

1999 - 2000 Ventura County Grand Jury Report

Policy and Procedures for Use of Procurement Bank Card

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In a response to the 1995-1996 Grand Jury Report, entitled Purchasing, Purchase Order Checks, the General Service Agency stated that Ventura County was considering the use of a Procurement Bank Card to replace Purchase Order Checks. The 1999-2000 Grand Jury was interested in revisiting this subject and reviewing the efficacy of the Procurement Bank Card program.

Background

The State of California Department of General Services negotiated terms and conditions with Rocky Mountain Bank for a State of California VISA Procurement Card and in 1992 initiated a pilot program. Evaluation of an eighteen month pilot program (six State agencies participated using 1200 cards) found that the CAL-Card provided a superior method of procuring goods and services, made it easier to analyze purchasing patterns and identify frequently used suppliers, and achieved 17% lower prices. Statistics also indicated that 80% of State purchases were under \$1000.

Following this successful test, the program known as the CAL-Card Program was made available to State agencies. The State of California then offered participation in this program, for an administrative fee, to other governmental agencies. The literature lists a number of benefits to participants including an average savings of \$24.49 per transaction and an additional savings of 2% on office supplies.

A pilot program was implemented in Ventura County by Materials Management, GSA, in March of 1997, to evaluate use of the Procurement Bank Card by Ventura County employees for small dollar amount (under \$500) purchases. Three agencies participated in the pilot (Resource Management Agency, General Services Agency and Public Works Agency) with 50 cards distributed. In November 1997, the Procurement Bank Card was made available to all county departments/agencies.

Currently approximately 308 Ventura County employees hold Bank Procurement Cards.

Following a protocol visit to Materials Management in July 1999, the Grand Jury began an evaluation of the policies and procedures governing the use of the Procurement Bank Card by Ventura County employees.

Methodology

The Grand Jury oversight included the following steps:

- Reviewed the manual entitled “Procurement Bank Card Procedures” (updated 4/99.)
- Reviewed the “CAL-Card Program Overview” from the State of California CAL-Card Office.
- Reviewed a printout of all county Procurement Bank Card transactions and accounts for a randomly selected month (November 1998).
- Reviewed backup documentation from Accounts Payable for eighteen specific items charged on these accounts to assess compliance to written procedures.
- Interviewed Accounts Payable personnel in the County Auditor/Controller’s office to evaluate method of oversight.
- Interviewed an official (a deputy purchasing agent) charged with oversight at the department level.
- Reviewed Materials Management printouts detailing the number of procurement cards in use, departments/agencies participating in the program, names of employee card holders and approving officials.
- Reviewed single item dollar limitations and monthly total dollar amounts on procurement cards currently in use.
- Reviewed the Quarterly Merchant Activity Report that corresponded to the November 1998 data sample.

Findings

CAL-Card Guidelines From State of California

The State of California Procurement Card Manual explains in detail a structured program that requires compliance and performance oversight by a purchasing agency.

- F-1 The CAL-Card program allows a participating agency to limit the usage of a specific procurement card to a specific vendor.

- F-2 Participating agencies impose dollar caps for individual card holders on single item purchases as well as monthly total expenditures allowed for each card issued.
- F-3 The CAL-Card Program document entitled "Delegation Program Guidelines" stipulates that the compliance oversight responsibility remains with Procurement (the department of GSA termed Materials Management in Ventura County.)
- F-4 The CAL-Card Program guidelines state that the General Service Agency should conduct periodic compliance reviews and subject CAL-Card transactions to testing by either the departmental internal auditor or an external audit organization "no less frequently than annually."
- F-5 The CAL-Card Program guidelines also state that the responsibility of Accounts Payable is "limited to reconciliation and submission for payment, less any adjustments." An adjustment might occur if an item was returned and a credit issued.

Current Procurement Bank Card Usage in Ventura County

- F-6 Allowable limits for single item purchases and monthly total purchase amounts vary widely. (*Figure 1*)
- F-7 Ventura County does not correlate nor tier spending limits with an employee's supervisory responsibility.
- F-8 Materials Management records provided to the Grand Jury list one county employee as a holder of 23 procurement cards with a combined monthly limit of over \$200,000. Each card is used, by this employee, exclusively for business with a major supplier. This method of payment is used, the Grand Jury was told, as a way to simplify record keeping and to reduce the number of invoices generated by the Facilities Maintenance Parts Room.
- F-9 The current procurement bank card list of employee card holders and approving officials includes an approving official who left county employment on September 4, 1999. When this was called to the attention of Materials Management, they told the Grand Jury that they verify the list of card holders and approving officials annually.
- F-10 Two cards were assigned \$5,000 single item limits with a monthly limit of \$1,000 indicating an error in the programming of these cards. (Materials Management has made this correction in response to the Grand Jury's finding.)

