

BEST Practices



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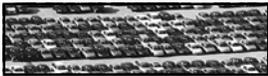
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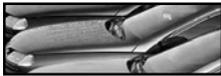
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A Message from Auditor of State Betty Montgomery

Dear Colleague,

My office is proud to present the latest edition of the *Ohio Auditor of State's Best Practices* publication. Since our first edition earlier this year, we have received a great deal of positive feedback on this effort to help governments across Ohio provide the best services and accountability to the citizens of Ohio. Given the difficult budget climate, all of us in the public sector owe it to our constituents to do all we can to maximize the use of the resources at our disposal. Efficient, effective practices ensure the highest level of accountability and enable every entity to better manage and maneuver through both good and difficult economic climates.

As promised, in this issue of *Best Practices*, we are highlighting model policies with regard to government purchasing cards and vehicle use. We've tried to provide a meaningful discussion to help you bolster accountability and policies in these areas. We also offer up practical examples for political subdivisions large and small. As always, we encourage any feedback you may have on these issues. It is our hope you find this issue of *Best Practices* valuable in your efforts to serve the citizens of Ohio. Happy Holidays!

Sincerely,

Betty Montgomery
Ohio Auditor of State

Procurement Through Government Issued Purchasing Cards

In the late 80's, governments turned to purchasing card (p-card) programs as a way to acquire small dollar items without the delays associated with the traditional purchasing process. These delays were often related to the vast amount of paperwork (e.g., requisitions, purchase orders, invoices, and checks) that required authorization throughout the process. Purchasing usually involved a number of individuals and/or departments including the individual purchaser, the purchaser's supervisor, the accounting department/fiscal officer, the auditor's office, and the mail room.

Usually implemented as part of a government's larger procurement program, p-cards are designed to streamline the acquisition process by issuing one check to the credit card company instead of multiple checks to a vendor. Consequently, governments realize significant savings in transaction costs and personnel resources.

Other benefits associated with p-card programs, including those identified by the Government Finance Officers of America (GFOA), are:

- Simplified authorization, payment, and review processes;
- Expedited delivery of goods;
- Less paperwork and documentation;
- Expanded options of suppliers, merchants, and vendors;
- Enhanced ability to establish and enforce purchasing limits and other restrictions;
- Immediate electronic authorization and verification at the point-of-purchase;
- Facilitated reviews of purchased items via online account information;
- Improved reporting capabilities via management information systems; and
- Fewer items to stock and inventory.

Research has shown that, on average, 80 percent of transactions that occur in the traditional purchasing process account for only 20 percent of total dollars spent. In other words, most governments spend a lot of time, energy, and resources processing transactions that, in the end, may have little impact on their overall mission. In the traditional governmental purchasing process, departments initiate a purchase order, which is then approved by the direct supervisor and processed by a purchasing representative (or department). The purchase order or invoice is then forwarded to accounts payable where it is logged into the accounting system. A paper check is then issued for each purchase, which eventually must be reconciled with the government's accounting records. At some point, these transactions are audited to ensure the appropriateness of various expenditures. By implementing a p-card program, governments realized they could reduce the number of staff involved and virtually eliminate the "paper-pushing" that accompanies the traditional purchasing process. Moreover, personnel previously responsible for different aspects of the purchasing process could assume more value-added responsibilities.



General Responsibilities in the Purchasing Process

Responsibilities should be delineated among all parties involved in the purchasing process. These parties and their general areas of responsibility include the following:

- *The p-card company* is responsible for issuing and replacing p-cards and activating those authorization controls effective at the point-of-purchase (e.g., spending limits).
- *The cardholder* is responsible for making purchases pursuant to the government's policies and procedures and generally ensuring the p-card is used as intended. The cardholder must also maintain appropriate documentation (e.g., receipts) to justify purchases.
- *The cardholder's direct supervisor* is responsible for ensuring appropriate documentation is submitted by the cardholder, reviewing the documentation to ensure cardholder purchases are appropriate, and ultimately approving the purchases.
- *The accounts payable department/fiscal officer* is responsible for reconciling payment information and preparing payments for the p-card company.

Note: Prior to considering p-card programs and assigning responsibility, governments should carefully review their governing statutes to ensure they have the authority to implement a p-card program.

