



REPORT OF THE STATE AUDITOR

**State Procurement Card Program
Department of Personnel and Administration
Division of Finance and Procurement**

**Performance Audit
May 2002**

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This report contains the results of a performance audit of the State Procurement Card Program within the Department of Personnel and Administration Division of Finance and Procurement. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The report presents our findings, conclusions, and recommendations, and the responses of the Department of Personnel and Administration.

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**STATE OF COLORADO
OFFICE OF THE STATE AUDITOR**

REPORT SUMMARY

**JOANNE HILL, CPA
State Auditor**

**State Procurement Card Program
Department of Personnel and Administration
Division of Finance and Procurement
Performance Audit, May 2002**

Authority, Purpose, and Scope

This performance audit of the State Procurement Card Program was conducted under the authority of Section 2-3-103, C.R.S., which authorizes the Office of the State Auditor to conduct audits of all departments, institutions, and agencies of state government. We conducted this audit according to generally accepted auditing standards. We gathered information in this report through interviews, document reviews, and analysis of data. Audit work was performed between May 2001 and January 2002.

This report contains findings and seven recommendations to help the Department of Personnel and Administration increase procurement card program efficiency and strengthen controls. We acknowledge the efforts and assistance extended by Department of Personnel and Administration staff, state agencies, and others who participated in our audit.

The following summary provides highlights of the comments and recommendations contained in this report.

Background

Procurement cards are credit cards used by an agency to pay for small purchases of goods for the State. Each card has multiple controls, such as spending limits, acceptable merchant and transaction codes, and procedures for limiting the State's liability in cases such as disputed transactions and card misuse. Agencies issue the cards to selected employees, with the charges billed to the agency. Agencies are responsible for controlling how their individual employees use the cards. The Department of Personnel and Administration's Division of Finance and Procurement is responsible for the statewide implementation and management of the procurement card program. There are about 9,000 state procurement cards in circulation.

Procurement Card Savings

Procurement cards reduce the overall cost of purchasing by providing an automated, electronic, fast-pay process allowing one monthly payment for all small transactions to a single bank. The State Controller sets the small-purchase transaction threshold below which procurement cards can be used. According to the Division's procurement card program implementation instructions that threshold is currently \$3,000 or less. However, agencies are allowed to set their own small-purchase thresholds at any point below the State Controller's threshold.

For further information on this report, contact the Office of the State Auditor at (303) 869-2800.

According to the Governor's New Century Colorado 2000 report when a state procurement card is used for a small purchase, each transaction costs an estimated \$9 less than it would if a payment voucher were issued and \$55 less than issuing a purchase order. New Century 2000 procurement card savings figures were used by the Department of Personnel and Administration to calculate savings in their 2003 budget request. Although the State began working on a procurement card program in 1989 and signed a contract with a card vendor in 1995, card use has lagged. In Fiscal Year 2001 only 50 percent of small purchases were made using procurement cards. This means that half were paid with a more costly payment method.

Our review of state small purchase transactions determined that operating cost savings of about \$5 million could have been realized if procurement cards had been used for all small purchases of \$3,000 or less in Fiscal Year 2000. In addition, the card vendor offers graduated, total annual dollar volume and average annual transaction size rebate incentives. Using a procurement card for every procurement card small purchase would have also yielded total annual dollar volume rebates of \$987,200 in Calendar Year 2000 and average transaction size rebates totaling \$168,800 in Fiscal Year 2001.

Based on our analysis of industry information and the State's procurement practices, \$5,000 appears to be the optimum small purchase threshold. Raising the threshold from \$3,000 to \$5,000 would not significantly change Colorado's purchasing process. This is because less than 1 percent of all purchases were between \$3,000 and \$5,000 in Fiscal Year 2001. Additionally, the process difference for transactions between \$3,001 and \$5,000 are minimal. However, raising the small purchase threshold to \$5,000 and requiring card use could have earned the State additional operating cost savings and rebates totaling about \$993,300 in Fiscal Year 2001.

The State did not realize potential savings from reduced operating costs and rebate incentives because agencies and institutions are not required to use procurement cards as payment for purchase transactions below the threshold set by the State Controller. In addition, agencies and institutions are not required to combine purchases made from a single vendor, and the small procurement card purchase threshold remains a maximum of \$3,000.

Procurement Card Controls

Traditional payment systems are costly because they require multilevel approval prior to making each purchase and verification of delivery prior to cutting a payment check. Examining 100 percent of invoices generated by small purchases adds significant overhead costs to each transaction. More efficient and, thus, less costly fast-pay procurement card processes rely on sampling of invoices instead of examining every small purchase. However, fast-pay procurement card processes increase the risk of overpayments, fraud, and misuse occurring and going undetected. According to the U.S. General Accounting Office (GAO), "The benefits of the purchase card may be substantially reduced if controls are not in place to insure its proper use."

The Office of the State Auditor has found numerous problems in various audits of departments and institutions using procurement cards including the Department of Human Services, Colorado School of Mines, and the University of Colorado. The problems ranged from failure to maintain adequate supporting documentation about card purchases to transaction account coding errors and an absence of supervisory review of purchases.

The Division's suggested Minimum Card Program Guidelines provide a description of the program, expectations for cardholders and approving officials, requirements for obtaining procurement cards, and suggested training. The Guidelines also assign primary responsibility for an agency's management of the program. All State cardholders and approving officials are required to sign agreements before the card is issued that outline important responsibilities and expectations, including acknowledging that the card cannot be used for personal purchases, cash advances, gasoline, and other prohibited items.

Other states, federal oversight agencies, and some state departments and institutions have developed mandatory program standards, monitoring, and auditing procedures to control the added risks of their procurement card programs.

The Division of Finance and Procurement has a unique responsibility for overall monitoring of implementation, operation, and coordination of Colorado Government's procurement card program. However, the Division has not:

- Developed plans, policies, and procedures agencies must use to implement procurement card controls, including monitoring, training, card transaction sampling plans, and reporting requirements.
- Reviewed agency reports to ensure and verify the adequacy and cost-effectiveness of procurement card controls.
- Conducted analysis of card transaction data on a statewide and agency level.
- Allocated sufficient resources to its statewide procurement card program management responsibilities, including assigning appropriate reviewing and monitoring responsibilities to the Field Accounting Services Team.

As did many other businesses and governments, Colorado implemented the use of purchase cards with the intention of eliminating the bureaucracy and paperwork long associated with making small purchases. However, once again according to the GAO, "The benefits of the purchase card may be substantially reduced if controls are not in place to insure its proper use."

Our recommendations and the Department's responses can be found in the Recommendation Locator.

