State Purchase Card Audit

Report No. 1006526

September 28, 2011

Table of Contents

Executive summary.....3

Why we did this audit.....3

Audit results.....3

Introduction.....4

About the state purchase card program.....4

Audit topics and objectives.....4

Dollars spent.....5

Rebates.....6

Audit coverage.....7

Overview.....7

Scope and methodology.....7

State agencies reviewed.....9

Appendix A: Audit criteria.....10

State Auditor's Office contacts.....14

Why we did this audit

During previous audits, we identified issues at several state agencies regarding the use and monitoring of state purchase cards. In calendar year 2010, state agencies used these cards to pay for travel and goods and services valued at more than $112 million. Based on the total dollars spent, the state's increasing use of purchase cards, past audits and the risk for misuse and unallowable purchases, we focused part of this year's state audit work in this area.

Audit results

In the transactions we examined, we did not find any instances in which state agencies paid for or reimbursed card users for non-business related purchases. Overall, we found the state agencies we reviewed have good controls to prevent and detect unallowable purchases. We appreciate the attention agencies have focused in this area to ensure state dollars are properly spent and efficiently paid.

Leading Practice

Washington State agencies have realized significant cost- and time-savings by using purchase cards. For example, in calendar year 2010, state agencies avoided the cost of issuing more than 380,000 payments directly to vendors.

Agencies included in our review received almost $1.3 million in rebates in calendar year 2010. The rebates also have provided state agencies with additional funds in a time of shrinking financial resources.

INTRODUCTION

About the state purchase card program

Washington state agencies use purchase cards for efficient and cost-effective payment of travel and goods and services. The Department of General Administration administers the state's purchase card program.

State agencies and authorized employees may use the cards only for official government purchases. Three types of cards are available:

- A purchase card used to charge goods and services.
- The "One card" used for goods, services and travel.
- A Corporate Travel card, used primarily to cover travel expenses, has two subtypes.
    - A Central Travel Account for which the agency is liable for payment.
    - Individually assigned Corporate Travel cards for frequent travelers. Card users are responsible for payment of all charges and then request reimbursement from the agency for business-related costs.

General Administration establishes a credit limit for each agency. Agencies establish spending limits for the individual cards. Agency program administrators can increase or decrease single transaction amounts and monthly expenditure limits, even for a temporary period. In addition, agencies can restrict certain types of purchases or vendors and limit the number of transactions allowed each day and month.

Audit topics and objectives

We divided our audit of these cards into two areas.

Purchase and One cards

Objective:

- Are state agencies paying for unallowable purchases?

Corporate Travel card

Objectives:

- Are state agencies reimbursing card users only for business-relate purchases?
- Are state agencies monitoring to ensure purchases are business-related?

Dollars spent

In calendar year 2010, state agencies charged more than $112 million to state purchase cards. More than $103 million was charged to purchase cards and approximately $8.6 million and $682,000 were charged to Corporate Travel Accounts and One cards respectively. Because we focused our audit on general government agencies, these amounts do not include higher education institutions and most state boards and commissions.

The top spending agencies by dollar amount for each card type:

Purchase Card Spending	
State agency	**Amount**
Transportation	$40,305,435
Military	$8,729,430
Social and Health Services	$8,456,180
Employment Security	$7,246,716
Health	$6,519,473
Corrections	$5,151,027
Total	**$76,408,261**
Corporate Card Spending	
State agency	**Amount**
Social and Health Services	$2,183,650
State Patrol	$1,010,705
Labor and Industries	$720,102
Health	$689,884
Corrections	$680,403
Total	**$5,284,744**
One Card Spending	
State agency	**Amount**
Liquor Control Board	$537,819

Rebates

The purchase card contract offers state agencies opportunities to receive rebates. Agencies can receive rebates based on how quickly they pay card bills each month, and a volume sales rebate based on the total amount charged each month. Purchase card rebates are paid quarterly. Corporate and One card rebates are paid annually.

In calendar year 2010, state agencies received almost $1.3 million in rebates. For the purchase card, agencies received over $1.2 million; Corporate card, $32,569; and One card, $5,518.

The top agencies by dollar amount for the three cards:

Purchase Card Rebates	
State agency	**Amount**
Transportation	$490,637
Military	$104,474
Social and Health Services	$96,831
Employment Security	$88,302
Health	$73,134
Corrections	$70,205
Total	**$923,583**
Corporate Card Rebates	
State agency	**Amount**
Social and Health Services	$8,385
Labor and Industries	$5,358
State Patrol	$4,649
Corrections	$2,790
Health	$2,207
Total	**$23,389**
One Card Rebates	
State agency	**Amount**
Liquor Control Board	$4,722

Overview

Purchase and One card

Agencies can assign purchase and One cards to certain sections, divisions or regions within the agency or to individual employees. The agency is responsible for paying all authorized charges to the cards.

Based on our data analysis, we chose 525 purchase card transactions totaling approximately $6.5 million and 82 One card purchases totaling $229,000 at state agencies to review. We examined supporting documentation to determine if each purchase was for a state-related purpose. We did not identify any instance in which agencies had paid non-business expenses.

