

**EXAMINATION OF THE COMMONWEALTH'S  
PROCUREMENT CARD PROGRAM PROCESSES,  
PROCEDURES, AND FINANCIAL CONTROLS**



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## **Lack of Adequate Oversight Exposed ProCard Program to Needless Risk**

*Auditor proposes over 100 recommendations to improve program*

### **Background**

The Commonwealth Procurement Card (ProCard) program was initiated in 1996 as one of the EMPOWER Kentucky initiatives. EMPOWER was implemented to combine best practices, technology, and training to ensure a more streamlined cost-effective approach to business operations. The goal of the ProCard program was to offer a more cost-effective method for making routine and recurring small purchases. Based on time savings estimates for each ProCard transaction and a projected number of ProCard transactions, the EMPOWER team projected savings of approximately \$12.3 million from all funds that included estimated general fund savings of over \$6.5 million for the two fiscal years 1998 through 2000. The general fund savings were incorporated into the biennial Executive Budget for 1998-2000. The actual number of ProCard transactions exceeded the budgetary projections, suggesting greater potential savings than originally anticipated. ProCard, a cost-effective method of making recurring small purchases, reached a high of \$51 million in fiscal 2001. In conjunction with required budget reductions, ProCard transactions declined each subsequent year to \$39.5 million in fiscal 2004, representing about six percent of total germane state purchases.

### **Introduction**

Citing questionable ProCard activity dating back to July 2000 that was reported in Department of Parks 2003 internal audits, Governor Fletcher expressed concern regarding the management of the ProCard program. The Auditor of Public Accounts met with the Governor and others to offer to examine ProCard policies and procedures and to make recommendations for strengthening program controls. In a March 22, 2004 letter, the Governor formally requested this office to perform an examination of ProCard policies and procedures.

Also, in March 2004 the Governor requested cabinet secretaries to examine their agencies' use of ProCards. As a result of this review, the number of ProCards and monthly credit limits were reduced and the Finance and Administration Cabinet (Finance) ProCard policy was modified.

### **Scope and Methodology**

The scope of the Auditor's examination primarily included the period July 1, 2002 through December 31, 2003. We identified and analyzed ProCard expenditures made by all

state agencies and selected 22 agencies representing approximately 85 percent of all ProCard expenditures for examination.

We examined the design and operation of Finance and agency policies and controls. Procedures were performed to determine the adequacy of supporting documentation, evidence of an adequate supervisory review of ProCard transactions, and that purchases were in compliance with existing policies. In each agency, a sample of potentially questionable ProCard transactions was also selected to examine.

### **Summary of Significant Audit Findings**

Our examination revealed significant lapses of ProCard program oversight at the Finance and agency levels resulting in over 100 recommendations. The lack of oversight to ensure ProCard activity adhered to policies, procedures, and acceptable business practices allowed unacceptable practices to persist. Significant weaknesses cited include:

- Over 820 transactions had insufficient documentation to determine whether the purchase was made by the cardholder.
- Over 140 ProCard transactions had no supporting documentation to evidence the propriety and necessity of the transactions.
- Over 120 ProCard transactions were not supported by adequate documentation.
- Over 50 split purchases or split payments were identified. This practice circumvents established authority for purchase or payment limits.
- ProCards not cancelled after the cardholder was either no longer employed by the agency or no longer required a ProCard.
- Lack of training for agency ProCard administrators.
- Lack of employee disciplinary action for not complying with established ProCard policies and controls.

Incidental personal use of ProCards was identified in six instances totaling \$245.41.

### **APA Continuing Audit Commitment**

Due to the significance of the findings detailed in this report, this office will continue to scrutinize the ProCard program by incorporating ProCard transaction testing into our annual financial audit process. Transactions will be tested for compliance with revised ProCard policies.



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## **List of abbreviations/acronyms used in this report**

APA	Auditor of Public Accounts
CFC	Cabinet for Families and Children
CHS	Cabinet for Health Services
CIO	Chief Information Officer
CMA	Catalog Master Agreements
CPO	Capital Plaza Operations
DEP	Department for Environmental Protection
DES	Department for Employment Services
DFW	Department of Fish and Wildlife
DMA	Department of Military Affairs
DOC	Department of Corrections
DPH	Department for Public Health
DTE	Department of Technical Education
Fair Board	Kentucky State Fair Board
FAP	Finance Procurement Card Program Policy
Finance	Finance and Administration Cabinet
FY	Fiscal Year
Horse Park	Kentucky Horse Park
Juvenile Justice	Department of Juvenile Justice
KDE	Kentucky Department of Education
KYTC	Kentucky Transportation Cabinet
Labor	Labor Cabinet Office of the Secretary
MARS	Management Administrative Reporting System
MCC	Merchant Category Code
MHMR	Department for Mental Health and Mental Retardation
NREPC	Natural Resources & Environmental Protection Cabinet
OMFA	Finance Office of Management and Fiscal Affairs
Parks	Kentucky Department of Parks
PD	Procurement Desktop
PPR	Public Protection and Regulation Cabinet
ProCard	Procurement Card
STARS	Statewide Accounting and Reporting System







**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

September 20, 2004

Governor Ernie Fletcher  
Commonwealth of Kentucky

Robbie Rudolph, Secretary  
Finance and Administration Cabinet

RE: Examination of the Commonwealth's Procurement Card Program

Dear Governor Fletcher and Secretary Rudolph:

As a result of your concerns over alleged improprieties in the Commonwealth's Procurement Card (ProCard) program, we offered to update and expand certain audit work previously performed by this office. Governor Fletcher's subsequent letter of March 22, 2004, requested this office review the ProCard program. In a subsequent meeting with the Secretary of the Finance and Administration Cabinet (Finance) and other Finance representatives, it was determined that this office would conduct an examination of central and agency level ProCard policies, procedures, and financial controls. This engagement was an examination and not an audit conducted for the purpose of expressing an opinion on the fair presentation of financial activity.

The objectives of this examination were to determine whether Finance and agency policies, procedures, and other controls were effectively designed and consistently applied to properly administer the ProCard program. The scope of this examination was for the period July 1, 2002 through December 31, 2003, unless otherwise noted. We also sought to identify instances of non-compliance with policy, identify ProCard financial control and other process weaknesses, and report findings offering recommendations for improvement. Our examination revealed issues that included the following:

- Inadequate ProCard administrator and user training;
- Lack of oversight to ensure proper administration of the ProCard program;
- Non-compliance with established policies, procedures, and controls;
- ProCard transactions resulting in split purchases or payments;
- Personal or inappropriate ProCard purchases; and,
- Lack of supporting documentation for ProCard purchases.

In an ongoing effort to assess the reliability of ProCard policies, procedures, and controls, this office will incorporate into our routine financial audits specific procedures to evaluate agency ProCard activity.



Governor Fletcher and Secretary Rudolph  
September 20, 2004  
Page 2

Transmitted herewith is our report, with central and agency level findings, resulting from the procedures applied during this examination. We have included over 100 recommendations, in addition to Finance policy changes, to improve the program's accountability and effectiveness. The policy changes implemented by Finance on June 17, 2004, demonstrate its desire to effectively control the ProCard program. A background section and appendices are included in the report for informational purposes.

We thank Governor Fletcher for his request to examine the ProCard program. We also thank the Cabinet Secretaries, cabinet employees, and others that provided cooperation and assistance during this engagement.

Very truly yours,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

## **Background**

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The Commonwealth's 1996 through 1998 Appropriations Act for the Executive Branch included the selection of technology projects that had as a prominent criteria demonstrable cost savings on a recurring basis that through the use of technology and training would improve service delivery. A Redesign Steering Committee that advised the Secretary of the Governor's Cabinet on projects to be funded recommended the technology initiatives known as EMPOWER Kentucky.

One of the two EMPOWER Kentucky projects that received full funding was the Simplified Administrative Services initiative. This initiative was to combine best practices, technology, and training to result in streamlined effective business operations. One component of the Simplified Administrative Services initiative was a purchasing management program that made use of a Procurement Card (ProCard). The ProCard program was implemented in 1996 with the intent to assure a more efficient, cost-effective approach to small purchases by facilitating point-of-sale procurement for authorized cardholders.

ProCard was to provide state agencies with a mechanism to make small purchases and payments in a manner that substantially reduced the time required to make a necessary small purchase. ProCard replaced the cumbersome imprest cash system that relied on requisitions, individual purchase orders, and the necessity to replenish imprest cash. ProCards are to be used for purchases under an agency's established small purchase single quote authority or for price contract items valued at no more than the single cardholder transaction limit. The Finance and Administration Cabinet (Finance) Controller establishes the small purchase single quote authority for each agency.

Members of an EMPOWER Kentucky team calculated detailed estimates of time savings within each cabinet for the upcoming 1998-2000 period due to ProCard implementation. The total estimated savings due to ProCard for the two-year period from all funds was \$12,295,100. The projected ProCard savings attributable solely to general fund transactions was \$6,529,300. Based on the actual number of transactions processed during the 1998-2000 biennium, coupled with the projected time savings associated with each transaction, the ProCard program exceeded the savings projections. The EMPOWER Kentucky team's projected

general fund savings, along with administrative services saving estimates from other initiatives, were actually incorporated into the 1998-2000 Executive Budget resulting in an actual reduction of agency budgets. This provided an incentive for the agencies to effectively implement ProCard and to realize the estimated cost savings.

In July 2000, the Commonwealth implemented the Management Administrative Reporting System (MARS) as its statewide accounting system. The ProCard Program is accounted for within MARS through the Procurement Desktop and Advantage modules. For a MARS component system overview reference Appendix A and for a summary of the simplified ProCard transaction flow within MARS reference Appendix B.

During fiscal year (FY) 1997, \$433,178 in ProCard transactions were processed. By FY 2001 ProCard expenditures peaked at \$51 million, representing a shift of over 300,000 transactions from time-consuming traditional purchase methods to the more cost-effective ProCard method. In conjunction with required budget reductions, ProCard transactions declined each subsequent year to \$39.5 million in FY 2004, representing about six percent of total germane state purchases. Reference page 12 for a graphic presentation of total Commonwealth ProCard purchases relative to total purchases for fiscal years 2000 through 2004.

Each ProCard has established limits on single purchases, daily purchases, and monthly purchases, as well as a maximum allowable number of transactions per day and per billing cycle. Each ProCard is assigned a Merchant Category Code (MCC). This code is designed to control the types of products or services that may be purchased from a particular vendor. For example, a ProCard may not be used to purchase alcoholic beverages from a liquor store because the ProCard's assigned MCC would not approve the purchase. However, it would be possible for a ProCard to be used to purchase liquor at a super retailer because the MCC for this type of store is general. Therefore, the MCC cannot be used as the sole control for expenditures.

Finance's Procurement Card Program Policy (FAP) 111-58-00, in effect through June 16, 2004, governed the overall use of ProCards (Appendix C). The following types of expenditures are not allowed:

- Travel and entertainment related expenses and advances, although registration fees may be paid by use of the ProCard;
- Alcoholic beverages;
- Automotive gasoline;
- Cash advances;
- Salaries and wages;
- Legal services;
- Lease purchases;
- Insurance premiums and bonds;
- Services covered by Personal Service Contract statute; and,
- Printing services, although copying costs may be paid by use of the ProCard.

Finance is responsible for the central level oversight of the ProCard program. At the onset of the ProCard program, Finance elected to delegate much of that oversight to state agencies.

Each agency designated ProCard administrators to oversee ProCard processing and approval. ProCard administrators' responsibilities include a thorough review of transactions. This review is to ensure adequate supporting documentation is maintained. Billings are reconciled with expenditure documentation to conclude whether transactions should be authorized for payment.

Finance is responsible for ensuring agency personnel are properly trained, that processing and approval guidelines are developed and communicated to the applicable agency personnel, and that the program is operating efficiently and effectively. Further, Finance has the responsibility to ensure that ProCard transactions and user data are adequately secured.

Concerns related to the effectiveness and operation of the Commonwealth's ProCard program were expressed after certain ProCard transactions in the Department of Parks (Parks) were questioned. The six examples of questionable transactions cited were identified by Parks' internal auditors in three reports dated April and May 2003. The transactions in question occurred between July 2000 and October 2002.

As a result of the concerns related to the operation of the ProCard program, in March 2004, Governor Fletcher asked each cabinet secretary to examine their agencies' use of ProCards. That internal review resulted in the following changes:

- Modification of the ProCard policy to address the pre-approval and post review processes to be completed by each agency;
- Cancellation of 1,339 ProCards leaving approximately 4,460 active ProCards; and,
- Accumulative reduction of agency ProCard monthly credit limits totaled an annualized amount of \$285 million resulting in an annualized credit limit of over \$580 million.

The reduction of ProCards and associated credit limits does not impact the state budget or result in a reduction of expenditures. For a listing of the number of agency ProCards cancelled and associated agency monthly credit limit reductions refer to Appendix E.

Additionally, the Office of Policy and Audit was established within Finance. One of the duties of this office will be to monitor the ProCard program to determine agency compliance with established procedures and controls.

## Introduction

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Subsequent to concerns expressed by Governor Ernie Fletcher regarding the ProCard program, the Auditor of Public Accounts (APA) offered to examine ProCard program policies and procedures and to recommend suggestions for strengthening program controls. In a March 22, 2004 letter, the Governor formally requested such an examination.

Due to the primary responsibility of Finance to oversee the ProCard program, the APA entered into an agreement with Finance to perform the ProCard examination as requested by the Governor. The scope of this engagement included an examination of ProCard policies and procedures for the period July 1, 2002 through December 31, 2003, unless otherwise noted. We performed procedures to:

1. Determine that ProCard purchases are properly accounted for and recorded in MARS.
2. Determine the adequacy of the design of central and agency level ProCard policies and procedures to ensure the program is properly controlled.
3. Test ProCard transactions for compliance with established policies and procedures to determine whether these controls were operating effectively.
4. Test ProCard transactions to determine that purchases were for a business related purpose and not personal in nature.
5. Report control weaknesses or other issues identified during our examination and offer recommendations to strengthen controls or address other issues as needed.

The APA identified ProCard expenditures made by all state agencies within the examination period. An analysis of this information resulted in the APA selecting 22 agencies for examination. These agencies either administered the highest dollar amounts of ProCard expenditures or were identified as having potential ProCard issues. Transactions administered by the selected agencies represented approximately 85 percent of all ProCard expenditures made by the Commonwealth.

Although Finance is responsible for oversight of the ProCard program, significant responsibility was delegated to state agencies when the program was implemented. Agencies were responsible for the development of adequate internal control procedures to ensure compliance with procurement policies and regulations issued by Finance, and to ensure that adequate supporting documentation is maintained for ProCard purchases.

Because policies, procedures, and controls varied by agency, the APA tested compliance at each of the agencies selected. We examined the design and operation of agency policies and controls, the adequacy of supporting documentation, and agency compliance with Finance ProCard policies in effect during the examination period. Three samples were selected within each agency examined:

- ProCard transactions were selected having a “Status” field of “Reviewed.” The “Reviewed” status indicated the ProCard administrator updated this field after reviewing the transaction to ensure the purchase was appropriate and that adequate supporting documentation existed.
- ProCard transactions were selected having a “Status” of other than “Reviewed.” This indicates the ProCard administrator did not review the transaction or failed to enter the “Reviewed” status into the system after a review was performed.
- ProCard transactions were selected that appeared unusual or potentially personal in nature.

The same sample and testing methodologies were consistently employed for the 22 agencies examined, unless otherwise noted. This report is organized by agency, presenting comments and recommendations for each agency examined. Therefore, similar findings identified in multiple agencies are reported for each agency as warranted. This method of presentation allows all findings and recommendations related to each agency to be readily identified.

The following ProCard expenditure information is graphically presented on pages 10-12:

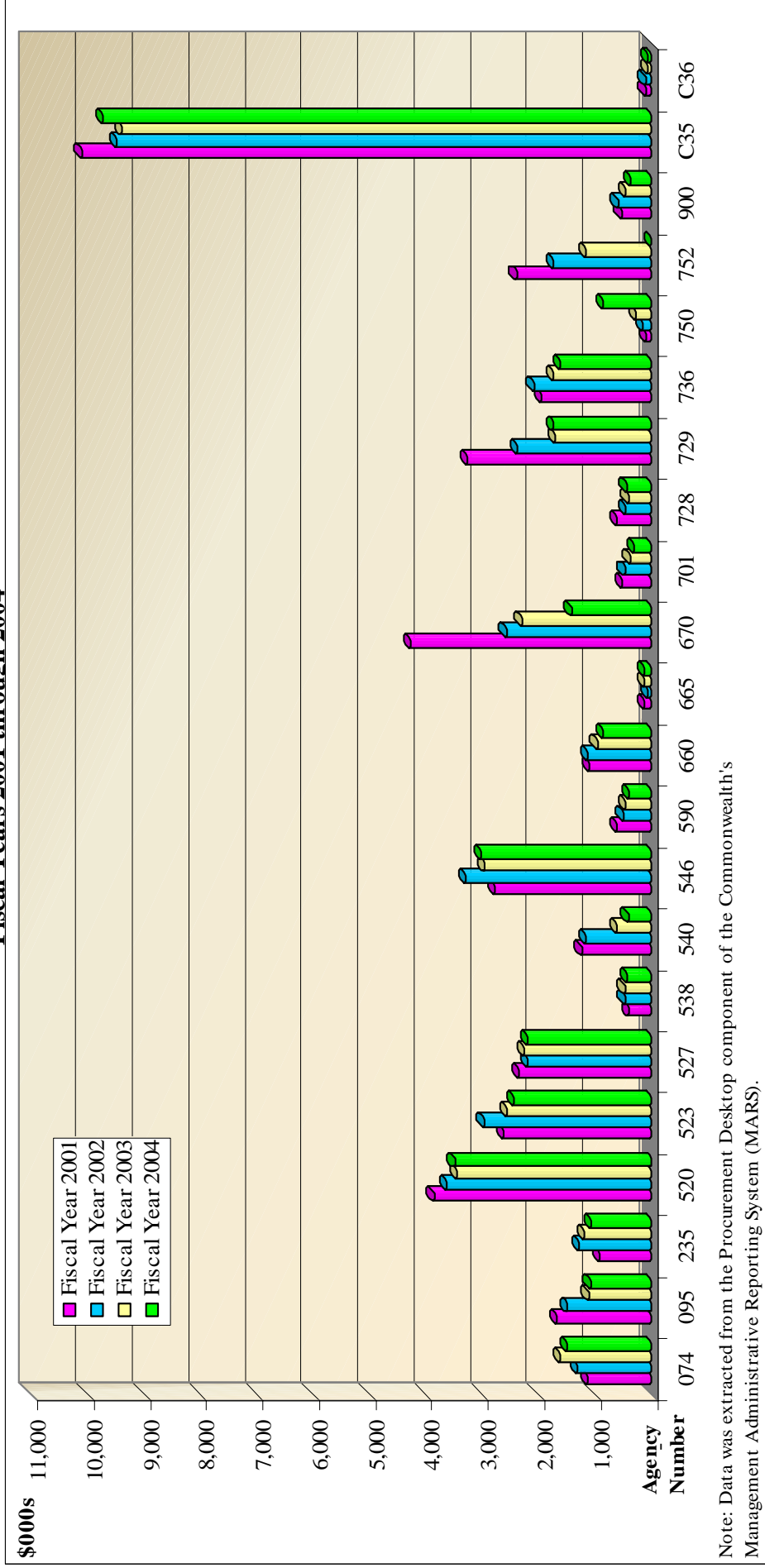
- Total ProCard expenditures administered by the agencies examined for fiscal years 2001 through 2004.



- Total ProCard expenditures by cabinet for fiscal years 2001 through 2004.
- Total Commonwealth ProCard expenditures for fiscal years 2000 through 2004.



### Total ProCard Expenditures Administered by the Agencies Examined for Fiscal Years 2001 through 2004



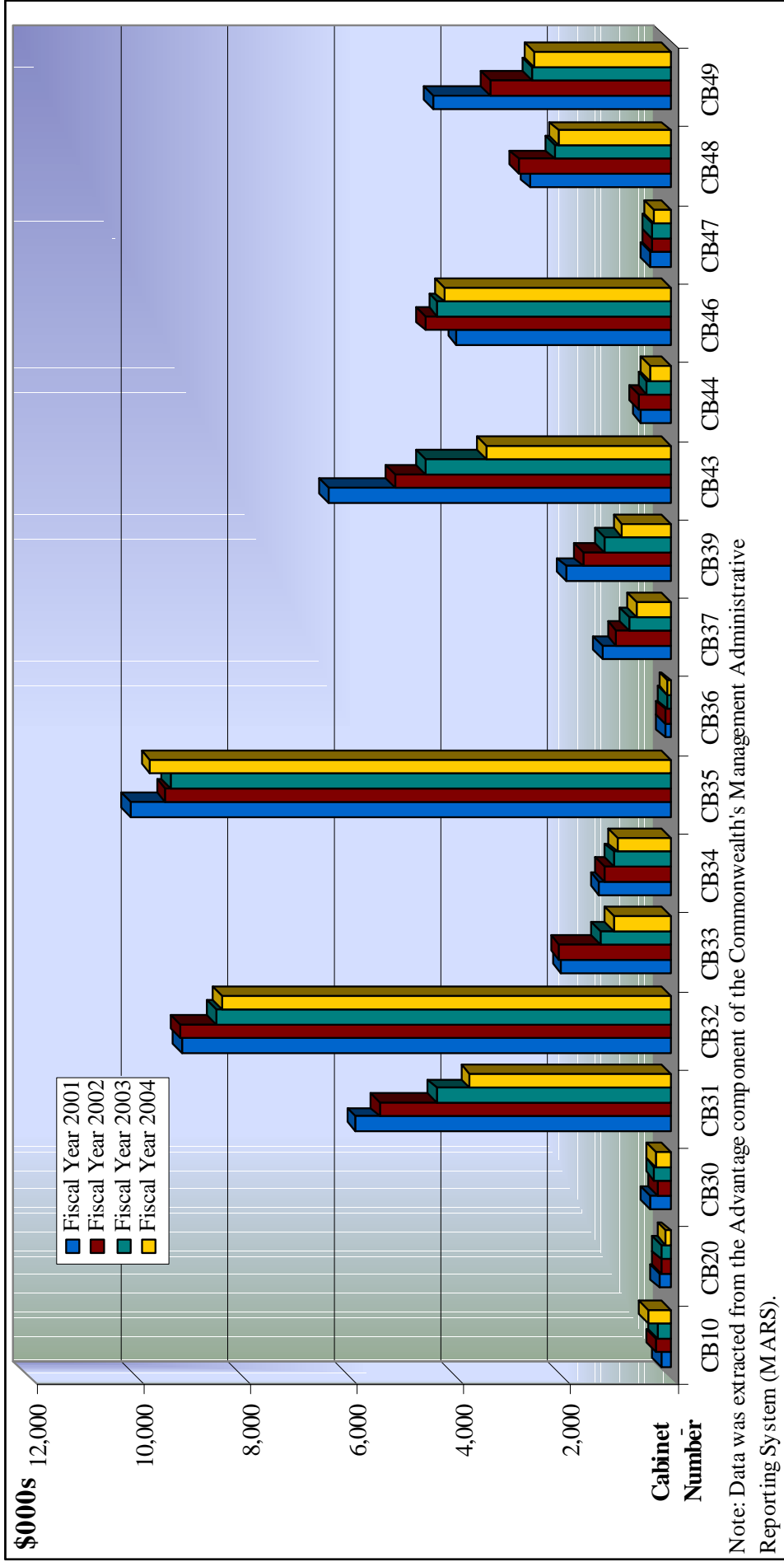
Note: Data was extracted from the Procurement Desktop component of the Commonwealth's Management Administrative Reporting System (MARS).

#### Listing of Agencies Examined

074	Department of Veterans Affairs	665	Kentucky Horse Park
095	Department of Military Affairs	670	Department of Parks
235	Kentucky State Fair Board	701	CFC – Administration Services
520	Department of State Police	728	CHS – Department for Public Health
523	Department of Juvenile Justice	729	CHS – Department for Mental Health/Retardation
527	Department of Corrections	736	CFC – Community Based Services
538	Department for Employment Services	750	Finance – Office of the Secretary
540	Department of Education	752	Office of Management and Fiscal Affairs
546	Department for Technical Education	900	Labor – Office of the Secretary
590	Department for Environmental Protection	C35	Transportation Cabinet
660	Department of Fish & Wildlife	C36	Cabinet for Economic Development



**Total ProCard Expenditures by Cabinet for Fiscal Years 2001 through 2004**

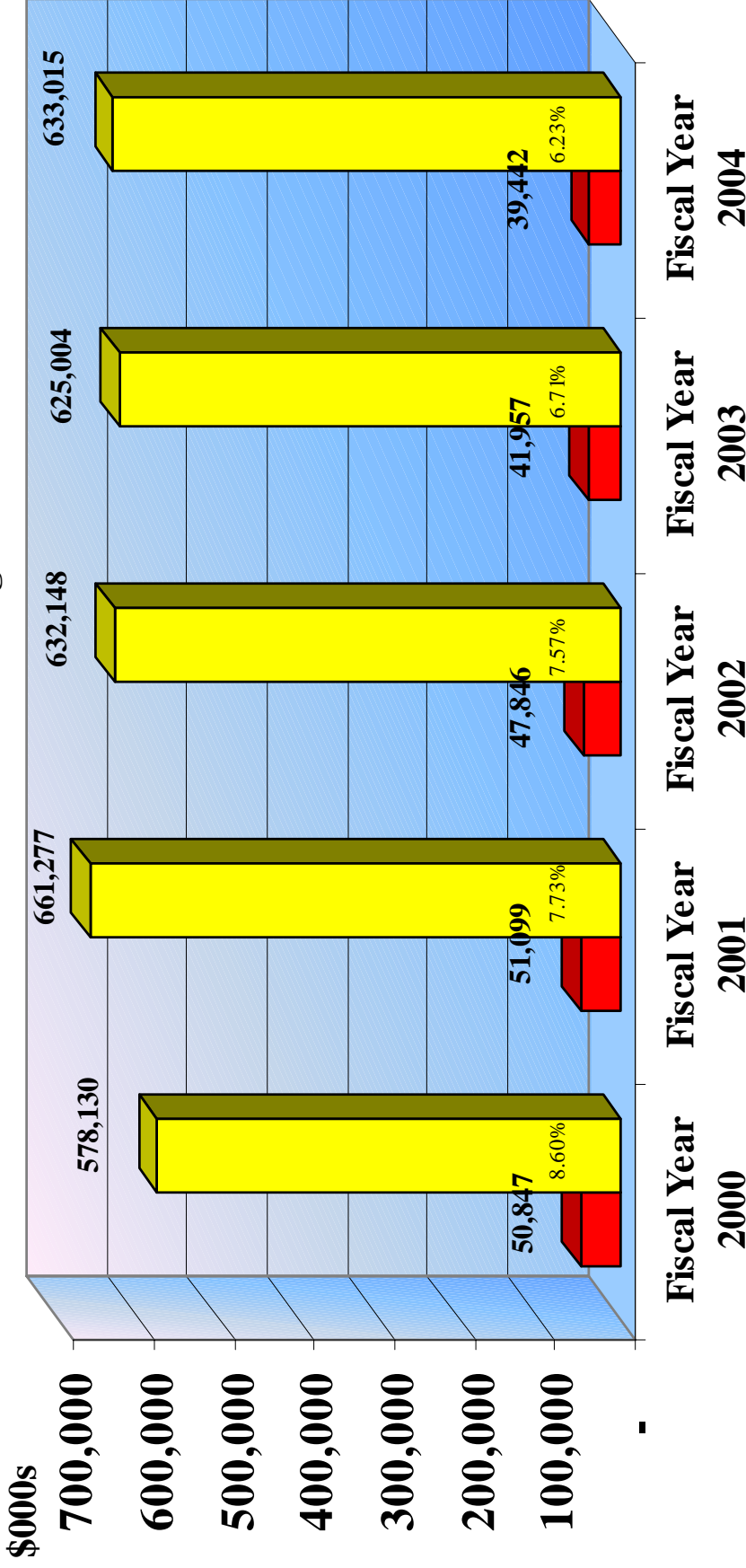


**Listing of Cabinets**

CB10	Legislative Cabinet	CB37	Public Protection and Regulation Cabinet
CB20	Judicial Cabinet	CB39	Finance and Administration Cabinet
CB30	Revenue Cabinet	CB43	Tourism Development Cabinet
CB31	General Government Cabinet	CB44	Labor Cabinet
CB32	Justice Cabinet	CB46	Cabinet for Workforce Development
CB33	Education, Arts & Humanities Cabinet	CB47	Personnel Cabinet
CB34	Natural Resources and Environmental Protection Cabinet	CB48	Cabinet for Families and Children
CB35	Transportation Cabinet	CB49	Cabinet for Health Services
CB36	Cabinet for Economic Development		



### Total ProCard Purchases Relative to Total Germane State Purchases for Fiscal Years 2000 Through 2004



**Note:** Data was extracted from the Advantage component of the Commonwealth's Management Administrative Reporting System (MARS).