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1	18	<p>The Department of Personnel and Administration should maximize operating savings, reduce annual costs, and maintain agencies' flexibility when making small purchases by:</p> <ul style="list-style-type: none"> a. Determining on an agency by agency basis the feasibility of making all small purchases with a procurement card, including the identification of alternative transaction thresholds or methods as necessary. b. Mandating the use of procurement cards for small purchases wherever feasible through statutory changes or executive order. c. Establishing and charging a transaction fee such as the \$9 extra cost for a payment voucher as identified by the New Century 2000 report, to offset the extra cost when agencies do not use procurement cards for all small purchases. d. Working with the State Treasurer's office to establish a fund for the deposit of these fees to be used for administration of the procurement card program. e. Collecting information about cost avoidance and rebate opportunities for individual agencies and the State in total, and incorporating it into performance reporting in the Department's annual budget request. 	Department of Personnel and Administration	Partially Agree	July 2003

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
2	21	<p>The Department of Personnel and Administration should increase the transaction size rebate savings to the extent possible by:</p> <ul style="list-style-type: none"> a. Implementing policies to increase card usage. b. Informing agencies and institutions about ways to analyze the opportunity to aggregate purchases such as looking at frequency of purchases, vendors most often used, and the average transaction size. 	Department of Personnel and Administration	Agree	September 2002
3	23	The Department of Personnel and Administration should consider reducing operating costs and increasing rebates by requiring payment with a procurement card for purchases of \$5,000 or less wherever feasible.	Department of Personnel and Administration	Partially Agree	July 2003
4	25	The Department of Personnel and Administration should work with the State Treasurer and the procurement card vendor to perform periodic analysis to determine if the State could net more dollars by paying early or by earning interest on its investments.	Department of Personnel and Administration	Agree	December 2002

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
5	31	<p>The Department of Personnel and Administration should strengthen controls over the procurement card program by requiring the Division of Finance and Procurement to:</p> <ul style="list-style-type: none"> a. Develop plans, policies, and procedures for agencies to use to implement procurement card controls. These controls should cover monitoring, training, card transaction sampling plans, and reporting requirements. b. Review agency reports to ensure and verify the adequacy and cost-effectiveness of procurement card controls. c. Conduct analysis of card transaction data on a statewide and agency level as necessary. d. To the extent possible, reassign resources or ask for additional resources for its statewide procurement card program management responsibilities, including assigning appropriate reviewing and monitoring responsibilities to the Field Accounting Services Team. e. Address policies and procedures for ensuring accountability and the efficient and use of procurement cards in the Fiscal and Procurement rules. 	Department of Personnel and Administration	Partially Agree	September 2002
6	33	The Department of Personnel and Administration should identify trends and risks by scheduling regular reviews of state agency and higher education institution violation forms. The Department should use the data to improve procurement card regulations and provide training as needed throughout the State.	Department of Personnel and Administration	Partially Agree	September 2002

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
7	34	The Department of Personnel and Administration should improve its monitoring of unauthorized and inappropriate purchasing trends by working with the procurement card vendor to develop and acquire transaction data needed to conduct card use analysis on an agency and statewide level. The Department should also review the State's procurement card data needs when the current contract expires.	Department of Personnel and Administration	Agree	June 2003

Description of the State Procurement Card Program

Background

The Department of Personnel and Administration has the responsibility for promulgating rules, consistent with the procurement code, to govern the procurement of all supplies, services, and construction by state government. According to 24-102-202, C.R.S., the Executive Director of the Department of Personnel is required to:

- Procure or supervise the procurement of all supplies and services.
- Establish and maintain programs for the inspection, testing, and acceptance of supplies and services.
- Develop and maintain programs and procedures to delegate purchasing authority.
- Develop programs to evaluate and reduce administrative costs of the statewide procurement function.

State executive branch agencies and institutions of higher education are under the supervisory control of the Department of Personnel and Administration regarding the purchase of state goods and services, with few exceptions. However, state procurement authority has been largely decentralized. The Department delegates procurement authority to agencies based on purchasing volume and staff qualifications.

The Division of Finance and Procurement is the unit within the Department that manages and directs the financial and procurement operations of the State. For Fiscal Year 2001 the Division was appropriated 41 FTE (full-time equivalent employees) and almost \$2.9 million. The Division has several major functions including promulgation of fiscal rules, policies, and procedures; issuance of warrants to pay state debts; procurement education and leadership; and administration of statewide price agreements and the electronic system for notifying vendors of the State's intent to purchase goods or services.

In Colorado the Division of Finance and Procurement is responsible for the statewide implementation and management of the procurement card program. However, the assignment of this responsibility varies among states. For example, in Maryland, primary

responsibility is assigned to the State Board of Public Works; and in West Virginia, the State Auditor's Office has been assigned primary responsibility. The program is intended to reduce the cost of purchasing approved goods and services for the State and allows suppliers to be paid faster. The Division has a Web site addressing procurement card contract information, steps for agency procurement card setup, user information, training, administration information, newsletter and alert notices, program contacts, statistics, and links. There are about 9,000 state procurement cards in circulation.

State employees are eligible to become procurement card holders after approval by their agency's approving official and supervisors. Employees receive approval as cardholders based on job responsibilities and their need to make purchases. The person issued a procurement card is the only one authorized to use the card. The State has a contract with a card vendor who issues cards containing the State of Colorado identifier, agency name, employee name, and tax-exempt number. Each card has multiple controls such as spending limits, acceptable merchant and transaction codes, and procedures for limiting the State's liability in cases such as disputed transactions and card misuse. Cardholders and their approving officials are responsible for ensuring that every transaction has valid supporting documentation. Currently, agencies have the discretion to assign a purchasing limit; however, that limit cannot exceed \$3,000 for a single small purchase transaction. As the following table shows, from Fiscal Year 2000 to 2001 the total dollar *amount* purchased and the total *number* of purchases increased over 30 percent.

Procurement Card Activity Fiscal Years 2000 and 2001		
Total Amount Purchased		
FY 2000	FY 2001	Percentage Change From 2000 to 2001
\$62,179,900	\$81,724,500	31%
Total Number of Purchases		
FY 2000	FY 2001	Percentage Change From 2000 to 2001
325,400	433,700	33%
Source: Office of the State Auditor's analysis of Department of Personnel data.		

Cost Savings and Controls

Fast pay, electronic procurement card processes are more efficient and less costly. However, compared with the traditional prepayment and the examination of all invoices, fast pay processes increase the risk of overpayments, fraud, and misuse occurring and going undetected. Although the cost of these increased risks can be managed with adequate controls, the greatest dollar risk appears to be forgoing the efficiency and cost savings yielded when procurement cards are used for small purchases. Consequently, our audit initially addresses efficiency and cost savings and then addresses the importance of appropriate and cost-effective controls.

Our audit reviewed the overall management of the State's procurement card program and related activities in terms of efficiencies and cost savings resulting from the use of procurement cards. We also looked at the Division's oversight and monitoring of its procurement card program to determine the adequacy of internal controls and the compliance of agencies with relevant state fiscal and procurement rules. For some issues we were able to use data from all higher education institutions. Issues based on data from five higher education institutions, the University of Colorado System, Colorado State University, Metropolitan State College, University of Northern Colorado, and Colorado School of Mines, are identified as such.

Implementation of the recommendations contained in this report will increase savings resulting from the use of procurement cards and improve accountability and controls over the statewide procurement card program. There will be significant quantifiable monetary benefits and cost savings to taxpayers and the State of about \$7 million annually, which could be reallocated to higher priorities and to improving procurement card program controls.

The amount of cost reduction in any single year is relative to when and how the recommendations are implemented. It should be noted that our cost savings estimates are based on a full, rather than a phased-in, implementation of our recommendations. Our estimates do not include costs for additional controls, because costs will vary according to the extent of controls already in place in individual departments, agencies, and institutions.

Procurement Card Savings

Chapter 1

Traditional payment systems are costly because they are paper processes requiring multilevel approval prior to making each purchase, verifying delivery of goods, and authorizing payment to each vendor. Procurement cards are an automated, electronic, fast-pay process allowing one monthly payment for all small transactions to a single bank. Under the right circumstances fast-pay systems are cost-effective for government agencies and advantageous for suppliers.

According to research published by the National Association of Purchasing Card Professionals, the most frequently cited factors that drive spending to the purchasing card are the speed and convenience for the end user, reduction in the cost and time burden associated with purchasing-related paperwork activities, and the ease with which purchasing cards can be used to acquire goods over the Internet.

Colorado began working on a procurement card program in 1989 in response to recommendations from the State Auditor. A procurement card contract was signed with a bank card vendor in 1995. The contract provides for card issuance, payment terms, clarification of liabilities, and financial incentives.