Common Problems and Associated Recommendations

Based on a review of industry publications, p-card manuals, purchasing guides, and audits conducted in Ohio and other states, governments often face similar problems as they implement and administer p-card programs. Some of the more common problems and recommendations concerning these programs are shown below.

- ***Problem: Selecting a Card Provider.***

Frequently, governments will select a card provider that ultimately does not meet their specific needs. For example, a government may wish to establish tight restrictions on the type of merchants from which purchases can be made; however, the p-card company may not be willing to accommodate the specific request without a significant cost to the government. Additionally, card providers sometimes do not have experience working with governments or are not willing to offer the necessary level of support.



Recommendation: Thorough Planning. Before selecting a card provider, governments should conduct thorough planning to ensure available programs sufficiently meet their needs. Governments should reach consensus regarding their needs, which could include no or low per transaction costs/monthly fees, 24-hour customer service, or substantial accounting support. Once these needs are defined, governments may choose to establish a committee to investigate p-card programs available in their area. This committee should refer to the list of needs when evaluating providers. Governments must also be flexible, understanding that many pre-existing programs may not meet the defined needs perfectly. However, governments should always communicate these needs to potential providers, as they may be willing to negotiate.

- **Problem: Purchases Made with P-Cards for Personal Use.** If not properly monitored, cardholders may identify loopholes in the program through which the p-cards may be used for personal use. These types of purchases are highly symbolic in the eyes of the public whose tax dollars are being used for an individual's personal gain. No matter how small, these types of purchases can seriously jeopardize the success of a p-card program.

Recommendation: Rigid Controls. In addition to preventing and detecting other inappropriate purchases, governments should establish a system of rigid controls to stop cardholders from using p-cards for personal use. For example, cardholders should sign an agreement stating that they will only use the p-card for official government business and that any misuse may be grounds for disciplinary action, including termination of employment or even a referral for criminal prosecution. (See below for a thorough discussion on recommended controls related to a p-card program.)

- **Problem: Lack of Documentation Behind Purchase Approvals/Reviews.** In the rush to simplify their oftentimes burdensome purchasing practices, governments sometimes overlook the need to maintain sufficient documentation for auditing purposes. Without the proper records documenting the approval and review process, outside auditors cannot ensure the appropriateness of the p-card purchases, potentially resulting in finding for recovery issued by the Auditor of State's Office.

Recommendation: Sufficient Audit Trail. Governments should ensure their policies and procedures related to purchase approvals/reviews address the maintenance and retention of certain key documents (e.g., submitted receipts, monthly billing statements, sign-off sheets, dispute forms, etc.). With a sufficient audit trail outside auditors can trace p-card purchases through the entire review and reconciliation process.

Recommended Controls

Based on a review of p-card policies and procedures from a variety of governments in Ohio and in other states, most contain internal controls that fall into three main categories: authorization controls; payment controls; and compliance controls. The following controls include recommended practices from industry publications, various procurement guides, p-card user manuals, and audit reports from Ohio and other states.

1. Authorization Controls

As part of their agreements with the p-card issuers (i.e., credit card companies), governments can establish a variety of authorization controls that can be activated through the credit card company such as:

- Stipulation specifying who is authorized to use the p-card;
- Limits on the amount a cardholder can spend on a single purchase;
- Restrictions on the accumulated amount of purchases during any specified timeframe (e.g., \$1,000 per month);
- Limits on the days and times during which purchases can be made (e.g., Monday through Friday, 8 a.m. to 5 p.m.);
- Restrictions on the type of vendors and merchants from whom purchases can be made (i.e., merchant category blocking);
- Specific prohibitions on the types of goods or services that may be purchased (e.g., entertainment, alcoholic beverages, medical drugs, personal services, cash advances, etc.); and
- Limits on the frequency of use within a predefined timeframe.

Furthermore, governments may want to take steps to ensure cardholders do not use their p-cards to acquire items that are available through other preferred means. For example, under Ohio's *Payment Card Program* (offered through the Office of Budget and Management), items available from other state agencies must be purchased before using the p-card in the open market. In general, governments should establish the aforementioned controls to ensure only authorized personnel use the p-card for specified purposes within pre-approved limits.