**Note:** Total state purchases exclude Medicaid, personnel, grants, capital construction, and other unrelated expenditures.





## Central Level Findings and Recommendations

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### **Finance should ensure ProCards are appropriately cancelled and properly identified in Procurement Desktop.**

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The bank provided us a listing of all Commonwealth active and cancelled ProCard accounts. This information was reconciled to MARS Procurement Desktop (PD) listing of cardholders. We identified 2,653 accounts within the PD PCARD Task table that had been cancelled by the bank. Given that the deletion of cardholders from the PD PCARD Task table would alter the integrity of the database so that ProCard transaction activity is not properly presented, Finance adopted an alternate procedure to change the cardholder name to indicate that a ProCard was cancelled. This change incorporates into the cardholder name a recognizable indicator that the ProCard was cancelled.

We examined the listing of cancelled ProCards to ensure that each cardholder's name had been altered to designate the account as cancelled. The cardholder name had not been altered for 1,227, or approximately 46 percent, of the cancelled ProCard accounts. Finance has provided guidelines to agency administrators detailing the process to follow for cancelled ProCards.

Testing performed at 22 agencies identified 28 instances of ProCard accounts continuing to be active subsequent to the cardholders leaving state employment or assuming duties not associated with purchasing. Charges were made to five of these 28 ProCards after the cardholders were no longer employed. Information Finance currently receives from the bank could be reconciled to employment data requested from the Personnel Cabinet to identify active ProCard accounts that should be cancelled.

### *Recommendations*

We recommend that Finance periodically reconcile the cardholder information maintained in PD to information maintained by the bank. This procedure should ensure all cancelled ProCards have an appropriately altered cardholder name to denote a cancelled account. Reviewing the cardholder names would allow Finance to determine whether agency administrators are complying with the Finance policy.

Cardholder account information currently received by Finance from the bank should be reconciled to state personnel data requested from the Personnel Cabinet. Further investigation should be performed for active ProCard cardholders who do not appear in the state personnel data.

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**Finance should remove the delete feature from the PD PCARD Task table.**

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We reconciled a listing of ProCard accounts provided by the bank to the ProCard account information located in the PD PCARD Task table. We identified 197 cardholder accounts on the bank listing that were not found on the PD PCARD Task table. ProCard transactions were charged to 76 of these accounts. ProCard transactions cannot be entered into PD without a valid cardholder number being matched in the PD PCARD Task table. Therefore, these accounts must have existed in PD at one time and were subsequently deleted.

Because PD uses data referenced from various tables, the cardholder names are not part of the original transaction data provided by the bank. This field is populated within PD in real time as the documents are opened for viewing by referencing the PD PCARD Task table and finding the matching ProCard number. Because these ProCard numbers were deleted from the PD PCARD Task table, the referential integrity of the data has been corrupted. Since a record no longer exists for the ProCard number, the on-line PD system is not able to populate that field. The on-line document will contain a blank field for the cardholder name.

Finance has told administrators not to delete ProCard numbers from the PD PCARD Task table through the training material and update e-mails. Although Finance has communicated the proper procedures to administrators describing the process to cancel ProCards by altering their cardholder names, administrators continued to delete this information as of March 2004. If the delete feature were removed from the PD PCARD Task table, administrators would not be able to inadvertently or through a lack of knowledge affect the referential integrity of the database. If a mistake was made, the agency administrator would contact Finance for the record to be deleted. Finance should maintain the ability to delete records from this table since it is possible that an administrator could accidentally add a cardholder in error.

*Recommendation*

We recommend Finance remove the delete feature from the PD PCARD Task table.

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**Finance should negotiate a more favorable rebate and continue to minimize late charges.**

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The Commonwealth, under its current ProCard contract with the bank, receives an annual rebate of 0.4 percent of the total dollar volume of ProCard transactions. This rebate increases to 0.5 percent if total purchases exceed \$50 million. The rebate reached a high of \$252,937 for calendar year 2000. With the negotiation of the next ProCard contract, Finance has an opportunity to obtain more generous rebate terms from the selected bank.

The contract also provides for the assessment of late charges for untimely payments by the agencies. These charges averaged \$10,500 for fiscal years 2000 and 2001, but declined to approximately \$2,300 for fiscal years 2002 and 2003, reflecting a 78 percent improvement.

### *Recommendations*

We recommend Finance seek more favorable rebate terms from the bank. Further, administrators should continue their vigilance to ensure ProCard payments are made on a timely basis, thereby keeping late charges to a minimum.

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### **Finance has initiated changes to the ProCard program policy.**

In March 2004, the Finance and Administration Cabinet revised ProCard program policy FAP 111-58-00. The revised policy was finalized and signed by Governor Ernie Fletcher on June 15, 2004. These revisions provided additional details and clarifications of the responsibilities for all involved in the use and administration of the ProCard program, established the opportunity for a ProCard to be assigned to an organization, and initiated procedures to increase the accountability of all those associated with the ProCard program.

The new policy, located in Appendix D, was effective on June 17, 2004, at the beginning of the ProCard cycle. Specific policy changes are as follows:

- Allowing a ProCard to be issued to an organizational unit. According to the policy, this unit must be “logistically separate from the associated cabinet or agency.” Justification of the need for such a ProCard must be approved by the Controller’s Office prior to the request for the issuance of the ProCard. Further, specific restrictions exist to issue, secure, use, and report activity for this type of ProCard.
- In the previous ProCard policy, no specific requirement existed to prohibit a cardholder from splitting a payment to bring the amount under the ProCard’s single purchase limit if the total is not above the agency’s small purchase authority single quote amount. The revised policy specifically addresses this issue.
- If a ProCard is lost or stolen, the cardholder’s supervisor must now approve issuing a new ProCard to the cardholder.

- The policy was modified to reference the Finance and Administration Cabinet policies concerning retention period for ProCard transaction supporting documentation.
- The modified policy now explicitly details what information is required for ProCard documentation. Specifically, the receipts “shall include the vendor’s name, date of purchase, description of each item purchased, price of each item purchased, total cost, cardholder name or ProCard number, and signature of cardholder or designee.”
- All of the responsibilities of the ProCard administrator are now combined into a section of the new policy for ease of review. In addition, the new ProCard policy specifically states that the “administrator shall not be a cardholder,” that Finance will provide training on the “implementation and operation of the procurement card program,” and the need to assure that all fixed asset purchases are “reported to the agency property officer or fiscal officer.”
- The new policy identifies the information that Finance expects to find in the agency control plan. This information at a minimum includes:
  - A listing of specific purchases that do not require prior supervisor approval.
  - Procedures for cardholders and organizational unit ProCard custodians to submit receipts to the ProCard administrator.
  - Procedures for cardholders, organizational unit ProCard custodians, and his/her supervisor to review ProCard statements to certify that ProCard purchases were made for the benefit of the state.
  - “Purchases of food or beverage shall be accompanied by documentation explaining the reason for the purchase, justification of need, and proof that they benefited the Commonwealth.”
  - More specific procedures for violations of the policy and the associated disciplinary actions to be taken.

- ProCard administrators are required to report “any noncompliance by any card cardholder or organizational unit’s card custodian or card user, or shall attest that all purchases are in compliance with policy.”
  - The revised ProCard policy states, “Each agency shall establish a process to examine and monitor compliance with this policy by cardholders, organizational unit’s card custodians, card users, authorized signers and agency procurement card administrators. The results of reviews shall be documented and retained.”
- Finance has expanded its procedures to strengthen its oversight of the ProCard program. These procedures include:
    - Finance will each month “make available a report for each cardholder to identify his or her charges, to attach the valid receipts, and to confirm through both cardholder and supervisory signature that the goods and services were for the use of the Commonwealth.”
    - Finance may conduct audits of agency ProCard transactions “to ensure compliance with this policy by each agency.”
    - Finance will “review reports and documentation submitted by agencies.”
    - An annual examination will be performed to “review the number of procurement cards issued based on the organizational structure of the agency, ensure that a cardholder’s use of the procurement card warrants the continued issuance of the card and spending limits for cards.”

Finance’s management changes exhibit its responsibility and commitment to properly oversee this program.

*APA will continue scrutiny of ProCard transactions.*

The APA will incorporate into its financial audit process an evaluation of user compliance with the revised ProCard policies. One area that will be examined is the practice of issuing a ProCard to an organizational unit rather than to an individual. This practice will be examined to determine whether it increases the risk of ProCard abuse and to ensure the ProCard user remains accountable for purchases made. Process deficiencies or noncompliance issues will be reported and suggestions made for improvement.

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**Agency Level Findings and Recommendations**





**Department of Military Affairs**



**The Department of  
Military Affairs  
procedures for issuance  
and cancellation of  
ProCards should be  
improved.**

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During the examination of controls in place at the Department of Military Affairs (DMA), we found that, overall, the ProCard administration controls were adequately established and functioning as intended. However, we identified certain weaknesses based on tests of specific ProCard transactions.

A listing provided by DMA indicated six new ProCards were issued from June 2002 through May 2004. We performed an examination of the new ProCards issued to determine whether the cardholder agreements were available, complete, and properly authorized. At the time of testing, two cardholder agreements did not properly reflect changes to the ProCard spending limits.

We also examined documentation concerning seven ProCards that were cancelled during the audit period. We compared the personnel termination or transfer dates to the ProCard cancellation dates. One ProCard was not cancelled until 14 months after the employee left DMA employment.

Finally, we tested ten inactive ProCard accounts and noted that although the spending limits on all these ProCards had been reduced to zero, none of these accounts had newly signed cardholder agreements on file, nor had the ProCards been cancelled. Further testing revealed that the bank had actually issued new ProCards for six of these ten inactive accounts. Though the spending limits were reduced to \$0 the bank was not contacted to close the accounts. The newly issued ProCards associated with these six accounts were also held in the inactive account files. However, no transactions were charged on these inactive ProCards.

No issues were noted concerning administrative review of monthly ProCard purchases.

FAP 111-58-00 states that a “participating employee shall sign and accept the terms and conditions of the Commonwealth of Kentucky Procurement Card Cardholder Agreement.” If this form is not maintained by DMA, it calls into question whether the cardholder is aware of the responsibilities in using a ProCard. Further, when ProCards are not cancelled promptly after an employee leaves DMA or transfers to another part of the agency, DMA increases its risk of allowing unauthorized charges to be made to the ProCards.

*Recommendations*

We recommend the DMA ProCard administrators review all active cardholder agreements to determine whether the agreements reflect current credit limits established for the cardholders. If an agreement is not available or is no longer valid, the administrator should create a new cardholder agreement and require the cardholder to read and sign the agreement. When any change other than cancellation is made to a cardholder's account requiring a Commercial Cardholder Account Form to be created, the administrator should create a new cardholder agreement and require the cardholder's review and signature. These documents should be maintained as prescribed in FAP 111-58-00.

Further, the ProCard administrator should ensure that when a cardholder either leaves DMA employment or job duties no longer require the use of a ProCard, the ProCard is immediately cancelled with the bank. The bank will address and resolve any charges made to a closed account on DMA's behalf with a transaction date after the cancellation date. It will be the vendor's responsibility to validate any such charges to the bank.

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**Administrators should utilize the PD "Status" feature.**

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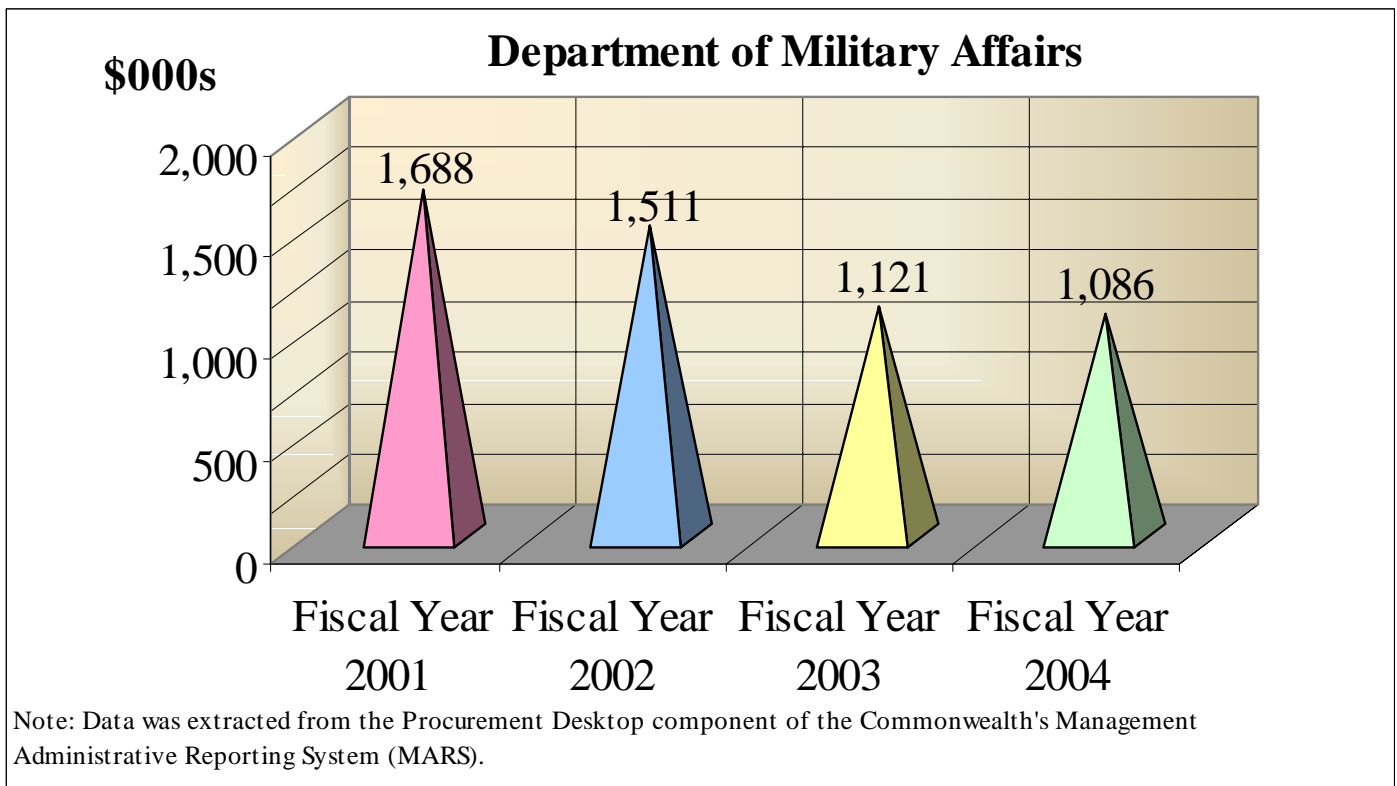
Normally within PD, after a document has been approved and released, it becomes a read-only document. The ProCard documents are unique in that after they have been approved and released, all data fields in the document are read-only with the exception of the "Status" field. The administrator can change this field at any time to reflect the current state of the transaction. This process was put in place to afford the administrators a tool for monitoring transaction status. In the case of DMA, the administrators were not using this feature. For 18 of the 144 transactions tested, the status designation was inaccurate based on the documentation available from the administrator.

*Recommendation*

We recommend that as cardholders provide supporting documentation, the administrator alter the "Status" field to its proper designation.

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**Total ProCard Expenditures Administered by the Agency  
Summarized by Fiscal Year**





**Kentucky State Fair Board**





**The Kentucky State Fair Board should improve training for cardholders.**

Our review of the Kentucky State Fair Board's (Fair Board) ProCard controls revealed several areas in which controls could be improved.

Currently, the backup administrator for the Fair Board provides training for all new cardholders in an orientation session. This training is mandatory and includes discussion of cardholder responsibilities, proper ProCard usage, and specific cardholder restrictions. The cardholders are provided copies of the Finance Cardholder User Guide.

However, no documentation concerning specific Fair Board requirements or exemptions from the procedures set out by Finance was developed. Further, no records were maintained of the cardholder's ProCard training. Formal training relating to any specific Fair Board ProCard policies and guidelines is necessary for cardholder awareness and understanding.

*Recommendations*

We recommend formal documentation be developed concerning any agency-specific variances from the ProCard procedures established by Finance. These agency specific requirements should be included as part of all ProCard training.

We further recommend attendance at all training be formally documented and reviewed by management to ensure that all cardholders have been provided sufficient training.

**The Fair Board should ensure cardholder agreements are properly completed and maintained.**

We obtained copies of cardholder agreements for the 50 current Fair Board ProCard cardholders and initially tested five identified as new issuances from June 2002 through May 2004. These cardholder files were reviewed to determine whether the cardholder agreements were available, complete, and properly authorized. One cardholder agreement was not properly signed by the administrator.

In further testing, we examined the other 45 cardholder agreements provided to ensure proper authorizations. Of the 45 agreements, 33 did not have an administrator signature. We identified additional issues associated with these cardholder agreements:

- The ProCard number was missing on four agreements;

- The credit limits for the ProCards were missing on two agreements;
- The date on which the agreement was signed was missing on two agreements; and
- The credit limits were struck through and updates were made on the face of one agreement.

Our testing of transactions discovered 19 instances involving eight cardholders in which the purchase amount exceeded the single purchase limit per the cardholder agreements. Discussions with the Fair Board revealed that changes made to a cardholder's account, such as credit limits, were documented on the Commercial Cardholder Account Form processed with the bank; however, the cardholder was not required to read and sign an updated cardholder agreement.

FAP 111-58-00 states that a "participating employee shall sign and accept the terms and conditions of the Commonwealth of Kentucky Procurement Card Cardholder Agreement." If this form is not maintained by the agency, it calls into question whether the cardholder is truly aware of the cardholder's responsibilities in using a ProCard.

### *Recommendations*

We recommend the Fair Board review all active cardholder records to determine whether a cardholder agreement is on file accurately documenting current credit limits. If this form is not available or is no longer valid, the administrator should create a new cardholder agreement and require the cardholder to read and sign the agreement. When any change other than ProCard cancellation is made to a cardholder's account requiring a Commercial Cardholder Account Form to be created, the administrator should create a new cardholder agreement and require the cardholder's review and signature. These documents should be maintained as prescribed in FAP 111-58-00.

**Administrators should ensure ProCards for former employees are cancelled promptly.**

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A listing of seven ProCards cancelled from June 2002 through May 2004 were examined to ensure the timely cancellation of the ProCards. We also determined whether ProCard charges occurred after termination of employment or cancellation of the ProCards.

Among the seven ProCards, in two instances the associated cardholder left Fair Board employment a significant amount of time prior to the cancellation of the ProCard. In one instance, the cancellation form was sent to the bank eight months after the cardholder resigned. In the second instance, 14 months elapsed following the cardholder's resignation before the cancellation form was sent to the bank.

The failure to promptly cancel ProCards after an employee either leaves Fair Board employment or transfers to another part of the agency, increases the risk that unauthorized charges may be made to the ProCards.

### *Recommendations*

We recommend the administrator ensure that when a cardholder either leaves employment at the Fair Board or job duties no longer require the use of a ProCard, that the ProCard is immediately cancelled with the bank. The bank will address and resolve any charges made to a closed account on behalf of the Fair Board with a transaction date after the cancellation date. It will be the vendor's responsibility to validate any such charges to the bank.

Further, the administrator should ensure that documented cancellation dates match the dates that the requests for cancellation are sent to the bank.

### **The Fair Board should strengthen ProCard procedures established to review purchases.**

We tested 181 ProCard charges with due dates between July 1, 2002 and December 31, 2003, to determine whether the procedures established at the Fair Board were adequate and consistently performed.

We found several instances where the controls designed to ensure a review of the purchased items for appropriateness and necessity were not performed. Specifically,

- The supporting documentation for 148 transactions was insufficient to document that the associated charge was made by the cardholder.
- The supporting documentation for 180 transactions was insufficient to determine whether the administrator reviewed the transactions for appropriateness and necessity. The Fair Board administrator delegated the ProCard transaction review to a supervisor.

- The supporting documentation for seven transactions did not offer evidence of a supervisors review for appropriateness and necessity.
- The supporting documentation for seven transactions was insufficient to allow the administrator to determine the appropriateness and necessity of the purchase.
- The supporting documentation for three transactions confirmed the existence of split payments for extension cords in order to bring an invoice amount below the cardholder's single purchase limit.
- The supporting documentation for two transactions was not available; however, both charges were either refunded or reimbursed.
- The supporting documentation for one transaction showed that sales tax had been charged and that the amount was refunded by the vendor.
- The "Status" field within MARS PD for five transactions did not reflect the proper status designation based on the supporting documentation available.

Cardholders are provided with Finance's Procurement Card User's Guide that explains the regulations associated with the use of a ProCard. This Finance Procurement Card User's Guide specifically addresses cardholder responsibilities concerning acceptable purchases and documentation requirements.

### *Recommendations*

We recommend the Fair Board develop a supplement to the Finance Procurement Card User's Guide that specifically addresses agency requirements for supervisory review, cardholder submission of receipts, and disciplinary actions to be enforced if the cardholder does not comply with agency policy. This supplement should be presented to all current cardholders in a training session to allow for questions and discussion.

Further, we recommend the Fair Board ensure that administrators are aware of all applicable regulations concerning the ProCard program including that each transaction should be reviewed based on the guidelines provided by Finance. The ProCard transaction "Status" field should be changed to reflect the current designation of the transaction.

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**The Fair Board should ensure all ProCard purchases are appropriate and necessary.**

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We found seven ProCard transactions related to items purchased that were specifically disallowed under FAP 111-58-00 for the period July 1, 2002 through December 31, 2003. These transactions included two charges for car rentals, one charge for automobile gasoline for an agency vehicle, one charge for hotel accommodations, and three charges for personal items. Finance approved the charge for automobile gasoline as an isolated incident 11 days after the purchase and the hotel charge was credited to the ProCard. The personal items charged were for two automobile gasoline purchases and one charge at an adult bookstore. Finance approved the car rentals prior to the charges. A gasoline charge was subsequently paid for by the cardholder and a ProCard credit was issued for the amount of the bookstore item on the same day it was purchased.

Further, we identified two transactions related to items that were not specifically disallowed under FAP 111-58-00, but were of questionable necessity. These purchases included decorations for an employee luncheon and awards for officials, judges, and a committee's members. The only purchase that was reimbursed was the purchase of awards from sponsorship monies provided for the event. The Fair Board did not initiate disciplinary actions for the personal items purchased.

Although the Fair Board uses reports developed by Finance to assist in ProCard transaction reconciliation procedures, additional information extracted from the MARS master database, or maintained separately, may provide assistance in reviewing the Fair Board's expenditures for performance standards and trends.

*Recommendations*

We recommend the Fair Board ensure all cardholders are aware of the types of purchases that are specifically allowed and disallowed in accordance with the policy set forth in FAP 111-58-00. Procedures should be developed to request special permission to make purchases that may be disallowed by the policy. This process should be completed and a letter of authorization for the purchase should be on file with the administrator prior to the purchase.

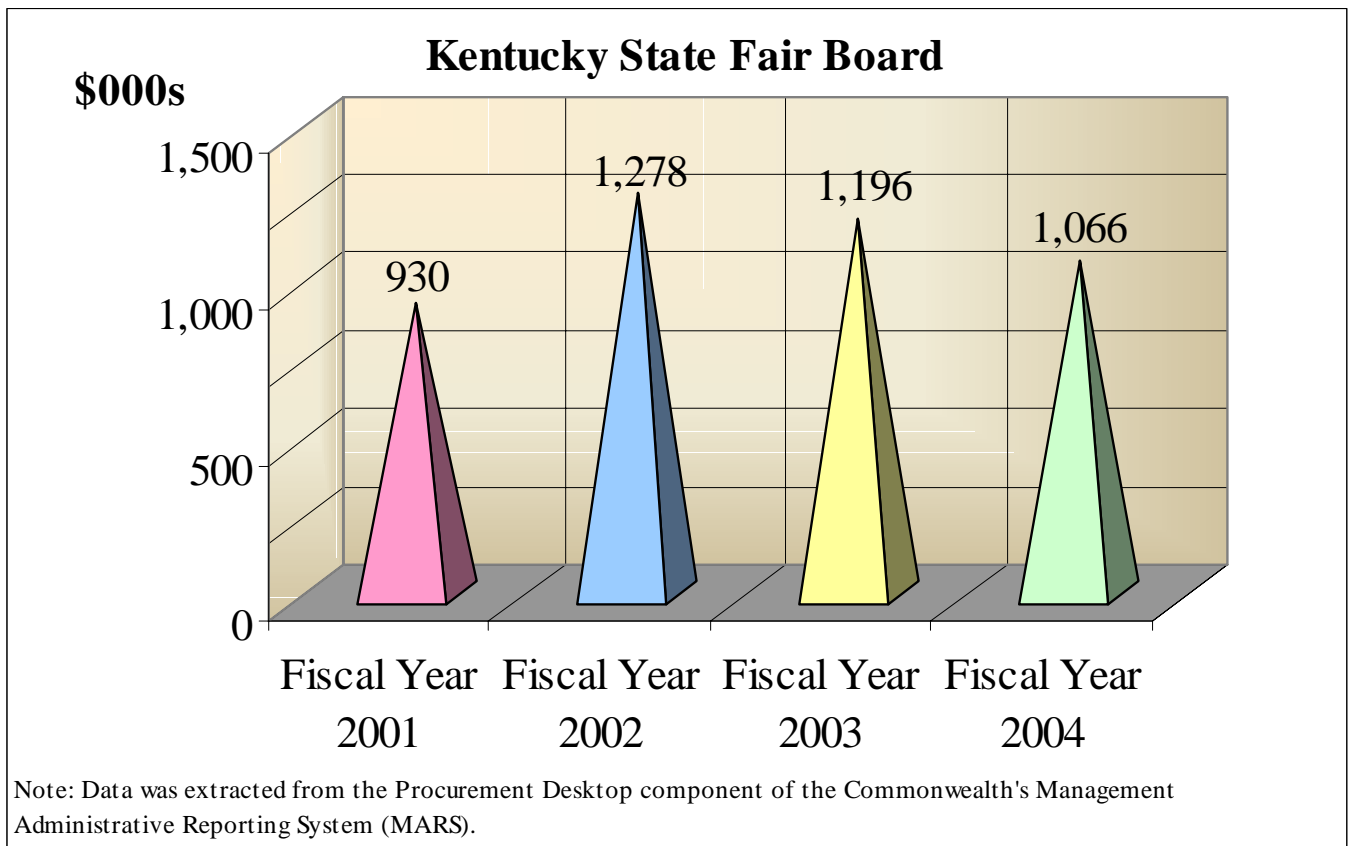
For items that are not specifically disallowed under the policy, the agency should ensure that all cardholder purchases have a business-related purpose and are necessary, appropriate, and not excessive.

Unless Finance provided authorization prior to the purchase of a disallowed item, the Fair Board should consider appropriate disciplinary action. ProCard purchases not specifically disallowed in the policy should conform with the Fair Board's fiduciary responsibility to the taxpayers to ensure that expenditures have a business-related purpose and are necessary, appropriate, and not excessive.

We further recommend the Fair Board explore the possible application and development of reports to assess ProCard expenditures. These reports may include:

- An extended report from MARS PD or MARS Advantage data presenting the transaction accounting string at the division level would be useful in reviewing expenditures across divisions.
  - A report from MARS PD data providing transactions sorted by employee and merchant would assist with tracking recurring, unusual, or infrequent purchases.
  - A report from MARS PD of ProCard transactions sorted by merchant could be reviewed to identify vendors used with Catalog Master Agreements (CMA) or other price or discount agreements with the Fair Board. Further, this report could also be used to identify purchases made to non-CMA vendors and informing management as to whether similar purchases could be made with CMA vendors.
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### Total ProCard Expenditures Administered by the Agency Summarized by Fiscal Year







**Department of Juvenile Justice**



**Department of Juvenile Justice should enforce existing controls to ensure proper ProCard usage.**

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The Department of Juvenile Justice (Juvenile Justice) has developed several ProCard procedures to ensure that transactions are appropriate, properly reviewed, and supported by adequate documentation. However, certain ProCard purchases did not adhere to established procedures.

