policies and Procedures For the Business Procurement Card Program Generally Are In-Line with Best Practices***

We reviewed the policies and procedures for the program adopted by the Division of Accounts and Reports and by nine State agencies of different sizes. We compared those policies and procedures to best practices, especially those adopted by the Government Finance Officers Association.

**With a few exceptions, Kansas' adopted policies and procedures are well-designed.** Business procurement card procedures should be designed to ensure that only the right people have accounts, and that those accounts are used appropriately. The State's program operates at two levels:

- State-Level—policies and procedures developed by the Division of Accounts and Reports that apply to all agencies participating in the program
- Agency-Level—policies and procedures developed by the individual agencies

**Figure 1-1** on the next page lists the best practices we identified, and shows how the policies and procedures adopted by the nine State agencies we reviewed compare to those best practices.

We found that these agencies' policies and procedures were well-designed with the following exceptions:

**Figure 1-1  
 Summary of Adoption of Business Procurement Card Best Practices by 9 Selected Agencies  
 (Fiscal Year 2006 Charges)**

BEST PRACTICE	AGENCY									Behavioral Sciences Regulatory Board
	Dept. of Transportation	Kansas State University	Wichita State University	University of Kansas	Highway Patrol	Dept. of Wildlife and Parks	Rainbow Mental Health Facility	Fire Marshall's Office		
	\$7.7 million	\$6.3 million	\$3.3 million	\$2.6 million	\$1.1 million	\$703,000	\$18,000	\$4,000		\$2,000
<b>Establish General Framework</b>										
Formally adopt policies and procedures	X	X	X	X	X	X	X	No-Agency has indicated that it will put policies and procedures in writing.	X	X
Put policies and procedures in writing	X	X	X	X	X	X	X	X	X	X
<b>Control Who Has Accounts</b>										
Establish procedures for issuing cards, canceling cards, dealing with lost or stolen cards, and recovering cards upon termination of the cardholder	X	X	X	X	X	X	X	X	X	X
Periodically identify and review unused accounts, and cancel those not needed	X	X	Not as systematic as needed.	X	X	No-Agency has indicated that it will begin this practice.	X	X	X	X
<b>Establish Accountability Over Cardholders</b>										
Require written acknowledgement by cardholders that they are familiar with the agency's policies and procedures	X	X	X	X	X	X	X	X	X	X
Require adequate documentation for purchases	X	X	X	X	X	X	X	X	X	X
Specify consequences for misuse of a card or account	X	X	X	X	X	X	X	X	X	X
<b>Control Inappropriate Use of Accounts</b>										
Specify acceptable use of accounts	X	X	X	X	X	X	X	X	X	X
Limit the amount that can be purchased in a given transaction and during a given billing cycle	X	X	X	X	X	X	X	X	X	X
Provide guidance for phone, fax, or internet purchases	X	X	X	X	X	X	X	X	X	X
Require independent reviews and approvals of purchases before payment to the Bank	X	X	X	X	X	X	X	X	X	X

Source: LPA Review of Agency business procurement card guidelines

- Wichita State University and the Department of Wildlife and Parks had weak controls over dormant accounts. Periodically, agencies should identify accounts that haven't been used for some time, determine if those accounts are still needed, and cancel those that aren't. If an account is dormant, that could be an indication the card has been lost or stolen—a situation with a high risk of misuse. As **Figure 1-1** shows, Wichita State University's process wasn't systematic, and the Department of Wildlife and Parks had no process for dealing with dormant accounts.
- The State Fire Marshal's Office didn't have written procedures for the business procurement card program. Without written procedures, there's an increased risk that accounts will be used inappropriately.

**The Division of Accounts and Reports' 2006 review of agency programs found few significant problems.** As part of its oversight of the program, the Division of Accounts and Reports reviews agency programs annually. Of the 65 reviews done in fiscal year 2006, 45 had problem findings. However, most of those findings were relatively minor, including such things as incomplete documentation or missing approval signatures.

Nevertheless, those reviews did find more substantive problems at eight agencies. **Figure 1-2** lists those findings. In all cases, the agencies indicated their intent to correct the problems.