The Department reports significant growth in the procurement card program since 1998 and reports that Colorado compares favorably with some other states in terms of procurement card spending in relation to the number of state employees.

Increased Use of Card Reduces Costs and Increases Savings

The State Controller sets the small purchase transaction threshold below which procurement cards can be used. That threshold is currently \$3,000 or less according to Division procurement card program implementation instructions. However, agencies are allowed to set their own small purchase thresholds at any point below the threshold. For example, 4 of 13 Group I agencies, (those that rely on the Division of Finance and Procurement for higher-level purchasing functions), have set their small purchase thresholds at \$1,000. Agencies can also choose not to participate in the procurement card program.

According to the Governor's New Century 2000 report, when a state procurement card is used for a small purchase, each transaction costs an estimated \$9 less than it would if a payment voucher were issued and \$55 less than issuing a purchase order. New Century 2000 procurement card savings figures were used by the Department of Personnel and Administration to calculate savings in their 2003 budget request. In Calendar Year 2000 the average small purchase transaction when procurement cards were used was \$188; consequently:

- The \$55 extra cost of using a purchase order would have increased the cost of the \$188 small purchase by 30 percent.
- The \$9 extra cost of using a payment voucher would have increased the cost of the \$188 small purchase by 5 percent.

The extra cost of issuing a payment voucher includes increased operating costs for the Division of Finance and Procurement, which are then absorbed throughout the State as indirect costs. Thus, an agency that chooses not to use a procurement card for small purchases passes the higher cost of its choice to other agencies.

Although the State began assessing implementation of the procurement card program in 1989 and signed a contract with a card vendor in 1995, card use could be improved. In Fiscal Year 2001 only 50 percent (39 percent of state departments and 59 percent of five higher education organizations) of small purchases were made using procurement cards. This means that half were paid with a more costly payment method. There were also wide variations of card use among agencies. For example, the University of Colorado used cards for small purchases 92 percent of the time while the Department of Public Health and Environment and the Department of Labor and Employment did not use their cards for small purchases at all.

We reviewed small purchase transactions by executive agencies and five higher education institutions to determine the potential operating cost savings gained by using procurement cards for every small purchase, thus reducing the extra costs added when payment vouchers and purchase orders are used. The results for Fiscal Year 2000 presented in the following table show a potential savings of \$5 million if procurement cards had been used.

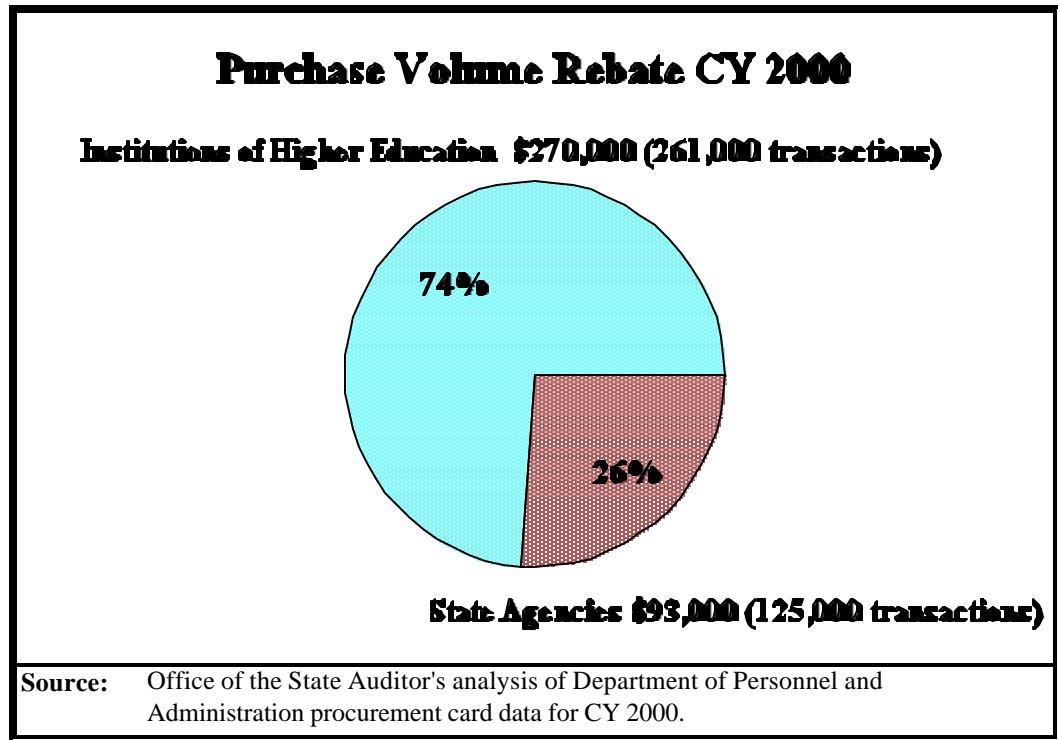
Cost Savings if Procurement Cards Had Been Used for Small Purchase Transactions (\$3,000 and less) in FY 2001			
	State Agencies	5 Institutions of Higher Education	Total Savings
Savings from eliminating use of Purchase Orders	\$151,700	\$1,380,100	\$1,531,800
Savings from eliminating use of Payment Vouchers	\$2,034,600	\$1,437,300	\$3,471,900
Total	\$2,186,300	\$2,817,400	\$5,003,700
Source: Office of the State Auditor's analysis of data from the Department and five Institutions of Higher Education.			

Total Volume Rebate Could Be Increased

In addition to operating savings yielded by using cards for all small purchases, the card vendor offers a graduated (0.3 percent to 0.8 percent) total annual dollar volume rebate incentive. This rebate was about \$93,000 from state agencies and \$270,000 from the higher education institutions for a total of \$363,000 in Calendar Year 2000. The contribution of card users to the rebate was a reflection of their card use. For example:

- The University of Colorado generated \$245,900, or 68 percent of the total state rebate, the highest amount for a higher education institution.
- The Department of Transportation generated \$33,000, or 9 percent of the total rebate, the highest amount for a state agency.

The relative contribution of higher education institutions and state agencies to the total volume rebate in Calendar Year 2000 is shown by the following chart:



The State is not realizing potential savings from the total volume rebate because procurement cards are not used as payment for small purchases whenever possible. If every small purchase had been made with a procurement card in Calendar Year 2000, the State would have received an additional total volume rebate of \$987,200 (\$641,500 from state agencies, and \$345,700 from five higher education institutions).

The Federal Government and Other States Employ Various Methods to Increase Card Use

Prior studies, other states, and the federal government report using a variety of strategies to increase the use of procurement cards for small purchases:

- The National Aeronautics and Space Administration (NASA), Department of Defense (DOD), and the General Services Administration (GSA) are directed to use the procurement cards as the preferred way of making small purchases. For example, Congress' Defense Reform Act of 1997 requires all DOD purchases of items costing less than \$2,500 to be made with procurement cards. DOD allows purchases up to \$25,000 to be made with procurement cards. Under some circumstances, purchases over \$25,000 can be made with procurement cards. Congress established a procurement card usage rate goal of 90 percent. DOD reports achieving a 93 percent usage rate on small purchases totaling \$5.5 billion.

DOD staff also report that "mandating the card at the highest level and [developing] a way to measure progress is a must for the program to be successfully implemented."

- Pennsylvania reports vendor rebates are allocated back to agencies quarterly in proportion to their procurement card use and close to 100 percent usage after six years.
- West Virginia is the only state reporting 100 percent use of procurement cards for small purchases. This was accomplished within four years of the card program's start-up. The card program administrator reports "...the auditor has the [statutory] capability to charge agencies \$5 per invoice that is processed through the auditor's office that should have been paid using the credit card. We have not yet used this option, the threat to charge this amount has steered agencies in the right direction." The fees charged are to be deposited in a "treasurer's technology support and acquisition fund." Fees offer agencies the flexibility to incur a charge when they think it is warranted and prevent passing a higher cost of their choice to other departments and institutions. Fees can also reduce the need to establish and verify all the possible exceptions to small purchase card use that departments and institutions might experience currently or in the future.

In Colorado both the legislative and executive branches have recognized the potential benefits of using procurement cards. The Legislature increased the Division's appropriation resulting from procurement card rebates to \$873,000 in the Fiscal Year 2003 budget from \$376,000 in Fiscal Year 2002. The Governor's New Century 2000 report recommended consideration of an executive order making procurement cards the preferred small purchase payment method.

In its Fiscal Year 2002 budget request the Department reported that:

Any delay in the development of the program and the optimal use of the card delays an agency's savings in the procurement and accounting areas and program incentives (rebates) to the state. An agency's optimal use of the cards refers to its level of use by its employees to maximize the benefits to the agency and the state.

However, Colorado has been unable to maximize the benefits of small purchase operating cost savings and rebates generated by procurement cards. Among the initiatives the Division could take to maximize benefits are the following:

- Mandating the use of procurement cards through executive order or statute.
- Establishing a fee to offset the higher cost of payment vouchers and purchase orders and to act as a disincentive when agencies choose not to use cards and set their small purchase thresholds lower than the level authorized by the State Controller.

The State could have reduced the annual operating costs of making small purchases and earned volume rebates totaling \$5,990,900 by mandating card use for small purchases. Similar to the West Virginia model, Colorado could establish a \$9 fee to offset the extra costs when agencies choose not to use procurement cards. In addition, information about forgone opportunities including costs that could be avoided and rebates earned by using cards, could be reported.

In the course of our audit, most agencies and organizations needed about a month to produce standardized data about their use of procurement cards. This is because state agencies and higher education organizations do not collect and report the number and value of all small purchase transactions compared with the number made with procurement cards. Consequently, management, policymakers and decision makers are not informed about forgone opportunities including costs that could be avoided and rebates earned by using cards.

Recommendation No. 1:

The Department of Personnel and Administration should maximize operating savings, reduce annual costs, and maintain agencies' flexibility when making small purchases by:

- a. Determining on an agency by agency basis the feasibility of making all small purchases with a procurement card, including the identification of alternative transaction thresholds or methods as necessary.
- b. Mandating the use of procurement cards for small purchases wherever feasible through statutory changes or executive order.
- c. Establishing and charging a transaction fee such as the \$9 extra cost for a payment voucher as identified by the New Century 2000 report, to offset the extra cost when agencies do not use procurement cards for all small purchases.
- d. Working with the State Treasurer's office to establish a fund for the deposit of these fees to be used for administration of the procurement card program.

- e. Collecting information about cost avoidance and rebate opportunities for individual agencies and the State in total, and incorporating it into performance reporting in the Department's annual budget request.

Department of Personnel and Administration Response:

Partially agree. To be implemented by July 2003.

- a & b. Due to lack of resources, the Division is not able to perform an agency-by-agency analysis to determine the appropriate procurement card thresholds in each agency. However, the Department will continue to work with individual agencies to encourage increased use of the procurement card and identify approaches to address concerns that limit use.

The Department concurs with the Office of the State Auditor's conclusion that it is in the best interest of the State to increase utilization of the procurement card. Thus, the Department has undertaken several initiatives to increase usage of the procurement card in recent years.

Based on the Division of Finance and Procurement's analysis of other states' programs, Colorado's procurement card expenditures compare very favorably with other states' procurement card expenditures. The following summary was prepared in August 2001 from state purchasing director responses to a list serve email sent to assess other states' volumes of procurement card spend.

State	Total Spend ¹	Number of State Employees ²	Annual p-card Spend	Higher Education included?
California	\$53.2B	451,700	\$300M	included
Colorado	\$6.4B	72,200	\$82M	included
Minnesota	\$4.7B	84,100	\$7M	excluded
Oregon	\$7.2B	60,900	\$13M	excluded
South Carolina	\$8.2B	171,300	\$71M	included
Utah	\$4.6B	56,000	\$22M	excluded
Washington	\$13.1B	141,600	\$30M	included
Virginia	\$12.5B	133,900	\$100M	included

¹These figures were taken from the State Share of General Spending Column, p. 49 of *Governing State and Local Source Book 2001* (Congressional Quarterly Inc. 2001)

²*Id.*, p. 60

Among the states who responded, Colorado's annual procurement expenditures represented a greater proportion of the total spend and per employee expenditures. As a result, mandated use of the procurement card for small purchases may not be necessary. The Department maintains that agencies and institutions are in the best position to assess their needs and readiness for procurement card implementation. For smaller institutions and agencies, the procurement card may not provide adequate budget controls for some purchases. Even the Commonwealth of Pennsylvania, cited in the audit, makes participation in the program discretionary. Nevertheless, the Department will continue promote use of the procurement card. Further, the State Controller intends to issue a Fiscal Rule revision requiring establishment of a procurement card program in each agency and institution, although they will continue to have discretion to control card deployment and limits on cardholder authority.

In addition, the audit report estimates monetary benefits and cost savings of about \$7 million could be achieved through increased use of the procurement card. The Department agrees that increased utilization of the procurement card can result in increased productivity. However, it is important to note that savings are unlikely to result in tangible reductions in line item appropriations. Rather, the "savings" represents reduction in the time spent by some personnel performing these procurement-related functions as part of their duties.

- c & d. Charging a \$9.00 Transaction Fee for Small Purchases Not Using the Card. The Department will continue to explore West Virginia's approach to increasing procurement card usage. As noted in the audit, West Virginia's State Auditor manages their procurement card program. West Virginia has an estimated staff of 4-5 full time employees for this program. Assessing a penalty fee per transaction would require significant management and overhead costs to identify those small payments that are not candidates for procurement card payments. For example, some state programs make payments to grantees and nonprofit entities, farmers and ranchers, or vendors in rural areas that do not accept procurement cards. Also, small incremental or progress payments under bilateral, multiyear contracts could show as a small purchase, when use of procurement cards for some of those payments could unreasonably complicate contract administration. These various payees are not readily identifiable on the accounting systems, so automatic deduction of a penalty fee from an

agency's budget would not appear warranted. This approach would require legislation.

Transaction Size Rebate Could Be Increased

In addition to the volume rebate, the procurement card contractor offers a graduated (0.1 percent to 0.2 percent) transaction size rebate incentive based on the annual statewide average of each procurement card transaction under this arrangement. The state can earn a 0.1 percent rebate if the average transaction size is \$200-\$300 and a 0.2 percent rebate if the average transaction size is greater than \$300. The State's \$188 average procurement card transaction size was too low to qualify for this rebate in Calendar Year 2000.

In our audit we looked at what the average transaction size would have been if the card had been used for all purchases of \$3,000 or less. We found that had the card been used for all small purchase transactions, the State could have earned an average transaction size rebate totaling \$168,800 (\$143,500 from state agencies, and \$25,300 from five higher education institutions) in Fiscal Year 2001.

Anticipating and combining purchases made from a single vendor can also help increase the average transaction size.

For the State to qualify for the rebate, the average transaction amount must meet or exceed \$200. Using the card for small purchases and aggregating those purchases whenever possible yields a higher average.

Recommendation No. 2:

The Department of Personnel and Administration should increase the transaction size rebate savings to the extent possible by:

- a. Implementing policies to increase card usage.
- b. Informing agencies and institutions about ways to analyze the opportunity to aggregate purchases such as looking at frequency of purchases, vendors most often used, and the average transaction size.