We tested 216 ProCard charges with due dates between July 1, 2002 and December 31, 2003, to determine whether the procedures established at Juvenile Justice were adequate and consistently performed. During this testing, we found supporting documentation was inadequate to allow the ProCard administrator to determine whether the cardholder made the purchases, the items were appropriate and necessary, or to ensure sales tax was not charged. Specifically,

- The receipts in support of 91 transactions, or 42 percent, were not signed by the cardholders, thus offering no assurance that the associated charges were made by the cardholders.
- The supporting documentation for 40 transactions, or 18 percent, was inadequate to allow the administrator to determine the appropriateness and necessity of the purchase.
- The supporting documentation for 16 transactions did not provide an itemized receipt that would allow the administrator to determine whether sales tax had been charged.

Juvenile Justice has developed a Receiving Report, which is to be submitted on a weekly basis showing that all purchased items on a ProCard have been received and inspected. All associated receipts are to be attached to this Receiving Report. Because the Receiving Report can be used for multiple purchases, the administrator removes the receipts from the report as the charges are processed in MARS PD. The Receiving Report is then filed with the final receipt. This process does not allow a reviewer to verify that the cardholder acknowledged any beyond the final receipt.

The policy employed by Juvenile Justice for the ProCard program addresses the requirement that cardholders must obtain an itemized receipt for all charges. An itemized receipt is necessary to identify what purchases have been made as well as any additional charges not directly associated with the item's price, such as sales tax or freight.

*Recommendations*

We recommend all cardholders submit a Receiving Report accompanied by itemized receipts as prescribed by Juvenile Justice. When the itemized receipt does not provide sufficient information to determine the items purchased, cardholders should provide a description of the purchase and a statement of its necessity.

The administrator should ensure that a copy of the Receiving Report is attached to each applicable receipt prior to filing the receipt. This process provides documentation that each transaction was purchased by the cardholder, a description of the items purchased and their necessity, and the existence of additional charges such as sales tax.

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**Juvenile Justice should require prior approval for recreational purchases.**

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In October 2002, a Juvenile Justice fiscal officer purchased, without prior approval, a software system and several games for a youth center. While these purchases are not specifically disallowed under FAP 111-58-00, the lack of prior approval of the purchases caused Juvenile Justice to pay for an item that cannot be used in the youth center or refunded by the vendor.

One of the games purchased was titled "Grand Theft Auto III." Due to the nature of the facility for which this purchase was made, the content of this game was deemed inappropriate by a youth worker supervisor. Since the item was confiscated prior to use, the fiscal officer attempted to gain a refund from the vendor. However, the return policy at the vendor would not allow for an exchange or refund. We confirmed that the confiscated game was sent to the central office and remains in the safe.

*Recommendation*

We recommend all purchases of recreation equipment for facilities managed by Juvenile Justice require prior approval by management to ensure that the equipment is appropriate based on the facility's mission and youth population.

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**Administrators should use the status field in PD to indicate the current status of transaction review.**

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The MARS system provides a status field that can be used by administrators to indicate the current status of review for each ProCard transaction. Juvenile Justice administrators reported to us that they were using the Status field within MARS for ProCard transactions when originally reviewing the transaction. The various options that can be selected for this field are: Accepted, Not Reviewed, No Receipt, Disputed Status, or Sales Tax Included. However, after the original review, administrators were not updating the status of the review to reflect the receipt of additional documentation.

Normally within PD, after a document is approved and released for processing, it can be reviewed as a “read-only” document but cannot be altered. The handling of ProCard documents are unique in the MARS system in that after they have been approved and released for processing, all data fields in the document convert to read-only with the exception of the Status field. The administrator can change this field at any time to reflect the current review status of the transaction. This process was put in place to afford the administrators a tool for monitoring the status of a transaction. Juvenile Justice administrators stated that they were unaware that this feature existed.

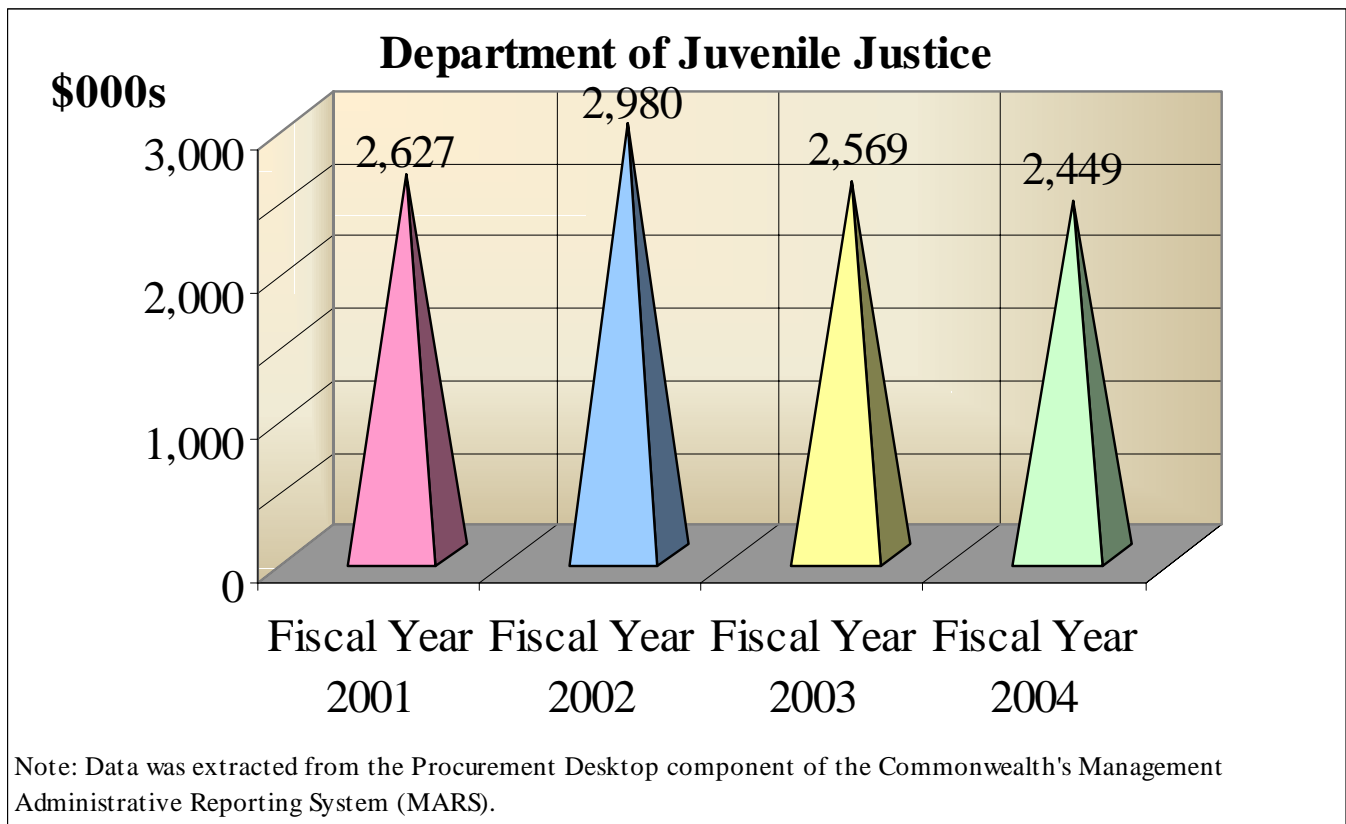
*Recommendation*

We recommend that as cardholders provide supporting documentation, the administrator alter the Status field to reflect the current status of the transaction.

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**Total ProCard Expenditures Administered by the Agency  
Summarized by Fiscal Year**







**Department of Corrections**



**The Department of Corrections should ensure ProCard administrators and cardholders are properly trained on their responsibilities.**

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Our examination of the ProCard program for the period July 1, 2002 through December 31, 2003, determined that the Department of Corrections (DOC) did not provide cardholders with adequate ProCard training. DOC expected all new ProCard administrators to attend the Finance sponsored training; however, it is not required or documented.

We understand that DOC intends to provide an internal refresher class that will be repeated on an annual basis by DOC's Division of Administrative Services.

FAP 111-58-00 specifically addresses the need for cardholders to receive training prior to using a ProCard. Without proper training, a cardholder will not be aware of specific regulations, procedures, and responsibilities. This lack of information may lead to misuse, unallowable purchases, and lack of supporting documentation.

*Recommendations*

We recommend DOC develop training that includes administrator and cardholder responsibilities for ProCard usage. This training should be given to all cardholders. DOC should ensure that the training remains current with policies and procedures required by Finance and DOC management. Proper documentation of those attending training should be retained.

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**DOC should standardize ProCard cancellation procedures.**

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Our ProCard examination for the period July 1, 2002 through December 31, 2003, discovered inconsistent procedures used in canceling ProCards throughout the different institutions, offices and divisions of DOC.

Three different methods were used to inform a ProCard administrator that a ProCard should be cancelled. These methods were: 1) cardholder's supervisor informs the ProCard administrator; 2) facility personnel administrator informs ProCard administrator; and, 3) cardholder informs the ProCard administrator. Each organizational entity within DOC uses one or a combination of these three methods.

When canceling a ProCard, the procedure used by most DOC administrators is to fax or mail the ProCard cancellation forms to the bank, authorizing the bank to deactivate the ProCard and to shred or cut up the ProCard. One organizational entity within DOC does not destroy the cardholder's ProCard, but places it in the former cardholder's employee personnel file.

Without standardized procedures, a DOC organizational entity might overlook canceling the ProCard of an employee who leaves DOC employment. If this occurs, DOC increases its risk that charges will be made to the ProCard.

*Recommendations*

We recommend that DOC establish standardized procedures to inform the ProCard administrator of the necessity to cancel a ProCard as well as standardized procedures to ensure the ProCard is cancelled. These procedures should be formalized and documented in DOC's procedures manual. In addition, they should be included in ProCard administrator training.

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**DOC should standardize review and reconciliation procedures.**

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Our ProCard examination for the period July 1, 2002 through December 31, 2003, discovered inconsistent procedures regarding the manner in which ProCard administrators throughout organizational entities of DOC reviewed and reconciled ProCard transactions. In fact, every ProCard administrator at DOC enforces these policies differently, including (a) the review procedures performed, (b) the attributes included in the review, (c) actions taken when supporting documentation is not provided or the transaction is disputed, (d) the use of reports for review, and (e) the update of the ProCard review status.

Without standardized procedures in place, inadequate review of ProCard transactions could occur, which can result in unauthorized transactions being made by a cardholder.

*Recommendations*

We recommend that DOC establish standardized procedures to review and reconcile ProCard transactions. These procedures should be formalized and documented in DOC's procedures manual, and included in administrator training. In addition, they should comply with the guidelines set forth in FAP 111-58-00.

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**DOC should ensure all purchases made on a ProCard are appropriate and necessary.**

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During our examination of DOC's ProCard program, we tested 279 ProCard transactions with due dates between the period of July 1, 2002 and December 31, 2003, to ensure purchases made at DOC were appropriate and necessary. Numerous exceptions were noted:

- The cardholder did not provide supporting documentation for 45, or 16 percent, of the transactions. For 41 of these transactions, the administrator did not take disciplinary actions, require repayment by the cardholder, or revoke the ProCard.

- Supporting documentation for 52 transactions, or 18 percent, was not adequate to determine either the items purchased or the necessity of the purchases or both.
- Supporting documentation was not adequate to determine that the purchase was made by the cardholder for 164 transactions, or 58 percent. Evidence that ProCards were shared by multiple users was apparent on 13 of these transactions.
- Supporting documentation for five transactions identified that sales taxes were charged with the purchases but never removed or credited back to the cardholder.
- Supporting documentation for 13 transactions showed the purchaser was someone other than the cardholder.
- 11 transactions appear to be in violation of FAP 111-58-00 due to: one instance of payment for a travel expense of \$92.75, five instances of bank finance charges due to late payments totaling \$85.64, and five questionable purchases that included two food purchases, ornament boxes, watches and a Spiderman item, and flowers for retirement. The total for these five questionable purchases was \$379.02.
- One transaction was split because the item purchased exceeded the ProCard's single purchase limit.
- For 190 transactions, or 68 percent, no evidence existed that the administrator reviewed the purchases for appropriateness and necessity.
- The PD Review Status reported for 142 transactions, or 51 percent, was not accurate.

### *Recommendations*

We recommend DOC specifically address agency requirements for supervisory review, cardholder submission of receipts, and disciplinary actions to be taken if the cardholder does not comply with DOC ProCard policy. These requirements should be distributed to all current cardholders in a training setting to allow for questions and discussion.

We also recommend DOC ensure that administrators are aware of all applicable regulations concerning the ProCard program. Further, each transaction should be reviewed based on the guidelines provided by Finance.

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**DOC should ensure cardholder agreements are properly completed and maintained.**

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A listing of all new ProCards issued from June 2002 through May 2004 was provided. A total of 45 new ProCards were issued during this period. We tested a sample of 13 cardholder agreements to determine whether the forms were completed and properly authorized. We found three cardholder agreements that were not complete. In addition, proper approval had not been provided for two cardholders.

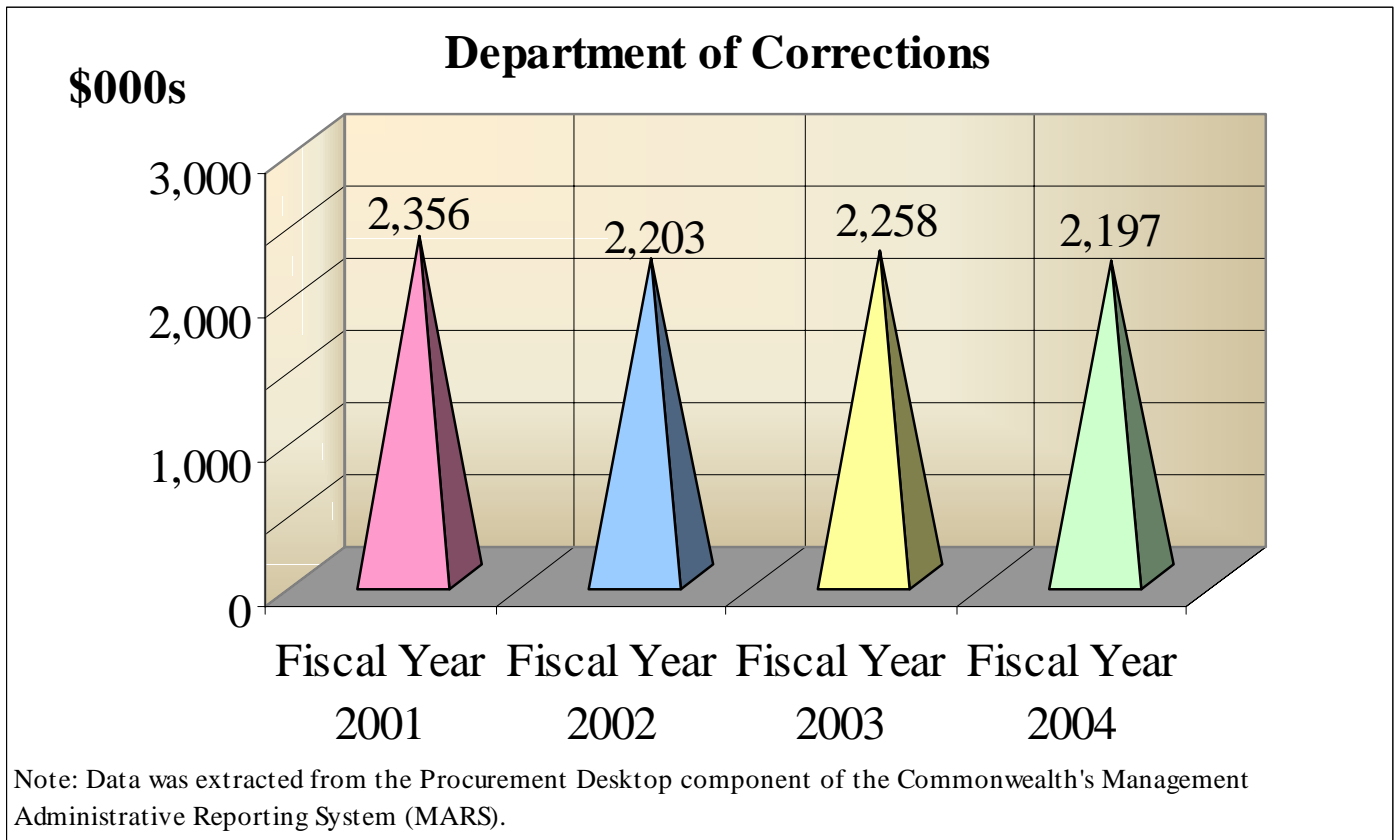
FAP 111-58-00 states that a “participating employee shall sign and accept the terms and conditions of the Commonwealth of Kentucky Procurement Card Cardholder Agreement.” If this form is not maintained by DOC, it calls into question whether the cardholder is aware of responsibilities regarding to the ProCard program.

*Recommendation*

We recommend the DOC ProCard administrators review all active cardholder files to determine whether a cardholder agreement is on file reflecting each cardholder’s current credit limits. If this form is not available or is no longer valid, the administrator should create a new cardholder agreement and require the cardholder to read and sign the agreement. These documents should be maintained as prescribed in FAP 111-58-00.

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**Total ProCard Expenditures Administered by the Agency  
Summarized by Fiscal Year**







**Department for Employment Services**



**The Department for  
Employment Services  
should continue to  
strengthen controls over  
the ProCard program.**

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The Department for Employment Services (DES) began an internal review of its ProCard program in January 2004. This review was initiated after the DES ProCard administrator resigned in December 2003. The DES internal review did not identify any instances of fraud or abuse; however, it did identify specific areas where expected controls were not being consistently followed. As a result of the internal review, DES has clearly defined procedures and exceptions for the new administrator that was hired in January 2004.

Since DES has performed an internal review, certain issues resulting from our examination have now been addressed. DES has implemented new procedures where we have made specific statements to describe the new procedures put in place.

The new ProCard administrator and the Assistant Director of DES provided vital assistance with the review of the ProCard program at DES. To enhance cardholder training, they developed a Procurement Card User's Guide Supplement to be used by DES cardholders in addition to the Finance Procurement Card User Guide. At the time of our examination, the Procurement Card User's Guide Supplement was in draft form awaiting approval by the appropriate parties subsequent to the anticipated reorganization of DES.

*Recommendations*

We recommend the draft of the Procurement Card User's Guide Supplement be finalized and distributed to all cardholders. In addition, a meeting or series of meetings with all cardholders to go over the Procurement Card User's Guide Supplement and the Finance Procurement Card User Guide should be scheduled. These meetings will allow DES's management to distribute the new procedures, address specific questions, and ensure that all cardholders are knowledgeable concerning the agency's position regarding ProCard usage.

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**Cardholder agreement  
should be properly  
authorized.**

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We asked DES to provide us with a listing of all new ProCards issued by DES from June 2002 to May 2004. During this period, 28 new ProCards were issued. Four of the cardholder agreements were not reviewed by DES, due either to the cancellation of the ProCards or the ProCard request was too new for the ProCard to have been received by the user. The remaining cardholder agreements for the

new issuances were reviewed to determine whether the forms were completed and properly authorized. Seven of the forms were found to be missing the authorization of the administrator.

Without the administrator's authorizing signature, there is no assurance that the administrator is aware of the responsibilities taken on by the cardholder or that the cardholder's signature is indeed that of the authorized cardholder. This lack of confirmation could potentially result in adverse consequences for DES and the administrator.

### *Recommendations*

We recommend the administrator authorize and sign the cardholder agreement after the cardholder has reviewed and accepted its terms and conditions and signed the document. Further, a review of all current cardholder agreements should be made to ensure that they have been properly authorized and accurately reflect the current credit limits for the cardholders. If any cardholder agreements reviewed are lacking this administrator authorization, the administrator should create new cardholder agreements, the cardholders should sign the new forms, and the administrator should authorize and sign the forms and maintain them in the administrator's files. This is necessary due to the possibility that cardholder stipulations have been changed.

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### **Administrators should ensure ProCards for former employees are cancelled in a timely manner.**

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DES provided a listing of 29 ProCards cancelled since June 2002. A sample of nine cancelled ProCards was selected for review to ensure that the ProCard was cancelled in a timely fashion once the cardholder left employment at DES, and that there were no charges associated with the ProCard after its cancellation date.

Of the nine ProCards selected for testing, six instances were identified in which the cardholder ceased employment at DES a significant amount of time prior to the cancellation of the ProCard. All of these ProCards were cancelled in January 2004; however, the termination dates ranged from November 2001 to July 2003. These ProCards were not cancelled promptly after the cardholders' employment ceased, resulting in charges made using three of the ProCards after the cardholder left DES. In each case, the vendor used a ProCard number retained on file. The vendors have since been contacted and their files have been updated.

*Recommendation*

We recommend the administrator ensure that when a cardholder leaves DES employment, or when his or her job no longer requires the use of a ProCard, that the ProCard is immediately cancelled with the bank. The bank will question and resolve any charges made to a closed account on DES's behalf with a transaction date that is later than the cancellation date. It will be the vendor's responsibility to validate any such charges to the bank.

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**Employment Services should strengthen existing procedures to review purchases.**

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We tested 266 separate ProCard transactions with due dates between July 1, 2002 and December 31, 2003, to determine whether the procedures established at DES were adequate and consistently performed. During this testing, we found several instances in which the controls to ensure items purchased were reviewed for appropriateness and necessity were not functioning. Specifically,

- No supporting documentation was available for 33 transactions tested, or 12 percent. For 29 of these transactions, no additional documentation was provided to the administrator to justify the purchases.
- The supporting documentation for 16 transactions did not provide proof that the associated charge was made by the cardholder.
- The supporting documentation for 13 transactions showed the purchaser was someone other than the cardholder.
- The supporting documentation for five transactions did not provide sufficient information to determine the appropriateness and necessity of the purchase.
- The supporting documentation confirmed that sales tax was charged for four transactions. The sales tax was apparently not recovered from the vendor.
- The supporting documentation for nine transactions was not sufficient for the administrator to determine whether sales tax had been charged.

- The supporting documentation for one transaction confirmed a split payment was made in order for the invoice amount to be below the cardholder's single purchase limit.
- We identified no evidence that disciplinary actions were taken when employees failed to adhere to ProCard policies.

The DES Procurement Card User's Guide Supplement draft addresses the cardholder's responsibilities. Specifically, the cardholder must comply with the Procurement Card User's Guide provided by Finance, must provide itemized receipts to the administrator, and must not allow sales tax to be included on charges for goods or services.

In DES's draft Procurement Card Administrator's Guide Supplement, the first step listed in the "Receipt Verification" section is to review "receipts submitted to ensure compliance with state guidelines." Further, if a cardholder does not provide a receipt for a charge, the administrator is to contact the cardholder's supervisor. The supervisor and manager are to ensure that receipts are submitted.

### *Recommendations*

We recommend all cardholders be expected to adhere to the procedures set forth in the DES Procurement Card User's Guide Supplement. The DES Procurement Card User's Guide Supplement should be finalized and distributed to DES ProCard users.

We further recommend specific procedures for possible disciplinary action be developed within the DES Procurement Card Administrator's Guide Supplement to address instances of non-compliance with DES ProCard policies. The Procurement Card Administrator's Guide Supplement should be finalized and distributed to DES management. In addition, the administrator should ensure that ProCard users are familiar with the policies of Finance and DES regarding allowable ProCard purchases.

### **Procedures to ensure repayment of personal charges should be developed.**

Our testing identified two instances where a cardholder used a ProCard to purchase personal items. In both instances, it appeared the cardholder reimbursed the amount of the purchase. However, the documentation was not sufficient to determine that the repayment was actually deposited into DES's account. No disciplinary action was taken due to

repayment of the purchase amounts. A deposit slip or a MARS cash receipt document was not provided to document either repayment. One check was written to the "Commonwealth of Kentucky," and the payee on another check was left blank.

*Recommendation*

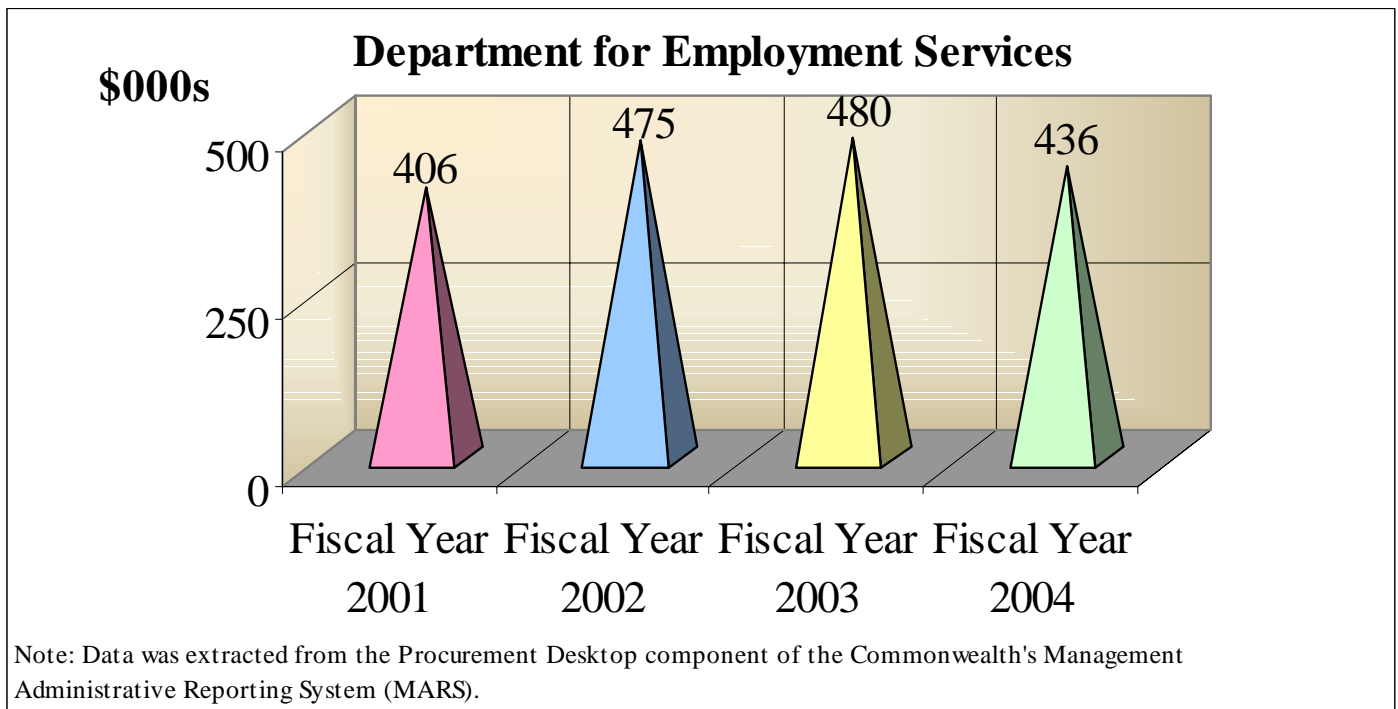
We recommend purchases of personal items using a ProCard be prohibited. In the event that a personal item is purchased using a ProCard, specific procedures should be developed for disciplinary action and to ensure that the employee reimburses the amount of the purchase making a check payable to the "Kentucky State Treasurer." These procedures should include retaining copies of the check, cancelled deposit slip, and approved MARS cash receipt document.

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**Total ProCard Expenditures Administered by the Agency  
Summarized by Fiscal Year**





**Kentucky Department of Education**



**The Kentucky Department of Education administrators should be required to attend training developed by Finance.**

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The guidelines developed by the Kentucky Department of Education (KDE) appear to have succeeded in assuring compliance with Finance ProCard policies.

Through discussions with the current KDE ProCard administrator, we discovered that she was provided informal training on the ProCard program process from the prior administrator. She was not required to attend the ProCard training provided by Finance.

FAP 111-58-00, effective during the examination period, stated that “authorized signers and administrators shall attend training as directed by the Finance and Administration Cabinet.” Further, the new revised policy, finalized on June 15, 2004, states that: “[t]he Finance and Administration Cabinet shall train the agency procurement card program administrator on the implementation and operation of the procurement card program.”