<b>Figure 1-2 Significant Findings by the Division of Accounts and Reports</b>	
<b>Type of Finding</b>	<b>State Agencies Involved</b>
<b>Purchase of Prohibited Items</b>	
<b>Food/Hospitality Items</b> – Agencies had purchased food or hospitality good with their business purchasing cards without obtaining exemption from Division of Accounts and Reports as required.	Kansas Lottery, Highway Patrol, Kansas Neurological Institute, and Correctional Industries
<b>Individual Membership</b> – Agencies paid for individual memberships to groups or associations, which is prohibited under any circumstances.	Fort Hays State University
<b>Storage Space</b> – Agencies rented storage space without the involvement of the Division of Facilities Management.	Rainbow Mental Health Facility
<b>Inappropriate Purchasing Procedure</b>	
<b>Purchase-Splitting</b> – Cardholders processed one purchase as several transactions to avoid the account's spending limit	Norton Correctional Facility
<b>Using the Wrong Account</b> – Cardholders charged non-contract purchases to an account setup for contracts (in this case the wrong card was used to avoid a spending limit).	Norton Correctional Facility
<b>Sharing a card</b> - Cardholders shared their card with a non-cardholder.	Hutchinson Correctional Facility
Source: Department of Administration Data on business procurement card program reviews.	

***We Used Data Mining Techniques To Determine If There Were Problems In How Business Procurement Cards Were Used***

We applied “data mining” audit techniques to evaluate the effectiveness the State’s controls over the business procurement card program. These techniques combine complex computer analyses and statistics to identify purchases that are most likely to represent problems, then focused our audit effort on those purchases.

To conduct this analysis, we obtained State personnel data from the Division of Personnel Services, and business procurement card program data from the Division of Accounts and Reports. We analyzed transaction data from August 2005 to September 2006 involving 270,725 transactions totaling \$42.3 million.

**Figure 1-3** summarizes the results of our data mining, including the number of instances we identified as most likely to represent problems, the number of instances tested, and the number of problems found. These results indicate our data mining approach was a cost-effective approach to finding problems.

Using normal audit techniques, we would have chosen a random sample of transactions, with a relatively low chance of finding any problems with those transactions. Using data mining techniques we were able to review all 270,725 transactions and identify 2,331 that were most likely to be problems. We reviewed a sample of 461 of those transactions. About two of every three potentially problematic transactions we reviewed turned out to be a problem.

**Figure 1-3**  
**LPA Analysis of BPC Program Transactions (a)**

<b>Reason To Look at Transaction</b>	<b>Number of Transactions Identified Using Data Mining</b>	<b>Sample of Transactions Tested</b>	<b>Number of Problems Found</b>	<b>Number of Items Found as a Percent of Items Tested</b>
Purchases appeared to be possible fraud or abuse	832	69	8	12%
Purchase required prior approval from the Division of Accounts and Reports	772	54	42	78%
Purchase appeared to have been "split" to avoid the card's transaction limit (b)	206	206	141	68%
Purchase was from a type of merchant that was supposed to be blocked by UMB Bank	395	6	4	67%
Purchase occurred after the employee terminated State employment	126	126	105	83%
<b>Totals</b>	<b>2,331</b>	<b>461</b>	<b>300</b>	<b>65%</b>

(a) Data set analyzed included all business purchasing card transactions between August 2005 and September 2006, including 270,725 transactions and totalling \$42.3 million.  
(b) Transaction-splitting data reflects number of transaction "clusters" rather than individual transactions. For example, if a cardholder split a purchase into three separate transactions, that would count as one transaction in this table.  
Source: Department of Administration business purchasing card program data.

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***We Found Only Four Instances of Transactions That Represented Fraud or Abuse, All of Which the Agencies Were Aware of, But We Also Found Several Other Problem Areas***

We found four instances where business procurement cards were used to purchase items that weren't for official State business. All four were discovered by the applicable agencies, but only three were dealt with appropriately.