2. Payment Controls

The following payment controls implemented with proper policies and procedures are designed to ensure p-card companies are paid promptly and only for authorized purchases:

- Cardholders must retain copies of all original, signed receipts to later provide to their immediate supervisor, accounts payable department, or fiscal officer for review and reconciliation. (Note: Governments must require cardholders to submit itemized receipts when multiple items are purchased within one transaction.)
- Cardholders must maintain a record or usage log that describes all items purchased with the p-card during the billing cycle. Information maintained may include date of use, vendor name, brief description of purchase, and dollar amount.
- Before payments are made to the p-card company, supervisors, accounts payable personnel, or the government's fiscal officer must compare and reconcile the cardholder's usage log, submitted receipts, and the billing statement as soon as the statement arrives from the p-card company.
- Before payments are made to the p-card company, discrepancies between the cardholder's usage log, submitted receipts, and the billing statement must be investigated and resolved to the satisfaction of the immediate supervisor, accounts payable personnel, or the government's fiscal officer. (Note: Cardholders may be required to fill-out a separate "Dispute Form," providing details about the particular disputed item/purchase.)
- Payments and reconciliations should be performed independent of cardholders. Also, billing statements should be sent to individuals (e.g., accounts payable personnel) who are independent of the cardholder (e.g., employee). (Note: Governments may wish to define *independent* and provide examples of relationships that are considered inappropriate.)
- All payment information (e.g., cardholder logs and receipts) should be maintained in accordance with the government's records retention schedule.

Additionally, governments should include timelines and corresponding duties in its p-card payment process to ensure payments are made in a timely manner. For example, cardholders must review, sign-off, and submit their billing statement, usage log, and tallied receipts within five days of receiving the billing statement.

3. Compliance Controls

Governments should implement the following compliance controls to ensure p-cards are not used to circumvent p-card specific or other policies and procedures regarding purchasing:

- Fiscal personnel independent of the cardholders must conduct regular reviews of each cardholder’s activity to ensure the p-card is being used in accordance with prescribed policies and procedures. Through such reviews, it can be determined whether cardholders are purposefully “splitting” purchases to circumvent predefined limits. These reviews can also help determine whether cardholders are using p-cards in situations where volume discounts are available.
- Internal control plans should require periodic audits of cardholder accounts, purchasing histories, and purchasing records (e.g., sales receipts). Moreover, prices for commonly priced items should be periodically verified to prevent schemes where prices are purposely inflated. (Note: It is very important that prices of commonly purchased items are periodically checked to ensure that they are not only competitive but also to avoid the scheme where goods are purchased at an inflated price, with the purchasing agency receiving a kickback. This scheme has recently occurred here in Ohio.

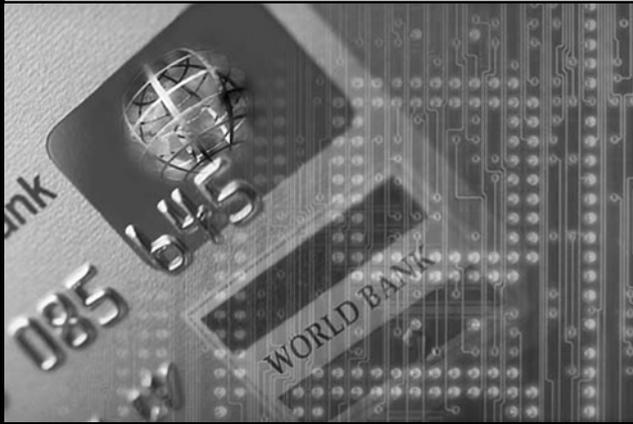
4. Other Provisions

In addition to the controls mentioned above, governments usually establish other provisions designed to facilitate operational continuity and to provide additional safeguards against misuse. These provisions may include:

- A statement that p-cards are to be used for official government business and may not be used for personal purchases. (Note: This statement is usually highlighted and presented at the beginning of the p-card policy).
- A requirement that cardholders cannot benefit through any type of awards program offered in connection with p-card use (e.g., frequent flier miles).
- A requirement that cardholders present themselves as government employees at the point-of-purchase to ensure the vendor does not charge state sales tax.
- A stipulation that cardholders immediately notify their direct supervisor if the p-card is lost or stolen.
- A stipulation that the p-card company has no individual cardholder information (e.g., credit records or social security numbers) other than the cardholder’s work address.
- A requirement that any requests for higher spending limits be justified in writing.
- A prohibition stipulating that the p-card cannot be used for travel-related expenses. (Note: Based on those p-card policies reviewed, some governments authorize employees to use p-cards for travel-related expenses; however, the AOS recommends governments work with their legal counsels in establishing additional control procedures related to travel.) (See the last issue of *Best Practices* for more information on travel policies.)
- A statement indicating that the policies and procedures cannot cover every issue, exception, or contingency that may arise in the use of the p-card, and therefore cardholders should use common sense and good judgment in the use of government resources.

