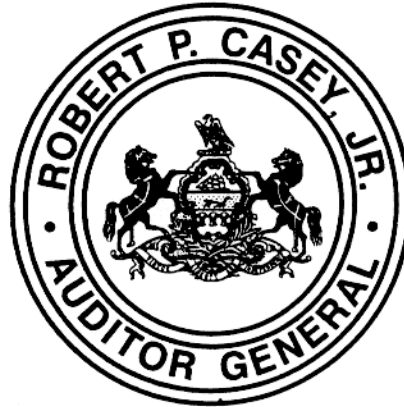


DEPARTMENT OF THE AUDITOR GENERAL

BUREAU OF SCHOOL AUDITS



NEED FOR PROCUREMENT CARD POLICIES

PASBO CONFERENCE - HERSHEY, PA

MARCH 12, 2004

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Use of procurement cards or "purchasing with plastic" has not been a current audit focus of the Bureau. However, this should not be viewed as an invitation to let your guard down. While all the literature stresses the potential cost savings from the use of these cards, there seems to be little emphasis placed on the need for strong internal controls to avoid the potential for misuse of the cards.

While the Public School Code does not specifically address the use of procurement cards, it does address purchasing and requirement for competitive bids or Board Policies. Section 807.1 and 751 of the Public School Code provides for competitive bidding of purchases over \$10,000. Additionally, these sections require the obtaining of written or telephonic quotes for purchases between \$4,000 and \$9999.99. Finally, these sections provide that the Board may authorize the secretary of the board or other executive to act as purchasing agent with authority to purchase items costing less than \$10,000.

When the Board grants purchasing authority to individual(s), it should also provide guidance as to what would be proper and appropriate use of taxpayer funds. This guidance is provided in the form of purchasing policies. Since the use of procurement cards is commonly used for small dollar items, the Board's purchasing policies should address the use of procurement cards.

Board policy for procurement cards may include the following areas:

- restrict the obtaining of cash;
- monthly credit or usage limit;
- single transaction limit;
- daily usage limit;
- merchant category code (MCC);
- cardholder report of account activity to management;
- assignment of cards to individuals; departments, or cost centers;
- employee reconciliation of purchases to billing statements;
- statement/sales receipts storage;
- supervisor review/sign off approval; and
- cardholder misuse insurance.

The areas listed above come from a review of literature obtained from various PASBO training sessions. Each LEA should review the list and consider these as well as any other controls that it deems necessary in developing its individual procurement card policy.

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To date the Bureau of School Audits has audited only one LEA's procurement card operations and this was as the result of a citizen's inquiry. The results of that review disclosed four areas of noncompliance with that LEA's own board policy. The four areas of noncompliance were:

1. two administrators made personal purchases (Lane Bryant department store and personal car repair);
2. purchases of meals, travel and gas which were prohibited by the LEA's policy;
3. purchases over \$5,000 were made with the procurement card instead of using a purchase order as required; and
4. during a three month period a total of 21 purchases were identified as being made by someone other than the cardholder. The cardholder had allowed someone else to use his/her card.

These violations of policy were believed to have occurred due to employee's lack of familiarity/training regarding the procurement card policy and the failure of the LEA's administration to provide adequate oversight/review of procurement card purchases.

While cost savings may be obtained by implementing a procurement card process, the success of the program will ultimately rest with the adequacy of the policy/control structure implemented to safeguard the program's operations.