Department of Personnel and Administration Response:

Agree. To be implemented by September 2002.

The Department will educate procurement card administrators about efficiency from aggregation, an objective in purchasing and invoicing in general. For the past four years, transaction size has been increasing. However, imposition of structured processes to pursue an aggregation objective would require a return to a requisitioning procedure to insure that purchases are aggregated, eliminating some of the streamlining advantages of the cards.

Rebates should not be overemphasized as they are a relatively recent development and are typically set by the card providers. In Colorado's case, the rebate was not part of the contract until an amendment was negotiated in May 2000. Further, with the resolicitation of the procurement card this summer (2002), there is no assurance about what rebates will be proposed. In any event, without rebates being returned to agencies and institutions based on their dollar volume -- the Pennsylvania model -- there is little incentive for agencies to devote additional resources to achieve incremental increases in rebate amounts. Under the present appropriation approach, all rebates are used to offset Division of Finance and Procurement general funded personal services. This has been a sore point with higher education institutions, in particular.

Consider Higher Threshold to Reduce Costs and Increase Savings

The procurement card is a money-saver for transactions up to \$5,000, according to the industry publication Treasury and Risk Management, November 2000. Based on our analysis of the State's procurement practices, it appears that with appropriate controls, \$5,000 is a reasonable procurement card small purchase threshold for Colorado state government. Raising the limit from \$3,000, as set in the Division's procurement card implementation instructions, would not significantly impact Colorado's purchasing process. This is because less than 1 percent of all purchases were between \$3,000 and \$5,000, representing about 10 percent of the total amount spent for purchases in Fiscal Year 2001. Non-procurement card purchases in the \$3,001 to \$5,000 range represented about 25,200 transactions in Fiscal Year 2001 (6,100 state agency, and 19,100 higher education transactions). Each transaction paid with a purchase order cost \$55 more and each

transaction paid with a payment voucher cost \$9 more than it would have if it had been paid with a procurement card.

Raising the small purchase threshold to \$5,000 and requiring payment with a procurement card in Fiscal Year 2001 would have yielded the State operating cost savings and rebates of about:

- \$258,900 of purchase order-driven operating costs (\$47,600 from state agencies, \$211,300 from five higher from education institutions).
- \$184,000 of payment voucher driven operating costs (\$47,100 from state agencies, \$136,900 from higher education institutions). This represents about 20,400 payment vouchers (5,200 for state agencies and 15,200 for five higher education institutions).
- \$508,100 of total volume rebates (\$143,900 from state agencies, \$364,200 from five higher education institutions).
- \$42,500 of average transaction size rebates (\$20,600 from state agencies, \$21,900 from five higher education institutions).

Raising the small purchase threshold to \$5,000 and requiring card use could have earned the State operating cost savings and rebates totaling \$993,500 in Fiscal Year 2001.

Recommendation No. 3:

The Department of Personnel and Administration should, with appropriate controls, reduce operating costs and increase rebates by requiring payment with a procurement card for purchases of \$5,000 or less wherever feasible.

Department of Personnel and Administration Response:

Partially agree. To be implemented by July 2003.

December 2001, the Department completed a revision to Fiscal, Procurement, and Personnel Rules to raise the commitment voucher limit to \$5,000 from \$3,000 and simplify and streamline the procurement and contracting process by aligning

the micro-purchase thresholds generally at \$5,000. This was the first time when the separate programs coordinated their rules revisions to make the procurement process more streamlined. This Fiscal Rule revision enabled the raising of the procurement card single transaction limit to \$5,000. The procurement program web site will be changed to align the program guidance with the new \$5,000 threshold for use of purchase orders. However, as summarized in response to Recommendation 1, some institutions and agencies need smaller limits to insure they have adequate budget control. Very small budgets cannot be adequately managed with post-transaction recording of expenditures of \$5,000, unless a companion system is developed for tracking expenditures of that magnitude. The Department further believes that it is not appropriate to authorize every cardholder to spend \$5,000 per purchase.

The State Controller intends to mandate establishment of a procurement card program in each institution and agency through Fiscal Rules revisions. However, considering the variety of circumstances existing among agencies and institutions, use of the card will not be made mandatory for every purchase under \$5,000.

Value of Early Payment Is Not Established

The State's average monthly payment for procurement card transactions was \$6,054,200 in Calendar Year 2000. The procurement card vendor contract gives the State 14 days to pay its monthly card charges without penalty. Since the State has never paid a late fee, we assume that payment has always been made within the required 14 days. The contract also offers a 0.10 percent early-payment rebate incentive for payment within seven days. However, the dollar value of early payment has not been established or tracked. This is because the State does not perform comparative analysis to determine if it would earn more by paying early or by having the Treasury keep and invest the money for seven days. Such analysis is contingent upon variables such as the interest rate earned by the Treasury for the specified time period.

However, this analysis could provide state decision makers and managers with timely and advantageous cash management information.

Recommendation No. 4:

The Department of Personnel and Administration should work with the State Treasurer and the procurement card vendor to perform periodic analysis to determine if the State could net more dollars by paying early or by earning interest on its investments.

**Department of Personnel and Administration
Response:**

Agree. To be implemented by December 2002.

Procurement Card Controls

Chapter 2

Traditional payment systems are costly because they require multilevel approval prior to making each purchase and verification of delivery prior to cutting a payment check. Examining 100 percent of invoices generated by small purchases adds significant overhead costs to each transaction, as discussed in Chapter 1 of this report.

Fast-pay procurement card processes cost less because:

- One payment is made to a single bank, for all small transactions, prior to delivery.
- Invoice examination is based on statistical sampling of transactions instead of examining 100 percent of invoices generated by high-volume, small purchase transactions.

However, compared with the traditional control processes, procurement card procedures increase the risk of overpayments, fraud, and misuse occurring without being detected.

For example, the Office of the State Auditor (OSA) found numerous problems with the Department of Human Services' use of procurement cards in the Fiscal Year 2000 Statewide Single Audit. The audit found that 58 percent of the transactions contained at least one problem. Problems ranged from failure to maintain adequate supporting documentation about card purchases to transaction account coding errors. The audit reported that procurement card controls are important because credit cards are a high-risk area for fraud and abuse. The risk of inappropriate purchases is further increased if purchases are not routinely and sufficiently monitored.

An OSA audit of the Colorado School of Mines found there were no audits on procurement cards performed during the Fiscal Year 2000. The OSA's Fiscal Year 2001 University of Colorado audit tested 20 Procurement Card transactions and found two instances in which the cardholder did not sign his or her monthly statements, three instances in which the approving official did not review or sign the monthly statements, five instances in which the cardholder did not provide invoices supporting all purchases made, and one instance in which the cardholder did not sign the cardholder agreement.

Oversight and Controls Mitigate Procurement Card Risks

The United States General Accounting Office (GAO) produced a report in May 2000 that discussed the benefits of procurement card purchasing systems entitled *Streamlining the Payment Process While Maintaining Effective Internal Control*. The GAO produced the report in response to questions from federal agencies in the process of modifying their payment systems to achieve congressional goals of streamlining operations, reducing costs, and taking advantage of currently available technology. The agencies requested opinions from the GAO on whether their proposed new payment system designs and modifications conformed to federal internal control requirements.

The GAO report details the advantages of electronic, automated systems that allow an agency to implement a more cost-effective method of administering a procurement system. The General Accounting Office found that:

- Sampling and other streamlined payment procedures neither reduce the need for effective internal control nor relieve the responsibility to monitor the procurement system. They merely provide a mechanism to reduce clerical costs and expedite processing.
- Although combining statistical sampling with fast-pay procedures increases the risks of overpayments, the risks can be effectively mitigated if the combined costs of an agency's sampling plan, monitoring, and projected losses due to undetected errors on invoices not examined are less than the savings generated by the agency's streamlined payment process.

In other words, to set up a procurement card program, each agency must demonstrate that the benefit of projected savings exceeds the estimated extra costs of its monitoring and losses.

Coordinating Financial Controls Is a Division Responsibility

The Division of Finance and Procurement within the Department of Personnel and Administration is responsible for implementation, management, and coordination of the State's procurement card program. The Division's Field Accounting Services Team serves as liaison between the State Controller and operating agencies, including higher education institutions, in order to oversee the financial affairs of the Colorado state government. Its

duties include providing professional and technical assistance to agencies regarding the interpretation of statutes, fiscal rules, and other authoritative accounting guidelines. It is also responsible for approving agency budgetary and accounting transactions. The team is staffed by five professional FTE; currently, its duties do not include overseeing procurement card transactions. To the extent possible we believe the Division should reallocate resources to review and monitor the procurement card program. The Division states that it is not able to reallocate resources for this function and has requested additional FTE in their budget request. The Division currently dedicates about half of a procurement FTE and the part-time efforts of an internal auditor to the management and monitoring of the State's procurement card program.

Minimum Suggested Procurement Card Program Guidelines, established by the Division in August 2001, are given to all state department and higher education procurement card administrators. The suggested guidelines provide information on the requirements for obtaining procurement cards and monitoring of card use, and assign primary responsibility for an agency's management of the program to the agency program administrator. The guidelines also suggest that, prior to distribution of cards, staff should complete a training session that includes a description of the program and the expectations for cardholders and approving officials.

All cardholders and approving officials are also required to sign agreements before the card is issued that outlines important responsibilities and expectations, including acknowledging that the card cannot be used for personal purchases, cash advances, gasoline, and other prohibited items.

However, the Division of Finance and Procurement does not ensure that agencies adopt its minimum guidelines, verify the sufficiency of agency procurement card controls, or enforce its agency agreements.

West Virginia and Pennsylvania have developed mandatory monitoring and auditing procedures to ensure effective and efficient operations of their procurement card programs. Both states have written procurement card audit manuals that establish a set of standard expectations and procedures for reviewing agency procurement card transaction records. The manuals identify several objectives to be completed during the audit of procurement card transactions at an agency. The objectives cover issues designed to provide the auditor with a risk assessment of the agency's purchasing and include reviews of agency transaction data for circumvention of purchasing rules.

The Colorado Department of Natural Resources has developed a procurement card audit program that is performed at least twice a year. Audit focus includes documentation of

purchases; approving official review of purchases; reconciliation with monthly statements; compliance with restriction on purchase limits and dollar amounts and types of purchases; verification showing no personal or restricted purchases; and overall compliance with the terms and conditions of the card issuance agreement.

The Colorado Department of Transportation audits procurement card activity to evaluate the adequacy of internal controls over procurement card transactions to assess exposure to risk; verify the accuracy and allowability of card payments; and evaluate the efficiency of the system and its effectiveness in reducing transaction costs and improving relations.

In response to congressional concerns, the GAO analyzed procurement card operations at two Navy units. The GAO reported in July 2001 that problems resulted from a weak overall internal control environment; lack of effective monitoring; flawed or nonexistent policies, procedures, and documentation and the lack of adherence to valid policies and procedures. Management did not utilize internal reviews and audits to determine the effectiveness of purchase card internal controls. These breakdowns of internal controls resulted in a vulnerability to fraudulent, improper, and abusive purchases, theft, and misuse of government property.

Statutory purposes of the procurement rules include providing increased economy in state procurement activities, maximizing to the fullest extent practicable the purchasing value of public funds of the State of Colorado, and providing safeguards for the maintenance of a procurement system of quality and integrity. Statutory duties of the State Controller include managing the finances and financial affairs of the State; coordinating all procedures for financial administration and financial control; and promulgating fiscal rules relating to the forms, records, and procedures that are binding on departments and higher education institutions.

However, neither the Fiscal nor the Procurement Rules address policies and procedures for accountability or the efficient use of procurement cards, which average about \$6 million of purchases a month.

The Division of Finance and Procurement has a unique responsibility for overall monitoring of implementation, operation, and coordination of Colorado Government's procurement card program. However, it has not:

- Developed plans, policies, and procedures agencies must use to implement procurement card controls including monitoring, training, card transaction sampling plans, and reporting requirements to verify the adequacy and cost-effectiveness of procurement card controls.

- Conducted analysis of card transaction data on a statewide and agency level.
- Allocated sufficient resources to its statewide procurement card program management responsibilities, including assigning appropriate reviewing and monitoring responsibilities to the Field Accounting Services Team.
- Addressed policies and procedures for ensuring accountability and the efficient and use of procurement cards in the Fiscal and Procurement rules.

As did many other businesses and governments, Colorado implemented the use of purchase cards with the intention of eliminating the bureaucracy and paperwork long associated with making small purchases. However, according to the GAO, "The benefits of the purchase card may be substantially reduced if controls are not in place to insure its proper use."

Recommendation No. 5:

The Department of Personnel and Administration should strengthen controls over the procurement card program by requiring the Division of Finance and Procurement to:

- a. Develop plans, policies, and procedures for agencies to use to implement procurement card controls. These controls should cover monitoring, training, card transaction sampling plans, and reporting requirements.
- b. Review agency reports to ensure and verify the adequacy and cost-effectiveness of procurement card controls.
- c. Conduct analysis of card transaction data on a statewide and agency level as necessary.
- d. To the extent possible, reassign resources or ask for additional resources for its statewide procurement card program management responsibilities, including assigning appropriate reviewing and monitoring responsibilities to the Field Accounting Services Team.
- e. Address policies and procedures for ensuring accountability and the efficient and use of procurement cards in the Fiscal and Procurement rules.

Department of Personnel and Administration Response:

Partially Agree. To be implemented by September 2002.

- a. Agree. The “Minimum Standards and Guidelines for the Procurement Card Program” will be updated with policies and procedures under the new contract. In addition to these guidelines, Fiscal Rule 1.8 and CRS 24-17-102 and CRS 24-30-201 (f) require agencies to have internal accounting and administrative controls in place. The specific controls in place at each agency should be developed at the agency level under the auspices of these statutes, rules and guidelines.
- b. Partially agree. The DFP will use reports from the agency. However, there are currently no agency reports that answer these particular issues. With the implementation of the new contract, DFP will examine the available data to see if the vendor or agency could provide appropriate data.
- c. Agree. Under the new contract, the state should receive reports routinely allowing us to review and analyze statewide data. Similar reports will be requested by agency for them to use in analyzing their data. These same reports would be available to DFP to review should any specific agency problem be identified.
- d. Agree. A request for additional resources for the procurement card program will be considered given the current budgetary environment. Currently, there are no available resources for reassignment.

The Division Does Not Track Procurement Card Violations

The Division’s Minimum Suggested Procurement Card Program Guidelines include a violation form to be used for purchases that are out of compliance with the guidelines. The violation form contains information on the cardholder and the transaction in question, and acknowledgment by the cardholder that the transaction was in violation of procurement card policies. According to Division officials, the violation form is a tool for an agency’s card program administrator to use when reviewing procurement card purchases.

We contacted 10 agencies using the procurement card, which represent about 67 percent of the total number of cards issued. We found that approximately 3 percent (185) of these cards had a formal violation report completed against the cardholder. The number of violations recorded at state departments and higher education institutions varies substantially. For example, one department with nearly 1,000 procurement cards reported that formal violation forms have been completed against 84 (9 percent) cardholders while an institution of higher education with about 4,000 cards reported only 65 (1.6 percent) formal violations during Fiscal Years 2000 and 2001.

According to staff at the agencies we contacted, no completed violation form has ever been submitted to the Division of Finance and Procurement. In fact, the Division has no requirements covering agency use of the procurement card violation form and does not monitor, collect, or analyze the violation forms.

Violation forms could provide information to the Division for identifying trends and risks associated with procurement card use. This information could be used by the Division to conduct targeted reviews of procurement card programs and to improve regulations and training throughout the State.

Recommendation No. 6:

The Department of Personnel and Administration should identify trends and risks by scheduling regular reviews of state agency and higher education institution violation forms. The Department should use the data to improve procurement card regulations and provide training as needed throughout the State.

Department of Personnel and Administration Response:

Partially agree. To be implemented by September 2002.

The individual agencies record and analyze the violation forms. The “Minimum Standards and Suggested Guidelines for the Procurement Card Program” and the Procurement Card Violation Warning Form” currently include guidelines for handling violations. The Division of Finance and Procurement will include in its Minimum Guidelines suggestions for reviewing the data from these forms for trends and risk areas. When developing statewide training, the Division of Finance and Procurement will solicit input from agencies regarding those violation areas needing focus.

Card Vendor's Data Can Help Detect Unauthorized Purchases

The Division of Finance and Procurement has not utilized the reporting capabilities of the State's procurement card vendor to identify unauthorized and inappropriate purchases, such as purchase of goods for personal use, travel, restaurant meals, alcohol for consumption, and splitting purchases to circumvent dollar limits. The Division has received statewide-level reports from the bank in the past. However, the reports requested provided only aggregate-level data for all state agencies. For example, the reports include the total number of transactions and total dollar amount for a specific time period. These data are adequate to provide summary-level information regarding the procurement card program across the State. As a result, the Division is able to comment on broad-brush procurement card activity; however, it is not able to conduct in-depth analysis of unauthorized purchasing trends at individual agencies, using these reports.

The procurement card vendor bank is able to provide the Division of Finance and Procurement with detailed reports that will allow the Division to conduct variance and trend analysis on procurement card data by agency and across the State. According to the vendor, the Division has never requested such a report.

Recommendation No. 7:

The Department of Personnel and Administration should improve its monitoring of unauthorized and inappropriate purchasing trends by working with the procurement card vendor to develop and acquire transaction data needed to conduct card use analysis on an agency and statewide level. The Department should also review the State's procurement card data needs when the current contract expires.

Department of Personnel and Administration Response:

Agree. To be implemented by June 2003.

In the solicitation, the Division of Finance and Procurement will request aggregate data from the vendor on the exception categories. In this way, the DFP will be able to monitor statewide trends and address these issues in their training sessions. In addition, the solicitation will request data for agencies that they may use to monitor the exceptions in each of their agencies.

Appendix A

Disposition of 1994 Performance Audit Follow-Up Recommendations

Several Recommendations Made in the 1994 Performance Audit Follow-Up Have Not Been Fully Implemented

In June 1994 the Office of the State Auditor issued a report following up on the status of recommendations made in a 1989 audit of the state procurement system. During the 1994 follow-up we made eight audit recommendations. Our current audit included procedures to determine the implementation status of five recommendations regarding state purchasing, specifically as they relate to procurement cards.

The audit recommendations in our 1989 audit report were addressed to the Department of Administration; however, in 1995 it merged with the Department of Personnel. Subsequently, the powers, duties, and functions concerning purchasing were transferred from the Division of Purchasing to the Department of Personnel. In Fiscal Year 2000 the Department of Personnel again reorganized parts of its operations. As a result, the purchasing functions from the former Purchasing Division, were consolidated with the former Accounts and Control Division also known as the State Controller's Office, into a new Finance and Procurement Division.

The following are the 1994 audit recommendations, the Department of Administration/Division of Purchasing's 1994 responses, and our evaluation of the actions taken to date. We found that a majority of the audit recommendations in relation to procurement cards have not been implemented by the Department of Personnel and Administration. In fact, many of these recommendations are addressed in this year's audit. The Department should identify what actions need to be taken to fully implement these recommendations, notably with regard to procurement card activities, by developing an action plan to ensure they are implemented in a timely manner.

**DEPARTMENT OF PERSONNEL/DIVISION OF PURCHASING
JUNE 1994**

No. 2: The Division of Purchasing should ensure the complete statewide implementation of the procurement card system for small purchases by (a) completing the pilot project, establishing benchmarks, and evaluating the results; (b) documenting the savings in each department including personal services' savings resulting from greater efficiencies in purchasing operations; (c) reporting the results of the pilot project, the status of full implementation, and savings benchmarks; and (d) establishing a timetable for full implementation.

Department of Administration/Division of Purchasing Response:

a) Agree b) Agree c) Agree d) Agree

Agency Update - June 2001	State Auditor Evaluation - October 2001
<p>a) Partially Implemented. The pilot project was completed in 1999 and no quantitative benchmarks were established by the Department. With respect to "business expectations," procurement cards are absent of features that would make the card more useful in analyzing card usage. In general the procurement card provides payment efficiencies.</p> <p>b) Not Implemented. There is no system support for measuring, recording, and analyzing workload savings and the Department has not mandated that agencies and institutions of higher education manually report savings in each department. The size of procurement card purchases are below the limits requiring competitive bidding, so significant efficiencies by agencies and institutions are not expected. The procurement card primarily facilitates improved controls and payment, not procurement.</p> <p>c) Not Implemented. No savings benchmarks have been established. No written report of the pilot program was done. The Department receives periodic reports identifying the agencies and institutions having signed card agreements, and their card usage. Establishment of benchmarks for card usage would require an integrated method of determining statewide expenditures by transaction size and commodity; presently this does not exist.</p> <p>d) Not Implemented. Full implementation is difficult without statewide systems support for procurement analysis to identify commodity categories and transaction amounts. The New Century 2000 Colorado Report and the State Controller have both prioritized the need for full adoption of the card.</p>	<p>a) Partially Implemented. Although the pilot project was completed, no quantitative benchmarks were established by the Department of Personnel and no results were evaluated.</p> <p>b) Not Implemented. The Department did not calculate or document savings resulting from greater efficiencies in purchasing operations.</p> <p>c) Not Implemented. The Department did not report the results of the pilot project or savings benchmarks, nor has it required agencies to report card activity or progress. In addition, the Department has not determined the implementation status of the card; i.e., the Department has not determined the usage rate of the procurement card versus other methods of procurement.</p> <p>d) Not Implemented. The Department has not established a method for collecting and analyzing card activity to determine the implementation status of the card.</p>

**DEPARTMENT OF PERSONNEL/DIVISION OF PURCHASING
JUNE 1994**

No. 3: The Division of Purchasing should fully implement the 1989 recommendations to reduce administrative costs by (a) evaluating and identifying areas in which departments' administrative costs for purchasing could be reduced; (b) developing programs, including increased automation, to address unnecessary activities and inefficiencies; (c) reporting on the costs and benefits from programs in appropriate budget documents, staffing plans, and performance measures; and (d) adopting procurement rules directing all state departments to routinely evaluate ways to reduce their administrative costs for purchasing activities.

Department of Administration/Division of Purchasing Response:

a) Agree b) Agree c) Agree d) Partially Agree

Agency Update - June 2001	State Auditor Evaluation - October 2001
<p>a) Not Implemented. There is no statewide automated system for measuring and analyzing administrative costs for procurement cards. However, identification of areas where administrative costs can be reduced remains a priority. The Department attempts to monitor administrative costs through Purchasing Advisory Council Executive Committee meetings, online accessible best practices, peer reviews, and a web-based survey tool.</p> <p>b) Partially Implemented. The Department developed the BIDS system which features online publication of price agreements, solicitations from state purchasing offices, and policies and best practices. The Department has also changed purchasing limits. In addition the Department is currently developing the e-procurement system. Electronic procurement systems have not been implemented fully by executive agencies.</p> <p>c) Not Implemented. No historical data/analysis exists concerning "individual agency or institution buyer performance." No external data exists "to compare the Department's performance on a per buyer basis to that of other state agencies or institutions of higher education." The Department's procurement activities are significantly different from those of other agencies.</p> <p>d) Partially Implemented. Rules were not adopted. However, the Purchasing Advisory Council Executive Committee meetings and the online bids system have enabled routine collaboration with all agencies and institutions of higher education.</p>	<p>a) Not Implemented. During our current audit we found that the Department has not adequately evaluated and identified areas for saving administrative costs related to the procurement card system.</p> <p>b) Partially Implemented. The Department has attempted to develop several programs to address unnecessary activities and inefficiencies. However, these programs do not specifically address procurement card program inefficiencies.</p> <p>c) Not Implemented. The Department did not report on the costs and the benefits of programs related to procurement cards.</p> <p>d) Partially Implemented. The Department only adopted voluntary guidelines directing state departments to routinely evaluate their procurement activities. However, these guidelines have not been incorporated into the procurement or fiscal rules.</p>

**DEPARTMENT OF PERSONNEL/DIVISION OF PURCHASING
JUNE 1994**

No. 4: The Division of Purchasing should improve its use of data to effectively plan for and manage the state procurement system by (a) determining the data needed by management and staff; (b) developing and implementing cost-effective methods of retrieving and compiling data that are not available through existing management information systems; and (c) evaluating and monitoring agencies' purchasing data for trends and patterns.

Department of Administration/Division of Purchasing Response:

a) Agree b & c) Partially Agree

Agency Update - June 2001	State Auditor Evaluation - October 2001
<p>a) Partially Implemented. The Department generally knows the data it needs to effectively plan for and manage the state procurement system but does not have the ability to capture card usage sufficient for analyzing opportunities for aggregate purchasing.</p> <p>b & c) Not Implemented. The absence of a statewide or integrated system with procurement data capability still remains a barrier to collection data analysis. The e-procurement system is intended to give more comprehensive data collection and analysis. The Department also developed the BIDS system which permits the analysis of awards for competitive purchases.</p>	<p>a) Partially Implemented. The Department has only identified some of the data that are needed by management and staff to effectively manage the state procurement card system. The Department needs to continue to identify and capture data that could be used to perform cost and benefit analysis of the current procurement card program.</p> <p>b & c) Not Implemented. The Department has not yet achieved a way of evaluating and monitoring agencies' purchasing data for trends and patterns. Both the BIDS system and e-procurement have limitations for evaluating and monitoring data for trends and patterns.</p>

**DEPARTMENT OF PERSONNEL/DIVISION OF PURCHASING
JUNE 1994**

No. 6: The Division of Purchasing should improve its oversight of departments' procurement activities and practices to ensure compliance with applicable statutes, rules, and regulations by (a) establishing monitoring standards for all state departments; (b) developing and implementing a reporting system which includes Division of Purchasing review and analysis of department audit findings; (c) using a risk-based approach to establish a comprehensive audit schedule; (d) defining appropriate enforcement actions for violations and including these definitions in the procurement rules.

Department of Administration/Division of Purchasing Response:

a) Agree b) Agree c) Agree d) Partially Agree

Agency Update - June 2001	State Auditor Evaluation - October 2001
<p>a) Not Implemented. The procurement rules represent purchasing and procurement standards. "Peer" purchasing agents are involved in reviews.</p> <p>b) Not Implemented. The state completed its second round of peer reviews in 2000. The next round is beginning this year. The reviews are typically one day in length, which involve briefings and discussions on findings, current policies, and procurement trends. However, this peer review process likely does not meet the standards of an audit. Attempts to get an additional FTE to enhance oversight functions were not successful.</p> <p>c) Not Implemented. Agencies with more limited purchasing delegations have routine involvement with the Department including a review of certain purchasing documents. The nature of purchasing is lower risk.</p> <p>d) Not Implemented. After procurement reviews, a written report is submitted. If responses by agency procurement officials are not deemed appropriate, follow-up at the Executive Director level is available. The Procurement Rules have not been amended to include these enforcement options.</p>	<p>a) Not Implemented. The Department has not established monitoring standards specific to procurement cards.</p> <p>b) Not Implemented. The Department began using peer reviews to monitor agencies and institutions; however, we found these reviews are not an adequate or effective tool for monitoring or providing oversight of the procurement card program.</p> <p>c) Not Implemented. The Department has not developed a comprehensive audit schedule using a risk-based approach.</p> <p>d) Not Implemented. The Department has developed a procurement card violation form that agencies can fill out to report violations; however, it does not monitor, collect, or analyze the violation forms. In addition, during our current audit we found that the Department's procurement reviews are inadequate.</p>

**DEPARTMENT OF PERSONNEL/DIVISION OF PURCHASING
JUNE 1994**

No. 7: The Division of Purchasing should ensure that agency purchasing personnel have adequate and consistent guidance and instruction to perform their duties by completing the implementation of the 1989 Recommendation No. 27. The Division should do this by (a) preparing and distributing a user's guide to all state employees involved in the purchasing process; (b) requiring training for all agency personnel involved in the purchasing process; (c) developing procurement rules which interpret or operationalize statutes, where appropriate; and (d) completing and issuing, to all agencies, the request for proposal (RFP) manual.

Department of Administration/Division of Purchasing Response:

a) Agree b) Agree c) Partially Agree d) Agree

Agency Update - June 2001	State Auditor Evaluation - October 2001
<p>a) Partially Implemented. In 1997 the Department developed a contracting manual. The manual contains an abbreviated introduction to state procurement. Since 1997, the Department distributed policies and user guides on the Lotus Notes/BIDS system. Also in 1999, Lotus Notes was used to distribute guidance on the application of policies and best practices.</p> <p>b) Partially Implemented. A procurement course has been completely redesigned and approved. The Department holds a three-day basic procurement course which is conducted nine times per year including modules on contracting, personal service review, specifications, and procurement cards. Agencies which rely upon the Department for higher level purchasing functions are required to attend the basic procurement course. Attendance is not mandated for fully delegated purchasing agencies and institutions. Also, the Department does not mandate particular training, as purchasing personnel turn over in fully delegated agencies and institutions. Since September 1999, 149 persons have taken the course.</p> <p>c) Not Implemented. The Purchasing Advisory Council Rules Committee is no longer active. In general, the council has not identified more rule changes that would improve efficiencies or effectiveness in the system. However, over the past year, a comprehensive review of the procurement rules was completed by the Department, and draft rule revisions are being prepared.</p> <p>d) Implemented. The RFP manual has been posted on the Lotus Notes system for two years. Presently there is a new initiative on Lotus Notes to identify RFP best practices and improve the RFP manual.</p>	<p>a) Partially Implemented. The Department has prepared procurement card program guidelines. However, the guidelines are only suggested practices and do not carry the weight of law as do the procurement rules.</p> <p>b) Partially Implemented. The Department holds a three-day basic procurement course, which includes modules specific to procurement cards. However, attendance for the training is not mandatory or required for all purchasing agencies and institutions.</p> <p>c) Not Implemented. At the time of our audit, the Department had not identified rules that would improve efficiencies or effectiveness of the procurement system or the use of procurement cards.</p> <p>d) Implemented. The RFP manual has been posted on the Lotus Notes system for agencies to access.</p>

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