In three cases, agencies caught fraudulent charges and challenged them with UMB Bank. In these cases, agency officials found charges on monthly statements that they had no record of. In two of these cases, the cardholder was the first to report these transactions. It is likely that in those two cases the card numbers were stolen and used by someone other than the cardholder. The agencies challenged the transactions, and the transactions were reversed by UMB Bank. These transactions were:

- In one case, someone used a Department of Transportation card to buy \$192 of music from an on-line store. Agency officials said the cardholder noticed this charge on his monthly statement and reported it to the agency and UMB Bank. UMB Bank investigated and reversed the charge.
- In a second case, someone used a University of Kansas card to make three unauthorized transactions for \$212 on PayPal account. Agency officials said the cardholder discovered the charge when reviewing his monthly statement. He realized he hadn't made these purchases, and challenged the charges with UMB Bank. UMB Bank investigated and reversed the charges.
- In a third case, someone used a University of Kansas Medical Center card to make three fraudulent charges totaling \$318 two days before the cardholder terminated. These transactions were all on-line, to a florist, a shoe store, and genealogy service. UMB Bank's fraud detection system caught these charges, and UMB Bank staff notified the KU Medical Center business procurement card staff. UMB Bank investigated and reversed the charges.

**A cardholder at the Kansas School for the Deaf was able to finance her own personal computer using State dollars.** In March 2006, an employee at the Kansas School for the Deaf was purchasing computers. After completing this purchase, the employee used her business procurement card account to buy a personal computer. According to School for the Deaf officials, the employee had intended to buy her personal computer on her personal credit card.

Instead of reversing the transaction and correcting the account charges, the business procurement card coordinator decided to allow the cardholder to reimburse Kansas School for the Deaf for the charges. Rather than reimbursing the school immediately, the employee paid most of the charges off over the next eight months.



She made the final payment in March 2007. In effect this employee was able to finance her personal computer through a loan from the State.

**In addition, we identified 141 cases where cardholders split purchases into two or more transactions to avoid transaction limits.** State agencies work with UMB Bank to set transaction limits for individual purchases. These limits are important because they prevent cardholders from making large purchases without the approval or knowledge of management staff. One way a cardholder can avoid these limits is to split large purchases into several smaller transactions.

The Division of Accounts and Reports looks for transaction splitting as part of its reviews of State agencies' business purchasing card records. The Division only found one instance of transaction splitting through its reviews. Using data mining, we were able to find the following:

- We identified 206 instances that appeared to be transaction splitting.
- 141 of the 206 transactions we tested in this area turned out to be actual transaction splitting, in violation of business purchasing card program guidelines. These transaction splits were scattered across 21 agencies, and involved 88 cardholders.

*Figure 1-4* summarizes our findings on transaction splitting.

Here are some examples of the transaction splitting we found:

- A cardholder at Pittsburg State University with a \$2,000 individual transaction limit bought a \$4,995 software package. To accomplish this, the cardholder made two transactions of \$2,000 each on the same day, and charged the remaining \$995 to his personal credit card.
- A cardholder at Fort Hays State University with a \$2,000 transaction limit bought remodeling supplies worth \$4,781. These purchases were on a single invoice. To make the purchase, the cardholder made three charges of \$1,593 on the same day.
- A cardholder at Emporia State University with a \$100 individual transaction limit bought \$150 in diesel fuel. The cardholder used "pay at the pump" to make two \$75 transactions only 11 minutes apart.

**Cardholders were able to make purchases from "blocked" vendor types, probably because vendors can override the control.** The Division of Accounts and Reports works with UMB



**Figure I-4  
Transaction Splitting by Agency  
August 2005-September 2006**

Agency	# of Transaction Splits	Total Amount
Kansas State University	24	\$7,783
Fort Hays State University	23	\$71,820
Wichita State University	21	\$60,746
Pittsburg State University	16	\$48,099
Topeka Correctional Facility	11	\$17,125
Department of Transportation	9	\$24,971
University of Kansas	9	\$21,560
University of Kansas Medical Center	7	\$18,118
Kansas Bureau of Investigation	5	\$6,054
Board of Indigent's Defense	3	\$1,888
Department of Wildlife & Parks	2	\$1,128
Department of Agriculture	2	\$750
School for the Deaf	1	\$3,885
Department of Health and Environment	1	\$3,000
Department of Revenue	1	\$2,149
Ellsworth Correctional Facility	1	\$1,119
State Historical Society	1	\$1,091
Larned Correctional Mental Facility	1	\$1,040
Highway Patrol	1	\$539
Real Estate Commission	1	\$298
Emporia State University	1	\$150
<b>Totals</b>	<b>141</b>	<b>\$293,312</b>

Source: LPA analysis of business procurement card program data and documentation.

