

# GAO Topic of the Month – December 2021

## Continuity Subscription Charges on P-Cards



### Background

This month's topic is Continuity Subscription Charges on Purchasing Cards (P-Cards). Continuity subscription merchants use subscription billing or recurring payments as a billing type for subscription products or services such as book clubs, collectible series programs, magazine/newspaper subscriptions, software subscriptions, etc. The consumer's (State of Arizona) credit card (purchasing card) is automatically charged every month for products or services that the cardholder has signed up to receive. This typically happens indefinitely until the cardholder cancels the subscription or membership. During CY20, seventy-two (72) state agencies had one or more continuity subscription charges, resulting in a combined spend of approximately \$337,000 using State of Arizona purchasing cards.

During the first quarter of calendar year 2021, MasterCard identified continuity subscription merchants as being one of the top five gross fraud merchant category codes (MCC 5968 – Subscription Merchants). Studies indicate that in certain organizations, up to 45% of the total spend under this merchant category is fraud, waste or abuse. Continuity subscriptions have a greater risk for fraud and waste, and therefore require additional scrutiny. Although the charges may be for a small dollar amount, they can quickly add up over time.

### What Are Some of the Risks Associated With Continuity Subscription Merchants?

- 1) Paying for subscriptions or memberships after they are no longer needed
- 2) Paying for products or services that are not being delivered and/or provided
- 3) Paying for unknown or unwanted subscriptions, memberships, products or services
- 4) Paying unauthorized and/or inaccurate billing amount(s)
- 5) Negative Billing – Subscription merchants frequently offer free trials for products or services, hoping that consumers forget to cancel - resulting in continuous billings.
- 6) Paying for subscriptions or memberships that are not related to State business
- 7) Paying for duplicative products or services (e.g. Survey Monkey instead of Google Forms, Zoom instead of Google Meets, etc.)

### How Can My Agency Identify Continuity Subscription Charges?

Agencies and cardholders must regularly review their continuity subscriptions to ensure they are for valid State business purposes, confirm that all charges are accurate and correct, and verify that the subscription is still needed and used. This review should happen at a minimum semi-annually and ideally, more frequently, such as quarterly or even monthly. Besides reviewing the actual statements, this can also be accomplished by generating a report. Go to the US Bank website,

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<https://access.usbank.com>, select Reporting, Financial Management, and then the Transaction Detail. Either generate a transaction detail report and review these charges as part of your agencies required monthly review process (see the September 2021 TOM, US Bank Reports Available for Purchasing & Travel Cards) or run a separate transaction detail report and isolate charges to MCC 5968 – Subscription Merchants.

To generate a report by MCC, first enter the start and end date for your specified period of review as follows:

### Financial Management Transaction Detail

By default this report will return all results associated with blank fields, unless otherwise noted. To limit results, enter specific criteria in blank fields.

\* = required

#### Date

Cycle Close Date Range:  Calendar Month Range:  Posting Date Range:  Transaction Date Range:

Enable Cycle Day

Start Date:

07/01/2021

End Date:

12/31/2021

to

Select the “Transaction Date Range” radio button and specify the period of review. For example, 7-1-2021 through 12-31-2021.

Next, leave all other fields as default and select the “Merchant Category Codes” radio button under the Merchants section as indicated below. After selecting the “Merchant Category Codes” radio button, enter the merchant category code (MCC) 5968 (the MCC for Subscription Merchants).

#### Merchants

Merchant Category Code Group:

**Note:** Hold down the Ctrl key to make multiple selections.

All  
artist supplies  
jewelry equip  
misc apparel

Merchant Category Codes:

To limit the results from the default of "all," enter a MCC or search. Separate multiple MCCs by a comma and no spaces.

5968

[Search for Codes](#)

Merchant Names:

To limit the results from the default of "all," enter a full or partial "begins with" merchant name and add it to the list.

Add >>

<< Remove

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Under the Group Report By section (and leaving all following fields as default), enter the Purchasing Card bank code “1425” for most agencies or for RDA and RSA “7129” as shown below:

### Group Report By

Processing Hierarchy Position: \*

If selected, a processing hierarchy position is required.

Bank:      Agent:      Company:      Division:      Department:

                   [Search for Position or Add Multiple](#)

Include Processing Hierarchy names in report

Account Number(s):\*

If selected, at least one account is required. Separate multiple accounts by a comma and no spaces.

   [Search for Accounts](#)

### Break/Subtotal Level

- No Break/Subtotal - ▾

Page Break:

Yes     No

Note: Page Break is applicable only if a Break/Subtotal Level is chosen.

[Run Report](#)

[Reset](#)

[Create Scheduled Report](#)

[<< Back to Financial Management](#)

Last, click “Run Report.” A report will generate that identifies all Subscription merchant charges for the specified period of review.

## CONCLUSION

Based on the presence of fraud, waste and abuse in this merchant category, GAO recommends that both agencies and cardholders regularly review all subscription merchant charges no less frequently than every six (6) months to ensure these subscriptions are necessary and still provide value to the State. This may include having conversations with cardholders and/or their managers to understand the nature of the subscriptions and what value they provide. Any subscriptions that are no longer needed should be canceled immediately, which includes canceling the recurring charges to ensure they are no longer charged to your State of Arizona Purchase Card(s). Additional efforts may be necessary to receive credits for cancelled charges or to dispute charges with the bank.

Please contact your AFIS Liaison or GAO Internal Audit if you have any questions regarding this topic.