Governments should also ensure that p-cards are issued to trustworthy employees who understand the security risks and corresponding policies associated with p-cards. For example, cardholders should keep the p-card and the 16-digit account number in an accessible, but secure, location. Moreover, governments should train employees on the proper use of p-cards and require employees to read and sign cardholder agreements. These agreements should specify the terms and conditions of the p-card assignment, and they should also define the responsibilities of both the cardholder and the employer.

P-Card Policies



Through detailed policies and procedures, governments formalize the intent of the p-card program and establish vigorous internal controls to ensure proper use of p-cards. The policies and procedures generally contain a purpose statement; process overview; key definitions; roles and responsibilities; and restrictions and controls.

In aggregate, p-card policies and procedures are often lengthy and complex. They may stand alone in manual form, or they may be included as part of a larger purchasing program that provides guidance on other purchasing methods, such as competitive bidding.

Larger governments typically develop manuals or guidebooks containing the policies and procedures to serve as a helpful reference tool for those participating in the p-card program. In either case, the level of restriction included in p-card policies and procedures is dependent upon the needs and will of the governing authority. In other words, governments have the latitude to develop policies that best suit their needs, provided they are for a proper public purpose (see AOS Bulletins 2003-005 and 2004-002). Including the aforementioned controls will undoubtedly reduce the risks associated with p-card programs and help protect against abuse. The following sample p-card policies include varying levels of restrictions and control procedures.

Sample P-Card Policies — Ohio

State of Ohio's Payment Card Program

<http://www.obm.ohio.gov/Information/PaymentCard/manual/index.asp>

Offered through the Office of Budget and Management (OBM), Ohio's statewide p-card program is designed to empower state employees to make small-dollar purchases (under \$1,000) without undue delay. There are more than 50 participating state agencies that are issued the Bank of America p-cards, which are accepted anywhere VISA cards are accepted. OBM has developed a comprehensive, user-friendly manual to guide participating agencies and cardholders. In addition to a number of controls and guidelines, the manual includes a question and answer section to assist cardholders with situations they may encounter when using the p-card. For example, "What do I do if my credit card is declined at the point-of-sale?" The manual also addresses Internet purchases and includes a sample cardholder usage log that participating agencies can use for reconciliation purposes.

Maumee Watershed Conservancy District

www.auditor.state.oh.us/publications/bestpractices/maumee

The district has developed a user guide which provides employees all the necessary information to use the p-card, including program benefits, process overview, restricted commodities, and a number of other procedural controls. To facilitate the accounting process, each p-card is assigned a six-digit account number and all permissible merchants are assigned a code that is tied to the district's gen-

eral ledger object codes. Therefore, each p-card transaction is automatically billed to the p-card account code and appropriate object code. The district's user guide also includes a cardholder agreement form, stipulating the terms and conditions of having been issued a district p-card.

City of Troy

www.auditor.state.oh.us/publications/bestpractices/troy

The City of Troy has developed guidelines, procedures, and process-oriented responsibilities for those who participate in the city's p-card program. Furthermore, the city places additional control procedures on higher dollar purchases. For example, while a purchase under \$500 only requires verbal approval from the cardholder's supervisor, the cardholder must complete a pre-approval form for purchases over \$500. The city also provides specific examples of those goods and services for which the p-card can and cannot be used. For instance, the p-card may be used for postage, but it cannot be used for entertainment or recreational purposes (i.e., theaters, video rentals, public golf courses, alcohol, lottery, etc.).