Bank to block State business procurement card accounts from using certain types of vendors. This is accomplished by blocking certain merchant category codes, which are categories assigned to vendors by the banking industry. *Figure 1-5* shows examples of blocked merchant category codes.

**Figure 1-5  
Examples of Commonly Blocked Vendor Codes**

Code #	Description
4225	Public Warehousing
7210	Laundry, Cleaning Services
5921	Package Stores-Beer, Liquor
5814	Fast Food Restaurants
7273	Dating and Escort Services

Source: Department of Administration business procurement card program data.

Business procurement card program guidelines require cardholders to get an exception from the Division of Accounts and Reports before making purchases from a blocked vendor. We identified 395 purchases to vendors in categories that were blocked. Because

our work in this particular area was a test of a control rather than a search for inappropriate use of the card, we only looked at six of these transactions to determine how agencies handled them. We'll test this area in more detail in future audits.

Of the six transactions we looked at, four weren't approved in advance by the Division of Accounts and Reports, as required. The transactions are detailed in *Figure 1-6*. We found two types of problems:

- One transaction was approved by UMB bank only, and was never sent to the Division of Accounts and Reports. This is inappropriate because program guidance states program exceptions must be approved by the Division before UMB Bank can allow the transactions.
- Division officials told us the remaining three transactions likely were "forced" by the vendor. In these cases, the vendor appears to have overridden UMB Bank's vendor block, rendering the control ineffective because it can be overridden at the vendor level. Division officials said that, vendors can override the Bank's vendor block, although the agency automatically wins if it decides to challenge the charges.

Figure 1-6 Summary of Transactions to Blocked Vendor Codes August 2005-September 2006				
Agency	Vendor	What Was Purchased	Amount	Comments
<b>The following were pre- approved by the Division of Accounts and Reports and are OK:</b>				
Department of Revenue	Enterprise Rent-A-Car	Car Rental (Vehicle Card)	\$850	Approved by Division of Accounts and Reports
University of Kansas	Travelink Inc/Registration	Conference Registration	\$250	Approved by Division of Accounts and Reports
<b>These transactions didn't receive approval and were <u>not</u> handled appropriately:</b>				
Corporation Commission	Orscheln Hays	Full-size truck box	\$216	Approved by UMB Bank
Corporation Commission	AAA Self Storage	Storage Space	\$70	Forced by vendor
Wichita State University	The Wichita Eagle	Writing workshop	\$75	Forced by vendor
Board of Indigents' Defense Services	Downtown Discount Dry Cleaner	Dry cleaning. For clothes of client served by office.	\$5	Forced by vendor
Source: LPA analysis of business procurement card program data and documentation.				

**In 50 instances, cardholders didn't get prior approval for their purchases, as required.** Business procurement card program guidelines require certain purchases to be approved by either the Division of Accounts and Reports staff or agency-level business procurement card coordinators.

- **BPC accounts can't be used to buy certain items—such as food, alcohol, and hospitality—without prior approval from the Division.** We identified several instances where we would have expected this approval to be given, and we found the following:

- ▶ **Food** - Cardholders failed to seek prior approval from the Division in 12 of the 20 food purchases we looked at. For example, a cardholder at Wichita State University bought two dozen Krispy Kreme donuts for use as props in a play. We found no evidence of program exceptions in this case.
  - ▶ **Hospitality** - In 4 instances, cardholders bought hospitality items without first seeking approval. For example, a cardholder at the State Library bought gift baskets for an event for the “Kansas Center for the Book.”
  - ▶ **Space Rental** – In one case, a cardholder at the Corporation Commission rented storage space to temporarily store a piece of telecommunications equipment without first seeking approval.
- **PayPal transactions are especially risky, and are supposed to be approved in advance by the agency’s business procurement card coordinator.** PayPal is an on-line service that allows people selling items over the Internet to accept credit card payments. People commonly use PayPal when they’re selling items through the on-line auction site ebay.com. For State agencies, PayPal purchases are particularly risky because a cardholder could use the service to pay himself or herself.