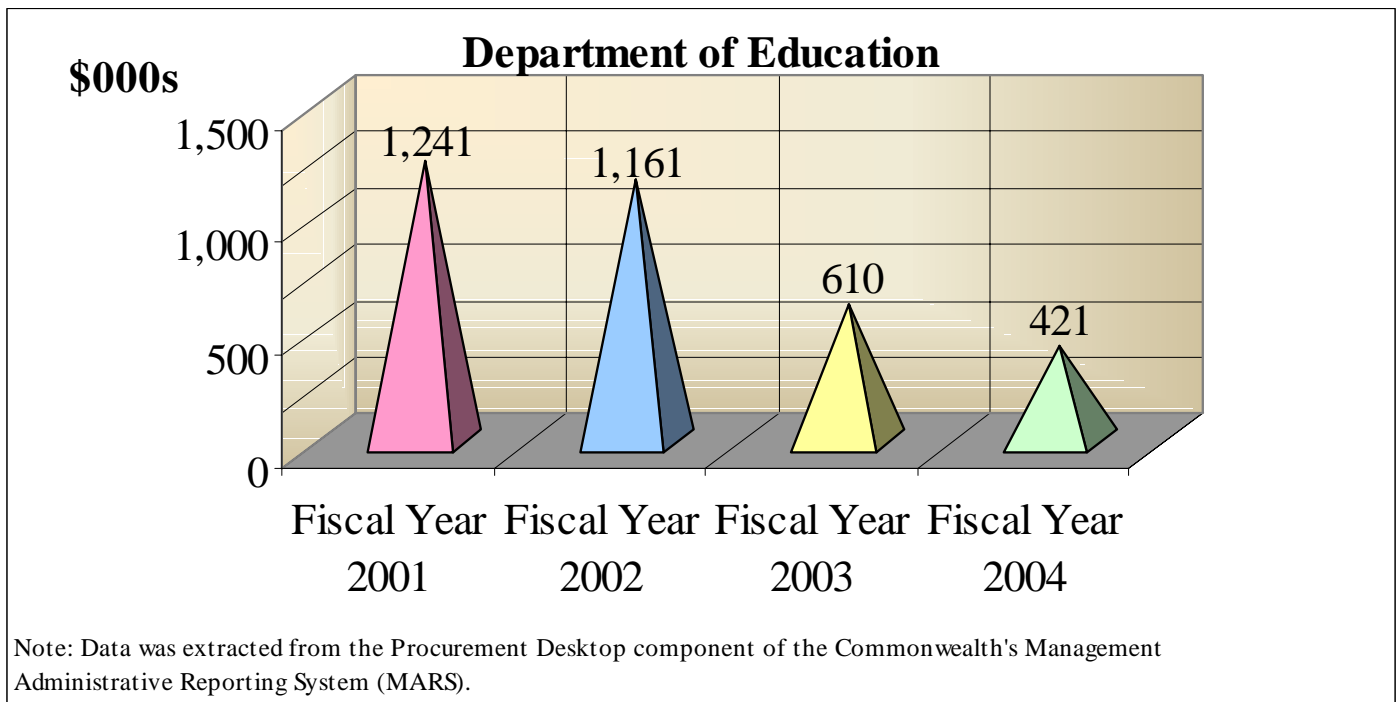
*Recommendation*

We recommend the KDE ProCard administrator attend training provided by Finance.

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**Total ProCard Expenditures Administered by the Agency  
Summarized by Fiscal Year**







**Department for Technical Education**



**The Department for Technical Education should retain cardholder agreements.**

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Several significant deficiencies were identified in the Department for Technical Education's (DTE) procedures established to control ProCard program activity.

We asked DTE for a listing of all new ProCards issued from June 2002 to the time fieldwork for this engagement began. A total of 199 new ProCards were issued to employees. A sample of 20 cardholder agreements was reviewed to determine whether the proper forms were completed and properly authorized. One employee's cardholder agreement was not found in the administrator's files.

While testing ProCard transactions, we identified eight additional cardholder agreements that were not available. These eight cardholders made 34, or 12 percent, of the 275 transactions we tested. Further, in four transactions the amount exceeded the cardholder's single purchase limit stated in the cardholder agreement.

FAP 111-58-00 states that a "participating employee shall sign and accept the terms and conditions of the Commonwealth of Kentucky Procurement Card Cardholder Agreement." If this form is not maintained by the agency, it calls into question whether the cardholder is truly aware of the responsibilities the cardholder has in the ProCard program.

*Recommendation*

We recommend administrators review all active cardholders to determine whether a cardholder agreement is on file that includes the cardholder's current credit limits. If this form is not available or is no longer valid, the administrator should create a new cardholder agreement and require the cardholder to read and sign the agreement. These documents should be maintained as prescribed in FAP 111-58-00.

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**Purchase requisitions should be submitted to the administrator as supporting transaction documentation.**

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We identified 227, or 82 percent, of the 275 transactions reviewed where the supporting documentation was not adequate to allow the administrator to determine the necessity of the purchase. Discussions with administrators revealed that while receipts are submitted, the associated purchase requisitions are not always included.

The administration of the ProCard program within DTE is somewhat different from the procedure followed in most agencies. The DTE cardholders work in the technical schools throughout Kentucky. Prior to making a purchase,

the cardholder must file a purchase requisition and receive approval from the school's principal. All receipts and associated purchase requisitions are first sent to the school secretary for review and then submitted to the area ProCard administrator.

Because of the variety of classes being offered in the schools, it is very difficult for the ProCard administrators to determine the appropriateness of a purchase, including whether a personal item was purchased. However, if the purchase requisition was available for the administrators review, the administrator could determine the specific item purchased, the purpose for the purchase, and whether the principal of the facility approved the purchase.

*Recommendation*

We recommend DTE establish a policy to require that the documentation submitted to the administrator include the purchase requisition.

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**DTE should strengthen existing procedures to review ProCard purchases.**

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We tested 275 separate DTE ProCard transactions with due dates between July 1, 2002 and December 31, 2003, to determine whether the procedures established at DTE were adequate and consistently performed. In several instances, we found that an administrative review did not follow established controls to determine whether an item purchased was appropriate and necessary. Specifically,

- The supporting documentation for six transactions was not available.
- The supporting documentation for 178 of the 275 transactions tested, or 64 percent, was not sufficiently complete to determine that the associated charge was made by the cardholder.
- The supporting documentation for seven transactions identified the purchaser was someone other than the cardholder.
- The supporting documentation for four transactions documented that sales tax had been charged; however, there was no indication that the sales tax had been recovered from the vendor.

- The supporting documentation for six transactions did not have sufficient documentation to allow the administrator to determine whether sales tax had been charged.
- The supporting documentation for six transactions confirmed the existence of a split purchase to bring an invoice amount below DTE's single quote small purchase authority. In one instance, a purchase of \$3,070 was split into two payments of \$1,535 each, thereby circumventing the agency's single quote small purchase authority of \$3,000.
- The supporting documentation reflects that two transactions were made over DTE's single quote small purchase authority.
- The supporting documentation for one transaction confirmed a payment of \$1,086 was made for a duplicate charge by a vendor; however, the vendor did not provide the appropriate credit for the duplicate payment.

Cardholders are provided with the Finance Procurement Card User's Guide that provides guidance concerning the regulations associated with the use of their ProCards. This guide specifically addresses cardholder responsibilities concerning acceptable purchases and documentation requirements.

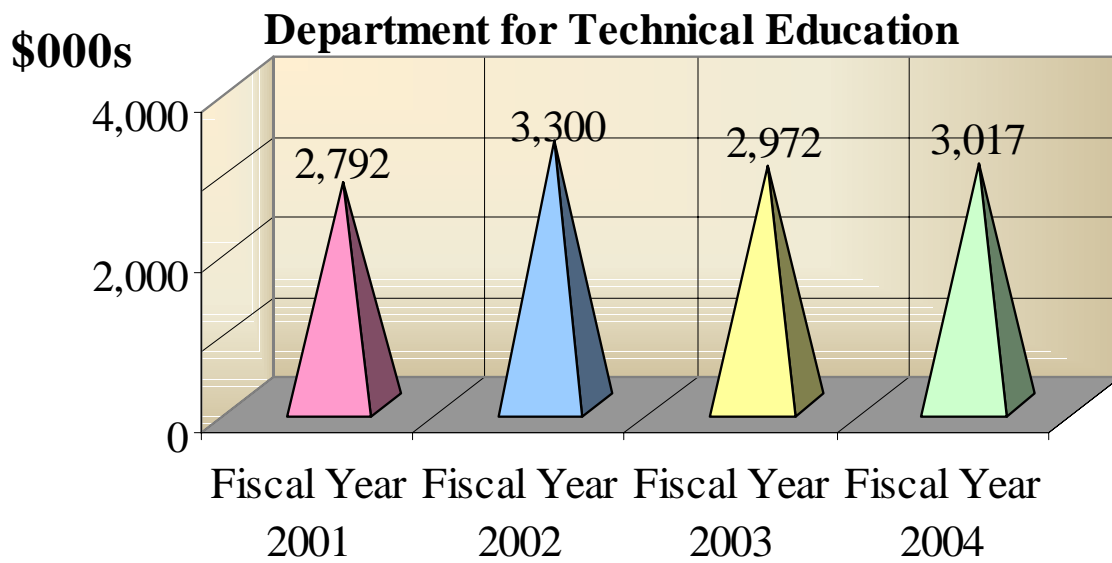
*Recommendation*

DTE should develop a supplement to the Procurement Card User's Guide to address agency pre-approval of purchases, cardholder submission of receipts, and disciplinary actions to be enforced if the cardholder does not comply with agency policy. This supplement should be presented to all current cardholders in a training setting to allow for questions and discussion.

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**Total ProCard Expenditures Administered by the Agency  
Summarized by Fiscal Year**



Note: Data was extracted from the Procurement Desktop component of the Commonwealth's Management Administrative Reporting System (MARS).





**Department for Environmental Protection**



**The Department for Environmental Protection should continue efforts to improve ProCard controls.**

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The Department for Environmental Protection (DEP) took the initiative in May 2003 to review its ProCard program. This included an internal review of each ProCard administrator's records to ensure that both DEP and Finance ProCard policies were being adhered to consistently. Any aberrations noted were addressed to the administrators along with recommendations on corrective action.

We were provided a listing of 108 ProCards cancelled since June 2002. We selected a sample of 27 cancelled ProCards for review to ensure that the ProCards were cancelled in a timely fashion after a cardholder left DEP employment, and that there were no charges associated with a ProCard after its cancellation date.

Of the selected 27 ProCards, there were five instances where the cardholder left DEP employment a significant amount of time prior to the cancellation of the ProCard.

- Two instances were noted where there was an 18 month lag between the employee's date of retirement and the cancellation of the ProCard. Both of these cardholders reported to and were the responsibility of the same administrator, who stated that she was on maternity leave in July 2002 when the employee retired. The administrator did not discover the ProCards needed to be cancelled until February 2004.
- One instance was noted where the cardholder retired in November 2000; however, the ProCard was not cancelled until August 2003. The administrator was transferred from her position shortly after the cardholder's retirement. At the retired employee's exit interview, the administrator received the ProCard from the employee and destroyed it. The administrator did not, however, contact the bank to report the cancellation, and her successor was never informed of the need to complete the cancellation with the bank.
- One instance was noted where the cardholder retired in July 2003; however, the ProCard was not cancelled until March 2004. The administrator received the ProCard at the time of the employee's retirement and destroyed it, but did not contact the bank. The administrator did not cancel the ProCard until March 2004.

- One instance was noted where the cardholder resigned in July 2003; however, the ProCard was not cancelled until November 2003.

When ProCards are not cancelled promptly after an employee's separation from the agency or transfer to another part of the agency, DEP risks allowing unauthorized charges to be made to the ProCards.

*Recommendation*

We recommend the administrator ensure that when a cardholder leaves DEP employment, or when his or her job no longer requires the use of a ProCard, that the ProCard is immediately cancelled with the bank. The bank will question and resolve any charges made to a closed account on DEP's behalf with a transaction date that is later than the cancellation date. It will be the vendor's responsibility to validate any such charges to the bank.

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**Administrators should use the PD "Status" feature.**

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During discussions with the ProCard administrators at DEP, we found that they were using the "Status" field when they originally reviewed the transaction to show the status of the review: Accepted, Not Reviewed, No Receipt, Disputed Status, or Sales Tax Included. If the document had been released for processing, this field was updated if additional supporting documentation was received.

However, during the review of transactions within the time period of our examination, July 1, 2002 through December 31, 2003, we found 124 transactions where the status was other than "Accepted." Fifteen, or 12 percent, of the 124 transactions were tested. In 14 of these transactions, the status designation was determined to be inaccurate based on the documentation available from the administrator. This indicates administrators routinely neglected to update the "Status" field as additional documentation was received.

*Recommendation*

We recommend the administrator alter the "Status" field to its proper designation as cardholders provide supporting documentation.

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**Split purchases should be identified and appropriate disciplinary actions developed.**

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One instance of a split purchase was found during testing. The cardholder placed an order in December 2002 with a vendor totaling \$1,093.50, which was over both his single purchase limit on the ProCard as well as DEP's single quote, small purchase authority. The order was returned allowing for a credit to the ProCard of \$94.26 in February 2003.

Splitting a purchase is in direct violation of FAP 111-58-00 and Small Purchase Procedure For Goods And Non-Professional Services Policy FAP 111-55-00, as well as KRS 45A.100 regarding small purchases.

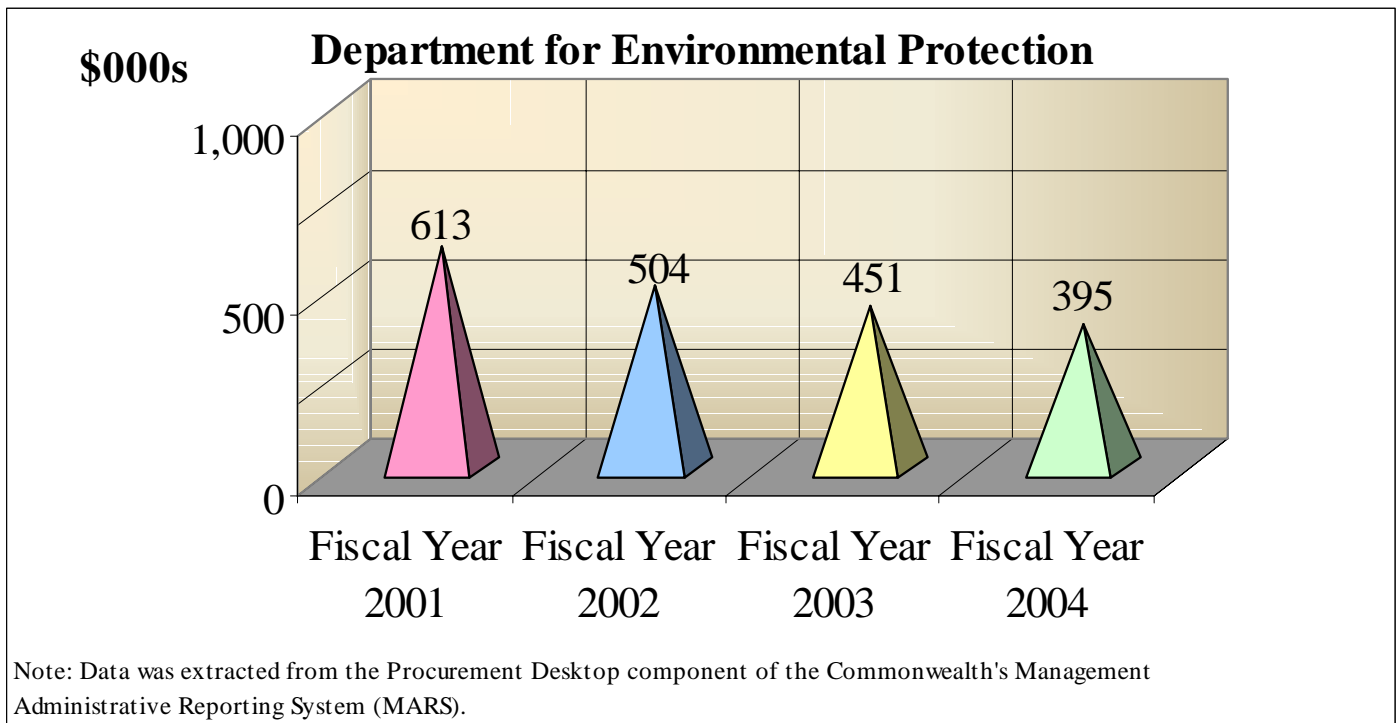
*Recommendations*

We recommend DEP closely review all purchases to ensure that purchases are not being split to bring them under the cardholder's single purchase limit or DEP's single quote, small purchase authority. Further, specific disciplinary actions should be developed to address instances of non-compliance with the above-mentioned policies and statutes.

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### Total ProCard Expenditures Administered by the Agency Summarized by Fiscal Year







**Department of Fish & Wildlife**



**The Department of Fish and Wildlife has not exercised sufficient control over the ProCard program.**

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ProCard controls designed at the Department of Fish and Wildlife (DFW) were either not operational or inconsistently applied.

The training provided to DFW cardholders was informal. The ProCard administrator did not provide a hard copy of the Finance Procurement Card User Guide or any other agency-specific guidelines to cardholders. The cardholders were provided the web address where the Finance Procurement Card User Guide can be located. Although the administrator stated that updates to policy are e-mailed to cardholders, it is DFW's position that when the cardholder reads and signs the cardholder agreement, that constitutes adequate training.

FAP 111-58-00 specifically addresses the need for cardholders to receive training prior to using a ProCard. Without proper training, a cardholder may not be aware of specific ProCard program regulations, agency-specific procedures, and the cardholder's personal responsibilities. This lack of information may lead to ProCard misuse, resulting in unallowable purchases or improperly documented purchases.

*Recommendation*

We recommend DFW develop training to address cardholder responsibilities for ProCard usage. This training should be presented to all current cardholders and to new cardholders as needed. Training should reflect current Finance and DFW ProCard policies.

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**DFW should properly secure ProCard documentation.**

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All ProCard supporting documentation and reports for DFW are maintained in a filing cabinet within the administrator's work area. This cabinet is not locked during working hours or after business hours.

Sensitive information including social security numbers, ProCard account numbers, and expiration dates may be available in supporting documentation. Unsecured ProCard documentation exposes DFW to an increased risk of misused information, fraud, and abuse.

*Recommendation*

We recommend all ProCard documentation be kept in a secure environment with access limited to the ProCard administrator and backup administrator.

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**DFW should ensure cardholder agreements are properly completed and maintained.**

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A listing provided by DFW indicated 97 new ProCards were issued from June 2002 through May 2004. We tested 25 new issues to determine whether the cardholder agreements were available, complete, and properly authorized. The administrator's files did not have cardholder agreements for six cardholders. The administrator provided one of these agreements subsequent to our testing. The cardholder signed the agreement on June 4, 2004, and the administrator signed it on June 7, 2004. The agreement was not on file until after the employee was issued and used a ProCard. Four of the new issues that did not have cardholder agreements did have user agreements on file. The current administrator explained that the prior administrator did not require a cardholder agreement to be read and signed by the cardholders, only the user agreement which is less comprehensive and does not conform with Finance's requirements. After attending training provided by FAC in April 2004, the current administrator learned of this requirement and began requiring this form to be filled out for all new ProCard issuances.

In addition, during the testing of transactions, we found 14 additional cardholders whose cardholder agreements were not available. This lack of documentation affected 19 of the 233 transactions tested. Further, in one instance the transaction amount exceeded the cardholder's single purchase limit as described on the cardholder agreement.

FAP 111-58-00 states that a "participating employee shall sign and accept the terms and conditions of the Commonwealth of Kentucky Procurement Card Cardholder Agreement." If this form is not maintained by DFW, it calls into question whether the cardholder is aware of his or her responsibilities with regard to the ProCard program.

*Recommendation*

We recommend the DFW ProCard administrator review all active cardholder files to determine whether a cardholder agreement is on file reflecting each cardholder's current credit limits. Since DFW allows multiple ProCards to be issued to individuals because of the agency's method of accounting, the administrator should also ensure that an accurate cardholder agreement is on file for each ProCard. If this form is not available or is no longer valid, the administrator should create a new cardholder agreement and require the cardholder to read and sign the agreement. These documents should be maintained as prescribed in FAP 111-58-00.

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**DFW should strengthen existing procedures in place to review purchases.**

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We tested 233 ProCard transactions with due dates between July 1, 2002 and December 31, 2003, to determine whether the procedures established at DFW were adequate and consistently performed. Testing revealed several instances of non-compliance with control procedures designed to ensure items purchased were appropriate and necessary. Specifically,

- The supporting documentation for three transactions was not available. In one instance no evidence was provided of disciplinary action, repayment, or ProCard revocation.
- Sufficient supporting documentation for 13 transactions was insufficient to determine whether the purchase was necessary or allowable, sales tax was excluded, or the transaction resulted in a split purchase.
- The lack of documentation for 12 transactions was insufficient to determine that the associated charge was made by the cardholder.
- Supporting documentation indicates sales tax was charged for five transactions and was not recouped from the vendor.
- No evidence was identified of an administrator review for 74, or 31 percent, of the transactions tested.

FAP 111-58-00 includes specific instructions to ensure supporting documentation is made available to the administrator, proper use of the Commonwealth's tax-exempt number, and adherence to the terms and conditions of the cardholder agreement.

***Recommendations***

We recommend DFW develop procedures to ensure administrator compliance with FAP 111-58-00. These procedures should include:

- A review of transactions for sales tax, split-purchases, and inappropriate or personal items.

- A review to ensure that transactions are accompanied by appropriate supporting documentation.
  - Consideration of disciplinary action toward cardholders that do not provide receipts.
  - An administrative review of supporting documentation is clearly evident.
- 

**DFW administrator should use the PD “Status” feature.**

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The DFW administrator uses the “Status” field when originally reviewing the transaction. However, upon receipt of additional supporting documentation the “Status” field is not updated.

Typically, a PD transaction after being approved and processed converts to a read-only document that cannot be altered. However, ProCard transactions are unique in that after they have been approved and released, all data fields in the document are read-only except for the “Status” field. The administrator can change this field at any time to reflect the current state of the transaction. This process was put in place to afford the administrators a tool for monitoring transaction status.

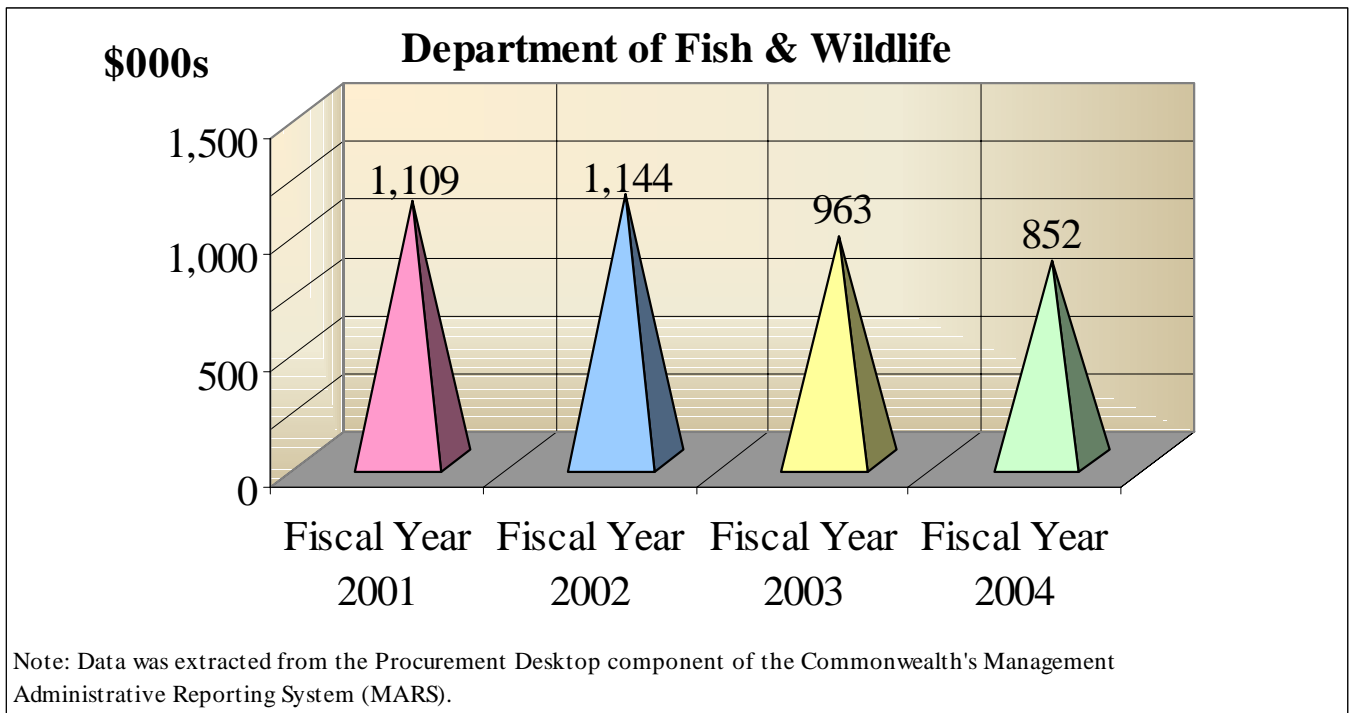
Subsequent to the period of this examination, DFW named a new ProCard administrator in April 2004. This administrator extracts and reviews any transactions with a status other than “Accepted.”

*Recommendation*

We recommend that as supporting documentation is provided, the administrator ensure the “Status” field is updated to reflect the current designation of the transaction.

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### Total ProCard Expenditures Administered by the Agency Summarized by Fiscal Year







**Kentucky Horse Park**



**The Kentucky Horse Park should exercise sufficient controls to eliminate split purchases using the ProCard.**

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Our examination of controls over ProCard purchases at the Kentucky Horse Park (Horse Park) was limited to transactions initiated by the Horse Park gift shop manager and submitted to the Horse Park ProCard administrator for review and processing. One significant deficiency was the failure of the Horse Park to ensure that split purchases were not made using a ProCard.

We identified instances of split purchases relating to 29 ProCard transactions. These transactions comprised 12 invoices for purchased items to be resold in the gift shop. The cost of the items exceeded the cardholder's single purchase limit. The ProCard administrator was aware of the split purchasing.

Splitting purchases violates FAP 111-58-00 Small Purchase Procedure For Goods and Non-Professional Services Policy FAP 111-55-00 and KRS 45A.100 relating to small purchases.

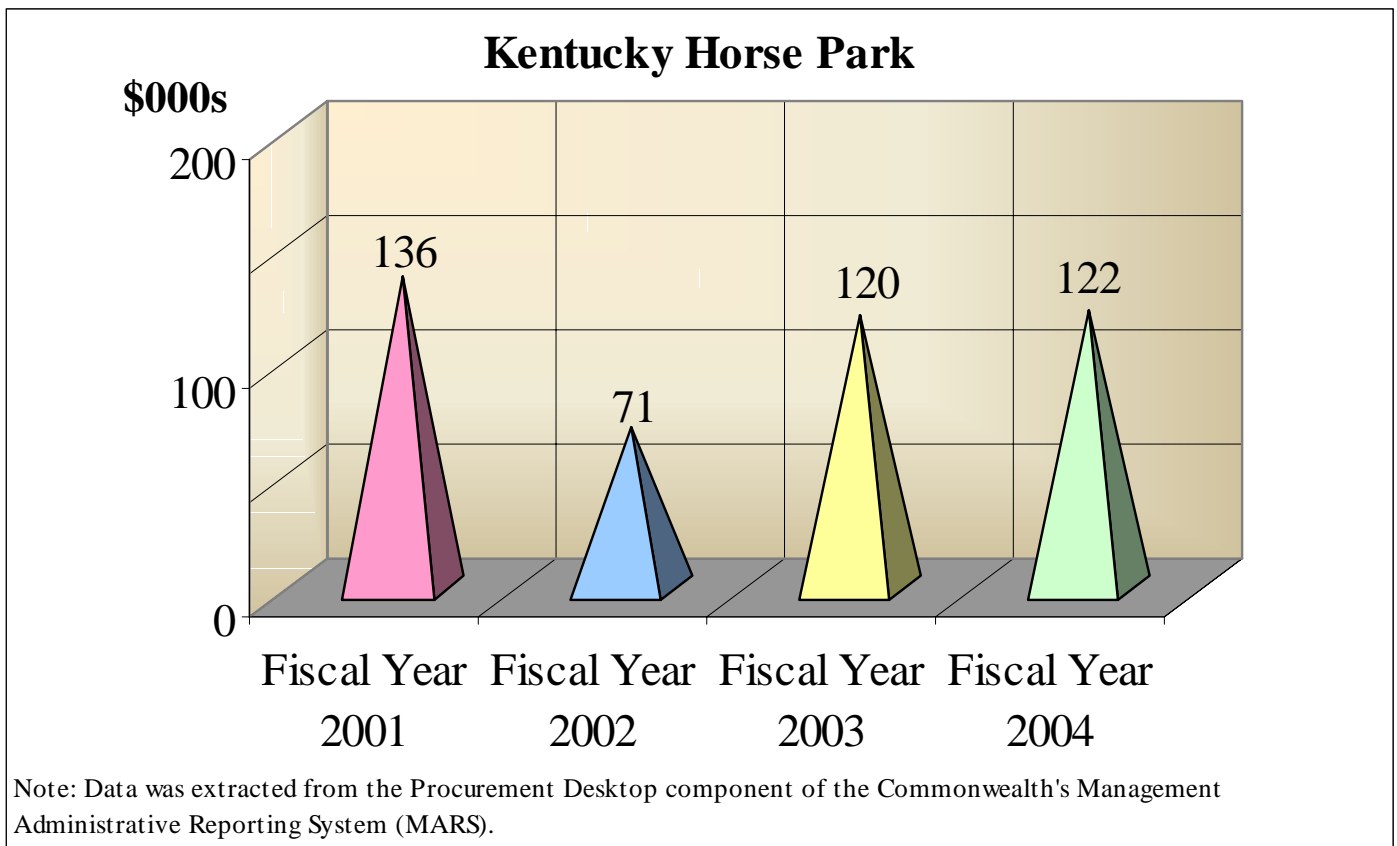
*Recommendations*

We recommend ProCard purchases not be parceled, or split, to circumvent the cardholder's single purchase limit or the agency's single quote, small purchase authority. The purchases required for gift shop resale should be reviewed and the gift shop manager's single purchase limit should be adjusted accordingly.