NO. OF CARDS	SINGLE PURCHASE LIMIT	MONTHLY LIMIT
1	\$150	\$250
1	200	500
1	300	500
3	500	500
1	200	600
1	400	1,000
2	500	1,500
1	500	2,000
1	500	2,500
2	500	3,000
2	500	5,000
3	600	3,000
6	600	5,000
1	750	2,500
1	800	1,000
3	1,000	1,000
5	1,000	2,000
3	1,000	3,000
197	1,000	5,000
1	1,000	10,000
1	1,000	15,000
1	1,000	20,000
3	2,000	3,000
1	2,000	5,000
8	2,000	10,000
1	2,000	15,000
1	2,500	2,500
1	2,500	5,000
2	2,500	8,000
1	3,000	10,000
2	3500	5,000
1	3500	8,000
2	5000	1,000
2	5000	5,000
2	5000	15,000
23	5000	20,000
12	5000	25,000

Figure 1 . Procurement Bank Cards In Use as of November 1999 in Ventura County And Assigned Dollar Limitations

Procedures Governing Procurement Bank Cards

A manual entitled "Procurement Bank Card Procedures" contains the procedures governing the use of the Procurement Bank Card in Ventura County. This manual is used in training all Procurement Bank Card holders and approving officials. This training is scheduled and conducted by Materials Management, GSA.

- F-11 These procedures prohibit use of a card by "any member of your staff, your family, your supervisor, and anyone else."
- F-12 The initial Procurement Bank Program limited those vendors where the card could be used. Materials Management has removed all limitations on vendors where the Procurement Bank Card may be used (other than ATM machines, Real Estate, and payment of fines) in response to complaints by county employees attempting to use the card efficiently.
- F-13 Procedures specifically restrict purchase of personal computers, peripheral equipment and printers. ISD is not relieved of this restriction in written procedures although it accounts for most of their usage of the bank card and management has informed us that ISD is an exception.
- F-14 Materials Management personnel emphasize that it is important for county employees to request a discount when the procurement card is used. However, Accounts Payable indicates there is no way to determine if a discount has been requested or received.
- F-15 The first level of compliance oversight is assigned to the Approving Official selected by the Ventura County department or agency that requests the procurement bank card and that department's accounting unit.
- F-16 In a review of the Findings for this report, the General Service Agency (GSA) added that "Departmental usage logs submitted to the Auditor-Controller's Office are the second level of compliance review. The third level of compliance monitoring is Materials Management's review of the Quarterly Merchant Activity Report." (See Figure 2 a sample page)
- F-17 Each employee signs an affidavit at the time he accepts a Procurement Bank Card which defines immediate disciplinary responses to employee misuse or abuse of the card. However, instances of misuse currently result in a memo to the cardholder from Accounts Payable asking the employee not to repeat the error. Repeated misuse and/or inadequate documentation has resulted in one instance where a card was recalled.
- F-18 Employees agree by signed affidavit, at the time of accepting a Procurement Bank Card, to return the card to the approv-

ing official at the time their employment is terminated. Each county department/agency has their own exit procedure. Materials Management is reviewing exit procedures for card holders and initiating an exit procedure for approving officials in response to the Findings of the Grand Jury.

Grand Jury Oversight

The Grand Jury reviewed Procurement Bank Card Purchases for the month of November 1998. From this sampling, the corresponding department usage logs were reviewed for 13 cardholders. We found:

- F-19 Fleet Services uses the Procurement Bank Card for large volume business with two automotive vendors for parts, repairs and service.
- F-20 Review of 13 Procurement Bank Card statements (93 items and supporting documents) revealed 15 items charged in apparent violation of stated purchasing procedures. Examples of possible inappropriate purchases noted were:
 - FAX Machine
 - Hotel Invoice
 - Office Supplies (4 instances)
 - Water Cooler Rental
 - Computer Parts (not ISD purchases) (3 instances)
 - Large Dollar Monthly Business with Single Vendor (\$4,900+) (2 instances)
 - Equipment rental
 - Hotel – approved retroactively as emergency use, no invoice provided, amount exceeded the card daily limit
- F-21 Although the State of California program issues guidelines that clearly charge purchasing agencies using the Procurement Bank Card with responsibility to audit performance, evaluate efficacy, and assess compliance, these functions seem to be delegated, in Ventura County, to the County Auditor/Controller's staff since they are the county department with the authority to initiate an audit.
- F-22 No performance or compliance audits have been initiated since the conception of the Procurement Bank Card Program. However, Accounts Payable has an auditor on staff and hopes to complete one credit card departmental audit in the last quarter of 1999-2000, with six audits planned for the 2000-2001 fiscal year. These audits will not be limited to the procurement bank card, but will include all three credit card programs currently used by county agencies.

- F-23 Ventura County pays the State of California an administrative fee of 1/10th of 1% of all amounts charged on a Procurement Bank Card. The fee paid to the State of California CAL-Card Program for fiscal year 1998-99 was \$3,538.
- F-24 An analysis of staffing of the purchasing operation in Ventura County, to include benchmarking staffing to comparable counties, will be completed in the coming months. This information would have been useful in this study.