We identified a total of 625 purchases made through PayPal. Of these, we looked at 33 to see if they were approved in advance by the agency’s business procurement card coordinator. None of them were. In addition, we identified instances where cardholders used their personal PayPal accounts for State business. This is a control issue because it allows mixing personal and State dollars. Some examples of these transactions include:

- ▶ A cardholder at Kansas State University’s entomology department used PayPal to buy spiders through the Internet.
- ▶ A cardholder at the School for the Deaf used PayPal to buy \$625 in audio-video equipment through e-bay.
- ▶ A cardholder at the Historical Society used PayPal to buy a Bat Masterson board game for an exhibit.
- ▶ A cardholder at the University of Kansas’ music department used PayPal to buy sheet music for an opera.

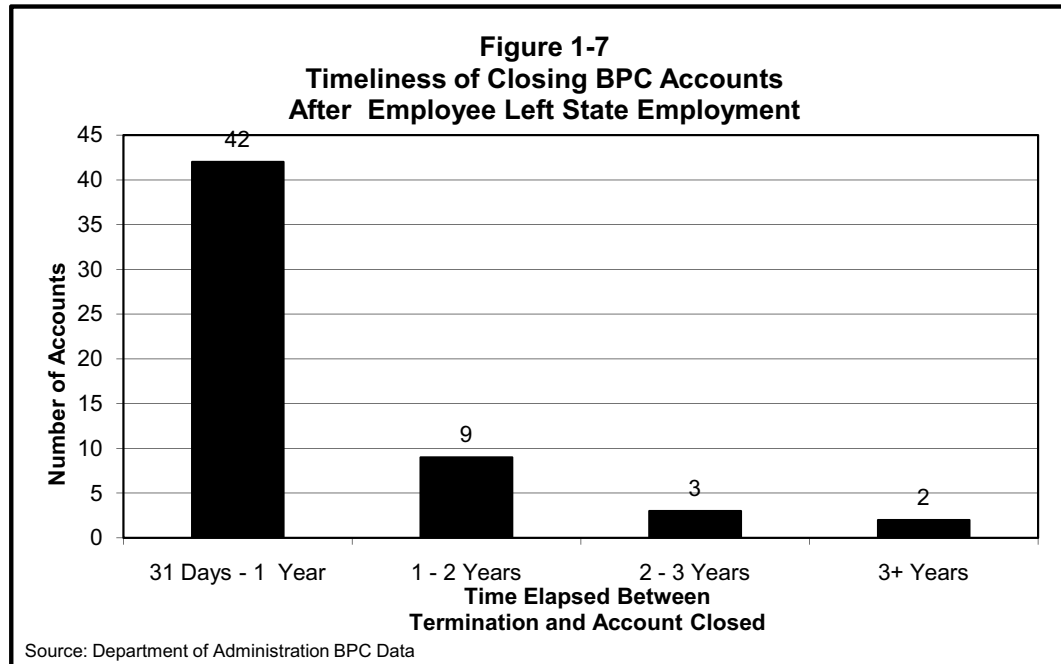
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***Despite the State’s Policies, Many Business Procurement Cards Aren’t Cancelled in a Timely Manner***

We compared State personnel data to cardholder data we got from UMB Bank to determine if any cardholders were no longer State employees. We also determined whether accounts held by State employees were still being used, and why they were being used.

**In all, 56 business procurement cards of terminated cardholders weren’t cancelled in a timely manner.** We identified 352 cardholders in April 2006 who were no longer State employees at that time. To see if the accounts of those terminated cardholders had been cancelled on a timely basis, we compared the cardholder’s date of termination to the account cancellation date. We considered an account to be cancelled on a timely basis if it were cancelled within 30 days after the employee’s termination date.

We found 56 accounts that weren't closed within 30 days; 14 of those accounts weren't cancelled until more than a year after the termination date. *Figure 1-7* summarizes our findings.



**About \$36,000 in purchases were processed on accounts of people who had already left State employment—all of it for legitimate State business.** We compared State payroll data to business procurement card transaction data to determine if terminated cardholders had used those cards to make any purchases. We identified 25 business procurement cards that were used after the cardholder no longer was employed by the State. In all, these accounts were used for 112 transactions totaling \$36,478. These purchases are summarized in *Figure 1-8*.