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**Total ProCard Expenditures Administered by the Agency  
Summarized by Fiscal Year**





**Kentucky Department of Parks**





**The Kentucky Department of Parks should ensure ProCard administrators and cardholders are properly trained in their responsibilities.**

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ProCard controls designed at the Kentucky Department of Parks (Parks) were either not operational or inconsistently applied.

Parks took the initiative in July and August 2003 to review its ProCard program. The review included an internal review of each administrator's records to ensure consistent compliance with Parks and Finance policies. Weaknesses noted by the internal auditor were addressed to the applicable Commissioners and included recommendations for corrective action. This internal review did not find any instances of fraud or abuse, however, it did identify specific areas of controls not being consistently followed. Weaknesses noted in the ProCard internal audit included: missing receipts and invoices, transactions exceeding cardholder limits, lack of cardholder signatures on receipts or invoices, ProCard administrators making ProCard purchases, payment of sales tax, unallowable expenses paid with ProCard, and an excessive number of ProCards in Parks.

Our review revealed many of the same ProCard processing control weaknesses noted by Park's internal auditor. We identified the following weaknesses noted below.

Many ProCard administrators and users attended ProCard training provided by Finance when MARS was initially implemented in FY 2000. However, due to travel considerations, Parks management did not make this training mandatory. Parks management does not currently require formal training concerning the proper use and control of ProCards for existing or new ProCard administrators or users. Further, no records are maintained identifying which administrators and users have attended ProCard training.

FAP 111-58-00 specifically addresses the need for cardholders to receive training prior to using a ProCard. Without proper training, a cardholder will not be aware of specific ProCard program regulations, agency-specific procedures, or a cardholder's personal responsibilities. This lack of information may lead to ProCard misuse, inappropriate or unallowable purchases, and the lack of supporting documentation.

*Recommendations*

We recommend Parks develop training to address administration and cardholder responsibilities for ProCard usage. This training should be presented initially to any

administrators and current cardholders that have not received training previously and for new administrators and cardholders as needed. Parks should ensure that training remains current incorporating policies from Finance and Parks management. Proper documentation of training should be retained.

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**Parks procedures to issue and terminate ProCards should be improved.**

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A listing provided by Parks indicated 64 new ProCards were issued from June 2002 through May 2004. We tested five new issues to determine whether the cardholder agreements were available, complete, and properly authorized. One cardholder agreement tested had not been signed or submitted to Parks central office, although it had been activated and used. The ProCard administrator subsequently obtained a signed agreement from the cardholder after we notified the administrator of the issue.

During the testing of ProCard transactions, we found additional weaknesses with several cardholder agreements. In two instances, the credit limits on the bank account forms and cardholder agreements did not agree; in six instances, new agreements were not signed for new ProCards issued; in 63 instances no cardholder agreements were on file or the agreements were incomplete; administrator approval was not present on five agreements; in three instances the cardholder agreement contained the wrong ProCard number or no number at all; and one agreement was not updated to reflect new increased single purchase limits. This lack of proper cardholder agreement documentation affected 80, or 37 percent, of the 216 transactions reviewed.

Finally, testing also revealed one instance where a ProCard account was not deleted until almost three months after the employee left Parks employment.

FAP 111-58-00 states that a “participating employee shall sign and accept the terms and conditions of the Commonwealth of Kentucky Procurement Card Cardholder Agreement.” If this form is not maintained by Parks, it calls into question whether the cardholder is truly aware of his or her ProCard responsibilities.

### *Recommendations*

We recommend Parks administrators review all active cardholders to determine whether a signed cardholder agreement is on file reflecting the cardholder's current credit limits and administrator approval. If this form is not available, incomplete, or is no longer valid, we recommend the administrator create a new cardholder agreement and require the cardholder to read and sign the agreement. These documents should be maintained as prescribed in FAP 111-58-00. Further, the administrators should ensure that when a cardholder leaves Parks employment, or job duties no longer require the use of a ProCard, that the ProCard be immediately cancelled with the bank.

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### **Parks should strengthen established procedures to review ProCard purchases.**

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We tested 216 ProCard transactions with due dates between July 1, 2002 and December 31, 2003, to determine whether the procedures established at Parks were adequate and consistently performed. Several instances where identified control procedures designed to ensure a review of items purchased for appropriateness and necessity were not performed. Specifically,

- The supporting documentation for 24 transactions was not available or did not appear to represent the tested transaction. These transactions did not have sufficient documentation to allow the administrator to determine the appropriateness and necessity of the purchase, whether sales tax had been charged, whether the charge was part of a split-purchase, or whether the purchase was allowable under FAP 111-58-00. Of these 24 transactions, eight were noted where no additional documentation was provided to the administrator; however, we found no evidence of disciplinary actions, ProCard user repayment, or cancellation of ProCards associated with these transactions.
- One of the instances noted above involved a ProCard administrator at one park who attempted to coerce an individual to sign an affidavit validating a purchase that the individual had no recollection of making. When the individual refused, he notified the auditor. Our testing revealed the ProCard administrator appeared to falsify the affidavit for the purchase by signing and backdating the affidavit herself. We reported this incident to management.

- The supporting documentation for 63 transactions did not provide sufficient evidence that the associated charge was made by the cardholder. In five of these instances, we determined that someone other than the cardholder used the ProCard and signed the corresponding receipts.
- Supporting documentation indicates sales tax was charged for three transactions and was not recouped from the vendor. Further, six other transactions did not sufficiently document whether sales tax was charged.
- We identified three questionable ProCard transactions totaling \$225. The three purchases were for a wedding ice sculpture mold, video rental late fees, and plaques for employee's retirement. Parks was not reimbursed for the cost of the ice sculpture mold.
- No evidence was found of an administrator review for 189, or 87 percent, of the documents tested.
- Cardholders did not review their monthly ProCard bank statements to ensure the accuracy and validity of charges posted by the bank.
- In 40 instances, the "Status" field within MARS PD was inaccurate. This reflected 18 percent of the tested transactions.

FAP 111-58-00 was designed to ensure that all ProCard users are aware of acceptable user guidelines and responsibilities of both the agency and the cardholder. These guidelines include specific instructions for ensuring that supporting documentation is provided to the administrator, the use of the Commonwealth's tax-exempt number, and compliance with the terms and conditions of the cardholder agreement.

We recognize Parks has already implemented changes to its ProCard program. Parks has reduced the number of cardholders and administrators. Park managers or business managers now have ProCards, with only one cardholder administrator for all parks. This should enhance the oversight of purchases and consistency throughout the

transaction process. As noted above, Parks has also conducted internal audits at the beginning of fiscal year 2004. This has resulted in many of the same findings we identified during the course of our audit.

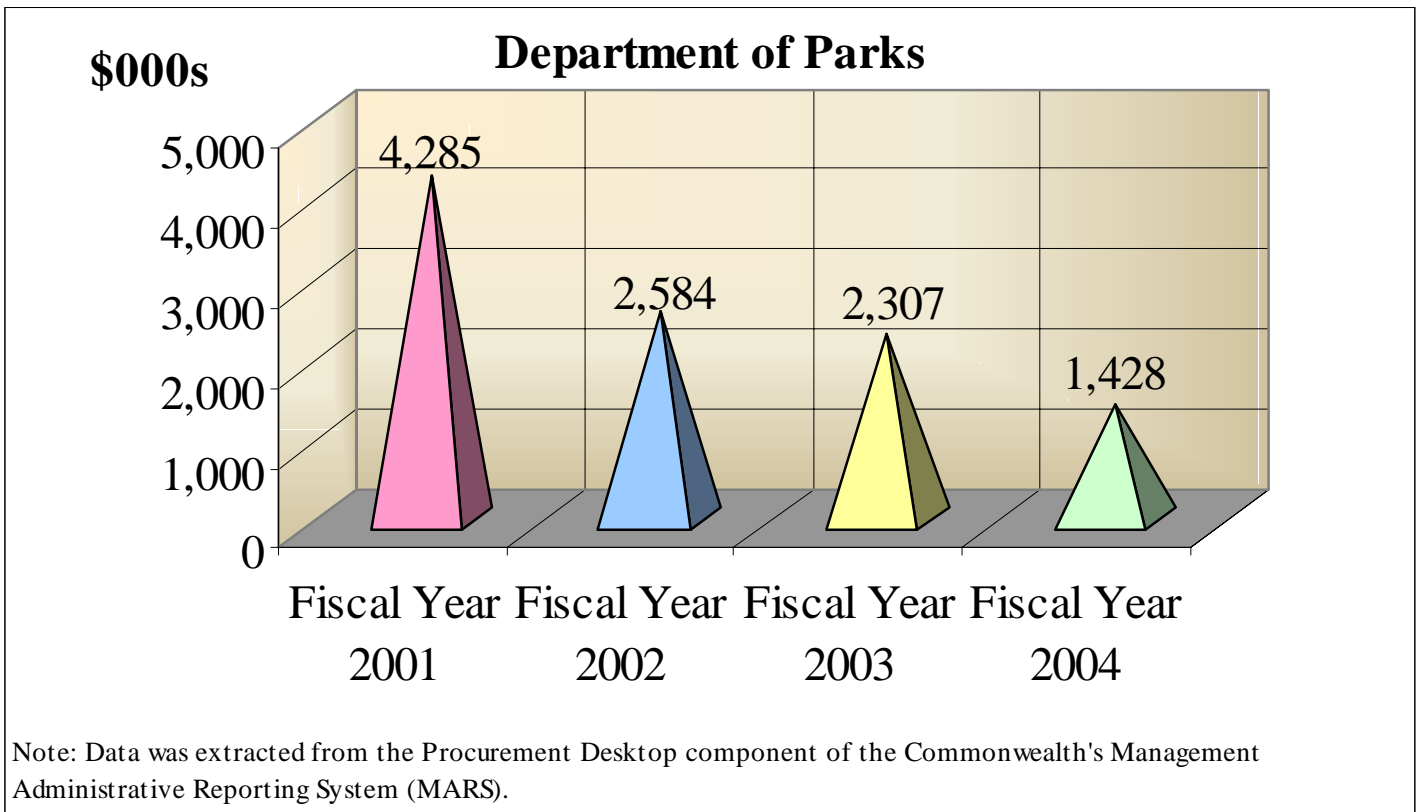
*Recommendation*

We recommend that Parks ensure that administrators and cardholders adhere to the guidelines set forth in the FAP 111-58-00. These procedures should include:

- Administrator review for sales tax, split-purchases, and personal or inappropriate purchases based on FAP 111-58-00.
  - Assurance that all transactions are accompanied by adequate supporting documentation or explanation of charges from the cardholder's supervisor, and evidence that the purchase was made by the cardholder.
  - A requirement for disciplinary action to be considered for cardholders who do not provide receipts.
  - Requirement that administrative review of supporting documentation be evidenced on the documentation.
  - A requirement for cardholders to review their monthly ProCard bank statements to ensure the accuracy and validity of charges by the bank.
  - A requirement that the PD "Status" field is updated to reflect its current designation.
-



**Total ProCard Expenditures Administered by the Agency  
Summarized by Fiscal Year**







**Department for Administration Services**  
**within the former Cabinet for Families and Children**



**The Department for Administration Services should enforce procedures designed to review ProCard purchases.**

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We tested 148 ProCard transactions with due dates between July 1, 2002 and December 31, 2003, to determine whether the procedures established at the Department for Administration Services, within the former Cabinet for Families and Children (CFC), were adequate and consistently performed. We identified several instances where the control procedures designed to ensure a review of items purchased for appropriateness and necessity were not performed.

- Per the CFC Cardholder User Guide, a ProCard Invoice Authorization Form, signed by the cardholder, certifies that the merchandise has been received, accepted, and payment authorized by the cardholder. This form is to be attached to each invoice. Supporting documentation for 83, or 56 percent, of the 148 transactions tested did not include an invoice authorization form or an invoice signed by the cardholder.
- Evidence of the ProCard administrator's review was not documented for any of the 148 transactions tested.
- The "Status" designation explaining the level of review for ProCard transactions was determined to be inaccurate in 19 instances.

*Recommendations*

We recommend all cardholders adhere to the procedures set forth in the CFC Cardholder User Guide including attaching the invoice authorization form to the invoice and supplying the cardholder signature on the invoice.

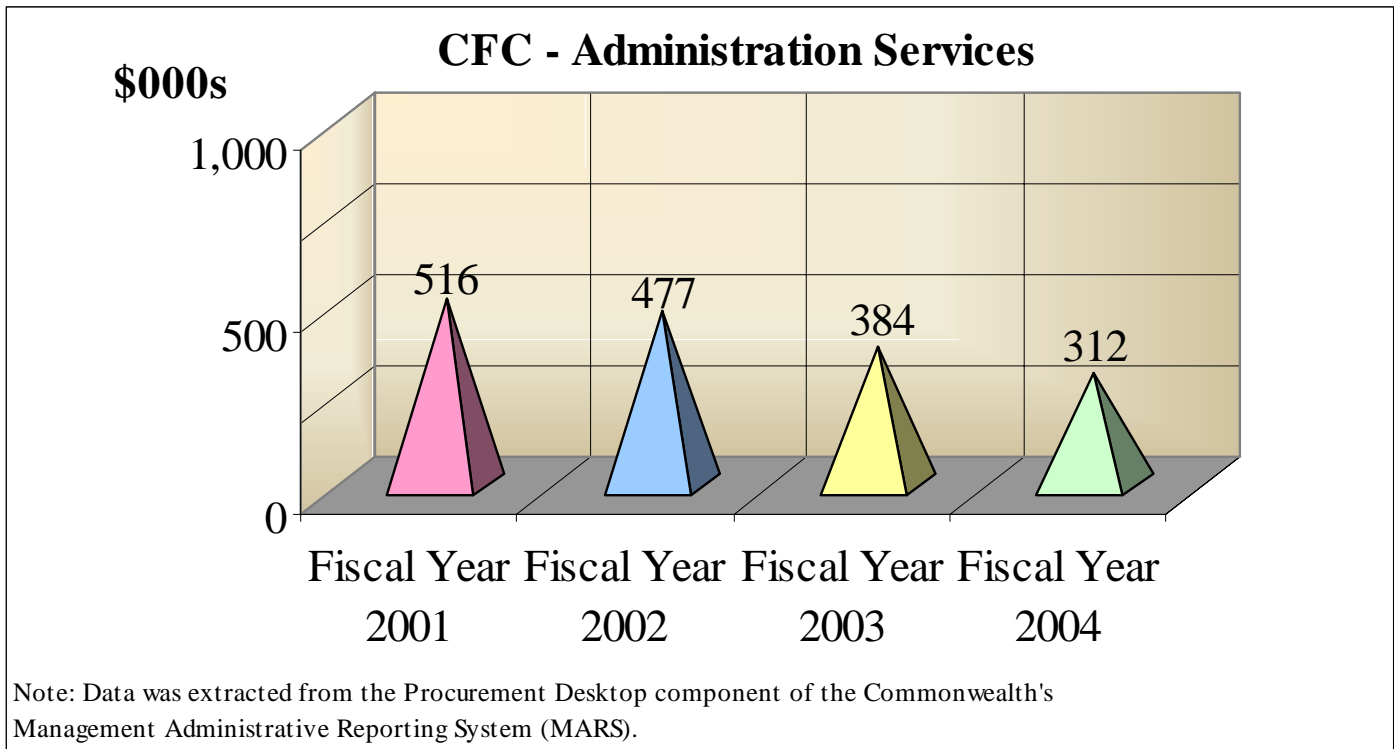
Following review of a ProCard purchase, the ProCard administrator should initial or sign the supporting documentation to document a review of the transaction.

We further recommend that the administrator change the "Status" field to document the transactions current status.

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### Total ProCard Expenditures Administered by the Agency Summarized by Fiscal Year





**Department for Public Health**  
**within the former Cabinet for Health Services**





**The Department for Public Health should ensure administrators receive ProCard training.**

We identified several issues regarding ProCard administrator training in the Department for Public Health, within the former Cabinet for Health Services (DPH). Administrators did not attend formal ProCard program training provided by Finance. Two employees assumed administrative duties without having attended the formal training. These administrators were either self-taught or were given limited training by the previous administrator.

Further, the documentation provided by the administrators to the cardholders is outdated. We received from the DPH administrators copies of a DPH ProCard Guide and the Procurement Card Program (CHS-14003) agency level policy. We determined, however, after examining these documents, that both were significantly out of date. The ProCard Guide referenced the Statewide Accounting and Reporting System (STARS) which was replaced on July 1, 1999, by the new management system MARS. The ProCard Program policy was dated December 6, 2000.

Finally, another version of the ProCard Program (CHS-14003) agency level policy dated February 23, 2004, was provided to us from the Office of Program Support. According to this documentation, a revision to the policy was also made on October 30, 2001. However, it does not appear that the DPH ProCard administrators were aware of either of these versions.

Formal documentation of agency-specific policies or guidelines regarding the ProCard program is necessary for the cardholder to be aware and understand current ProCard policies and procedures. Maintaining and distributing current policy documents is necessary to ensure that they reflect management's goals and adhere to the ProCard policy established by Finance.

DPH performed internal audits of ProCard activity. The audits we received from DPH reflected a review of ProCard cycles dating to July 2003.

***Recommendations***

We recommend all agency ProCard formal policies and procedures be reviewed and documented to ensure compliance with the procedures established by Finance. ProCard administrators and cardholders should be properly trained prior to participating in the program. All current administrators and cardholders should be trained to gain an understanding of agency ProCard policies and procedures.

We also recommend periodic training be held to reinforce the cardholders' understanding of the ProCard program and to address any ProCard questions. Further, attendance at these training sessions should be formally documented and reviewed by management to ensure all cardholders were provided sufficient training.

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**Administrators should ensure ProCards for terminated employees are promptly cancelled.**

We tested all eight DPH ProCards terminated from June 2002 through May 2004, to ensure the ProCards were cancelled in a timely manner if the cardholder was terminated from the agency. We also tested whether any charges were made to the ProCards after their cancellation dates.

In one instance, a cardholder's employment with the agency ended a significant period of time prior to the ProCards cancellation. This ProCard was cancelled on December 29, 2003; however, the cardholder retired on September 30, 2003. In another instance the cardholder retired on July 31, 2002, but the ProCard was not cancelled until August 14, 2002. One transaction was made on this ProCard after the cardholder had left the agency. This was a purchase for office supplies of \$870 from a vendor who kept ProCard information on file. This was possible due to the failure of DPH to cancel the ProCard in a timely manner.

*Recommendation*

We recommend the DPH administrator immediately contact the bank to cancel a ProCard when a cardholder leaves the agency's employment or job duties no longer require the use of a ProCard. The bank will dispute any charges made to a closed account for the agency with a transaction date after the cancellation date of the ProCard. The vendor will be responsible for validating any such charges to the bank.

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**DPH should review ProCard limits in association with job responsibilities.**

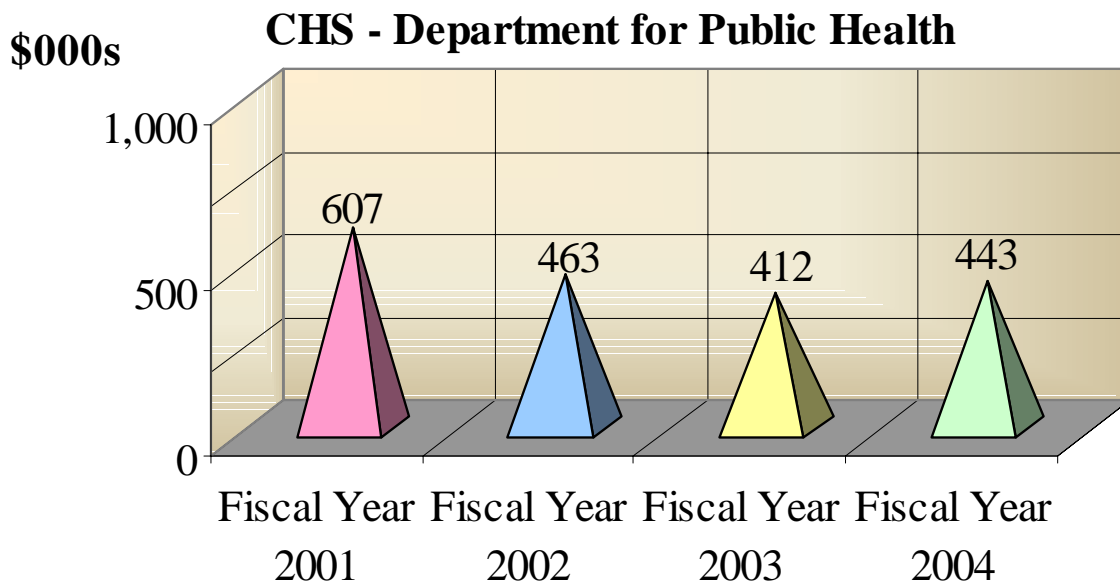
One individual cardholder was a principal purchasing agent for DPH laboratory services whose ProCard daily and monthly purchase limits may not be adequate for the job performed. Due to the volume of purchases this cardholder must make, in several instances the cardholder was unable to make necessary purchases because of already reaching the ProCard's credit limit. In these instances, the cardholder had asked a co-worker, who is also a ProCard user, to place the orders.

*Recommendation*

We recommend DPH review cardholder credit limits to ensure these limits are appropriate for the cardholders job duties.

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**Total ProCard Expenditures Administered by the Agency  
Summarized by Fiscal Year**



Note: Data was extracted from the Procurement Desktop component of the Commonwealth's Management Administrative Reporting System (MARS).



**Department for Mental Health and Mental Retardation,**  
**within the former Cabinet for Health Services**



**The Department for Mental Health and Mental Retardation administrators should ensure ProCards for employees leaving the agency are cancelled in a timely manner.**

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The Department for Mental Health and Mental Retardation, within the former Cabinet for Health Services (MHMR), provided a listing of 17 ProCards cancelled during the audit period July 1, 2002 through December 31, 2003. We tested to ensure that the ProCards were cancelled in a timely fashion when cardholders left MHMR employment, and that charges were not made after the ProCards' cancellation dates.

In two instances, the cardholder left MHMR employment a significant amount of time prior to the cancellation of the ProCard. In one instance, the ProCard continued to be active for almost a year, and in the other instance the ProCard was cancelled 20 days after the cardholder ceased employment. Because these ProCards were not cancelled promptly after the cardholder ceased employment, the ProCards were susceptible to additional unauthorized charges after the cardholders left MHMR.

Further, one instance was noted during testing of ProCard transactions where the cardholder agreement was not on file.

*Recommendations*

We recommend the ProCard administrator ensure that when a cardholder either leaves employment at MHMR or job duties no longer require a ProCard, the ProCard is immediately cancelled with the bank. The bank will address and resolve any charges made to a closed account on behalf of MHMR with a transaction date after the cancellation date. It will be the vendor's responsibility to validate any such charges to the bank.

Further, MHMR should ensure that all cardholder agreements are properly maintained on file.

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**MHMR should strengthen procedures established to review ProCard purchases.**

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We tested 93 ProCard charges with due dates between July 1, 2002 and December 31, 2003, to determine whether the procedures established for MHMR were adequate and consistently performed. During this testing, we found several instances where the control procedures designed to ensure a review of ProCard purchases for appropriateness and necessity were not performed. Specifically,

- The supporting documentation for 11 ProCard purchases was not available. Of these transactions, no evidence was provided of disciplinary action, repayment, or ProCard revocation associated with these transactions.

- The supporting documentation for 25 transactions did not provide evidence that the associated charge was made by the cardholder.
- The supporting documentation for five transactions was insufficient to determine the appropriateness and necessity of the purchase and one cardholder agreement could not be provided.
- The supporting documentation for one transaction documented that sales tax had been charged, but no indication was provided that the sales tax was recovered from the vendor.
- The supporting documentation for one transaction confirmed the existence of a split purchase so that the purchase amounts did not exceed the cardholder's single purchase limit.
- In 86 instances the MARS PD "Status" field was not properly updated to reflect the correct status.

Most MHMR facilities did not develop additional ProCard agency user guides, however, a cardholder must comply with the Procurement Card User's Guide provided by Finance. Cardholders were required to provide itemized receipts to the administrator and not to allow sales tax on purchases.

Three of the facilities (Western State, Hazelwood and Central State Hospital) did develop additional ProCard user guides that reinforce the policies established by Finance. Also, another facility recently required most ProCards be locked in the business office until a purchase was approved.

If a cardholder does not provide a receipt for a ProCard transaction, the process was for the administrator to contact the cardholder's supervisor. The supervisor and manager were to ensure that receipts are submitted.

All cardholders are provided with the Finance Procurement Card User's Guide as well as other guidance that explains the regulations associated with the use of a ProCard. Specifically addressed were cardholder responsibilities concerning acceptable purchases and documentation requirements.



### *Recommendations*

We recommend MHMR ensure that all cardholder purchases have a business-related purpose and are not excessive. When the itemized receipt to support a ProCard transaction does not provide sufficient information to determine the items purchased, cardholders should provide a description of the purchase and statement of its necessity. The administrator should ensure that a copy of this report is attached to each applicable receipt.

This process will allow each ProCard transaction to provide independent support of the proof of purchase by the cardholder, a description and the necessity of the items purchased, and whether additional charges such as sales tax were incurred. All cardholders should be expected to adhere to the procedures set forth the Finance Procurement Card User's Guide.

We also recommend specific disciplinary actions be developed by the respective facilities to address instances of non-compliance with agency policy. These supplemental guides should be finalized and distributed to agency management. Further, all administrators should ensure that they are familiar with the policies of Finance and MHMR regarding ProCard purchases.

---

### **ProCard administrators and cardholders should attend ProCard training.**

Two MHMR ProCard administrators were not required to attend formal ProCard training provided by the Finance Customer Resource Center. Administrators were unaware of certain ProCard policies and procedures. These administrators reported that they received on-the-job training from their predecessors.

Documentation was maintained by MHMR identifying which administrators and cardholders have attended ProCard training.

FAP 111-58-00 specifically addresses the need for cardholders to receive training prior to using a ProCard. Without proper training, a cardholder will not be aware of specific ProCard program regulations, agency-specific procedures, and a cardholder's personal responsibilities. This lack of information may lead to misuse, unallowable purchases being made, and lack of supporting documentation.

*Recommendations*

We recommend all ProCard administrators and cardholders attend formal ProCard training offered by the Finance Customer Resource Center. Cardholders should be required to attend training prior to being issued a ProCard and should be documented. In addition, administrators should review, sign, and date the Finance Internal Procurement Card Program Purchasing Procedures documentation.

---

**ProCard cardholders should not be authorized to approve ProCard transactions.**

We identified a MHMR ProCard user that was an authorized MHMR signatory for purchases to approve ProCard transactions. This user was not recognized as an administrator, but does serve as the direct supervisor for the administrator.