County Auditors' Association of Ohio

www.auditor.state.oh.us/publications/bestpractices/caao

As a result of new requirements imposed by Senate Bill 82 (County Procurement Card Law), the County Auditors' Association of Ohio developed a sample policy for county p-card programs. Moreover, the association worked with the AOS in developing the internal accounting controls contained in the sample policy and the associated procedures. As part of the policy, counties are provided a list of items they should consider when selecting a p-card issuer. For example, can the p-card issuer provide recognizable cards including the county's name, logo, and the phrase, "For Official Use Only – Tax Exempt," printed on the face, and a toll-free customer service telephone number printed on the back? Based on those policies reviewed, the association offers a well-balanced and thorough model policy. Although developed specifically for counties, the association's model policy could certainly be used by other types of governments as they create or retool their own p-card policies.

Sample P-Card Policies — National

City of Palmdale, California

<http://www.csmfo.org/download/index.cfm?fuseaction=download&cid=561>

Before drafting its p-card guidelines, the City of Palmdale analyzed p-card programs in other California cities. As a result, Palmdale's guidelines capture a number of proven attributes and recommended control procedures. Overall, the guidelines are written in a concise manner yet cover virtually every aspect of the p-card program.

City of Glendale, Arizona

www.auditor.state.oh.us/publications/bestpractices/glendale

The City of Glendale's p-card user manual includes a general overview, responsibilities, benefits, and several procedures that are written in question format for ease of use. The manual also provides sample forms for employees to view.

City of Middletown, Connecticut

<http://www.cityofMiddletown.com/PCard/pcard.htm>

The City of Middletown has established a website which provides both users and the public access to its p-card program as well as all necessary information (policies, goals, manuals, forms, etc.). Additionally, the site includes Middletown's policy on using the p-card for travel-related expenses.

Government-owned Vehicle Use Policies

To perform job functions more efficiently and to provide a greater level of service to residents, many governments extend the use of government-owned vehicles to their employees. Governments realize that in many circumstances assigning a vehicle to an employee is more cost effective than reimbursing an employee for mileage driven in a personal vehicle. However, by providing vehicles to employees, governments expose themselves to potential abuse. Thorough and sound policies, coupled with vigilant monitoring, can help prevent and detect these instances of abuse.

Based on a review of vehicle use policies from various governmental entities in Ohio and in other states, there are several commonalities among them. Generally, the policies are written in connection with the entity's corresponding travel policy. They contain provisions specifically designed to ensure compliance with federal, state, and local laws. The policies often include a purpose statement, definitions, and associated procedures to ensure the policies' sound implementation.

Common Characteristics of Sound Vehicle Use Policies

Several of the policies reviewed include the following controls and safeguards to ensure the proper use of government vehicles:

- A stipulation that the vehicle is to be used for official business only; personal use of the government vehicle is strictly prohibited. Some policies, however, recognize that some diminutive personal use is permissible as long as mileage logs are maintained.
- A stipulation allowing certain types of employees (e.g., animal control officer or building inspector) or those with specific authorization to use the vehicle to commute to and from their place of residence. Oftentimes, emergency service departments establish their own vehicle take-home policy for police officers and for those employees who are typically on-call.
- A stipulation that non-employees are not permitted to ride in the government vehicle except for business-related reasons.
- A rule prohibiting the operation of the vehicle while under the influence of alcohol or drugs.
- A statement identifying which vehicles are covered under the policy (i.e., scope statement). Some policies reviewed covered all government vehicles, while others excluded emergency vehicles (e.g., police cruisers). Many emergency service departments establish their own policies governing use of their respective vehicle fleets.
- A condition that any violations of the policy may result in disciplinary action up to and including termination.
- A requirement that those authorized to use the vehicle for any personal reason (e.g., commute to and from residence) must report it as a taxable benefit in accordance with Internal Revenue Service regulations.



- A statement indicating that the vehicle is to be operated and maintained in a safe and efficient manner. Drivers must also report any defect or damage of the vehicle as soon as one is identified. Some policies require drivers to inspect the vehicle for any malfunctions prior to use.
- An annual check of the driver's driving record.
- A requirement that drivers maintain a valid driver's license and insurance. Drivers should be required to immediately notify their supervisors when their driving privileges change in any way (e.g., license suspension or revocation).
- A requirement that supervisors maintain a list of driver's license numbers of those employees authorized to use a government vehicle.
- A requirement that the driver and all passengers wear seat belts as required by Ohio Rev. Code § 4513.263.
- A requirement that the driver and all passengers must comply with all applicable state and local traffic laws. If any criminal or civil penalty is incurred while operating the vehicle, the driver shall be personally liable. Drivers should immediately notify supervisors of any parking or traffic ticket incurred while operating a government vehicle, and they must provide proof of payment within a predefined timeframe.