**Figure 1-8  
Summary of Transactions Processed on Procurement Cards  
After Cardholders Left Their State Jobs**

What Happened	Number of Transactions	Amount
Terminated employees passed on cards to their replacements. The replacements then used the cards.	79	\$25,229
Terminated employees placed an order before they left their jobs, and the vendor didn't charge the account until after the termination date.	23	\$9,477
Terminated employees continued tasks associated with their jobs after termination.	10	\$1,772
<b>Totals</b>	<b>112</b>	<b>\$36,478</b>

Source: LPA analysis of business procurement card program data and documentation.

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***We Identified Four Cardholders Who Were Affiliated With State Agencies But Who Weren't State Employees***

Business procurement card program guidelines require cardholders to be State employees. Through our analysis we found four cardholders who weren't:

- Three Military Science staff members at Pittsburg State University were cardholders. These staff members were federal employees, not State employees.
- An employee of the Student Union Corporation at Kansas State University has a business procurement card. The corporation is affiliated with Kansas State University, but isn't part of State government.

***Conclusion***

The use of business procurement cards provides convenience and efficiency to the State and its agencies in making purchases. However, that convenience and efficiency comes at the cost of increased risk for misuse of State moneys. To manage that risk, appropriate policies and procedures must be adopted and implemented. Policies and procedures adopted by the Division of Accounts and Reports are appropriate, and the level of implementation by the individual State agencies generally is good. However, we found a number of problems with state employees or agency officials not adhering to those established policies and procedures. Improvements are needed to address the types of problems we identified and to further reduce the risk of inappropriate use.

***Recommendations***

1. To reduce the risk of inappropriate use of the State's business procurement cards, the Division of Accounts and Reports should emphasize with participating State agencies following policies and procedures:
  - a. Agencies should put their individual policies and procedures in writing to help ensure that cardholders know what's required and expected.
  - b. Business procurement card coordinators should review their agencies' business procurement card accounts at least annually to identify inactive accounts. Cardholders of those accounts should be asked to justify their continuing need. Unneeded accounts should be canceled.
  - c. Cardholders shouldn't use personal PayPal and ebay.com accounts for State business. When State business requires using these services, the cardholder should setup an account specifically for State business.

- d. Agencies should ensure that business procurement card accounts are canceled when the cardholder terminates as an employee of the agency. Cardholders should return any cards to the agency.
  - e. State agencies should give business procurement cards or accounts only to State employees.
  - f. Cardholders should adhere to the dollar spending limits placed on their accounts. If the limits aren't sufficient for the cardholders needs, the cardholders should review those limits with their agencies' business procurement card coordinators and seek increases if appropriate.
  - g. Cardholders should get the required prior approval by the Division of Accounts and Reports for certain purchases, such as food items.
  - h. Cardholders should get the required prior approval by the agency's business procurement card coordinator for purchases from PayPal vendors.
  - i. State agencies should correct any accidental inappropriate charges by reversing the original charge rather than by being reimbursed by the applicable cardholder.
2. To further reduce the risk of inappropriate use of the State's business procurement cards, the Division of Accounts and Reports should work with UMB Bank to do the following:
    - a. Make sure that the Bank doesn't process charges for prohibited items unless the Division of Accounts and Reports approves them first.
    - b. Investigate whether the State's program can prevent the "force" option for vendors when a merchant category code is blocked, or somehow notify the applicable agency business procurement card coordinator and the Division of Accounts and Reports when a vendor uses the "force" option.
  3. To further reduce the risk of inappropriate use of the State's business procurement cards, individual agency business procurement card coordinators should remind both their agencies' cardholders and reviewers that purchases from PayPal vendors require prior coordinator approval.

## APPENDIX A

### Scope Statement

This appendix contains the scope statement for this audit of the State's business procurement card program. This audit was conducted as part of the expanded ongoing compliance and control audit work authorized by the Legislative Post Audit Committee to better address the risk of fraud and abuse.

#### PROJECT SCOPE STATEMENT

##### **Business Procurement Card Program: Reviewing for Fraud and Abuse**

The State of Kansas makes a Business Procurement Card Program available to State agencies. Under this program, State agencies are issued purchase cards (VISA) by UMB Bank. The agencies use the cards to make certain types of purchases on credit, the Bank accumulates the charges and bills the agencies monthly, and the agencies pay for those purchases with a single monthly payment each. Some accounts are "cardless"—the agency has an account number to use for phone, fax, or internet purchases. These cardless accounts generally are used for registrations and for purchases under a Statewide open contract. The Division of Accounts and Reports oversees the program—screening agency applications for cards, placing limits on spending levels and types of purchases allowed, and monitoring the agencies' use of the cards.

As of the end of April 2006, 70 State agencies held about 5,500 active cards or accounts. The maximum allowed monthly limit for all cards together totals about \$23.5 million. Given the timing of a normal billing and review process, any given card might be used to charge up to two billing cycles' worth of spending authority before review by someone other than the cardholder. That results in total spending authority of almost \$50 million by cardholders before review.

A review of this area to address control and compliance concerns would answer the following questions:

- 1. Are the State's procedures adequate to ensure that only authorized State employees hold business procurement cards, and that only appropriate purchases are made with those cards?** To answer this question, we will review relevant guidance to identify best practices for controlling the use of purchase cards. We also will interview appropriate officials and review relevant documentation to identify State-level controls and agency-level controls (on a limited basis) over the issuance and use of business procurement cards. We then will compare actual procedures to best practices and recommend any needed improvements. Finally, we will identify specific areas of risk, if any, for further review.
- 2. Are any business procurement cards held by people other than authorized State employees?** To answer this question, we will compare a list of cardholders to a list of State employees. We will investigate any cardholders who aren't on the list of State employees.
- 3. Have inappropriate purchases been made with State business procurement cards?** To answer this questions, we will obtain a list of purchases made with State business procurement cards. We will identify categories of purchases (e.g., purchases on weekends or holidays) that are most likely to include inappropriate purchases. We will list all purchases within those categories. Based on a review of those lists, we will select certain transactions for detailed testing by review of documentation and inquiry of agency officials. Based on the results of those tests, we may do additional testing.

## **APPENDIX B**

### **Agency Response**

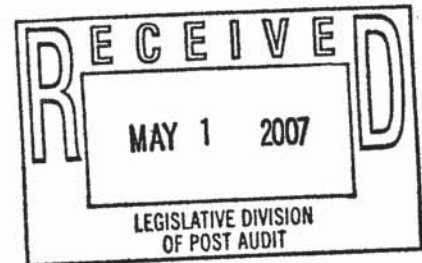
On April 25, 2007 we provided copies of the draft audit report to the Department of Administration. Its response is included as this Appendix.

The agency generally concurred with the report's findings, conclusions, and recommendations.



May 1, 2007

Barbara J. Hinton  
Legislative Post Auditor  
800 SW Jackson Street, Suite 1200  
Topeka, Kansas 66612-2212



Dear Ms. Hinton:

Thank you for the opportunity to respond to the Legislative Post Audit's report on *Business Procurement Card Program: Reviewing for Fraud and Abuse*. My staff has reviewed the report, and finds the overall recommendations supportive of our continual efforts to enhance the efficiency and effectiveness of the State's Business Procurement Card Program.

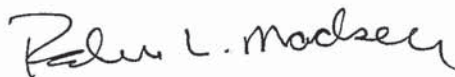
As indicated in your report, policies and procedures adopted by the Division of Accounts and Reports are appropriate, and the level of implementation by the individual State agencies is generally good, yet we acknowledge there are some areas for risk reduction improvement.

Regarding policy compliance, although we would prefer 100% compliance, we are pleased that a mere 0.8% of the \$42.3 million of expenditures analyzed were found to be non-compliant with Department of Administration policy, agency internal policy, or industry best practices. It is noted that none of the compliance issues constituted fraudulent spending. We are further pleased that, with the exception of one instance where the employee reimbursed the state after inadvertently using the BPC card for a personal item, none of the compliance issues constitute inappropriate state expenditures.

We will continue to monitor the program's statewide policies and procedures and update these when necessary so that program management responsibilities are clearly defined. Our focus will remain on strengthening a successful program built on the cornerstone of well-functioning and strong internal controls to minimize the already small risk of inappropriate use of state funds.

We appreciate your efforts in this review, and again thank you for the opportunity to review this report.

Sincerely,



Robert L. Mackey, Director  
Division of Accounts and Reports