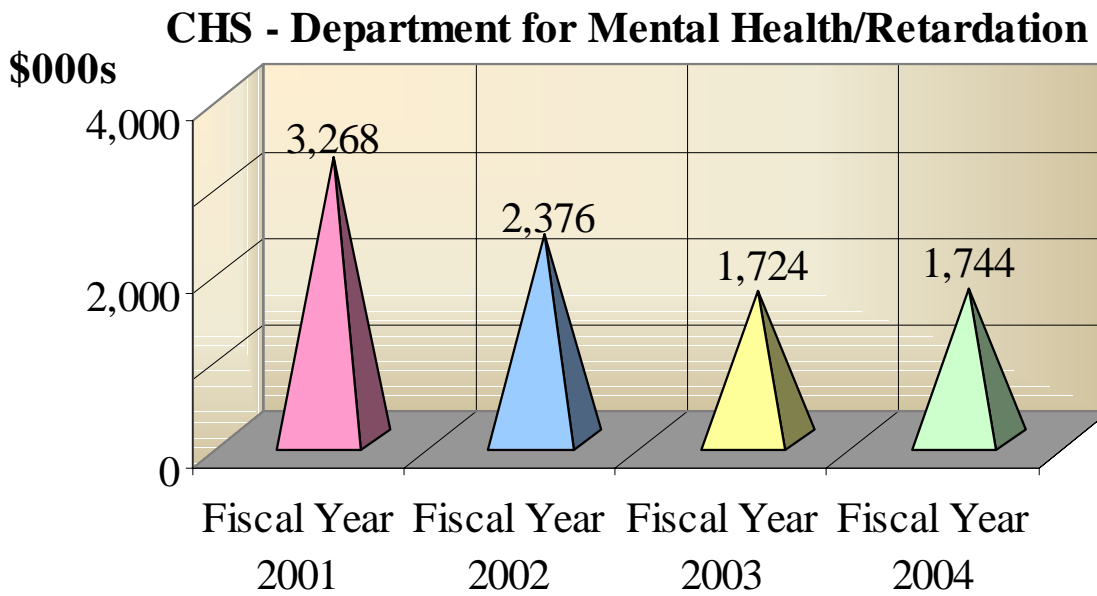
The potential exists for the cardholder to exercise authority to approve improper purchases or influences the administrator under his or her supervision to approve a purchase. Proper segregation of duties would prohibit an agency signatory from also serving as a cardholder.

*Recommendations*

We recommend MHMR either delete this user's ProCard or the user's authority to approve ProCard transactions. Further, MHMR should review its internal controls to ensure proper segregation of duties are in place.

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### Total ProCard Expenditures Administered by the Agency Summarized by Fiscal Year



Note: Data was extracted from the Procurement Desktop component of the Commonwealth's Management Administrative Reporting System (MARS).



**Community Based Services**  
**within the former Cabinet for Families and Children**



**Community Based Services should strengthen procedures to review ProCard purchases.**

---

We tested 183 ProCard transactions with due dates between July 1, 2002 and December 31, 2003, to determine whether the procedures established at CFC's Community Based Services were adequate and consistently applied. We identified several instances where the control procedures designed to ensure a review of items purchased for appropriateness and necessity were not performed.

- Per the CFC Cardholder User Guide, a ProCard Invoice Authorization Form, signed by the cardholder, certifying that the merchandise was received, accepted, and payment authorized by the cardholder, is to be attached to each invoice. Supporting documentation for 63, or 34 percent, of the 183 transactions tested did not provide sufficient evidence that the associated charge was made by the cardholder.
- A ProCard administrator made ProCard purchases that were not reviewed by a supervisor. According to Finance policy, ProCard administrators may not have access to a ProCard or be able to initiate a ProCard transaction.
- One transaction for a software purchase failed to have a proper prior authorization on file.
- Supporting documentation indicates sales tax was charged for eight transactions and was not recouped from the vendor.
- The ProCard PD documents are unique in that after they have been approved and processed, all data fields in the document are read-only with the exception of the "Status" field. The administrator can change this field at any time to reflect a current state of the transaction. The "Status" designation was determined to be inaccurate for four transactions.

***Recommendations***

We recommend all cardholders adhere to the procedures set forth in the CFC Cardholder User's Guide. All transactions should be supported with documentation indicating that the purchase was made by the authorized cardholder.

We recommend the administrator provide evidence that transactions were reviewed.

ProCard administrators should not have access to a ProCard or the ability to initiate a transaction.

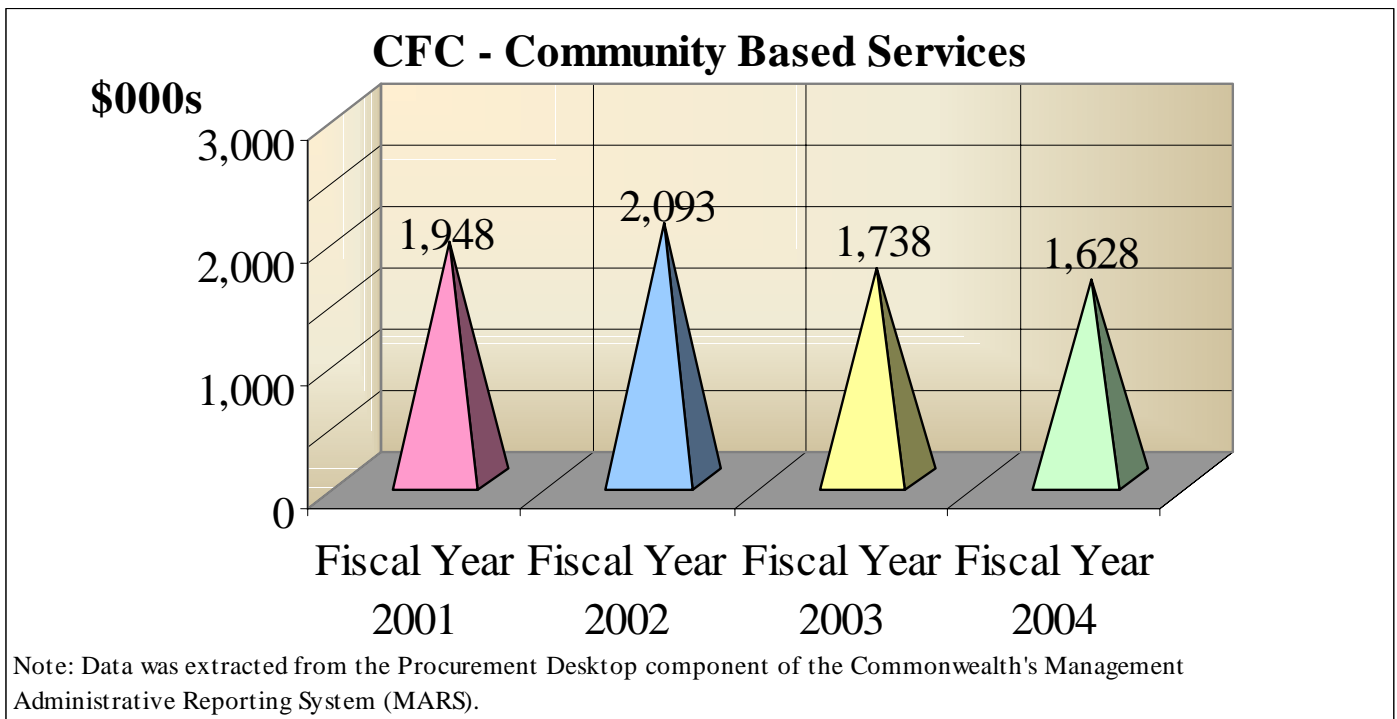
We recommend that CFC request reimbursement from any vendor that charged sales tax to Community Based Services and ensure that all ProCard holders are provided a letter which states that purchases made with the ProCard are tax exempt.

Finally, as cardholders provide supporting documentation, the administrator should alter the "Status" field to its current designation.

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**Total ProCard Expenditures Administered by the Agency  
Summarized by Fiscal Year**





**Finance Office of the Secretary**



**An internal review of Finance Cabinet's ProCard purchases identified certain areas of non-compliance.**

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An internal review was completed of the Finance Office of the Secretary on April 15, 2004. This internal review did not find instances of fraud or abuse; however, it did identify specific areas where expected controls were overlooked or inconsistently applied.

Our examination of the Finance Office of the Secretary ProCard program found several deficiencies within the established control procedures. Certain deficiencies that were identified pertain to Capital Plaza Operations (CPO), which was organizationally attached to the Finance Office of the Secretary during the examination period. Certain issues noted below were addressed by Finance as a result of its internal review.

**ProCard administrators and cardholders received informal training.**

---

ProCard administrators were not required to attend formal ProCard training, although this training was available through the Finance Customer Resource Center. Administrators were provided informal on-the-job training.

The cardholders in the Finance Office of the Secretary are provided training on an informal, one-on-one basis with the administrator when a new account is issued. The ProCard administrator for CPO was unaware of training for agency cardholders.

Further, documentation was not maintained by the administrators to evidence cardholders attended ProCard training.

FAP 111-58-00 specifically addresses the need for cardholders to receive training prior to using a ProCard. Without proper training, a cardholder will not be aware of specific ProCard program regulations, agency-specific procedures, or a cardholder's personal responsibilities. This lack of information may lead to misuse, unallowable purchases, and lack of supporting documentation.

*Recommendations*

We recommend ProCard administrators attend formal ProCard training offered by the Finance Customer Resource Center. In addition, cardholders should attend ProCard training prior to receiving the ProCard and administrators should ensure training records are maintained.

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**ProCard cardholder agreements should be properly completed and authorized.**

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We examined all 18 new ProCard issuances from June 2002 through May 2004 provided by the Finance Office of the Secretary to determine if the cardholder agreements were completed and properly authorized. In addition, the cardholder agreements were reviewed for all ProCard accounts with transactions from July 1, 2002 through December 31, 2003, for a total of 60 ProCard accounts.

We found 16 cardholder agreements deficient regarding required information at the time the ProCards were issued. Information missing from the agreements include:

- Six instances within CPO where the Merchant Category Code was missing;
- Seven instances, all but one within the Finance Office of the Secretary, where the administrator did not date the cardholder agreement; and
- Three instances within the Finance Office of the Secretary where agreements from 2001 were not signed by the administrator.

FAP 111-58-00 states that a “participating employee shall sign and accept the terms and conditions of the Commonwealth of Kentucky Procurement Card Cardholder Agreement.” If this form is not maintained by Finance Office of the Secretary, it is questionable whether the cardholder is aware of ProCard responsibilities.

Without the ProCard administrator’s authorizing signature, we cannot be assured that the administrator is aware of the responsibilities assumed by the cardholder, or that the cardholder’s signature is indeed that of the authorized cardholder. Also, the Merchant Category Code ensures that the bank will not authorize certain non-allowable purchases at point-of-sale, and the cardholder agreement should state through inclusion of the Merchant Category Code that the cardholder is aware of these non-allowable items. This lack of information and authorization could potentially result in adverse consequences.

One Finance Office of the Secretary ProCard account we examined was created for automatic monthly debits. We could find no cardholder agreement for this account.

### *Recommendations*

We recommend the authorized ProCard administrator or other appropriate personnel sign each cardholder agreement after the cardholder has reviewed, accepted, and signed the agreement's terms and conditions. Further, the Finance Office of the Secretary should review all current cardholder agreements to ensure that they have been properly authorized and reflect accurate and complete information. Cardholder agreement forms that are lacking this authorization or information, or both, should be re-created, the cardholders should sign and date the new forms, and the administrator should sign and date the new forms for proper authorization.

Additionally, all ProCard accounts should be issued for legitimate and business necessity expenses only, as allowed in FAP 111-58-00.

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### **Administrators should ensure ProCards for employees leaving the agency are cancelled in a timely manner.**

We were provided a list of 50 ProCards cancelled since June 2002 through May 2004. We tested 15 of these cancelled ProCards to determine whether the ProCards were cancelled in a timely manner and no charges were associated with the ProCard after the date the employee left the Finance Office of the Secretary's employment or transferred.

Seven ProCard accounts were identified that were cancelled after the date the employees left employment or transferred. Six instances identified were within the Finance Office of the Secretary and one occurred within CPO. One of these ProCard accounts had a charge with a transaction date occurring approximately two weeks after the employee left the Finance Office of the Secretary's employment and transferred to a new agency, and before the ProCard account was cancelled. This was a purchase for office supplies of \$742 from a vendor who kept ProCard information on file. This was possible due to the failure of the Finance Office of the Secretary to cancel the ProCard in a timely manner.

The failure to promptly cancel ProCards, after an employee either leaves employment or transfers to another part of the agency, increases the risk that unauthorized charges may be made to the ProCards.

*Recommendation*

We recommend the administrator ensure that when a cardholder either leaves employment or job duties no longer require the use of a ProCard, that the ProCard is immediately cancelled with the bank. The bank will address and resolve any charges made to a closed account on behalf of the agency with a transaction date after the cancellation date. It will be the vendor's responsibility to validate any such charges to the bank.

---

**Administrators and supervisors should ensure that cardholders reconcile all ProCard transactions on a monthly basis.**

---

ProCard cardholders do not review, reconcile, or sign off on monthly statements, and the reconciled ProCard transaction report was not approved or signed by the supervisor. This responsibility is stated in the Finance Internal Procurement Program Purchasing Procedures as follows:

(13) The monthly billing cycle from the bank will be split into two transaction reports each month for each cardholder/supervisor. The first report will be for transactions posted from the 17<sup>th</sup> through the last day of the month. The second report will be for transactions posted from the 1<sup>st</sup> through the 16<sup>th</sup>. The supervisor will be responsible for coordinating with the cardholder submission of the transaction report with the invoice and packing slip for each transaction. The supervisor will then sign off on the transaction report (approving all appropriate purchases contained in the report). The supervisor will approve and submit the completed report to the Procurement Card Administrator outlined above.

. . . . .

(16) It is the responsibility of the Cardholder to review each charge/receipt to ensure accuracy of purchase dollar total and compare it to the transaction report as well as the procurement card billing statement (BO 111-58-00-14). The cardholder shall follow up with each vendor for any charges that have not been processed before the end of the next billing cycle.



Any questioned charges are to first be addressed to the vendor reported on the statement and an attempt made to reach a resolution. If a resolution cannot be reached with the vendor, the ProCard administrator is to be contacted, and a dispute for the charge processed.

The lack of a monthly transaction reconciliation could result in an inaccurate and incomplete accounting in MARS PD or Advantage posting and reporting, and allow for unauthorized transactions to be processed and remain undetected.

The findings addressed above were identified in the agency internal audit, April 15, 2004, Finance Cabinet ProCard Usage Review, Procardholder's Report (Tier 1).

### *Recommendation*

We recommend the ProCard administrator ensure that all ProCard monthly bank statements are reconciled to the ProCard transaction reports and the transactions on monthly statements and ProCard reports are approved and signed by the cardholder and supervisor.

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### **Administrators should use the PD "Status" feature.**

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During discussions with the ProCard administrators at the Finance Office of the Secretary we were informed that they were using the MARS PD "Status" field when they initially tested the transaction to show the status of the review. If the document had been released for processing, this field was being updated if additional supporting documentation was being received.

However, during our testing of transactions from July 1, 2002 through December 31, 2003, 30 transactions, or 22 percent, of the transactions tested were identified with an incorrect status. CPO initiated 26 of these 30 ProCard transactions.

Normally within MARS PD, after a document has been approved and released for processing, it becomes a read-only document. The ProCard documents are unique in that after transactions are approved and released, all data fields in the document are read-only with the exception of the "Status" field. The administrator can change this field at any time to reflect the current state of the transaction. This process was established to afford the administrators a tool for monitoring transaction status.

*Recommendation***ProCard procedures should be strengthened to ensure an adequate review of transactions for appropriateness and necessity.**

---

We recommend that as supporting documentation is provided, the administrator ensure the “Status” field is updated to reflect the current designation of the transaction.

---

We tested 172 ProCard transactions dated July 1, 2002 through December 31, 2003, to determine whether established transaction review procedures were adequate and consistent. We identified, within the Finance Office of the Secretary and CPO, several instances of controls established to ensure the review of purchased items for appropriateness and necessity were not performed. Specifically,

- Supporting documentation for 14 transactions tested was not available.
- Supporting documentation for 60 transactions, or 35 percent, did not provide sufficient evidence that the associated charge was made by the cardholder. In addition, supporting documentation indicated that someone other than the cardholder made purchases in three instances.
- Supporting documentation, including an approved transaction report, for 52 transactions was insufficient to determine the appropriateness and necessity of the purchase or whether an adequate review was performed by the administrator.
- Supporting documentation for 37 transactions, or 22 percent, did not have cardholder or supervisor review and approval sign-offs.
- Non-allowable or questionable purchases were found for 18 transactions, or 10 percent.
- Supporting documentation for three transactions indicated sales tax was charged. This was also noted in the agency internal audit, April 15, 2004, Finance Cabinet ProCard Usage Review, Procardholder’s Report (Tier 1).
- Supporting documentation for eight transactions confirmed the existence of a split payment to bring an invoice amount below the cardholder’s single purchase limit.

- Supporting documentation for two transactions confirmed purchase amounts in excess of the agency's single quote small purchase limit.

Cardholders are provided with the Finance Procurement Card User's Guide as well as other guidance that explains the regulations associated with the use of a ProCard. This specifically addresses cardholder responsibilities concerning acceptable purchases and documentation requirements.

### *Recommendations*

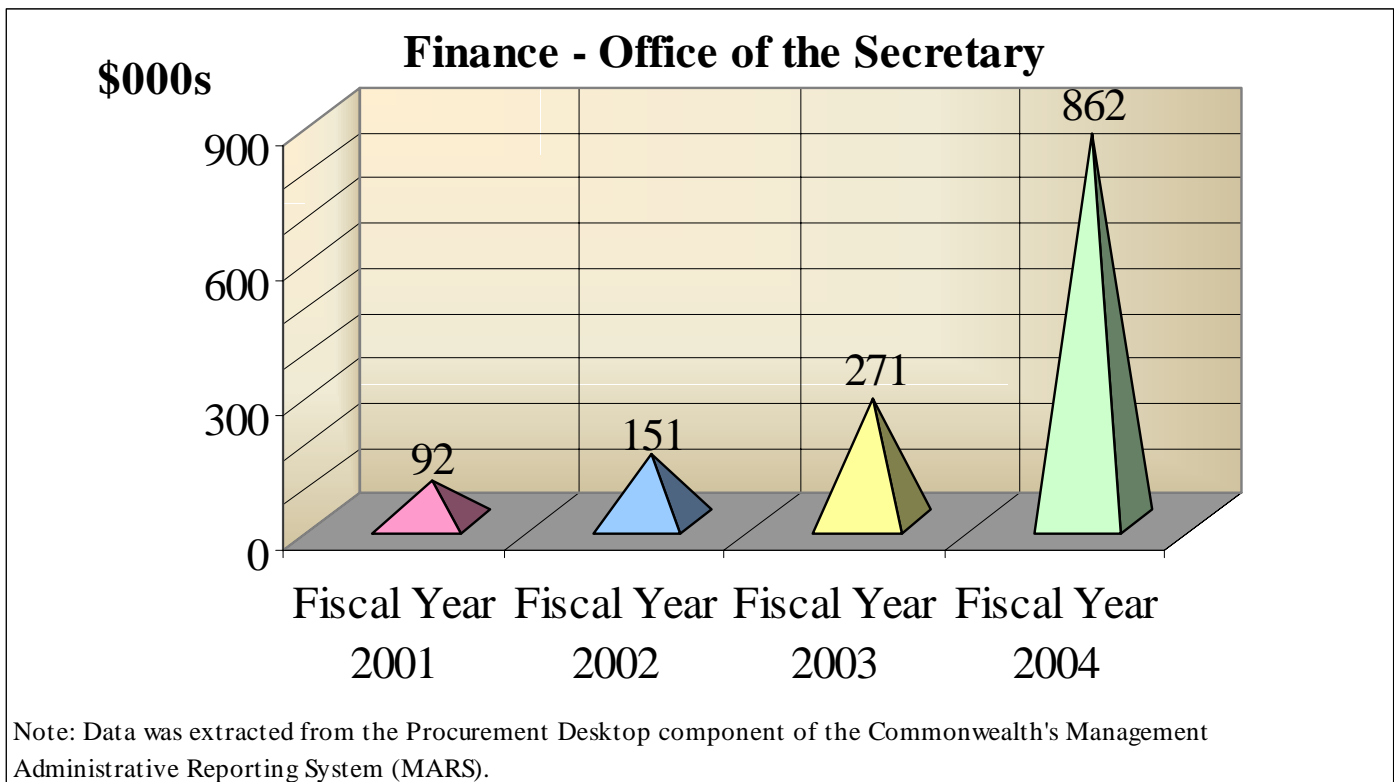
We recommend that all cardholder purchases have a business-related purpose and are not excessive. For instances where the itemized receipt does not provide sufficient information to determine the items purchased, cardholders should provide a description of the purchase and a statement of its necessity.

We further recommend the ProCard administrator ensure that a copy of the approved ProCard transaction report is attached to each applicable receipt filed. This provides independent documentation for each transaction indicating the proof of purchase by the cardholder, the items purchased and their necessity, and the existence of additional charges such as sales tax.

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### Total ProCard Expenditures Administered by the Agency Summarized by Fiscal Year





**Finance Office of Management and Fiscal Affairs**





**Finance Office of Management and Fiscal Affairs should strengthen established procedures to review ProCard purchases.**

---

We tested 121 ProCard charges with due dates between July 1, 2002 and December 31, 2003, to determine whether the procedures established at the Finance Office of Management and Fiscal Affairs (OMFA) were adequate and consistently performed. During this testing, we found several instances where the control procedures designed to ensure items purchased were examined for appropriateness and necessity were not performed. Specifically,

- The supporting documentation for four transactions was inadequate to demonstrate that the associated charge was made by the cardholder.
- No supporting documentation was on file for one transaction.
- Two transactions were charged sales tax with no indication the sales tax was recovered from the vendor.
- Supporting documentation for one purchase was not adequate to determine the item purchased or by whom.

*Recommendations*

We recommend compliance with FAP 111-58-00 guidelines, to assure all transactions are accompanied by adequate supporting documentation, explanation of charges from the cardholder's supervisor, and a review for sales tax, split-purchases, and personal or inappropriate purchases. Sales tax should be recovered where applicable.

---

**OMFA should improve procedures relating to the issuance of or changes to ProCards.**

---

We tested ProCards issued and cancelled between July 1, 2002 through December 31, 2003, as well as a sample of transactions that appeared questionable, to ensure documentation was on file for newly issued cards, purchases were appropriate and fall within set guidelines, and that each ProCard was appropriately deactivated where applicable. Several issues were noted within this review, specifically:

- Four accounts were missing proper approval to receive a ProCard and one cardholder agreement was missing an authorized signature.
- Three of the six cardholders whose accounts were cancelled left the agency; however, their ProCards were not cancelled until after they had left.

*Recommendations*

We recommend OMFA administrators ensure that a cardholder agreement is on file reflecting the cardholder's current credit limits and administrator approval.

We also recommend the administrator ensure that when a cardholder leaves OMFA employment or job duties no longer require the use of a ProCard, that the ProCard is immediately cancelled with the bank.

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**Administrators should use the MARS PD "Status" feature.**

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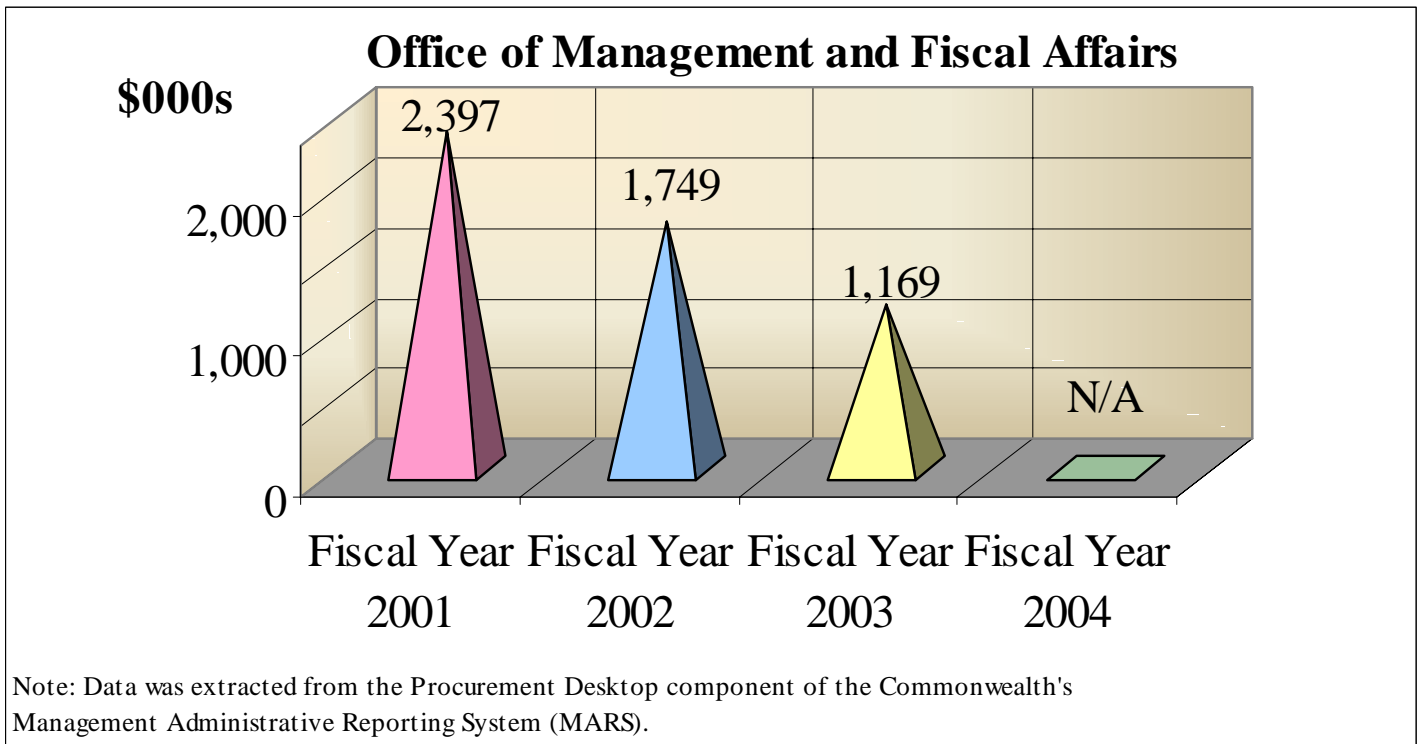
Normally within MARS PD, after a document has been approved and released for processing, it becomes a read-only document and cannot be altered. The ProCard documents are unique in that after they have been approved and released, all data fields in the document are read-only with the exception of the "Status" field. The administrator can change this field at any time to reflect the current state of the transaction. This process was put in place to afford the administrators a tool for monitoring transaction status. OMFA administrators were not using this feature. For 11 of the transactions tested for status designation the "Status" field was inaccurate based on the documentation available from the administrator.

*Recommendation*

We recommend as cardholders provide supporting documentation, the administrator update the "Status" field to its current designation.

---

**Total ProCard Expenditures Administered by the Agency  
Summarized by Fiscal Year**





**Labor Cabinet Office of the Secretary**



**The Labor Cabinet Office of the Secretary should ensure ProCards are cancelled in a timely manner.**

---

The Labor Cabinet Office of the Secretary (Labor) had designed and implemented guidelines and procedures to ensure adherence to the Finance ProCard program policy. A listing provided by Labor indicated seven ProCards were cancelled from June 2002 through May 2004. All of these ProCards were reviewed to ensure that the ProCards were cancelled in a timely fashion if the cardholder left employment at Labor and that no charges were associated with a ProCard after its cancellation date. Two ProCards cancellation dates were effective a significant period of time after the employee left Labor employment.

When ProCards are not cancelled promptly after an employee leaves Labor or transfers to another part of the agency, Labor increases its risk of allowing unauthorized charges to be made to ProCards.

*Recommendation*

We recommend the administrator immediately cancel the ProCard issued to an employee that either leaves employment at Labor or job duties no longer require the use of a ProCard. The bank will address and resolve any charges made to a closed account on behalf of Labor with a transaction date after the cancellation date. It will be the vendor's responsibility to validate any such charges to the bank.

---

**Labor should ensure all ProCard purchases are appropriate and necessary.**

---

During our review of ProCard transactions occurring during the period of July 1, 2002 and December 31, 2003, we found two transactions related to items that were not specifically disallowed under FAP 111-58-00, but which were, nonetheless, questionable as to the necessity for the purchase. These purchases included flowers for a retirement party and ten clocks for retirement gifts.

These purchases are not in keeping with Labor's fiduciary responsibility to the taxpayers to ensure that expenditures are necessary, appropriate, and not excessive.