- A stipulation indicating that drivers must promptly report any accident or related injuries to the proper governmental authority as required by law. Drivers should also report the details of the accident to their supervisor in writing. Furthermore, drivers should report citations or charges involving specified offenses (e.g., driving while under the influence of alcohol or drugs, reckless operation, etc.).
- A stipulation that the cost of gasoline and oil will only be reimbursed upon the submittal of receipts. (Note: This stipulation does not apply to those governments with their own fuel tanks and vehicle maintenance departments.)
- A statement indicating how the vehicle is insured. For example, a government's comprehensive and liability insurance may only cover those employees who are authorized to use the vehicle.

- A requirement that drivers are responsible for the appearance, interior and exterior cleanliness, and general condition of the vehicle.
- A rule prohibiting transport of any cargo unrelated to the performance of official business.

While these controls are not all inclusive, incorporating them into a vehicle use policy will undoubtedly help minimize risk associated with employee use of government vehicles. Implementing these controls will help provide equitable, fair, and consistent standards for employees to follow.

As a follow-up to the discussion on travel policies from the last issue of this newsletter, below are sample vehicle use policies from around Ohio and other states. While the aforementioned controls and safeguards will undoubtedly strengthen an entity's policy, governments have the latitude to de-

velop policies that best fit their needs, provided they are for a proper public purpose. (See AOS Bulletin 2003-005 and 2004-002 regarding proper public purpose. See also Atty. Gen Op. 2003-029 which specifically addresses the ability of county officers, boards, and departments to establish their own travel policies.)

Sample Vehicle Use Policies – Ohio

Ohio Department of Administrative Services (DAS)

http://das.ohio.gov/Directives/direct_03-04/04-14.pdf

DAS has established a statewide, uniform policy that sets forth the parameters by which state employees may and may not use a state vehicle. The policy is straightforward and easy to follow. It includes a list of authorized and prohibited activities. For example, while the policy authorizes the transport of consultants when such transport is in the direct interest of the state, the policy specifically prohibits the transport of hitchhikers.

Sandusky County

www.auditor.state.oh.us/publications/bestpractices/sandusky

Sandusky County has developed a comprehensive, well-organized vehicle use policy. The policy includes sections on vehicle assignment, driver qualifications, general use, and accidents/traffic citations. Uniquely, the policy requires the Board of County Commissioners and the appropriate elected official to annually review permanent vehicle assignments during the budget appropriation process.

City of Solon

www.auditor.state.oh.us/publications/bestpractices/solon

The city recently revised the policy to limit the number of employees authorized to use city vehicles for commuting purposes. Overall, Solon's vehicle use policy is concisely written and incorporates a number of recommended control procedures.



Sample Vehicle Use Policies – National

City of Stamford, Connecticut

www.auditor.state.oh.us/publications/bestpractices/stamford

Stamford's motor vehicle use policy requires employees to sign a statement indicating that they have read and will comply with the rules and provisions of the policy. Further, the policy provides a list of those positions which have been specifically authorized to use city vehicles to commute.

Village of Carol Stream, Illinois

www.auditor.state.oh.us/publications/bestpractices/carolstream

The village of Carol Stream has developed a concise, one-page policy that includes several safeguards designed to prevent inappropriate use of village vehicles. Additionally, the policy allows for some diminutive personal use of village vehicles.

Coming Up in the Next Issue of

BEST Practices

The next issue of this newsletter will focus on audit committees and public records. To provide additional guidance, sample policies and recommended practices associated with these areas will also be included.

If you would like your policies on audit committees and public records to be featured as samples in the next newsletter, please fax them to the Auditor of State's Office at (614) 466-4490 or you may e-mail them to bestpractices@auditor.state.oh.us (Please include any necessary contact information should questions arise).

Finally, if you like this publication and if you think it will be of help to you, please contact us at (800) 282-0370 or bestpractices@auditor.state.oh.us and let us know. If there are other areas in the audit arena you wish us to highlight or if you have any comments, concerns, or questions, please let us know. Your opinions are very important to us.