Corporate Travel cards

State agencies notify the bank when they have approved an employee to apply for a Corporate Travel card. The bank requires the employee to pass a credit check prior to issuing the card. Each employee is solely responsible for all charges to the card.

We reviewed 946 travel vouchers totaling $594,426 for 69 individual Corporate Travel card users to determine if agencies had reimbursed card users for non-business expenses. We did not identify any instance in which agencies did so. However, we identified four instances of non-business use of the cards for which the employees paid and did not request reimbursement.

Scope and Methodology

Purchase and One cards

We performed a statewide analysis of calendar year 2010 purchase and One card transactions at general government agencies. We used computer-assisted audit techniques to identify those purchases we considered high-risk. These were transactions likely to be at risk for non-business purposes. We focused on purchases from certain vendors and for goods and services where we did not initially identify a direct business need.

We asked each agency to provide us with detailed documentation for the transactions so we could determine if the purchases were allowable. We verified each transaction had prior approval and/or a secondary review, detailed support was on file, and a timely reconciliation had been performed.

Corporate Travel card

We performed a statewide analysis of available Corporate Travel card late payment reports and selected individual card users with high dollar balances or extended periods of delinquency. We asked agencies to provide all calen-

dar year 2010 travel vouchers and support for those card users. We reviewed the supporting documentation to determine if expenses reimbursed by the agency were for business purposes.

During our review of travel vouchers, we asked the eight agencies how they monitor to ensure Corporate Travel cards are used only official state business. Their responses were:

- They have criteria and/or a process for establishing which employees should be considered for a Corporate Travel card.
- They require card users to attend training and/or sign a user agreement and/or read state regulations regarding allowable card use.
- They require documentation to support expenses, as required by state travel regulations. We verified this during on-site reviews.
- They are reviewing travel vouchers to ensure no non-business expenses are reimbursed. We found no payments for non-business-related expenses.
- Most review past due or other delinquency reports and the suspended account report.

Our Corporate Travel card examination focused on card users with delinquent balances identified through review of past due and delinquent balance reports. Our review of the related employee expense reports identified four instances in which card users made personal charges while on business travel. While the state agencies did not pay these non-business charges, the employees were not using the cards for their intended purpose.

STATE AGENCIES REVIEWED

The state agencies included in our purchase and/or One card audit:

Attorney General	Lottery
Commerce	Natural Resources
Corrections	Parks and Recreation
Criminal Justice Training Commission	Personnel
Ecology	Printing
Employment Security	Revenue
Financial Management	Secretary of State
Fish and Wildlife	Social and Health Services
Gambling Commission	State Investment Board
General Administration	State Law Library
Health	State Patrol
Health Care Authority	State Treasurer
Higher Education Coordinating Board	Transportation
Historical Society	Transportation Improvement Board
Labor and Industries	Veteran's Affairs
Liquor Control Board	

The state agencies included in our Corporate Travel card audit:

Corrections	Labor and Industries
Financial Institutions	Natural Resources
Health	Social and Health Services
Licensing	Transportation

Appendix A: Audit Criteria

Rules and regulations

RCW 43.19.185

State purchasing and material control director — System for the use of credit cards or similar devices to be developed — Rules.

(1) The director of general administration through the state purchasing and material control director shall develop a system for state agencies and departments to use credit cards or similar devices to make purchases. The director may contract to administer the credit cards.

(2) The director of general administration through the state purchasing and material control director shall adopt rules for:

(a) The distribution of the credit cards;
(b) The authorization and control of the use of the credit cards;
(c) The credit limits available on the credit cards;
(d) Instructing users of gasoline credit cards to use self-service islands whenever possible;
(e) Payments of the bills; and
(f) Any other rule necessary to implement or administer the program under this section.

WAC 236-48-251

Distribution of credit, charge cards or purchasing cards.

Agency heads (or their designees) shall institute a system for responsibility, control and distribution of credit, charge or purchasing cards within each agency. Control shall be so structured that, upon request of the office of state procurement, each agency will be able to report the number of cards used, the type of cards used, the amount of purchases made by card within a stated time together with any problems they have encountered.

WAC 236-48-252

Credit limits.

When an agency determines that the use of credit, charge or purchasing cards will be to its advantage, the source will be the existing state contract. The office of state procurement will establish an aggregate credit limit for each agency. Each agency director will then establish a credit limit for each card ordered within that aggregate limit. Any requests for exception to the agency aggregate monetary limit must be made in writing by the agency head to the director, office of state procurement, who will approve or deny. Dollar limitations shall not apply to travel related expenditures such as food, lodging, airfare, and vehicle rental.

Appendix A: Audit Criteria

WAC 236-48-253

Payment of credit or purchasing card bills.

Statements received from the financial institution or firm issuing credit or purchasing cards shall be handled in the same manner as an invoice bearing a prompt payment discount. Payments shall be made in full each month to avoid late payment penalties or interest charges imposed by credit card issuers.

State Administrative and Accounting Manual (SAAM)

10.10.45 Use of the State Charge Card System, when required, to purchase travel

10.10.45.a The term "State Charge Card System" comprises the GA-authorized state consolidated charge card program or other agency charge card program authorized by statute, which includes purchasing cards for non-travel expenses plus the following three components that can be used for travel purchases:

- **Corporate Travel Card.** Each agency head or authorized designee may authorize the use of or approve the issuance of the corporate travel card to those travelers whose work requires them to travel on official state business. When a state employee uses the corporate travel card they are billed directly, are responsible to pay all charges, and must apply for travel reimbursement through their agency.
- **Central Travel Account (CTA).** The CTA is a ghost account. No actual card is issued. The agency is responsible for charges against the CTA.
- **One-Card (Combination Purchase & Travel).** The one-card can be used for travel related expenses. Because the one-card is not assigned to a particular individual, it is generally not used by travelers. The agency is responsible for charges against the one-card.

Some of the general guidelines and requirements related to the use of the charge card program are presented here, in section 85.36.20, and in Chapter 45. However, to obtain specific information about the state charge card program, and to view specific contract requirements, contact the Department of General Administration (GA), Office of State Procurement (OSP).

The use of the State Charge Card System is required for the purchase of air travel arrangements. (For emergency situations, refer to Subsection 10.50.75.)

Chapter 20 - Internal Control and Auditing

20.15.40 Internal control framework components

Monitoring

Things change and, by monitoring the risks and the effectiveness of control measures on a regular basis, an agency can react dynamically to changing conditions.

Monitoring evaluates the effectiveness of an agency's internal controls and is designed to ensure that internal controls continue to operate effectively. Monitoring is effective when it leads to the identification and correction of control weaknesses before they materially affect the achievement of the agency's objectives.

An agency's internal control is most effective when there is proper monitoring, results are prioritized and communicated, and weaknesses are corrected and followed up on as necessary.

There are two types of monitoring: ongoing and periodic. Ongoing monitoring occurs in the course of operations. It includes tasks such as supervisory reviews of reconciliations, reports, and processes. Periodic monitoring includes tasks such as periodic internal audit sampling and annual reviews of high-risk business processes. Internal control deficiencies uncovered by monitoring should be reported to higher levels of management.

Chapter 45 - Purchase Cards

45.10 - Purchase Card Programs

Summary: This section outlines acceptable uses of purchase cards, unacceptable uses of purchase cards, agency responsibilities, definitions for different types of cards, and roles and responsibilities for agency program administrators, approving officials, card custodians, designated card users (department cards), cardholders (individually assigned cards), and fiscal staff.

45.10.50 - Unacceptable use of purchase cards

Per this chapter, the unacceptable uses include, but are not limited to:

- Cash advances.
- Purchases in excess of the limits authorized for the card.
- Gifts/donations.
- Splitting purchases to circumvent the daily or monthly purchase limits on a card, or to avoid competitive bidding limits or purchasing authority limits.
- Purchases between internal departments within an agency, unless prior written approval is received from OFM based on the requirements in Subsection 40.40.10.
- Except as noted below, purchases between state agencies. For interagency payments, the preferred payment method is Inter-Agency Payment (IAP). Journal vouchers may also be used to transfer funds between state agencies. Refer to Subsection 85.36.20. Exceptions to this are as follows:
  - When prior written approval is received from OFM based on the requirements in Subsection 40.40.10; or,
  - When the paying and/or receiving account is a local account, and the receiving agency has agreed to accept the inter-agency purchase card payments. Refer to Subsection 45.10.40.
  - Prepayments unless otherwise authorized by statute or rule. Refer to Subsection 45.20.35.
  - Purchases from any merchant, product, or service normally considered to be inappropriate use of state funds, including, but not limited to:
    - Items for personal use.
    - Materials or services from any member of the card user's immediate family.
    - Equipment, materials, services, or supplies restricted by state statutes, rules, policies, procedures, guidelines or contractual agreements.
    - Alcoholic beverages or liquor licenses, unless permitted by statute or rule.

Contacts

State Auditor Brian Sonntag, CGFM
(360) 902-0361
Brian.Sonntag@sao.wa.gov

Chuck Pfeil
Director of State and Local Audit
(360) 902-0366
Chuck.Pfeil@sao.wa.gov

Kelly Collins
Deputy Director of State and Local Audit
(360) 725-5359
Kelly.Collins@sao.wa.gov

Mindy Chambers
Director of Communications
(360) 902-0091
Mindy.Chambers@sao.wa.gov

To request public records:

Mary Leider
Public Records Officer
(360) 725-5617
publicrecords@sao.wa.gov

General Information

Headquarters
(360) 902-0370

Website
www.sao.wa.gov

Twitter
@WAStateAuditor

To find your legislator
http://apps.leg.wa.gov/districtfinder

Americans with Disabilities

In accordance with the Americans with Disabilities Act, this document will be made available in alternate formats. Please call (360) 902-0370 for more information.

The State Auditor's Office Mission

The State Auditor's Office independently serves the citizens of Washington by promoting accountability, fiscal integrity and openness in state and local government. Working with these governments and with citizens, we strive to ensure the efficient and effective use of public resources.