*Recommendation*

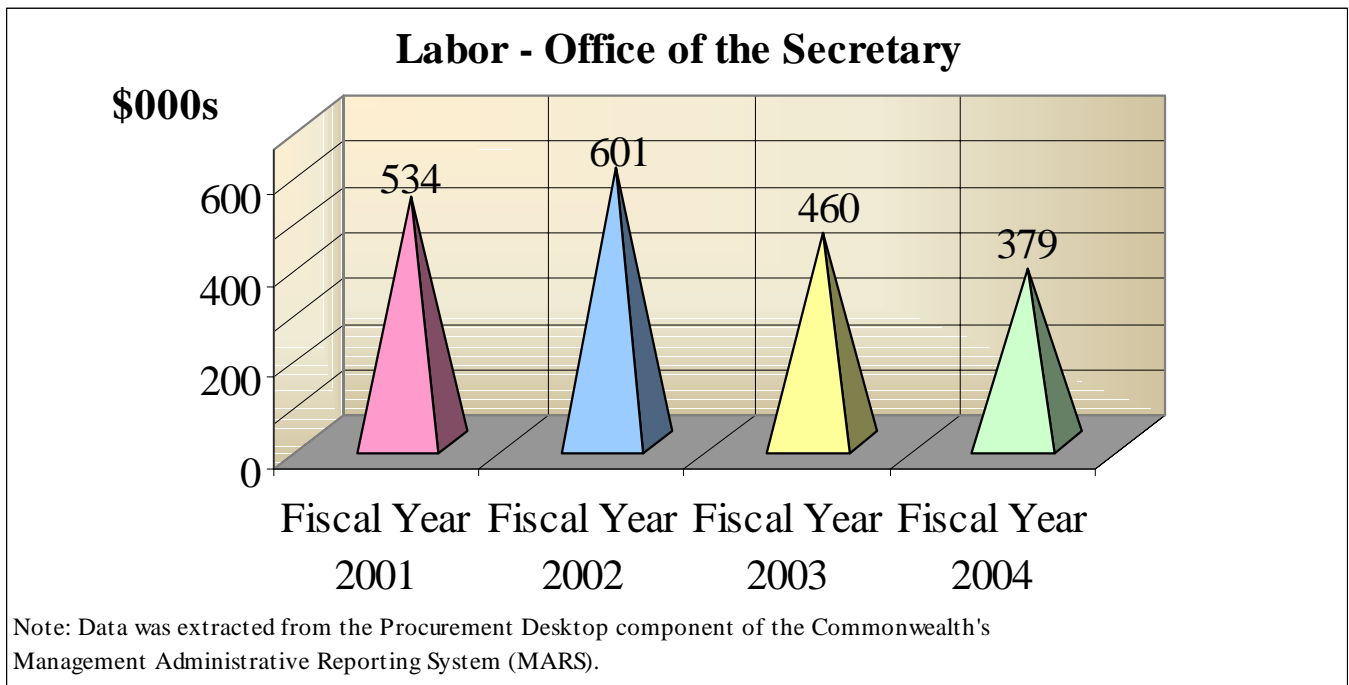
We recommend Labor ensure all cardholder purchases have a business-related purpose and are necessary, appropriate, and not excessive.

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**Total ProCard Expenditures Administered by the Agency  
Summarized by Fiscal Year**





**Transportation Cabinet**



**The Transportation Cabinet should ensure all ProCard purchases are appropriate and necessary.**

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The Transportation Cabinet (KYTC) Internal Audit Branch has conducted ProCard audits of several of their district offices and their central office. These examinations were performed intermittently from July 2002 through April 2004, and the scope of each included several months or years. The internal audits did identify ProCard review and procedural weaknesses. However, no material findings were noted in these internal audits.

Our examination revealed that guidelines and procedures were developed by KYTC promoting adherence to ProCard Program Policy as conceived by Finance. However, we identified certain ProCard control deficiencies described below.

Our examination of KYTC's ProCard program for the period July 1, 2002 through December 31, 2003, tested 87 transactions with a MARS PD "Status" field noted as "Not Reviewed." Our testing revealed five transactions totaling \$155 for which the KYTC central office could not provide supporting documentation.

According to FAP 111-58-00, a receipt or invoice should be given to the ProCard administrator for review. Without a receipt or the ability to substantiate that the purchase was a legitimate expense, the cardholder should be personally responsible for the purchase.

*Recommendation*

We recommend KYTC ensure all ProCard purchases are appropriate, necessary, and not excessive. The ProCard administrator should obtain supporting documentation from the cardholder to ensure the actual cardholder made the purchase and that it was not personal in nature.

---

**KYTC should standardize transaction-related ProCard procedures.**

---

During our examination of KYTC's ProCard program for the period July 1, 2002 through December 31, 2003, we discovered inconsistent procedures regarding the manner in which transaction-related procedures are performed throughout the different departments and divisions of KYTC.

Cardholders are provided with the KYTC ProCard User Guide, which explains the regulations and responsibilities associated with the use of the ProCard. However, each department or division administrator follows his or her own procedures to review and process ProCard transactions. Although procedures followed by each administrator appear to be adequate, consistent coverage would be improved by the formal establishment of standardized procedures.

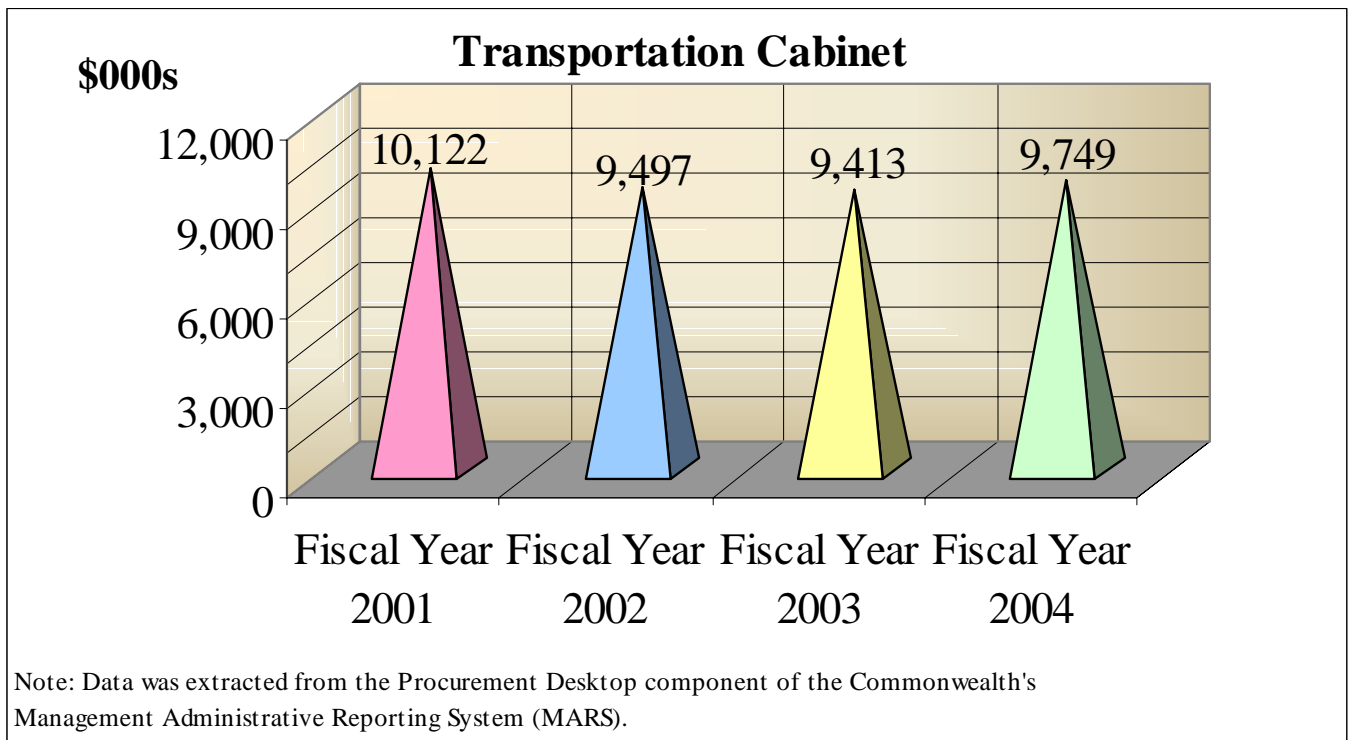
Without standardized procedures in place, inadequate review of ProCard transactions could occur, which can result in inappropriate transactions being made by a cardholder.

*Recommendation*

We recommend that KYTC establish standardized procedures to review ProCard transactions. These procedures should be formalized and documented in KYTC's procedures manual. They should also be included in ProCard administrator and cardholder training.

---

**Total ProCard Expenditures Administered by the Agency  
Summarized by Fiscal Year**







**Cabinet for Economic Development**  
**Department of State Police**  
**Department of Veterans Affairs**



**No reportable weaknesses were identified in three agencies examined.**

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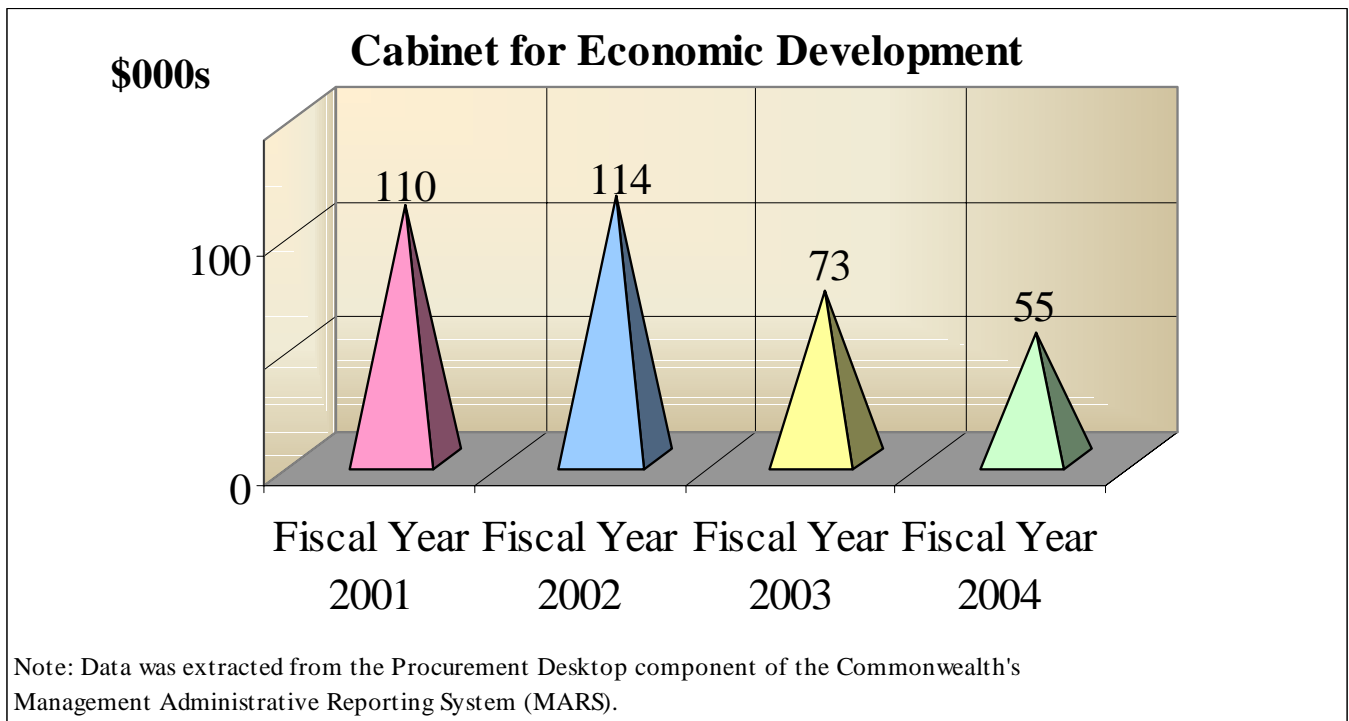
The procedures performed to examine ProCard activities were consistently applied to the agencies selected for review. Our report communicates ProCard process and control weaknesses or other activity identified during this examination and provides recommendations for improvement. The examination of the following three agencies did not reveal any reportable ProCard issues:

- Cabinet for Economic Development;
- Department of State Police; and
- Department of Veterans Affairs.

ProCard expenditures administered by these agencies are graphically presented on the following pages.

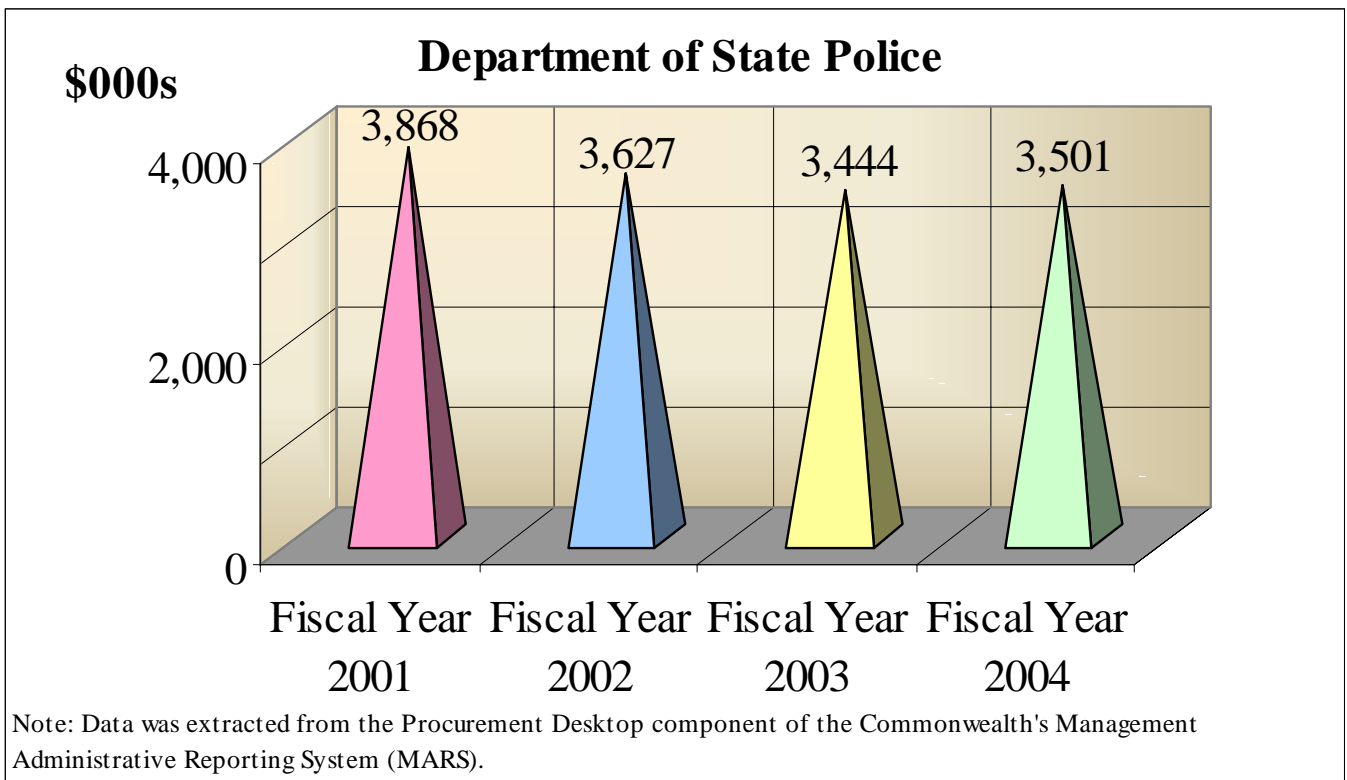


### Total ProCard Expenditures Administered by the Agency Summarized by Fiscal Year





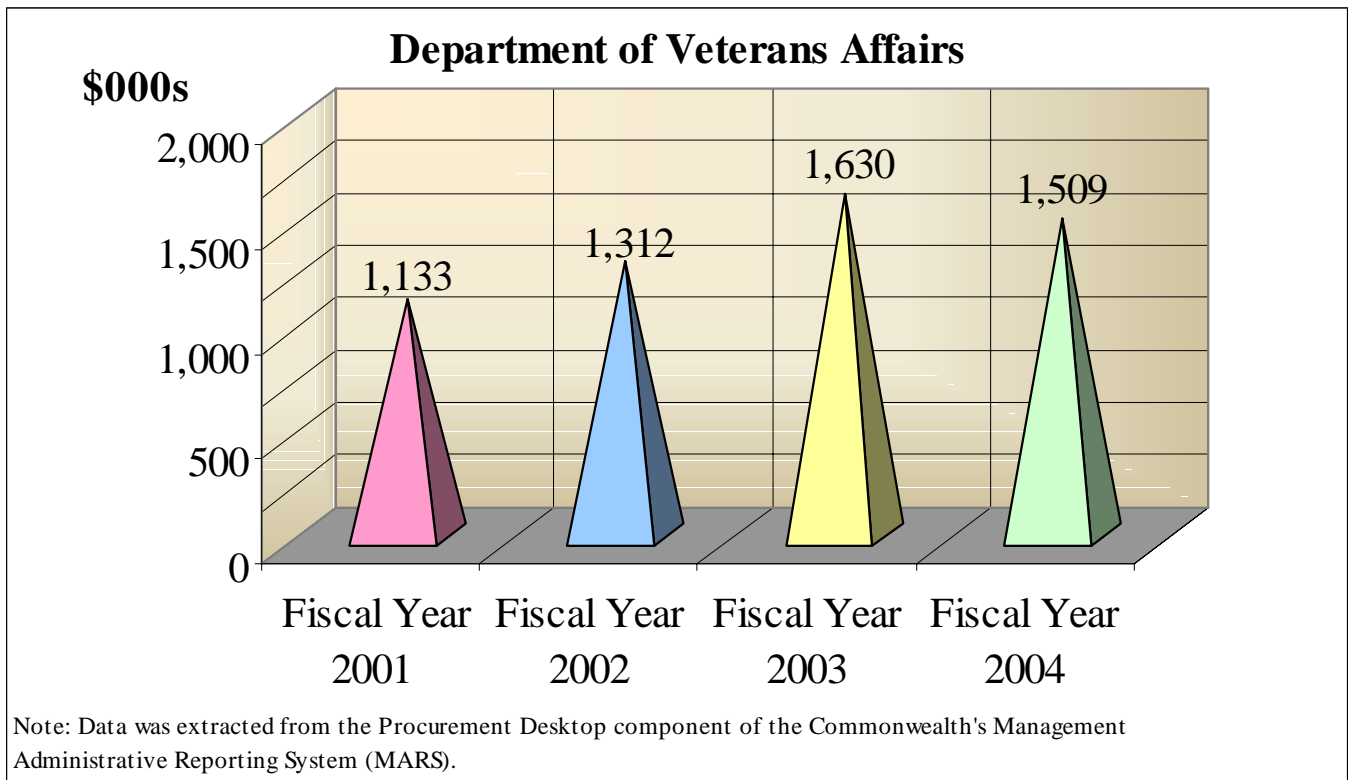
**Total ProCard Expenditures Administered by the Agency  
Summarized by Fiscal Year**







**Total ProCard Expenditures Administered by the Agency  
Summarized by Fiscal Year**





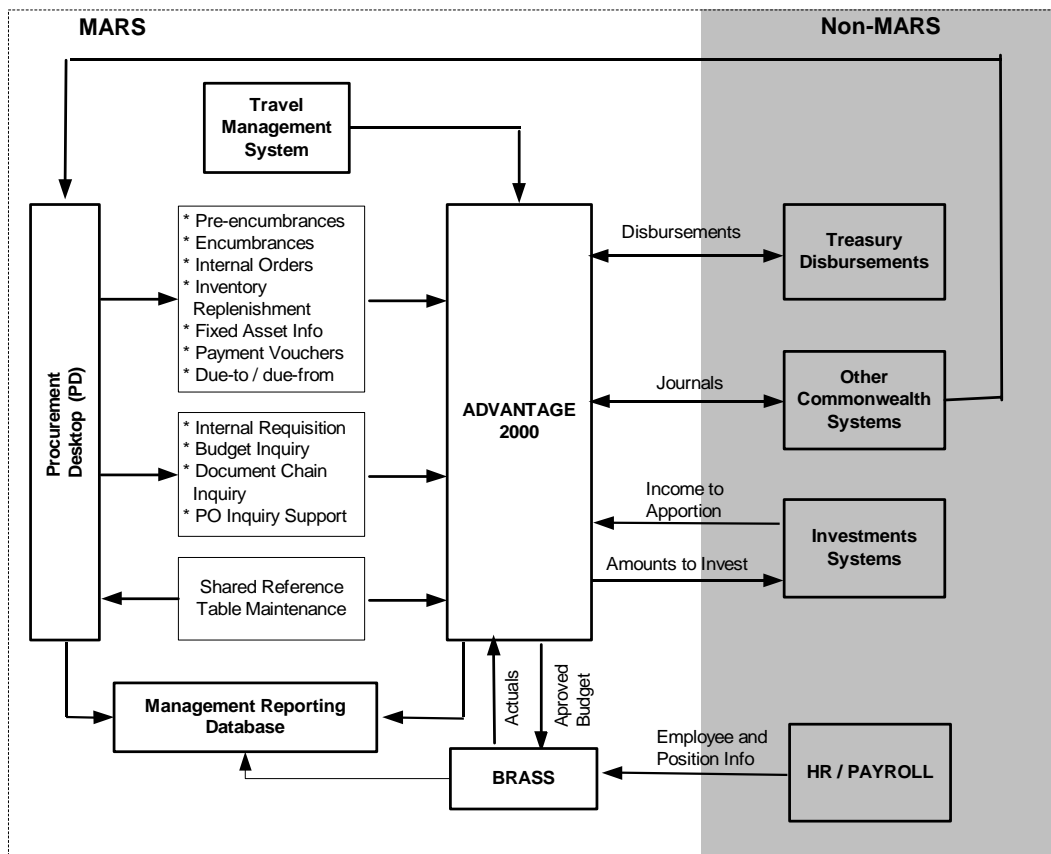
**APPENDIX A**



### ***MARS Component System Overview***

The Management Administrative and Reporting System (MARS) was implemented as a single enterprise-wide solution based upon three underlying application products:

- ADVANTAGE Financial 2000 – provides most of the financial and administrative management functionality.
- Budget Reporting and Analysis Support System (BRASS) – provides budget preparation functionality.
- Procurement Desktop (PD) – provides procurement-related functionality.



**Figure 1**

ADVANTAGE is the main system to which all other systems interface. The system tables in ADVANTAGE are always updated with transactions from all systems within MARS. Therefore, a user should access the appropriate ADVANTAGE table to solve an inquiry.

The entire functionality of MARS has not been implemented state-wide. Many of the smaller field offices within an agency currently do not have MARS. To resolve this issue, the offices that do not use MARS complete MARS' forms in hard copy. These hard copy forms are sent to the central office for entry into the system.

Users have access to two different options for reports. Document Direct is a reporting package connected to MARS. Within Document Direct there are several canned reports that are standard for most operations. The second option includes the creation of a separate database with the MARS information, the Management Reporting Database (MRDB). Seagate Crystal Info or Microsoft Access are suggested tools to use to query and report from the MRDB.

**APPENDIX B**



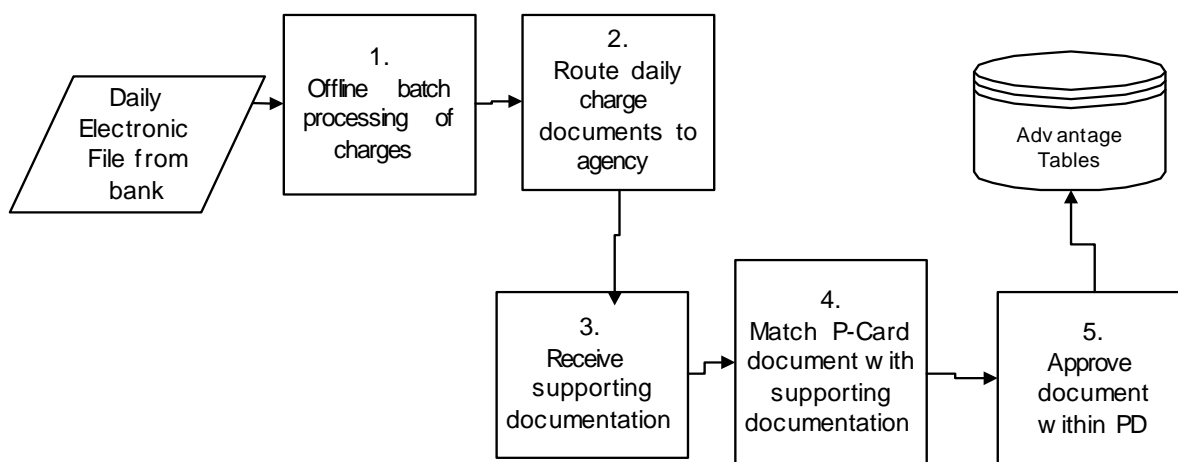


## Simplified Procurement Card Transaction Flow Description

The process flow for a Procurement Card (ProCard) purchase begins outside the realm of the Management Administrative and Reporting System (MARS). A cardholder will make a purchase from a vendor using the ProCard. If the purchase is authorized through the issuer, then the vendor's terminal will reflect that the transaction has been approved. All approved transactions are then filtered to the issuer. The issuer will reimburse the vendor for the charge and begin the billing process for the cardholder.

Through an agreement with the Commonwealth, the issuer will send an electronic file daily to the Governor's Office for Technology (GOT). This file will include the detailed charge information for the associated cardholder. At this point, the processing of the ProCard transaction becomes part of the MARS system. This process is laid out below in an overview flowchart with brief explanations of each step.

### ProCard Payment Process



#### 1. Offline batch processing of charges

Once GOT receives the daily electronic file from ProCard with the procurement card detail transaction listing, the credit charges are processed by an offline batch processing utility that uploads the charges into the Procurement Desktop (PD) system within MARS.

#### 2. Route daily charge documents to agency

The resulting ProCard documents are automatically routed to the appropriate agency through PD on a daily basis. If a transaction is received that does not have a matching cardholder number on the P-Card Task Table, it will be written to an error file that is forwarded to Finance for review.

#### 3. Receive supporting documentation

The agency employees are responsible for sending their receipts and invoices for the ProCard purchases to the agency administrator. This supporting documentation is kept in a file to be matched against the amounts in PD.

#### 4. Complete ProCard documents and match amounts with supporting documentation

The administrator enters PD and accesses the ProCard document. The fiscal year and agency code fields should be completed. The administrator reviews and matches the charges on the ProCard document with the employee invoices and receipts. The administrator marks the lines on the ProCard document "accepted" if supporting documentation has been received. If a receipt or invoice has not been received, a flag is set on the screen to designate "no receipt."

**5. Approve document within PD**

At the end of the monthly cycle, the clerk enters PD and accesses all daily, ProCard documents for the month, approves and releases. Most users are trained to approve the ProCard documents throughout the month. It depends on the volume of documents the agency processes as to how often they actually do it. At this time, PD interfaces with Financial Advantage (Advantage) and updates the appropriate tables.

All ProCard documents must be approved and released for payment to be made. If a document still does not have adequate supporting documentation, the document will be approved with the “no receipt” flag on it. Once released, all document fields, with the exception of the “acceptance/no receipt” flag, will be read-only. When supporting documentation for a transaction is received, the flag can be changed to “accepted” on the released document.

**6. Advantage Tables**

When the PD ProCard documents are released to Advantage, a new document is created with all the necessary payment information. The document number from PD will be retained in the Advantage Transaction Number field and all other accounting line information will be transferred into a Payment Voucher (PV) document format. The PV document within Advantage does not require any further approvals from the agency before payment is made to the issuer.

**APPENDIX C**



**PROCUREMENT CARD PROGRAM**  
**FAP 111-58-00**  
**(in effect through June 16, 2004)**

A Procurement Card may be used by a state employee for both the purchasing of goods and services, and the payment for those purchases. The use of a procurement card by employees of the Commonwealth is authorized as another payment option to the One Price Quotation procedure of FAP 111-55-00 for purchases listed in section 5.