Conclusions

Our investigation concludes:

- C-1 That the Procurement Bank Card is an efficient method of purchasing small dollar amount items that allows county personnel to acquire items needed to complete work expeditiously. However, Ventura County has removed a control feature that would limit usage to specific vendors. While this change is convenient for Ventura County employees, GSA has failed to implement the level of oversight detailed in the CAL-Card Program to detect misuse and/or abuse. (F-14, F-15, F-16)
- C-2 That instances of misuse of the Procurement Bank Card do occur with some frequency. It is uncertain, without internal compliance audits, to know if these are simple errors, inadequate training, or intentional abuse. (F-19, F-20, F-21, F-22)
- C-3 That support documentation provided to Accounts Payable is sometimes insufficient. Accounts Payable has neither the time nor the personnel to reconcile individual transactions. Such follow-up is, at times, met with resistance by the approving official within the using agency who has seniority and little interest in justifying a purchase. (F-5, F-20)
- C-4 That there may be circumstances that would require an employee to hold more than one Procurement Bank Card, but it is inconceivable that one employee would hold over twenty cards and be the one person who could conduct business with over twenty vendors. This procedure appears to be unacceptable because any absence of this employee (illness, vacation, called to another location) would necessitate the cards being used by an unauthorized employee or business coming to a halt until he was available. (F-8, F-11)
- C-5 That there are agencies using the Procurement Bank Card who do volume business with a vendor where a blanket purchase order would allow the county to negotiate best price. (F-8, F-19)

- C-6 Questionable transactions identified by the third level review of quarterly transaction reports by Material Management personnel are referred to Accounts Payable for follow-up. Compliance oversight of individual transactions therefore becomes the responsibility of Accounts Payable in the Auditor/Controller's office. (C-3)
- C-7 That while Materials Management staff states that the Procurement Bank Card purchases are small dollar amounts and account for only \$3,500,000 of county expenditures. This rationale is used as the reason for providing minimal oversight or performance review at this level which deprives the county of one of the touted benefits, i.e. lower costs of doing business. (F-3, F-4, F-5, F-21, F-22)
- C-8 The records of Procurement Bank Card holders and Approving Officials are not current due to a lack of an effective and uniform Ventura County exit procedure. (F-9, F-10, F-18)
- C-9 The Procurement Bank Card procedures do not accurately reflect Information Systems Department's approved use of the bank card to purchase computers and related equipment or the approved use for Fleet Service and the County Fire Department to procure automotive parts, repairs, or maintenance. (F-13)
- C-10 Approving officials should be able to determine whether or not an employee has requested or received a county discount when using the Procurement Bank Card. (F-14)

Recommendations

We respectfully make the following recommendations:

- R-1 The Procurement Bank Card Program be reviewed by the Director, General Services Agency, to ensure that records are kept current, that there are criteria for card limits, that there is effective compliance oversight by GSA, and that procedures are implemented to ensure effective follow-up in instances of misuse. (C-1)
- R-2 The manual entitled "Procurement Bank Card Procedures" be reviewed and updated so that procedures accurately reflect the approved practice, with attention to ISD purchase of computers and the ability of Fleet Services and County Fire Department to procure automotive parts, repairs, or maintenance (C-9)
- R-3 Single purchase limits of \$1,000 apply to all Procurement Bank Cards used by Ventura County employees and that

purchases in excess of \$1,000 should be authorized by an approved purchase order. (see C-7)

- R-4 Written guidelines be established that tier dollar limitations on Procurement Bank Cards to supervisory level of card holder. (see C-1) Suggested levels:

Level I	\$500/single purchase	\$1,000/mo
Level II	\$1,000/single purchase	\$5,000/mo
Level III	\$1,000/single purchase	\$15,000/mo
Level IV	\$1,000/single purchase	\$25,000/mo*

**Deputy Purchasing Agent only*

- R-5 Training be coordinated with oversight personnel in Accounts Payable to help avoid common misuse (services, incomplete documentation, detailed identification of purchase, not listing number of items purchased in a category, etc.) (see C-2, C-3, C-4, and C-5)
- R-6 General Services Agency incorporate, as part of the exit procedure of all county departments/agencies, a document that will effectively track each procurement card and the employment status of approving officials in order to keep accurate up-do-date records of Procurement Bank Card holders and Approving Officials. (see C-8)
- R-7 As previously agreed, General Services Agency work with Accounts Payable to establish and enforce a strong response policy to repeated misuse and/or insufficient documentation. (see C-2, C-3, C-4, C-5, and C-6)
- R-8 Support paperwork submitted to the approving official include a box to indicate if a discount to Ventura County was requested and/or received at the time of purchase. (C-10)
- R-9 General Services Agency perform an annual comparative analysis of the Procurement Bank Card program to ensure that the costs of the procurement process have been effectively reduced. (C-7)

Responses Required By

- General Services Agency (all Recommendations)
 Auditor/Controller's Office (R-5, R-7)
 Chief Administrator's Office (R-1, R-6, R-8, R-9)

