

REPORT TO THE
UTAH LEGISLATURE

Number 2006-09

**A Performance Audit
of the
State's Purchasing Card Program**

September 2006

Audit Performed By:

Audit Manager	Rick Coleman
Audit Supervisor	Susan Verhoef
Audit Staff	Brandon Bowen

Table of Contents

	Page
Digest	i
Chapter I	
Introduction	1
Audit Scope	5
Chapter II	
Administrative and Oversight Controls Need Improvement	7
Agencies Often Do Not Comply With Controls	7
Improved Oversight Is Needed	15
Recommendations	18
Chapter III	
P-Card Policies Should Be Reviewed and Updated	21
P-Card Transactions Are Cost-Efficient	21
State Should Encourage Use of Purchasing Best Practices	24
Recommendations	29
Appendices	31
Agency Response	41

Digest of A Performance Audit of the State's Purchasing Card Program

Chapter I: Introduction

Utah's purchasing card (P-card) program allows employees to make purchases using state-furnished credit cards. The P-card program was introduced in 1998 as a more efficient method of purchasing for low cost transactions. Savings are realized because fewer steps are needed to initiate and process transactions, and checks are not issued. About 1,450 cards are issued to employees of 36 state agencies and offices. Expenditures using P-cards increased from \$2.2 million in fiscal year 1999 to \$10.7 million in fiscal year 2006. The P-card works just like any personal credit card, but the state pays the bill. While efficient and convenient, P-cards are vulnerable to misuse or fraud if adequate controls are not in place. This audit addresses a legislative request to evaluate controls over P-card purchases and assess the efficiency of their use.

Chapter II: Administrative and Oversight Controls Need Improvement

Administrative and Oversight Controls Need Improvement. We found that state P-card policies and procedures are not enforced. Consequently, there is a greater risk that misuse or fraud will not be identified. Cardholders are required to maintain documents regarding their purchasing activity. The state's P-card policy includes controls designed to protect against potentially fraudulent or abusive transactions and to ensure that purchases are necessary, appropriate, and for a reasonable cost.

In addition to following general purchasing policies, cardholders are required to follow specific documentation requirements. P-card policies require cardholders to maintain a monthly log of purchases, keep original receipts or acceptable substitutes for every purchase, provide sufficient information about each purchase, reconcile the log to the bank statement, and verify that the charges are accurate or dispute the inappropriate charges. The cardholder must sign the log to indicate that charges from the bank are appropriate, and a supervisor must sign the log indicating that all purchases have been reviewed and approved.

We sampled transactions of 185 cardholders from 17 state agencies which disclosed that cardholders often do not comply with the requirements. For example, monthly transaction logs were kept for only

64 percent of the months reviewed. Although P-card policy emphasizes the importance of completing logs, poor compliance was largely because six agencies do not require their cardholders to maintain logs and the Division of Purchasing does not monitor if the controls are implemented. Cardholders who completed logs were far more likely to comply. Keeping logs is a simple and important documentation requirement that provides accountability and verification that purchases are accurate and appropriate.

Inadequate oversight of important controls by the state P-card administrator, agency site coordinators, and supervisors exposes the state to the risk of misuse and fraud. We think the Division of Purchasing should develop a strategy to ensure compliance with policy. The statewide administrator should also be well informed and his authority should be clearly defined. Best practices are that cards should not be issued to those individuals who are monitoring if procedures are followed.

Chapter III Recommendations

1. We recommend that the Division of Purchasing develop a strategy to ensure compliance with important procedures.
2. We recommend that the Division of Purchasing broaden the P-card administrator's position to include more oversight responsibilities including completing periodic compliance reviews.
3. We recommend that the Division of Purchasing enforce its policy that requires agencies and individual cardholders to seek written authority for policy exceptions.
4. We recommend that the Division of Purchasing require written approval before the P-card administrator lifts blocks from vendors who provide services that are prohibited in policy.
5. We recommend that the Division of Purchasing clearly define site coordinator responsibilities in its P-card policies and not issue cards to individuals with oversight responsibilities.
6. We recommend that supervisors, site coordinators, and the P-card administrator periodically analyze the use of P-cards and eliminate those cards not actively used or needed and cards issued to terminated employees. In addition, the Division of Purchasing should consider a renewal process where periodically cardholders must submit a new application or the card is not renewed.
7. We recommend that the Division of Purchasing require agencies to assess needed credit limits including credit limits based on actual usage.

**Chapter III:
P-Card Policies
Should Be
Reviewed and
Updated**

P-Card Policies Should Be Reviewed and Updated. The Division of Purchasing should complete a comprehensive review and update of state P-card policies and, once concerns with the documentation and review processes are resolved, should assess strategies to optimize their use.

The use of P-cards provide significant savings in two ways. First, the process is more efficient; and second, the state receives a rebate for P-card use. P-cards provide an efficient method for making purchases by reducing the paperwork associated with the traditional purchasing process. Quantifying the savings is not clear because personnel are not necessarily eliminated, but they are available to contribute time to other work assignments. There are no Utah-based estimates of P-card efficiency, but we estimate the use of P-cards saved the state at least \$542,000 in fiscal year 2005, \$390,000 for reduced processing costs and \$152,000 for a rebate the bank paid to the state.

More savings are possible by assessing ways to expand the use of P-cards. This chapter demonstrates that P-cards are underutilized and identifies that some agencies rarely use cards even for low cost purchases from contract vendors. After improving its controls, the Division of Purchasing should examine which agencies underutilize P-cards and explore ways to encourage more use. The division also needs to update its P-card policies because usage has evolved since the policies were established. As it reviews policies, the division should consider expanding the types of transactions eligible for purchase with P-cards and also study if other purchasing techniques are more efficient.

**Chapter III
Recommendations**

1. We recommend that the Division of Purchasing assess the savings related to P-card use, including the amount of potentially eligible transactions that are not on P-cards, and advise agencies about the inefficiencies of current purchasing practices.
2. We recommend that the Division of Purchasing assess ways to expand the use of P-Cards and evaluate other electronic purchasing techniques that provide savings opportunities.
3. We recommend that the Division of Purchasing complete a comprehensive review and update of state P-card policies.

This Page Left Blank Intentionally

Chapter I

Introduction

Utah's purchasing card (P-card) program allows employees to make purchases using state-furnished credit cards. The P-card program was introduced in 1999 in order to "establish a more efficient, cost-effective method of purchasing and payment for small-dollar transactions." Savings are realized because fewer steps are needed to initiate and process transactions, and checks are not issued. While efficient and convenient, P-cards are vulnerable to misuse or fraud if adequate controls are not in place. We found that state P-card policies and procedures are not enforced, and agencies have developed a variety of methods to control P-card transactions without seeking approval from state purchasing officials. Consequently, there is a greater risk that misuse or fraud will not be identified. The Division of Purchasing needs to update and enforce P-card policies. After oversight is improved, the division should encourage more P-card use to increase the benefit from this purchasing process.

P-cards have been issued to about 1,450 employees of agencies throughout the state.

The P-card is a Visa credit card issued by U.S. Bank. About 1,450 cards are issued to employees of 36 state agencies and offices. In fiscal year 2006, \$10.7 million in goods and services were purchased with the cards. Most purchases are for office supplies and general business expenses. Cardholders must follow both P-card and general purchasing policies. P-cards differ from state-issued travel cards in that cardholders are not reimbursed or held personally liable for their charges.

State P-Card Policy Is Designed To Prevent Fraud and Misuse

The state's P-card policy includes controls designed to protect against potentially fraudulent or abusive transactions and to ensure that purchases are necessary, appropriate, and for a reasonable cost. The P-card works just like any personal credit card, but the state pays the bill. Cardholders are able to use their cards without prior supervisory review or approval, which makes them more vulnerable to misuse or fraud. There are also potential risks because the Division of Finance pays the full amount of their charges unless the cardholder notifies the bank of a discrepancy.

Cards have several built-in controls. Each card is assigned both a credit limit and a single transaction limit, ranging from \$100 to \$1 million dollars. Each card is blocked from purchasing from vendors in specific categories to help prevent inappropriate or high-risk purchases. Cardholders agree to keep cards secure, not loan their cards, retain receipts, and surrender their cards upon termination of employment.

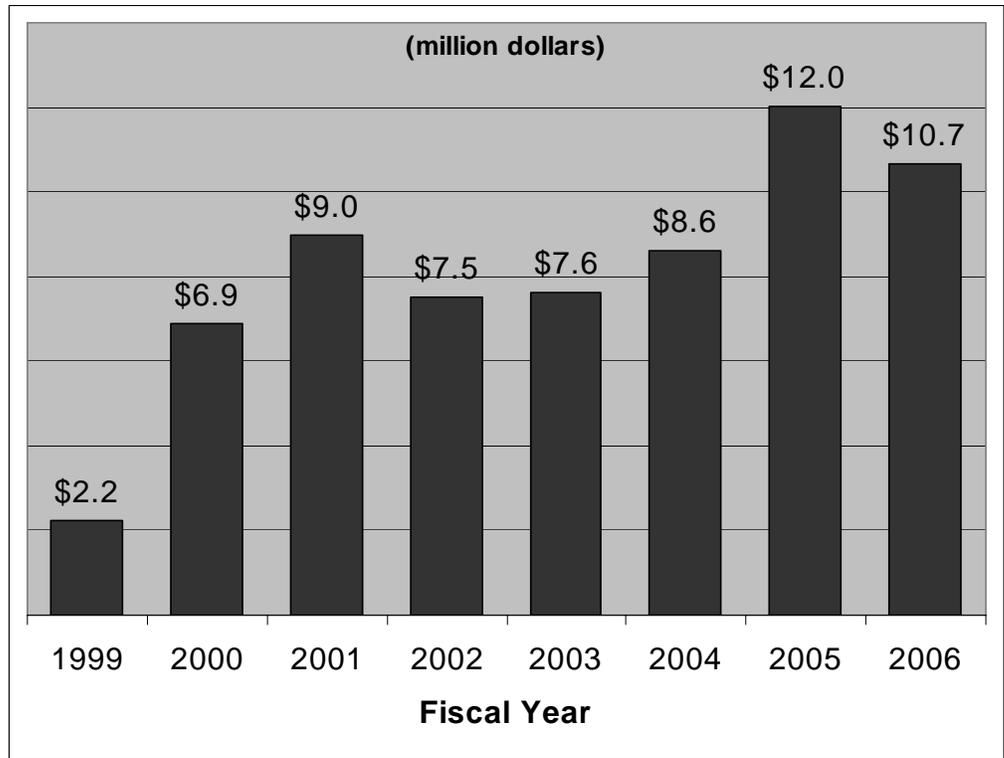
Cardholders are also required to maintain documents regarding their purchasing activity. According to P-card policy, they must maintain a monthly transaction log which allows management to review the types of goods and services purchased and determine where the card is being used. A log also provides a record of activity enabling the cardholder to reconcile the bank statement. Receipts for each purchase must be attached to the log. Cardholders must dispute any unacceptable charges and sign the log as evidence that all charges are appropriate. A manager also must sign the log, indicating purchases were approved and are legitimate business expenditures. These controls help both the cardholder and management to identify errors, prevent misuse or fraudulent use of the card, and provide documentary evidence for periodic audits.

P-Card Use Has Grown Significantly

The following figure illustrates the significant growth in P-card use over the past seven years. Expenditures using P-cards increased from \$2.2 million in fiscal year 1999 to \$10.7 million in fiscal year 2006. The number of cards and expenditures by agency is listed in Appendix A.

Over the past seven years, P-card use has increased from

Figure 1. Growth in P-Card Expenditures. Expenditures increased from \$2.2 million in fiscal year 1999 to over \$10.7 million in fiscal year 2006.



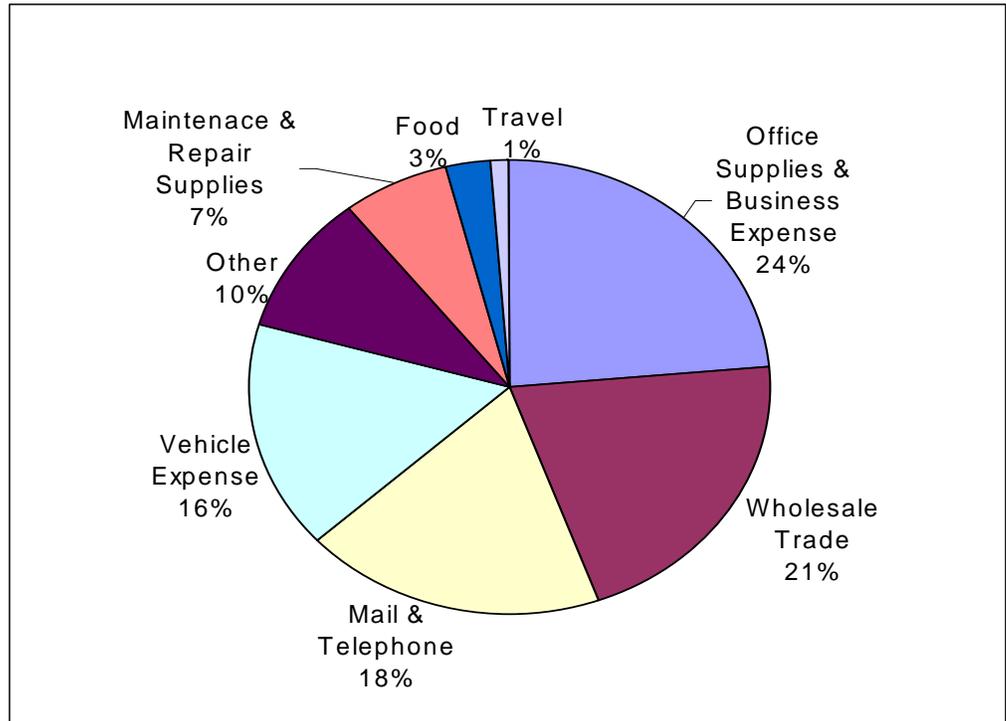
* Expenditures in fiscal year 2005 included Qwest phone charges totaling over \$2 million that were paid for with a P-card only in that one year.

P-cards may be used for subscriptions, seminars, books, video tapes, office supplies, forms, computer supplies, software and any type of purchase from a vendor for which the state has a contract. Cards may not be used for capital equipment, travel or entertainment expenses, or for any product or service considered to be an inappropriate use of state funds. In addition, cards may not be used to pay for any services that are reportable to the Internal Revenue Services on form 1099 which includes rental fees, doctor visits, hospital expenses, consultant fees and attorney fees (*FIACCT 05-19*). Any exceptions require written authorization from the Director of Purchasing.

Cardholders used P-cards at approximately 700 businesses in fiscal year 2005. As the following figure shows, most purchases were for office supplies and services, wholesale trade, and mail and telephone expenses; these items generally coincide with the types of purchases that P-card policies permit.

Most P-card transactions are for office supplies and general business expenses.

Figure 2. Types of P-Card Purchases in Fiscal Year 2006. Most transactions are for office supplies and general business expenses.



Administrative Structure Facilitates P-Card Use

The Division of Purchasing and agency site coordinators are required to provide important administrative support to cardholders. In addition to facilitating use, they should also provide essential oversight, including guidance and enforcement of important controls.

The Division of Purchasing Provides Administrative Support.

The division assigns one staff to provide general administrative support for the program. He serves as a liaison with the bank, trains site coordinators about the proper use of cards, processes new accounts, changes or closures, and processes card spending limits if less than \$5,000. The division receives a rebate from the bank based on the overall level of purchases combined with cardholder's average purchase amounts. The rebate is used to offset the administrative costs associated with managing the program and was over \$152,000 for fiscal year 2005.

Agency Site Coordinators Provide Essential Support.

Each agency assigns one or more site coordinators whose primary responsibilities are to serve as liaison with the state P-card administrator and to train new

A state P-card administrator and one or more site coordinators provide essential administrative support.

cardholders. They are responsible to ensure that procedures are followed, and may monitor the purchasing activity of their assigned cardholders through the bank website. Some site coordinators are also responsible to verify that the expense information has been correctly entered into the state's accounting system.

Audit Scope

The Legislative Audit Subcommittee requested an audit to evaluate if P-card use is adequately controlled, how card limits are determined, and whether available savings are being realized.

We interviewed staff responsible for administering and managing P-card activities, reviewed policies, observed procedures, examined records and documents, and selected and tested a sample of P-card purchases and program controls at 17 state agencies.

We also evaluated the efficiency of the P-card program by examining how the process reduces purchasing costs. We reviewed the rebate formula and examined other states' programs to identify options for expanding the program.

This Page Left Blank Intentionally

Chapter II

Administrative and Oversight Controls Need Improvement

Our review of P-card transactions by cardholders from 17 state agencies disclosed that cardholders often do not comply with established P-card policies. Inadequate oversight of important controls by the state P-card administrator, agency site coordinators, and supervisors exposes the state to the risk of misuse and fraud.

The P-card program appears to be an efficient purchasing option, especially for small-dollar transactions and for purchases from contract vendors. However, the Division of Purchasing should issue and implement appropriate policies and provide adequate oversight including verifying that control procedures are followed.

Agencies Often Do Not Comply with Controls

Risks of P-card use must be addressed by implementing appropriate controls. Our review of a sample of P-card transactions disclosed that many cardholders do not follow the essential controls required by P-card policy. This non-compliance is primarily because several agencies do not require cardholders to follow the policies and the Division of Purchasing does not monitor if the controls are implemented.

We sampled documents of 185 cardholders randomly selected from 17 agencies with transactions totaling approximately \$375,000. We reviewed transactions that occurred primarily between October 2005 and February 2006 to verify that controls were implemented. We also generated a list of transactions for each agency and selected and reviewed those that appeared susceptible to violating other policy requirements. Appendix A shows the number of cards issued, expenditures, the total number of cardholders and the number reviewed for each agency.

Many cardholders do not follow the essential controls required by P-card policy.

State P-Card Policies Identify Necessary Controls

In addition to following general purchasing policies, cardholders must comply with P-card policies. They sign an agreement that they will be accountable for purchases made with the card. A copy of the agreement is included in Appendix B, and a copy of a P-Card procedures checklist is in Appendix C. The following are current documentation requirements.

- Maintain a monthly log of all purchases.
- Keep original receipts or acceptable substitutes for every purchase.
- Provide sufficient information about each purchase.
- Reconcile the log to the bank statement to verify that the charges are accurate and dispute any inappropriate charges.
- Sign the log indicating that charges from the bank are appropriate and confirming transactions are legitimate business expenditures.
- Obtain supervisor's signature indicating that all purchases have been reviewed and approved.

Cardholders also agree to secure their card, not to loan it, and to immediately notify both the program administrator and the bank if it is lost or stolen. Guidelines also direct that routine internal reviews should be conducted by the state program administrator, site coordinators, and supervisors to verify that procedures are followed and that documentation requirements are met. These documentary controls provide accountability and verification that purchases are accurate and appropriate. This is especially important because the vendor has already received payment.

Cardholders Often Disregard Documentation Requirements

Our sample disclosed that important documentation requirements often are not completed, which increases the risk for cardholder misuse or fraud. After obtaining copies of each cardholder's bank statement over a period of several months, we assessed if they had complied with the required controls. The documents reviewed were generally filed with the agency's accounting division although sometimes the cardholders

Cardholders agree to certain control procedures and documentation requirements.

themselves provided information. Figure 3 shows the results of our assessment.

Figure 3. Frequency of Cardholders’ Compliance with P-Card Policy (in months). Our assessment shows that many cardholders do not comply with documentation requirements.

Requirement	Number of Months		Percent Complied With Policy
	Yes	No	
Completed log	273	156	64%
Receipts kept	396	33	92
Sufficient detail provided	378	51	88
Reconciled to bank statement	378	51	88
Cardholder signed	316	113	74
Supervisor signed	332	97	77

Cardholders often disregard specific documentation controls.

Many Cardholders Do Not Keep Transaction Logs. As the above figure shows, monthly transaction logs were kept for only 64 percent of the months reviewed. We are concerned about the significant number of cardholders that do not keep logs. Logs provide an important documentary requirement that provides a record of purchasing activity and a control to help deter misuse and fraud. Without logs, there is no clear evidence that the cardholder reconciled purchases to the bank statement or that a supervisor authorized the purchase. Logs enable management to quickly review the types of goods and services purchased and determine where the card is being used. Failure to maintain logs and reconcile them increases exposure to fraud. It is also important that cardholders maintain logs and reconcile them with their monthly statements in order to detect and dispute unauthorized transactions.

Although P-card policy emphasizes the importance of completing logs, poor compliance was largely because six agencies (or divisions within an agency) do not require their cardholders to maintain logs. These agencies have not received authorization to supercede policy. When we excluded the cardholders from the sample for the agencies who do not require logs, compliance for the remainder of our sample was 93 percent. Additional information is provided later in this chapter.

Receipts were kept for only 92% of the sampled cardholders but should be kept for every transaction.

Keeping logs is a simple and important documentation requirement and, in our opinion, all cardholders in all agencies should comply with existing policy that requires consistent and complete transaction logs.

Cardholders Do Not Keep All Receipts. Receipts were kept for only 92 percent of cardholders' purchases. A receipt, or substitute documentation, should be kept for every transaction to identify the items purchased and the price paid, and to help deter possible misuse or fraud. The Division of Purchasing also emphasizes the importance of keeping an original receipt for every transaction.

Cardholders are not always clear about the requirements for keeping receipts. Several cardholders whose receipts were not attached to the log were unaware that they should retain duplicates of all supporting documentation in their own file. Cardholders were also unclear about the procedures to use when the supplier does not provide a receipt. However, guidelines clearly identify that in those instances an original invoice, packing list or a printed Internet order screen can be substituted. And, in the rare case when one of these documents is not available, cardholders should document the purchase with a self-made document that states the purpose of the purchase and why the original documentation is not available. A supervisor must sign this document.

There should be a receipt or substitute documentation for every transaction. Not having adequate supporting documentation could result in payments for goods or services that were not received, were inadequate, or were not for legitimate business purposes.

Sufficient Details Are Not Always Provided. Cardholders provided sufficient details in 88 percent of the transactions reviewed. We assessed information provided in either the log or receipt and found that, for some purchases, the information provided was insufficient.

Guidelines identify information that should be provided including the date of the transaction, the name of the supplier, the merchandise purchased, the dollar value of the sale, and if the order was placed via phone, fax, mail, email or in person. This information was not always provided either on the log or the receipt. For example, one cardholder included the yellow copy of the credit card payment which listed only an amount paid instead of the original itemized receipt. Another cardholder provided a restaurant receipt for 18 meals but did not identify the

individuals receiving those meals. We could not discern if the meals were within spending limits or if meals were provided to family or friends. The cardholder's supervisor agreed that more complete information should be provided. Sufficient information about each purchase is important so that supervisors and others can evaluate whether the purchase was appropriate.

Some Bank Statements Are Not Reconciled. Cardholders or other staff reconciled bank statements for 88 percent of the months we reviewed. Some reconciliations were completed by the cardholder, and others were completed by either an accounting technician or office staff.

Policies and guidelines are not consistent about who should reconcile the bank statement. Policies state that the cardholder should reconcile their bank statement, while guidelines refer to an accounting person. The statewide administrator feels it is important for the cardholder to reconcile the statement, while agency staff reason that having others reconcile the bank statement provides additional control. For several agencies, the cardholder does not reconcile their bank statement; instead, a supervisor signs each receipt and then forwards it to the accounting department who also reconciles the charges with the employee's bank statement. If receipts are missing, the accountant contacts the cardholder for resolution. The Division of Purchasing should evaluate if these alternate procedures provide adequate control and amend policies to either specify what is appropriate or allow alternatives. In addition, the Division of Purchasing should enforce policies that require agencies to obtain a written authorization from the director before altering procedures.

Reconciling purchases with the bank statement is essential to verify that the bank charges are correct or to discover possible fraudulent transactions. If concerns are not resolved with the supplier, cardholders must then dispute the charges with the bank.

Cardholders and Supervisors Often Omit Signatures. Our sample disclosed that only 74 percent of the logs or bank statements were signed by cardholders to acknowledge that the charges were legitimate and that bank charges were appropriate. Supervisors signed only 77 percent of the logs to verify that purchases were approved. We accepted signatures if they were on a log, bank statement, or if each individual receipt was signed. Some of those included supervisors who signed even though there were missing receipts, insufficient information, or no reconciliation. But we did not accept signatures if we identified that a subordinate signed

Supervisors' signatures should never be neglected because they provide evidence that the purchases are approved.

instead of a supervisor or that a supervisor signed to approve his own purchase.

In our opinion, supervisors signatures are extremely important and should never be neglected because they provide evidence that the purchase was approved. However, monitoring whether purchases are appropriate and approved is difficult when logs are not kept. The following section shows that cardholders who keep logs are more likely to comply with these requirements.

Several Agencies Disregard Policy Without Authorization

Agencies are required to obtain authorization to disregard policy that requires cardholders to keep logs.

Six agencies do not require cardholders to keep logs even though they have not received written authorization to disregard the requirement. The agencies do not require logs because they either prefer their own method of documenting purchases or because training has not been adequate. For example, one agency's internal policy states the cardholder is responsible to either maintain a log or get a supervisor's signature on each receipt. Furthermore, the cardholder is only responsible to review their bank statement if they receive it. Other agencies simply rely on the bank statement to serve as a log. Not keeping logs disregards policy and also makes monitoring compliance less efficient.

Disregarding policy without proper authorization may circumvent important controls established to prevent fraud or misuse. Exceptions to state P-card policies may be if agencies can demonstrate that their alternate procedures are able to catch fraud, prevent misuse and facilitate compliance reviews. However, any alternate procedures must first be approved in writing by the director of the Division of Purchasing (*FIACCT 05*). None of the six agencies that do not require logs had received written authorization to supercede policy, although one agency submitted their request during the course of this audit.

The following figure illustrates the importance of logs. Cardholders who keep logs generally comply with other documentation requirements while cardholders who do not keep logs are less likely to comply. For example, only 33 percent of the cardholders who did not keep logs signed to acknowledge purchases were appropriate.

Logs help cardholders comply with documentation requirements.

Figure 4. Compliance Is Improved for Cardholders Who Keep Logs. Our assessment disclosed that logs help cardholders comply with other documentation requirements.

Requirement	Compliance	
	Kept Log	Did Not Keep Log
Receipts kept	95%	87%
Sufficient detail provided	99	69
Reconciled to bank statement	97	72
Cardholder signed	97	33
Supervisor signed	91	53

Risks are increased by agencies not complying with policy. Cardholders are informed that violating P-card policies could result in revoking their card, disciplinary actions, or termination of employment. However, in reality there are few penalties for violating policy. In fact, one cardholder was only transferred to another division after misusing his card. Additional control concerns are discussed in the next section.

Cardholders Also Disregard Other Purchasing Policies

Cardholders also disregard other purchasing policies such as competitive quotes and involvement from the Division of Purchasing for purchases that exceed certain amounts.

In addition to assessing if P-card documentation requirements are followed, we also reviewed selected transactions to assess if other P-card policies were followed. Transactions were selected that appeared susceptible to violating policy requirements, e.g., transactions exceeding thresholds that require price comparisons or involvement from the Division of Purchasing, potentially split transactions, and travel-related purchases. We also monitored if selected purchases were within the cardholders’ spending limits.

Our review disclosed a number of instances where cardholders did not follow purchasing policies. The following summarizes our results:

- Some purchases lacked required documentation. Policies require purchases exceeding certain amounts and not from contract vendors, to reflect how the vendor was selected and that purchases are in accordance with guidelines. For example, cardholders must obtain a minimum of two price quotes for any transaction that

exceeds \$1,000 if it is not from a contract vendor. Transactions exceeding \$5,000 must go through the Division of Purchasing's formal bid process unless it is with an emergency purchase or an existing contract (*FIACCT 04-03 & 4*), and then the cardholder must retain documentation as evidence the procedures were followed. Although most purchases exceeding these limits were from contract vendors, we also encountered instances where no documentary evidence was provided.

- Purchases were split to circumvent cardholders' single purchase credit limits. Although policies prohibit dividing purchases to avoid purchasing requirements (*Administrative Rule 33-3-3*), our review identified several split purchases. For example, one transaction for \$14,000 violated several policies because it was split; it also did not go through the Division of Purchasing, and the cardholder did not seek a supervisor's signature verifying that the purchase was reviewed and approved.
- Policies prohibit using a P-card to purchase some types of goods and services, including capital equipment purchases and travel-related expenses. Our review disclosed cardholders who often use cards for these prohibited purchases. For example, in fiscal year 2006, over \$400,000 was from merchants categorized as airline, hotels, other travel, and eating and drinking. Our sample also identified purchases that exceeded per diem meal rates, and inappropriately included sales tax.
- Another concern was identified that could potentially cause double payments. We found individuals from one office who routinely complete purchase orders even though they have already paid for the item with their card. Double payments were identified as a problem in a recovery audit conducted by a private company that analyzed the state's data.

It is important that P-card policies are enforced. Exceptions may be granted but only as authorized by the Director of Purchasing. The next section discusses oversight responsibilities.

Improved Oversight Is Needed

The P-card program administrator, site coordinators, and agency supervisors should provide essential oversight to the P-card program including both guidance and enforcement. Guidance involves providing clear and appropriate policies and sufficient training. Enforcement requires monitoring that policies are implemented and taking appropriate action when they are not followed. As shown, cardholders often do not comply with important documentation controls. Improved oversight is needed by both site coordinators who train and monitor cardholder activities and the state P-card administrator who trains and monitors site coordinators.

State Administrator Responsibilities Need Clarification

The statewide P-card administrator must provide important oversight controls, including verifying that policies are implemented. The administrator currently facilitates the use of P-cards mostly by providing administrative support. He reviews applications, approves credit limits up to \$5,000, and ensures that cardholders have turned in their agreements. He also trains site coordinators and serves as a liaison with the bank.

Administrator Should Monitor Compliance. Although the administrator provides guidance, he does not currently verify that procedures are followed. According to the P-card procedures checklist, the administrator (as well as site coordinators and supervisors) should be completing routine internal reviews to ensure that procedures are followed. He visits site coordinators but does not monitor if procedures are followed. The administrator should complete periodic reviews for each agency and complete the checklist (see Appendix C) to ensure procedures are followed and state resources are not misused.

Administrator Should Be Well Informed. We are also concerned that the administrator has not been informed about important activities pertaining to P-cards. For example, the administrator did not have a list of special delegations issued by the Director of Purchasing. Cardholders may be issued a limited purchasing delegation authorizing the cardholder to make purchases without involving the Division of Purchasing. The administrator must know which cardholders have received delegations in order to assess if P-card policies are followed. The administrator also does not receive complete information about all potentially fraudulent activities

The state P-card administrator currently provides administrative support but must also provide important oversight controls.

from the bank because cardholders sometimes directly resolve concerns. We feel the administrator should have complete information about any transaction that could involve fraud and then audit or review the circumstances and document the results.

Administrator’s Authority Should Be Clearly Defined. In addition, the P-card administrator’s authority should be clarified. Several of the P-card administrator’s routine activities appear to supercede purchasing policies. For example, when agencies request it, he removes blocks on certain vendor categories for which the use of P-cards is prohibited. These activities circumvent existing policy that requires the Purchasing Director to provide written authorization for exceptions to policy (*Utah Code* 63A-2-104).

Site Coordinator Responsibilities Need Clarification

Site coordinators should provide additional oversight, including training cardholders and monitoring that procedures are followed. Currently, the site coordinators’ primary responsibility is to train new cardholders. They are trained by the P-card administrator and they, in turn, train cardholders. Training helps ensure that cardholders are aware of their responsibilities for proper card use and agency expectations, such as maintaining logs, keeping receipts, and reconciling bank statements. However, cardholders we interviewed said that training is simply telling the new cardholder to read the policy and sign an agreement.

Coordinators Should Understand Requirements. Some site coordinators are not clear what the requirements are. For example, discussions with one site coordinator disclosed that she did not have a clear understanding of the purpose of logs and the information that should be included. In fact, she did not instruct cardholders to keep logs because of her mistaken impression that every item purchased needed to be listed on the log separately instead of only the total for each invoice or for categories of items. However, the log form does not clearly identify what is expected.

Coordinators Should Monitor Cardholders. According to the P-card procedures checklist, site coordinators are also required to determine if cardholders are following procedures. They are provided electronic access to each cardholder’s banking information, which allows them to monitor cardholder’s transactions. However, their actual

Site coordinators should provide oversight including monitoring that procedures are followed.

responsibilities vary from one agency to the next. Interviews with site coordinators disclosed that responsibilities for some included no more than passing information between the cardholder and administrator. Other site coordinators are required to monitor purchases, collect receipts, create logs, enter information into FINET, and reconcile bank statements.

Best practices is for site coordinators to not have P-card accounts; yet almost half have been issued cards.

Coordinators Should Not Be Issued Cards. Another important issue to clarify involves issuing cards to site coordinators. The P-card checklist states that the best practice is for site coordinators to not have P-card accounts, yet almost half (33 of 71) have been issued cards. Separation of duties is a critical control to deter fraud. In our opinion, because site coordinators cannot monitor their own activities, they should not be issued cards. Site coordinators should be providing important oversight, thus their responsibilities should be clearly and consistently defined and then the controls must be implemented.

Better Supervisor Oversight Is Needed

In addition to verifying that each purchase is appropriate and approved, a supervisor or manager determines which employees should be issued cards and assigns necessary credit limits. Supervisors should determine which employees are issued P-cards, establish credit limits based on anticipated purchasing needs as determined by their job assignments, and monitor and approve P-card activity. P-card monitoring involves deciding whether items purchased, amounts paid, and vendors selected appear reasonable and appropriate. Figure 4 indicates that supervisors often do not sign logs (or receipts) to show that purchases are appropriate and approved, and they also sign when receipts are missing. In addition, some supervisors do not set credit limits based on need or historical usage.

Credit limits often do not reflect actual usage and should change as needs change.

Credit Limits Are Not Based on Usage. When requesting new cards, supervisors are responsible to specify an appropriate credit limit. Our review disclosed that credit limits often do not reflect actual usage, and cards are issued to employees who rarely, or never, use their cards. In fact, three cards in our sample were issued to employees who have since retired. One retired over two years ago, and the card is still active. Issuing cards to employees who do not actively use them increases the state's exposure to misuse as well as the opportunity for fraudulent activity.

Additionally, credit limits should change as needs change. One

cardholder was provided a million-dollar credit limit to pay for phone charges. The card is no longer used to pay those charges, but the credit limit was not reduced. There are also cards issued to seasonal employees that are kept open during the months the person is not employed with the state. Although policies direct that cards will be surrendered immediately upon termination, the seasonal employees return their cards but they are not canceled, nor is the credit limit reduced. Instead, they are kept open assuming the employee will return. In our opinion, cards issued to seasonal employees should be canceled or, at the very least, the credit limit should be reduced to \$1.00 until the seasonal employee returns.

Supervisors, site coordinators, and the P-card administrator should routinely monitor activity by cardholders to identify cards with little or no activity. Agency management should then assess whether those employees still need a P-card. Another option may be to require cardholders to renew their applications every three years, which is the practice of another state. Cards would then be eliminated for anyone who has not signed a new agreement.

The P-card program is growing and, as will be discussed in Chapter III, it is an efficient purchasing option that should be used more. Thus, the Division of Purchasing and agencies need to ensure that adequate controls are in place and that they are implemented. In addition, the Division of Purchasing should develop a strategy to ensure that cardholders understand and comply with the procedures.

Recommendations

1. We recommend that the Division of Purchasing develop a strategy to ensure compliance with P-card policies and procedures.
2. We recommend that the Division of Purchasing broaden the P-card administrator's position to include more oversight responsibilities including completing periodic compliance reviews.
3. We recommend that the Division of Purchasing enforce its policy that requires agencies and individual cardholders to seek written authority for policy exceptions.
4. We recommend that the Division of Purchasing require written

approval before the P-card administrator lifts blocks from vendors who provide services that are prohibited in policy.

5. We recommend that the Division of Purchasing clearly define site coordinator responsibilities in the P-card policies and not issue cards to individuals with oversight responsibilities.
6. We recommend that supervisors, site coordinators, and the P-card administrator periodically analyze the use of P-cards and eliminate those cards not actively used or needed and cards issued to terminated employees. In addition, the Division of Purchasing should consider a renewal process where periodically cardholders must submit a new application or the card is not renewed.
7. We recommend that the Division of Purchasing require agencies to assess needed credit limits including credit limits based on actual usage.

This Page Left Blank Intentionally

Chapter III

P-Card Policies Should Be Reviewed and Updated

The Division of Purchasing should complete a comprehensive review and update of state P-card policies to help encourage their appropriate use. Chapter II discussed our concerns with the documentation, approval, and review processes for purchases made with P-cards. Assuming those process concerns are resolved, this chapter discusses strategies to optimize state P-card use in the future. P-card purchases reduce administrative costs as well as earn rebates. The Division of Purchasing should assess best purchasing practices and review existing policies to identify ways to encourage agencies to use the most efficient purchasing methods.

P-Card Transactions Are Cost-Efficient

P-cards provide an efficient method for making purchases, especially for items with a low to moderate purchase price. Savings are realized by reducing the paperwork associated with the traditional purchasing process; fewer steps are required to process P-card transactions, and a check does not have to be issued or mailed. In addition, the bank pays a rebate to the state for using the card.

P-Card Transactions Reduce Paperwork

P-cards are widely recognized as an efficient way to purchase goods and services. For example, the Government Finance Officers Association (GFOA) recommends use of the cards because of its simplified process, and cites additional reasons including lower overall transaction costs, increased management information on purchasing histories, reduced paperwork, and the increased ability to set and control purchasing limits.

P-card purchases are more cost-efficient than the traditional purchase order process because fewer steps are required to complete a transaction, and the cost to issue and mail a check is eliminated. Figure 5 compares the P-card process with the traditional purchasing process.

P-cards provide a cost-efficient method for making purchases.

Figure 5. P-Card Purchases Streamline Process. Fewer steps are required when using P-cards because a purchase order is not needed, information is electronically entered into the FINET system, invoices do not have to be matched with statements, and checks are not issued.

P-Card Process	Purchase Order Process
Agency	
1. [not required]	1. Assign purchase order number.
2. [not required]	2. Enter purchase information and assign expense codes in FINET.
3. Make purchase.	3. Make purchase.
4. Cardholder logs invoices and attaches receipts.	4. [not required]
5. Cardholder reconciles log to bank statement and manager signs log.	5. Purchaser matches invoices to vendor statement.
6. If necessary, adjust default expense codes in FINET.	6. Initiate payment in FINET.
Finance	
7. [not required]	7. Issue and mail check (or forward to agency to copy and mail).

Some steps are eliminated when P-cards are used.

As shown, the traditional purchasing process requires steps to be taken before a purchase is made while P-card purchases are completed without preparatory steps. And, there is no need to process vendor invoices and match them to vendor statements or to issue and mail checks. However, cardholders are required to complete logs and reconcile the log to the bank statement. The simplified P-card process is more cost-efficient than the traditional purchasing process primarily because staff time is reduced.

Quantifying these savings is not clear because personnel are not necessarily eliminated, but they are available to contribute time to other work assignments. One study states “the median number of purchasing card transactions per year that was associated with the reassignment or elimination of one FTE-equivalent AP or Purchasing person was 13,560” transactions.

P-Card Savings Are Significant

The use of P-cards can provide significant savings in two ways. First, as described above, the process is more efficient, and second, the state receives a rebate for P-card use.

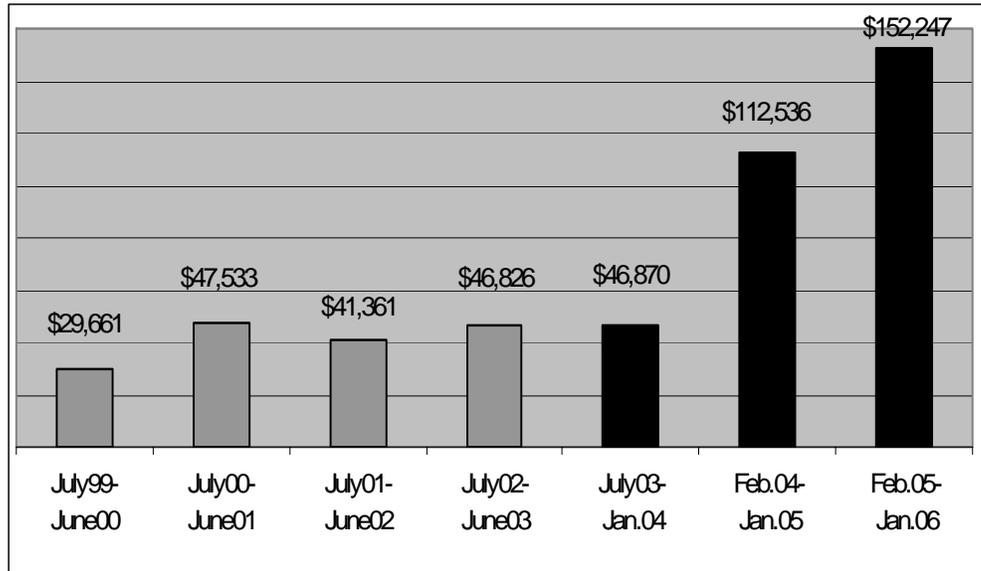
Estimates of Efficiency Savings Vary Widely. The Division of Purchasing does not have any Utah-based estimates of P-card efficiency, but researchers and other state estimates indicate the average cost savings of purchasing using the P-card instead of the traditional purchase order process is between \$7 and \$69 for every transaction. This wide range occurs because some estimates include only basic processing costs, while others include all possible savings, such as reduced staff time and the ability to use information about spending patterns to leverage reductions in the price paid for goods.

We believe savings are realized primarily from reduced staff costs because the process is streamlined and checks are not issued or mailed. Although we are unsure of the actual savings, based on the lowest estimate, we believe the use of P-cards may have saved the state at least \$390,600 (55,800 transactions times \$7) in fiscal year 2005. We did not identify staff reductions but the more efficient process allows staff more time to complete other work.

P-Card Rebates Have Grown. In addition to savings from reduced processing costs, the bank also paid a rebate of \$152,000 last year. The bank pays the state an annual rebate based primarily on the total purchase value. The following figure shows rebate revenue since the inception of the program, which has been steadily increasing since the program began in fiscal year 1999. Part of this increase is because the Division of Purchasing negotiated better contract terms. The rebate also increased because many non-state entities now participate in the program, which increased the total amount spent and subsequently the rate of the rebate paid. Additional information about how the rebate is currently calculated is included in Appendix D.

We estimate that for fiscal year 2005, using P-cards may have saved the state \$390,000 from reduced processing costs in addition to a \$152,000 rebate the bank paid to the state.

Figure 6. The Annual Rebate Has Grown. A new contract with US Bank (in black) in 2004 increased the annual rebate.



Note: The rebate for Jul 03 to Jun 04 includes only seven months because the contract was changed effective February 2004.

Rebates have increased significantly since the beginning of the P-card program.

We believe that this rebate can be increased even more. An assessment that details the use of cards as a percentage of total eligible transactions could show how much eligible activity is not on cards. The bank has offered to complete such an analysis, but it has been deferred until changes to the new FINET system are completed.

State Should Encourage Use of Purchasing Best Practices

Although P-cards are cost-efficient, they could be used for more transactions. Some agencies or individual employees are reluctant to change from traditional practices. After improving its controls, the Division of Purchasing should examine whether some agencies underutilize P-cards and explore ways to encourage more use. The division also needs to update its P-card policies because usage has evolved since the policies were established. As it reviews policies, the division should consider expanding the types of transactions eligible for purchase with P-cards. At the same time, the division should study whether other, more efficient, purchasing techniques are available.

P-Cards Could Be Used More

Because P-cards provide a cost-effective purchasing process and are currently used for only a small portion of each agency's total expenditures, the Division of Purchasing should assess how to expand their use. We identified the vendors where P-cards are most often used and which agencies are currently using P-cards for purchases from those vendors and found that the potential exists for more P-card use.

Potential exists for more P-card use.

One national study we reviewed estimates that P-cards have captured only 25 percent of their potential market in terms of transaction numbers. The study identified barriers that keep managers from using cards, including concerns that spending will exceed budget limits, and that employees will purchase from non-preferred suppliers. Managers also prefer to maintain the status quo. We found similar concerns by some Utah managers and staff.

The following figure shows a preliminary assessment of the top 10 vendors by P-card transaction volume which indicates that P-card or other electronic purchasing could be used much more.

Figure 7. P-Card Transactions for Top Ten Vendors. P-Cards are most often used for purchases at Office Depot.

Vendor	Number of Transactions			Percent on P-Cards
	P-Card	Purchase Order	Total	
Office Depot	10,271	6,655	16,926	61%
Wal-mart	2,631	595	3,226	82
Home Depot	2,276	717	2,993	76
Corporate Express	1,913	1,556	3,469	55
Boise Office	1,831	26	1,857	99
Smiths Food Stores	964	405	1,369	70
WW Grainger	913	1,823	2,736	33
CDW Government	797	2,109	2,906	27
Amazon	696	5	701	99
Uinta Business	694	562	1,256	55
Total	22,986	14,453	37,439	61%

As the figure shows, the top ten vendors where P-cards were used in fiscal year 2005 had more than 22,900 transactions. For those same vendors, over 14,400 transactions were completed using purchase orders. It is concerning that almost 40 percent of the transactions were processed with purchase orders, because these vendors generally include low-cost transactions that appear suitable to be purchased with a P-card. Had a P-card been used to pay for those transactions, the state could possibly have saved an additional \$101,171 (\$7 times 14,453) in transaction processing costs. Moreover, the rebate payment would have increased.

Agencies Underutilize P-Cards. Some agencies use P-cards frequently, while other agencies are more likely to use purchase orders when a P-card could be used. For example, Figure 8 shows the number of transactions with Office Depot for nine agencies in fiscal year 2005. Some agencies used their P-card nearly all of the time while others preferred to use purchase orders. In fact, the first three agencies listed in the figure rarely, if ever, used their P-card for purchases from Office Depot. Discussions with agency personnel disclosed that agencies that rarely use their cards often include managers who are concerned about a

The Division of Purchasing should identify agencies that underutilize P-cards and provide training and education to promote its use.

potential increase in fraudulent use or misuse associated with credit cards. In addition, staff who process transactions do not feel the P-card process is more efficient or they are simply more comfortable with the established purchase order process. In our opinion, the Division of Purchasing needs to identify agencies that are underutilizing P-cards and provide training and education to promote using P-cards for all low-cost transactions and from contract vendors.

Some agencies rarely use P-cards for purchases from Office Depot which is a vendor well suited for card use.

Figure 8. Office Depot Transactions by Agency for FY 2005.

Some agencies use P-cards nearly all of the time while others prefer to use purchase orders.

Agency	Number of Transactions			Percent on P-Cards
	P-Card	Purchase Order	Total	
A	2	1,208	1,210	0%
B	4	221	225	2
C	104	718	822	13
D	2,302	1,576	3,878	59
E	188	127	315	60
F	411	265	676	61
G	1,651	199	1,850	89
H	2,404	129	2,533	95
I	383	1	384	100
Total	7,449	4,444	11,893	63%

Policy on P-Card Purchases Should Be Reviewed. The Division of Purchasing should also consider other options for maximizing the savings from P-card efficiency. Currently, P-card policy states, “The purpose of the State of Utah Purchasing Card Program is to establish a more efficient, cost-effective method of purchasing and payment for small-dollar transactions. The program is designed to supplement a variety of processes including petty cash, local check writing, low-value authorizations, and small dollar purchase orders.” However, the cards are also being used for high-value transactions, which increases the rebate. The following are suggestions for expanding the use of P-cards:

High-Dollar Purchases - To maximize the rebate, recurring high-dollar payments could always be made with P-cards. P-cards are already used for some high-dollar purchases, but more of these purchases could be made if policies better identify appropriate uses. An example is utility payments. We estimate the rebate increased by nearly \$22,000 because phone charges totaling over \$2 million were paid for with a P-card in fiscal year 2005. According to the National Association of Purchasing Card Professionals (NAPCP), paying utilities with P-cards provide a benefit if utility companies will accept payments with cards without imposing restrictions or additional fees. Phone charges were not paid with P-cards this past year because the cardholder did not want the responsibility to keep logs, and the staff who now tracks the costs was uncomfortable being issued a credit card with high limits.

Travel Expenses - The state may want to consider using the P-card to pay for some travel expenses, but only after carefully evaluating the needed controls. We found some other states allow cardholders to pay hotel, rental car, and restaurant expenses with their cards, while air travel is centrally billed to take advantage of discounts. In Utah, Weber State University allows P-cards to be used for travel, but their controls include auditing every transaction. Although currently contrary to P-card policy, some Utah agencies also use their cards for travel. An evaluation is needed to assess if P-cards could be used for travel expenses more than they already are. Nevertheless, P-card policies need to be amended to identify the procedures that agencies must follow to supercede policy and allow charges for travel-related expenses.

Other E-Purchasing Processes May Be Beneficial

In some situations, electronic purchasing may be even more efficient than P-cards and provide opportunities for additional savings. E-purchasing avoids high transaction costs by completing transactions online and then paying electronically. As with P-cards, savings are realized because there are fewer steps to process each transaction. However, the primary benefit is the lower cost of purchasing from contract vendors who offer discounts in return for volume purchases and prompt payments. Vendors also may provide discounts because they do not have to pay the bank charges levied when customers pay with credit cards.

One state university moved from using P-cards and instead promotes the use of electronic purchases as an economical purchasing process with improved contract compliance. Most of their purchases are from contract vendors enabling them to negotiate better prices. They report that 136 out of 30,000 approved suppliers account for 70 percent of all purchase order transactions. Further, their policies even prohibit the use of P-cards for purchases from vendors who are part of their E-purchasing marketplace.

The Division of Purchasing includes some aspects of an E-purchasing process because they have already established on-line access to catalogs for 12 contract vendors. While the on-line catalogs allow customers to compare prices, some cost benefits are overlooked because the purchaser determines if payments are made by check, P-card, or electronically. We believe there are opportunities to negotiate additional discounts by permitting only electronic payments for these vendors.

In conclusion, we believe P-cards and other electronic purchasing processes are effective and cost-efficient. Although the benefits and costs are not clearly quantified, there are also intangible benefits such as making better informed purchasing decisions, encouraging the use of contract vendors, and using data to negotiate with suppliers. P-cards can be more than just a payment process by integrating the cards into the total purchasing strategy. It is important to assess the costs and benefits of different purchasing processes. In addition, policies should be updated to identify appropriate controls, and those policies should be enforced.

Recommendations

1. We recommend that the Division of Purchasing assess the savings related to P-card use, including the amount of potentially eligible transactions that are not on P-cards, and advise agencies about the benefits of using P-cards instead of current purchasing practices.
2. We recommend that the Division of Purchasing assess ways to expand the use of P-Cards and evaluate other electronic purchasing techniques that provide savings opportunities.
3. We recommend that the Division of Purchasing complete a comprehensive review and update of state P-card policies.

This Page Left Blank Intentionally

Appendices

This Page Left Blank Intentionally

Appendix A

P-Card Expenditures by Agency for FY2006

Agency	Number of Cardholders		P-Card Expenditures
	Total	Reviewed	
Administrative Services	94	18	2,729,422
Transportation	478	31	2,480,756
Human Services	211	30	1,347,845
Tax Commission	33	6	727,954
Workforce Services	90	13	491,049
Health	108	22	461,377
Agriculture	59	9	362,525
Corrections	41	8	304,258
Natural Resources	27	5	182,590
Governor's Office	39		179,636
Commerce	17	3	173,731
Attorney General	7		168,452
Community & Culture	45	9	161,923
Utah National Guard	25		139,004
Courts/Judiciary	34	7	134,370
Alcoholic Beverage Control	41	8	127,125
Environmental Quality	12	2	109,832
Public Safety	23	6	82,810
State Auditor	2		80,356
Education/USDB	27	6	64,577
Human Resource Management	8	2	36,376
Trust Lands Administration	6		28,184
Leg Research & General Counsel	1		15,245
Capitol Preservation Board	3		13,163
Utah Labor Commission	2		12,634
Public Lands Policy Coord Com Committ Cinating Co	1		11,864
Legislative Auditor's Office	1		8,105
Treasurer's Office	3		6,730
Insurance & Technology Services	3		5,160
Financial Institutions	1		3,526
Legislative Fiscal Analyst	2		3,220
Legislative Printing	2		2,986
Public Service Commission	1		2,801
Technology Services	1		2,533
Career Services Review Board	2		1,344
Legislative - Senate	1		-
Total	1,451	185	\$10,663,462

This Page Left Blank Intentionally

Appendix B

Agreement to Accept the U.S. Bank Visa® Purchasing Card

Your new U.S. Bank Visa® Purchasing Card represents the State's trust in you. You are empowered as a responsible agent to safeguard State assets. Your signature below is verification that you have read the employee policies and procedures and agree to comply with them as well as the following responsibilities. It also acknowledges that you have received the U.S. Bank Visa® Purchasing Card #_____

1. I understand the card is for State-approved purchases only, and I agree not to charge personal purchases.
2. Improper use of this card can be considered misappropriation of State funds. This may result in disciplinary action, up to and including termination of employment.
3. If the card is lost or stolen, I will immediately notify U.S. Bank by telephone. I will confirm the telephone call with mail or facsimile and send a copy of the notification to the Program Administrator.
4. I agree to surrender the card immediately upon termination of employment, whether for retirement, voluntary or involuntary reasons.
5. The card is issued in my name. I will not allow any other person to use the card. I am considered responsible for any and all charges against the card, but not for payment.
6. All charges will be billed directly to and paid directly by the State of Utah. The bank cannot accept any monies from me directly; therefore any personal charges billed to the State could be considered misappropriation of State funds.
7. As the card is State property, I understand that I may be periodically required to comply with internal control procedures designed to protect State assets. This may include being asked to produce the card to validate its existence and account number. I may also be asked to produce receipts and statements to audit its use.
8. I will receive a Monthly Reconciliation Statement, which will report all activity during the statement period. Since I am responsible for all charges (but not for payment) on the card. I will resolve any discrepancies by either contacting the supplier or the bank.
9. The charges made against my card are automatically assigned to the cost center assigned to the card as specified by management. This code cannot be changed without management involvement. When changed, the new accounting code will not affect any charges made prior to the change, but will affect future charges.
10. I understand the U.S. Bank Purchasing Card is not necessarily provided to all employees. Assignment is based on my need to purchase goods for the State. My card may be revoked based on change of assignment or location. I understand that the card is not an entitlement nor reflective of title or position.

Employee Signature

Approving Manager Signature

Employee Printed Names

Approving Manager Printed Name

Date: _____

Date: _____

This Page Left Blank Intentionally

Appendix C

Purchasing Card Procedures Checklist

State Purchasing Review

In order to assist you in your Purchasing Card Program the State Purchasing Card Program Administrator will be providing courtesy reviews of your Purchase Card Program. This information and checklist will help you know how to be prepared for this review.

In order to have a smooth, trouble-free review, proper documentation of every transaction is a must. There are three documents required. First and foremost is an original receipt. The yellow credit card slip is not a substitute for an original receipt. It lacks the line item detail, freight charges and sales tax information. If the supplier does not provide a receipt, you can substitute an original invoice, packing list or Internet order screen print. In the rare case when one of these forms of documentation is not available you should document the purchase yourself. This self-made document should state the purpose of the purchase and state why the original documentation is not available, and it should be signed by your supervisor.

The next document required is the purchasing card log. This form can be found on the State Purchasing website at www.purchasing.utah.gov/eps/card.htm. Every purchase you make should be documented on this log. The purchasing card log should be used to verify the purchases on your monthly statement. The monthly statement is the third document required. The statement and receipts should be reviewed by your supervisor and then both you and your supervisor should sign the statement, verifying that all the purchases on the statement are appropriate and approved. A copy of the purchasing card log along with the receipts should be given to the designated accounting person in your Division who reconciles your Division's statements.

Organization is another key to ensure that the review goes smoothly. Cardholders should make copies of their monthly statements and purchasing card logs and keep them filed in chronological order and they should be filed in a place where they can be accessed quickly and easily.

Each month when the statements arrive the supervisors have the responsibility to review each purchase and verify that each purchase was appropriate and approved. It is important to review and approve the statements as soon as possible after they arrive. There is a limit to the time when transactions can be disputed. By signing the statement the supervisor and cardholder confirm that all the transactions are legitimate and that all have been reviewed. These signatures will be extremely important at the time of a review.

Internal Review Checklist

In order to be prepared for an external review an internal review should be conducted on a frequent and routine basis. These routine internal reviews should be conducted by the statewide program administrator, site coordinators and supervisors. Use this checklist as a guide when conducting an internal review.

Review Checklist

Date: _____ Cardholder: _____ Conducted by: _____

1. Verify that all documentation is being filed and that the supervisor and cardholder have both signed the statements and that the purchase card logs and statements match.
2. Verify that original receipts or acceptable substitutes are kept on file by the designated accounting person.
3. Review receipts for completeness. Each receipt must have line item detail of the purchase and should separate out any freight charges or other charges.
4. Conduct random audits of signatures.
5. Watch for out of pattern purchases like high dollar amounts, high transaction counts, or questionable suppliers. These can be indicators of cardholder misuse.
6. Watch for weekend purchases. Sometimes weekend purchases are appropriate but this can be an indicator of cardholder misuse.
7. Watch for multiple purchases from the same supplier on the same day. If the sum of the purchases exceeds the cardholder's single purchase limit, he/she may require a higher single purchase limit.
8. Verify that the suppliers listed on the statement are in accordance with the intended use of the card.
9. If a cardholder doesn't have a monthly statement that means there was no purchase activity for that month. In this case, you should contact the bank to verify that there was no activity and document your findings.
10. Verify that logs are received for all cardholders with activity within a 14 day period from statement date.
11. Watch for reciprocal statement reviews and approvals. It is completely inappropriate for cardholders to reciprocally sign off on each others statements. Supervisors should be the only people reviewing and signing statements. Under no circumstance should a supervisor be the only person reviewing their own statement. If it isn't feasible for a supervisor to have their own supervisor review and sign their statement then they **should not** have a Purchase Card. It is a best practice that Site Coordinators or Program Administrators not have P-Card accounts.

Comments:

Signature of the person conducting the review

Cardholder's Signature

Appendix D

P-Card Rebate Calculations

The rebate is calculated based on three factors (the state's rebate factors are highlighted)

- Performance (time needed to pay monthly balance)
- Volume (total of all p-card transactions)
- Transaction (average transaction size), including a different rate for large ticket transactions

Performance	
Client Held Days	Percentage of Volume
0 to 7 Days	0.150%
8 to 14 Days	0.045%

Volume	
Net Annual Charge Volume	Percentage of Volume
\$30,000,000	0.085%
\$35,000,000	0.116%
\$40,000,000	0.133%
\$45,000,000	0.148%
\$50,000,000	0.161%
\$55,000,000	0.173%
\$60,000,000*	0.184%
\$65,000,000	0.194%
\$70,000,000	0.203%
\$75,000,000	0.212%
\$80,000,000	0.221%

**State purchases for the contract year were \$12.6 million but including non-state entities increased purchases to \$60.2 million.*

Transaction	
Average Transaction Size	Percentage of Volume
\$100	0.560%
\$115	0.659%
\$130	0.736%
\$155	0.830%
\$180	0.898%
\$205	0.949%
\$225	0.982%
\$250	1.016%
\$280	1.049%
\$300	1.067%
\$325	1.086%

Large Ticket Transaction	
Average Transaction Size	Percentage of Large-Ticket Volume
\$4,500	0.790%
\$5,000	0.447%
\$10,000	0.276%
\$15,000+	0.150%

**Rebates based on large ticket transactions depend on the vendors involved because Visa has negotiated lower payments with some vendors.*

This Page Left Blank Intentionally

Agency Response



State of Utah

JON M. HUNTSMAN, JR.
Governor

GARY HERBERT
Lieutenant Governor

Department of Administrative Services

RICHARD K. ELLIS
Executive Director

Division of Purchasing & General Services

DOUGLAS G. RICHINS, C.P.M.
Division Director

September 7, 2006

Mr. John M. Schaff, CIA
Auditor General
Office of the Legislative Auditor General
W315 Utah State Capitol Complex
Salt Lake City, UT 84114-5315

RE: Report 2006-09, A Performance Audit of the State's Purchasing Card Program

Dear Mr. Schaff:

We appreciate the opportunity to respond to the performance audit of the State's Purchasing Card Program. Performance audits of this type serve a valuable public purpose. We sincerely appreciate the analysis of the Purchasing Card program and the constructive management recommendations offered.

We agree with the conclusions and thoughtful recommendations made in the audit. The audit provides a welcomed review of a relatively new procurement tool. We are in harmony with the strategic and tactical recommendations offered in the audit. Steps already have been taken to enhance administrative oversight and to implement the other audit recommendations. We concur with the audit findings that when properly used the P-Card is an effective and cost-efficient purchasing tool. We appreciate the audit's suggestions for expanding the appropriate use of this tool.

In conclusion, we thank your audit team for their work on this audit. They approached their responsibilities in a professional, cooperative and polite manner. Through their efforts, improvements in efficient use and prudent oversight of the State's Purchasing Card program will be made.

Sincerely,

Richard K. Ellis
Executive Director