1. A participating agency shall sign and accept the terms and conditions of the Commonwealth of Kentucky Procurement Card Site Agreement.
2. A card may be issued to only a Commonwealth of Kentucky employee, except as authorized in section 3 of this policy. A participating employee shall sign and accept the terms and conditions of the Commonwealth of Kentucky Procurement Card Cardholder Agreement provided by the Finance and Administration Cabinet. The card shall be used exclusively by the employee who signed the agreement. Cards shall not be shared or loaned to other employees.
3. A card may be issued to a Kentucky National Guard member, if the Governor orders the Kentucky National Guard into active duty pursuant to KRS 38.030. Each participating National Guard member shall sign and accept the terms and conditions of the Commonwealth of Kentucky Procurement Card Cardholder Agreement. The Procurement Card program administrator of the Department of Military Affairs shall retain the card in a central location when not being used by the Kentucky National Guard member on active duty. The card shall be cancelled at the conclusion of the Guard member's active duty.
4. The issuance of a card **does not** provide any authority to violate the Commonwealth's procurement laws, regulations, policies and procedures or the Executive Branch Code of Ethics. A purchase transaction processed against a Procurement Card shall comply with the requirements of the Finance and Administration Cabinet Manual of Policies and Procedures, except as modified herein.
5. The Procurement Card may be used for the following transactions:
  - a. Any purchase not prohibited in section 6 of this policy that is no greater than the limit established for the card or the agency's small purchase, single quote limit, whichever is less.
  - b. Any purchase from a Master Agreement or Catalog Master Agreement. If the contract purchase is greater than the single purchase limit established for the card, the order shall be processed electronically on the state's procurement system.
  - c. Any utility payment, regardless of the dollar amount.
  - d. Registration fees for employee training and conferences.

- e. Out of state purchases of fuel for motor pool vehicles only if the state fleet management fuel card is not accepted. The cardholder shall attach an approved authorization for travel outside of Kentucky and a statement that the fleet management card was not accepted by the vendor to the vendor's invoice and submit with the transaction report.
  - f. Photocopying costs if the employee's agency is located outside of Franklin County.
  - g. Purchases from Kentucky Correctional Industries.
  - h. Purchases from the Department for Education's online bookstore.
6. The Procurement Card **shall not** be used for the following transactions:
- a. Travel and entertainment related expenses and advances.
  - b. Alcoholic beverages.
  - c. Automotive gasoline, except as stated in subsection 5(e) above.
  - d. Cash advances.
  - e. Salaries and wages.
  - f. Legal services.
  - g. Lease purchases.
  - h. Insurance premiums and bonds.
  - i. Services covered by Personal Service Contract statutes and regulations.
  - j. Printing services.
  - k. Purchase from another Commonwealth agency, except if expressly permitted by the Finance and Administration Cabinet.
  - l. Used equipment.
  - m. Purchase from an auction.
7. An agency shall ensure that, for every cardholder, the Cardholder Controls Merchant Category Code Group on the Purchasing Card Cardholder Account form lists the code for liquor store as an excluded merchant category.
8. Purchases shall be for the use and benefit of the Commonwealth. No personal purchases shall be allowed.

9. A cardholder shall report a lost or stolen card immediately to the issuing bank, his or her supervisor, and the agency's Procurement Card program administrator. The Commonwealth is not liable for any charges made on a lost or stolen card.
10. A cardholder shall, as an agent of the Commonwealth, ensure the proper use of the Commonwealth's tax exempt registration number.
11. A cardholder shall properly inspect all shipments. In case of returns, a cardholder shall coordinate the return directly with the supplier and contact the agency program administrator with any unresolved issues. Returns for cash are not permitted.
12. An agency shall maintain the documentation for all transactions in accordance with the Commonwealth's record retention policy. All receipts and invoices shall be retained for a total of eight (8) years, with at least the three (3) most recent years maintained at the agency's site.
13. An agency shall ensure that the proper classification structure is charged for the purchase.
14. An agency shall attempt to resolve a dispute with the vendor. If a resolution is not achieved, the agency shall report the dispute to the issuing bank.
15. An agency shall receive and distribute information on all purchases to all cardholders and any associated approving personnel. The cardholder shall reconcile the procurement card billing statement at the end of each billing cycle to all cashier receipts and invoices to ensure the accuracy of the statement. The cardholder shall address any questions regarding disputed charges to the vendor reported on the statement and attempt to reach a resolution. If a resolution cannot be reached with the vendor, the cardholder shall contact the Procurement Card program administrator.
16. If an invoice, packing slip or other information is missing, the cardholder's supervisor shall attach to the transaction report an explanation of the items charged, date of charge, store or vendor, dollar amount of the charge, and explanation why the original vendor information is unavailable. If a charge receipt cannot be produced and the charge cannot be substantiated as a legitimate governmental expense by the end of the second billing cycle following the purchase, the card shall be revoked, and the cardholder shall be held personally liable for the charge and subject to disciplinary actions.
17. An agency shall establish internal controls, including separation of duties, to ensure that applicable procurement and payment policies are followed. The agency's fiscal officer shall develop a written plan establishing such controls.
18. An agency head shall either serve as, or appoint an employee of the agency to serve as, the authorized signer with responsibilities including, but not limited to, overseeing and administering the functions of the Procurement Card program at the agency, giving instruction to the authorizing bank, signing the cardholder agreement for the agency as provided by the Finance and Administration Cabinet, and ensuring that each cardholder attends training covering the policies and procedures for the use of a Procurement Card.

19. A cardholder shall attend training covering duties, responsibilities and procurement policies prior to using a Procurement Card. Authorized signers and administrators shall attend training as directed by the Finance and Administration Cabinet.
20. An agency shall process payments in the state's procurement system in sufficient time to pay the issuing bank. If authorization is not received in sufficient time, the agency shall be responsible for payment of interest charges.
21. An agency shall ensure that all 1099 reportable purchases are coded to the proper object codes.
22. Violation of these policies may result in further action to be taken at the discretion of the Finance and Administration Cabinet in accordance with Kentucky Revised Statutes.

Relates to: KRS 45A.100



**APPENDIX D**



**PROCUREMENT CARD PROGRAM**  
**FAP 111-58-00**  
**(effective June 17, 2004)**

A procurement card may be used by a state employee for both the purchasing of goods and services, and the payment for those purchases. The use of a procurement card by employees of the Commonwealth is authorized as another payment option to the One Price Quotation procedure of FAP 111-55-00 for purchases listed in section 5 of this policy. Use of this card shall be in accordance with the Commonwealth's procurement laws, regulations, policies and procedures and the Executive Branch Code of Ethics. A purchase transaction processed against a procurement card shall comply with the requirements of the Finance and Administration Cabinet Manual of Policies and Procedures, except as modified herein. Each agency shall ensure that its employees adhere to this policy. A violation may result in action at the discretion of the Finance and Administration Cabinet in accordance with Kentucky Revised Statutes.

1. A participating agency shall sign and accept the terms and conditions of the Commonwealth of Kentucky Procurement Card Site Agreement. A procurement card may be issued to a Commonwealth of Kentucky employee, an organizational unit, or Kentucky National Guard member as authorized in section 3 of this policy.
2. Each frequent user should be issued an individual card. An employee issued an individual card shall sign and accept the terms and conditions of the Commonwealth of Kentucky Procurement Card Cardholder Agreement provided by the Finance and Administration Cabinet. An individual card embossed with an employee's name shall be used exclusively by that employee and shall not be shared or loaned to other employees.
3. A procurement card may be issued to an organizational unit that is logistically separate from the associated cabinet or agency. Written justification shall be sent to and prior approval shall be obtained from the Office of the Controller for each card. Justification shall include an explanation of why the card is needed, expected types of transactions, and how the organizational unit functions within a cabinet or agency. In addition to the other sections of this policy, controls and restrictions on procurement cards issued to organizational units are as follows:
  - a. Procurement cards shall not be shared between organizational units of a cabinet or agency.
  - b. Not more than one organizational unit procurement card shall be issued to one physical location.
  - c. The agency head or the agency head's designee shall sign the Commonwealth of Kentucky Procurement Card Cardholder Agreement for the organizational unit card provided by the Finance and Administration Cabinet.
  - d. The procurement card shall not be used for purchases from the Internet.
  - e. The procurement card shall be stored in a secured area with access limited.

- f. The agency head shall assign one employee in the organizational unit to serve as the procurement card custodian. The custodian shall be responsible for the organizational unit's procurement card, and shall have discretion to determine if an employee may use the organizational unit's card.
  - g. The procurement card custodian shall maintain a detailed card use log that includes the cardholder's name, cardholder's signature, date and time logged out, date and time logged in, vendor, and items to be purchased.
  - h. Each purchase shall be pre-approved before the card may be logged out.
  - i. The employee using the organizational unit's card and the procurement card custodian shall ensure that all cardholder duties are performed for each transaction.
  - j. If the location of the card is unknown for any period of time, the employee who signed out the card shall notify the issuing bank, the organizational unit's manager, the organizational unit's procurement card custodian, and the agency's procurement card program administrator.
  - k. The card number shall not be written down, retained or used at the discretion of an employee.
  - l. Each employee shall receive a copy of this policy and other written material given to other cardholders in the cabinet or agency before using the organizational unit's procurement card.
4. A card may be issued to a Kentucky National Guard member, if the Governor orders the Kentucky National Guard into active duty pursuant to KRS 38.030. Each participating National Guard member shall sign and accept the terms and conditions of the Commonwealth of Kentucky Procurement Card Cardholder Agreement. The procurement card program administrator of the Department of Military Affairs shall retain the card in a central location when not being used by the Kentucky National Guard member on active duty. The card shall be cancelled at the conclusion of the Guard member's active duty.
5. The procurement card may be used for the following transactions, if within the card limit:
- a. Any purchase not prohibited in section 6 of this policy, and not otherwise allowed by subsections b-h of this section, that is no greater than the limit established for the card or the agency's small purchase, single quote limit, whichever is less.
  - b. Any purchase from a Master Agreement or Catalog Master Agreement. If the contract purchase is greater than the single purchase limit established for the card, the order shall be processed electronically on the state's procurement system.
  - c. Any utility payment, regardless of the dollar amount.
  - d. Registration fees for employee training and conferences.

- e. Out of state purchases of fuel for motor pool vehicles only if the state fleet management fuel card is not accepted. The cardholder shall attach an approved authorization for travel outside of Kentucky and a statement that the fleet management card was not accepted by the vendor to the vendor's invoice and submit with the transaction report.
  - f. Photocopying costs if the employee's agency is located outside of Franklin County.
  - g. Purchases from Kentucky Correctional Industries.
  - h. Purchases from the Department of Education's online bookstore.
6. The procurement card **shall not** be used for the following transactions:
- a. Travel and entertainment related expenses and advances.
  - b. Alcoholic beverages.
  - c. Automotive gasoline, except as stated in subsection 5(e) above.
  - d. Cash advances.
  - e. Salaries and wages.
  - f. Legal services.
  - g. Lease purchases.
  - h. Insurance premiums and bonds.
  - i. Services covered by Personal Service Contract statutes and regulations.
  - j. Printing services.
  - k. Purchase from another Commonwealth agency, except if expressly permitted by the Finance and Administration Cabinet.
  - l. Used equipment.
  - m. Purchase from an auction.
7. An agency shall ensure that, for every card issued, the Cardholder Controls Merchant Category Code Group on the Purchasing Card Cardholder Account form lists the code for liquor store as an excluded merchant category.
8. Purchases shall be for the use and benefit of the Commonwealth. No personal purchases shall be allowed.

9. A cardholder shall report a lost or stolen card immediately to the issuing bank, the cardholder's supervisor, and the agency's procurement card program administrator. A new card shall be issued if approved by the cardholder's supervisor. A card that has been reported lost or stolen that is subsequently found shall be given to the agency procurement card program administrator.
10. A cardholder shall, as an agent of the Commonwealth, ensure the proper use of the Commonwealth's tax exempt registration number.
11. A cardholder shall properly inspect all shipments. In case of returns, a cardholder shall coordinate the return directly with the supplier and contact the agency program administrator with any unresolved issues. Returns for cash are not permitted.
12. An agency shall maintain the documentation for all transactions in accordance with the General Schedule for State Agencies, FAP 111-28-00 and FAP 120-21-00. Receipts for source documentation shall include the vendor's name, date of purchase, description of each item purchased, price of each item purchased, total cost, cardholder name or card number, and signature of cardholder or designee.
13. An agency shall ensure that the proper classification structure is charged for the purchase.
14. An agency shall attempt to resolve a dispute with the vendor. If a resolution is not achieved, the agency shall report the dispute to the issuing bank.
15. Each head of an agency that is issued a procurement card shall select an agency procurement card program administrator who shall administer the program. To ensure proper separation of duties, the agency procurement card program administrator shall not be a cardholder. The Finance and Administration Cabinet shall train the agency procurement card program administrator on the implementation and operation of the procurement card program. The agency program procurement card administrator shall manage the overall agency operation and cardholder training, with duties to include but not be limited to the following:
  - a. Determination of the agency's employees and organizational units who may receive procurement cards;
  - b. Approval and execution of each Cardholder Agreement;
  - c. Development and provision of mandatory training for each cardholder and organizational unit card custodian prior to issuance of the procurement card. Employees who may use an organizational unit's card shall be trained prior to use of the card. The cardholder training shall cover duties, responsibilities and procurement policies. Authorized signers and agency procurement card program administrators shall attend training as directed by the Finance and Administration Cabinet.
  - d. Assignment of a default accounting structure for each card;
  - e. Coordination of the disputed charges process;
  - f. Distribution of activity reports;

- g. Coordination of the payment process to ensure that timely remittance is made;
  - h. Establishment of a procedure to provide reasonable assurances that cardholders receive no monetary benefit from use of the card; and
  - i. Assurance that purchased items required to be included in the fixed asset inventory are reported to the agency property officer or fiscal officer.
16. An agency shall receive and distribute information on all purchases to all cardholders and any associated approving personnel. The cardholder or organizational unit's card custodian shall reconcile the procurement card billing statement at the end of each billing cycle to all cashier receipts and invoices to ensure the accuracy of the statement. The cardholder shall address any questions regarding disputed charges to the vendor reported on the statement and attempt to reach a resolution. If a resolution cannot be reached with the vendor, the cardholder shall contact the procurement card program administrator.
17. An agency shall establish internal controls, including separation of duties, to ensure that applicable procurement and payment policies are followed. The agency's fiscal officer shall develop a written plan establishing such controls. This plan shall include the following procedures at a minimum:
- a. Each cardholder and procurement card user shall be informed, in writing, of the specific goods and services that they may purchase with the procurement card, without prior supervisor approval.
  - b. Each cardholder and procurement card user shall request prior supervisor approval for any purchase not explicitly authorized in writing in accordance with subsection a. of this section.
  - c. Each cardholder and organizational unit's card custodian shall submit to the agency card administrator, on at least a monthly basis, a valid receipt for each charge. The itemized receipt or email confirmation shall be issued by the merchant and identify the good or service purchased. Dues and subscriptions may be documented by an order form. The receipts for each procurement card cycle shall be submitted to the administrator within four (4) business days after the end of the cycle.
  - d. Each procurement card cycle for which the cardholder or organizational unit's card custodian has made purchases, the cardholder or organizational unit's card custodian and his or her immediate supervisor shall sign a statement that the purchases were for the benefit of the Commonwealth and not for personal use. Each cardholder or organizational unit's card custodian shall identify the purpose of the transaction, if it is not readily understandable based on the goods procured. This statement shall be submitted to the administrator within four (4) business days after the end of the cycle.
  - e. Purchases of food or beverage shall be accompanied by documentation explaining the reason for the purchase, justification of need, and proof that they benefited the Commonwealth. Examples of this documentation include, but are not limited to, prior approval memo, meeting minutes and board calendars.

- f. Each cardholder and organizational unit's card custodian shall receive a monthly statement from the financial institution that holds the procurement card contract. Each cardholder and organizational unit's card custodian shall reconcile the activity report against the monthly statement to ensure the accuracy of billing by the financial institution. The cardholder and organizational unit's card custodian shall verify that each listed charge is valid and matches the transaction documentation, identify any disputed charges, and reconcile credits in the same manner.
  - g. Each agency shall take appropriate disciplinary actions whenever any violation of this policy is identified. For the first substantiated violation, the agency shall, at a minimum, issue an appropriate reprimand, including specific notice that a second violation will result in revocation of card privileges and further potential disciplinary action up to and including dismissal. Any substantiated second violation within two (2) years of the first violation shall automatically result in revocation of card privileges, in addition to further disciplinary action as warranted. Any violation that involves the use of the card for personal purposes shall require the agency to collect reimbursement of the charge, along with revocation of card privileges and disciplinary action as either or both may be deemed appropriate under the circumstances.
  - h. During each cycle, each agency procurement card administrator shall report to his or her secretary or agency head and to the Office of the Controller any noncompliance by any card cardholder or organizational unit's card custodian or card user, or shall attest that all purchases are in compliance with this policy. Transaction validation shall include, but is not limited to, identifying transaction amounts that exceed either monthly or single transaction limits, split transactions, transactions with unidentified or restricted vendors, use of multiple cards by employees not so authorized, transactions during employee vacations and weekends, and declined transactions.
  - i. Each agency shall establish a process to examine and monitor compliance with this policy by cardholders, organizational unit's card custodians, card users, authorized signers and agency procurement card administrators. The results of reviews shall be documented and retained.
18. An agency head shall either serve as, or appoint an employee of the agency to serve as, the authorized signer with responsibilities including, but not limited to giving instruction to the authorizing bank, and signing each Procurement Card Cardholder Agreement on behalf of the agency as provided by the Finance and Administration Cabinet.
19. An agency shall process payments in the state's procurement system in sufficient time to pay the issuing bank. If authorization is not received in sufficient time, the agency shall be responsible for payment of interest charges.
20. An agency shall ensure that all 1099 reportable purchases are coded to the proper object codes.
21. The Finance and Administration Cabinet shall maintain the overall responsibility for the procurement card program, and shall take the following actions to ensure that each participating agency is in compliance with this policy:



- a. The Finance and Administration Cabinet shall make available a report for each cardholder to identify his or her charges, to attach the valid receipts, and to confirm through both cardholder and supervisory signature that the goods and services were for the use of the Commonwealth.
- b. The Finance and Administration Cabinet may conduct an independent audit to ensure compliance with this policy by each agency.
- c. Monthly, the Finance and Administration Cabinet shall review reports and documentation submitted by agencies. Based on card usage, the cabinet may determine that an agency or cardholder shall be subject to additional review.
- d. The Office of the Controller annually shall review the number of procurement cards issued based on the organizational structure of the agency, ensure that a cardholder's use of the procurement card warrants the continued issuance of the card, and spending limits for cards.

Relates to: KRS 45A.100



**APPENDIX E**



## Reduction of Agency ProCards and Credit Limits as of June 18, 2004

Agency	ProCards Cancelled	Monthly Limit Reduction	Agency	ProCards Cancelled	Monthly Limit Reduction
010 Legislative Research Commission	1	\$133,000	550 KY Historical Society	24	60,000
025 Judicial Department	0	0	555 Dept. for Libraries & Archives	7	78,000
035 Dept. of Agriculture	15	377,650	560 KY Teachers Retirement System	0	0
045 APA	0	0	569 NREPC Office of the Secretary	1	186,000
074 Dept. of Veterans Affairs	10	48,183	590 Dept. for Environmental Protection	53	1,388,100
075 KY Higher Education Assistance Authority	3	6,000	595 Dept. for Natural Resources	19	523,500
079 Office of the CIO	27	1,813,000	600 Dept. for Surface Mining	8	262,350
095 Military Affairs	26	600,100	660 Dept. of Fish & Wildlife	90	450,000
100 KY Retirement Systems	4	25,300	665 Kentucky Horse Park	26	1,040,000
120 Secretary of State	0	0	670 Dept. of Parks	406	2,877,803
125 State Treasurer	1	10,000	675 PPR Office of the Secretary	3	32,000
150 Board of Accountancy	0	0	680 Dept. of Alcoholic Beverage Control	3	24,000
155 Board of Auctioneers	0	0	690 Dept. of Housing, Buildings, and Construction	1	19,000
165 Board of Barbering	0	2,000	695 Dept. of Insurance	0	0
180 Board of Dentistry	0	0	701 CFC Administration Services	7	17,050
183 Education Professional Standards Board	1	10,000	705 Dept. for Mines and Minerals	20	46,300
235 KY State Fair Board	1	60,000	721 CHS Administrative Support	2	10,000
245 Bd. of Medical Licensure	1	20,000	723 Office of Inspector General	11	61,500
250 Board of Nursing	0	0	726 CFC Disability Determinations Services	1	5,000
263 Board of Respiratory Care	0	0	728 CHS Dept. for Public Health	10	96,500
268 Personnel Board	1	2,000	729 CHS MHMR	17	1,164,500
275 Bd. of Physical Therapy	0	0	736 CFC Community Based Services	80	185,500
340 Commission on Deaf & Hard of Hearing	0	0	750 Finance Office of the Secretary	1	20,000
385 Public Service Comm.	0	0	752 OMFA	10	792,500
395 Real Estate Commission	1	5,000	765 Office of State Budget Director	0	0
410 KY Heritage Council	3	15,000	767 CHS Commission for Children with Special Health Care Needs	11	185,000
500 Justice Office of the Secretary	3	30,000	775 Dept. for Administration	0	35,000
515 Department for Public Advocacy	5	15,000	785 Dept. for Facilities Management	5	325,000
520 Dept. of State Police	0	0	860 Dept. of Travel	1	10,000
523 Dept. of Juvenile Justice	9	1,000,000	900 Labor – Office of the Secretary	1	68,000
525 Dept of Criminal Justice Training	0	0	C30 Revenue Cabinet	16	2,256,000
527 Dept. of Corrections	20	1,183,000	C35 Transportation Cabinet	101	1,560,500
529 KY Arts Council	0	0	C36 Cabinet for Economic Development	1	34,000
530 Education Office of the Secretary	0	0	C46 Workforce Development	197	3,553,900
540 Dept. of Education	0	0	C47 Personnel Cabinet	10	695,000
545 KY Educational Television	64	\$245,800	<b>Totals</b>	<b>1,339</b>	<b>\$23,663,036</b>
			<b>Total Annual ProCard Credit Limit Reduction</b>		<b>\$283,956,432</b>



**FINANCE AND ADMINISTRATION CABINET RESPONSE**







ERNIE FLETCHER  
GOVERNOR

OFFICE OF THE SECRETARY  
FINANCE AND ADMINISTRATION CABINET  
383 CAPITOL ANNEX  
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ROBBIE RUDOLPH  
SECRETARY

September 14, 2004

Crit Luallen, Auditor of Public Accounts  
105 Sea Hero Road, Suite 2  
Frankfort, KY 40601

Subject: Finance and Administration Cabinet Response  
Re: APA Draft: *Examination of the Commonwealth's Procurement Card Program Processes, Procedures, and Financial Controls*

Dear Ms. Luallen:

We appreciate the opportunity to respond to the APA draft report: *Examination of the Commonwealth's Procurement Card Program Processes, Procedures, and Financial Controls*. We also want to thank you for your willingness to work with the Governor's Office and the Finance Cabinet in responding to Governor Fletcher's March 22, 2004 request to review the ProCard program. As you know, the Governor made this request because of concerns related to alleged improprieties. We are committed to ensuring that this program is operating in an accountable, effective, and efficient manner. We are pleased by your willingness to share in this commitment by partnering with us and carrying out procedures identified in our Memorandum of Agreement (MOA).

As you point out in your review, the Finance and Administration Cabinet has taken major steps to tighten policies, procedures, and financial controls related to the program. Concurrent with the Governor's request to APA, the Finance Cabinet revised FAP 111-58-00 to increase the accountability of this program. The new policy became effective on June 17, 2004, which illustrates our commitment to expand and strengthen our oversight of this program. For example, we have already started reviewing monthly transaction reports and are following up on various concerns. In addition, we will conduct audits of agency ProCard transactions to ensure compliance with the new policy, and will perform an annual examination related to overall usage.

We have also taken major steps to cancel ProCard sites that we find are problematic. For example, after an internal review conducted by the Controller's Office, the Cabinet took the following actions related to the Capital Plaza Operations (CPO) site:

- Cancelled all cards until the problem could be further investigated;
- Re-opened one card, but named a finance employee the administrator as an interim solution; and
- Re-issued one card for the employee from a Commerce site, permanently canceling the site and the only active card.

As you can see from the above, our resolve to ensure that administrative sites are managing their cards in an accountable manner remains firm. In order to continue with this resolve, we plan to conduct audit work with the 22 agencies to ensure they are taking corrective action related to agency findings in the APA report. Until we actually follow-up with the agencies however, it is difficult to speak to each specific finding and recommendation. For purposes of this response, we can only address the agency findings in general terms.

Auditor Luallen  
September 14, 2004  
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### **Central Level Findings and Recommendations**

**APA Recommendation:** We recommend that Finance periodically reconcile the cardholder information maintained in PD to information maintained by the bank.

**Cabinet Response:** The usability of a card is dependent upon the validity of the card at the bank. It is difficult for us to see the purpose for noting in PD that the cardholder is cancelled, other than for an agency to note that they don't have to change the funding strip for that particular card if a change is required for most cardholders (Page 13).

**APA Recommendation:** Cardholder account information currently received by Finance from the bank should be reconciled to state personnel data requested from the Personnel Cabinet.

**Cabinet Response:** Finance has attempted on two separate occasions to reconcile the bank file to the information from Personnel on active employees. This is made extremely difficult by not having a way to do this electronically. Comparing text names is very ineffective between the two systems. Comparing SSN is also ineffective, as cardholders are not required to provide their actual SSN to the bank.

This concept is a worthy undertaking, and the Finance Cabinet would perform it quarterly on each file that the bank provides (which was why we asked the bank for the file), but we could not find a way to automate the verification. This would mean that all 4,000 cardholders would have to be verified manually, which we felt could be addressed in a more efficient manner. Each administrator receives a TBR210 report which lists all active cardholders and recent cards that are inactive due to cancellation or reported lost or stolen. Administrators are provided a MARS User manual (for PD) and many handouts (for administrative purposes) during the ProCard Administrator class scheduled once per quarter. Included in the handouts is the Procurement Card Program Responsibilities, which outlines reconciling active cards and ensuring cardholders are employees. A copy of the MARS Manual and all class handouts was provided to Amy Fisher in May. (Note: this document needs to be updated per the new policy). In addition, this procedure is also discussed at the annual user group meeting (Page 13).

Also, on page 13, the report states that auditors "identified instances" of ProCard accounts related to the "cardholder leaving state employment or assuming duties not associated with purchasing". This issue will be addressed through additional training of administrators.

**APA Recommendation:** We recommend Finance remove the delete feature from the PD PCARD Task Table.

**Cabinet Response:** This recommendation would require the Commonwealth to pay AMS to make a change; therefore, we would need to perform a cost/benefit analysis. PD contains the card number and the administrator id for the card. Additionally, MRDB contains the cardholder name for all charges. Because the information is available, it is questionable whether the benefits realized by this change outweigh the costs (Page 14).

**APA Recommendation:** We recommend Finance seek more favorable rebate terms from the bank. Further, administrators should continue their vigilance to ensure ProCard payments are made on a timely basis, thereby keeping late charges to a minimum.

Auditor Luallen  
September 14, 2004  
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**Cabinet Response:** The primary monetary benefit from the ProCard is savings on the payment mechanism. We agree that the rebate should be maximized. However, the comment assumes that we could get better rebate terms from a negotiation of the next ProCard contract. From reviewing the rates that other banks are currently providing similarly sized clients for programs that have a 30 day cycle with 14 day payment terms, it is just as likely that negotiating the contract would result in less favorable rebate terms. With that said, we do plan to re-bid the contract, hoping that we can obtain a better rate. We are concerned however, that a lower rate could occur (Page 15).

### **Agency Findings**

- There are numerous comments in the report related to the use of the status field. The revised procedures require each administrator to collect receipts for all charges. If the agency uses the Activity Report as designed, the status field will be of very limited usefulness. It appears that the comments on the status field are more related to the process prior to the FAP revision in June 2004.
- There are numerous comments about documenting that the Administrator has reviewed the charge. These include discussion on pages 66 and 77. The approval of the PD document by the administrator was intended to certify that documentation was received, reviewed and maintained by the agency. The issuance of FAP 111-58-00, effective June 17, 2004, addresses this recommendation.
- On page 93 there is a recommendation that Transportation develop standardized procedures. The policy and more specifically, the Activity Report establishes standardized procedures that the entire state should follow.
- On Pages 63 and 90 there are comments that address purchases of retirement gifts. In both instances, you state these types of purchases are questionable. Although these types of purchases are not unallowable per FAP 111-58-00, we remain cognizant to ensure that such purchases do not become extravagant. Given this, we are unsure of whether APA is requesting that we modify our policy.

Sincerely,

  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet