



**DEPARTMENT OF ADMINISTRATIVE SERVICES,
DIVISION OF FINANCE
Purchase Card and Travel Transactions**

Findings and Recommendations
For the Period January 1, 2011 through December 6, 2011

Report No. 12-MAO-A2

*Keeping Utah
Financially Strong*

AUSTON G. JOHNSON, CPA
UTAH STATE AUDITOR



Auston G. Johnson, CPA
UTAH STATE AUDITOR

STATE OF UTAH
Office of the State Auditor

UTAH STATE CAPITOL COMPLEX
EAST OFFICE BUILDING, SUITE E310
P.O. BOX 142310
SALT LAKE CITY, UTAH 84114-2310
(801) 538-1025
FAX (801) 538-1383

DEPUTY STATE AUDITOR:
Joe Christensen, CPA

AUDIT DIRECTORS:
Van H. Christensen, CPA
Deborah A. Empey, CPA
Stan Godfrey, CPA
Jon T. Johnson, CPA

REPORT NO. 12-MAO-A2

May 8, 2012

Kimberly Hood, Executive Director
Department of Administrative Services
3120 State Office Building
Salt Lake City, Utah 84114

Dear Ms. Hood:

We have performed the procedures described below to certain aspects of the Department of Administrative Services, Division of Finance's (State Finance) internal control and compliance related to expenditures accounted for on FINET (the State's accounting system). The purpose of these procedures is to assist State Finance in evaluating its internal control. Findings and recommendations have also been issued to the State agencies indicated in the findings below. We performed the following procedures for the period January 1, 2011 through December 6, 2011:

1. We reviewed certain types of disbursements paid through the payroll system for compliance with certain laws and policies and procedures. The payroll disbursement types that we reviewed include: (1) property rent pay; (2) meeting pay; (3) service awards; (4) education workshop pay; (5) miscellaneous pay; (6) taxable meal allowance; (7) telephone reimbursement; and (8) mileage reimbursement (low and max rates).
2. We tested a sample of in-state and out-of-state employee travel reimbursements for compliance with certain laws and policies and procedures.
3. We reviewed disbursements made to vendors that had the same address as another vendor to determine the reasonableness of the disbursements.
4. We tested a sample of purchase card disbursements for propriety, reasonableness, and compliance with State and departmental purchasing policies and procedures.

Our procedures were more limited than would be necessary to express an audit opinion on compliance or on the effectiveness of State Finance's internal control or any part thereof. Accordingly, we do not express such opinions. Alternatively, we have identified the procedures we performed and the findings resulting from those procedures. Had we performed additional procedures or had we made an audit of the effectiveness of State Finance's internal control, other matters might have come to our attention that would have been reported to you.

Our findings resulting from the above procedures are included in the attached findings and recommendations section of this report and, when appropriate, in separate communications to the applicable State agencies.

This report is intended solely for the information and use of State Finance and is not intended to be and should not be used by anyone other than this specified party. However, the report is a matter of public record and its distribution is not limited.

By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by the personnel of State Finance during the course of the engagement, and we look forward to a continuing professional relationship. If you have any questions, please call Debbie Empey, Audit Director, at (801) 538-1342.

Sincerely,

A handwritten signature in black ink, appearing to read "Auston G. Johnson". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Auston G. Johnson, CPA
Utah State Auditor

cc: John Reidhead, Chief Financial Officer
Marcie Handy, Assistant State Comptroller

DEPARTMENT OF ADMINISTRATIVE SERVICES, DIVISION OF FINANCE
FOR THE PERIOD JANUARY 1, 2011 THROUGH DECEMBER 6, 2011

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| FINDINGS AND RECOMMENDATIONS: | |
| 1. NONCOMPLIANCE WITH PURCHASE CARD POLICIES AND PROCEDURES | 1 |
| 2. NONCOMPLIANCE WITH TRAVEL POLICIES AND PROCEDURES | 3 |
| 3. LACK OF WRITTEN POLICIES AND PROCEDURES FOR MERCHANT-ISSUED CREDIT CARDS | 5 |

DEPARTMENT OF ADMINISTRATIVE SERVICES, DIVISION OF FINANCE

FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 1, 2011 THROUGH DECEMBER 6, 2011

1. NONCOMPLIANCE WITH PURCHASE CARD POLICIES AND PROCEDURES

State agencies are not following all requirements related to procurement policies and the use of purchase cards contained in State Accounting Policies and Procedures (FIACCT) issued by the Department of Administrative Services, Division of Finance (State Finance). For example, State policies 1) require competitive bids for purchases over \$1,000, 2) place dollar limits per transaction on each individual's purchase card (the limit varies from individual to individual), 3) prohibit the splitting of purchase card expenditures to circumvent procurement limits, and 4) require purchase card statements to be reviewed for propriety of expenditures.

We scanned 71,849 State purchase card transactions, totaling \$19,884,795, posted between January 1, 2011 and December 6, 2011. We noted 6,752 instances (18,391 transactions, totaling \$10,871,655) where multiple purchases were made on the same purchase card at the same vendor location on the same day. Due to the volume of these transactions, we were unable to investigate each instance for propriety. Rather, we selected a sample of instances for further investigation.

a. Purchase Card Transactions Split Which Circumvented Procurement Policies

In order to determine if State employees were circumventing procurement policies or purchase card limits, we analyzed a sample of 39 instances (96 transactions, totaling \$199,525) and noted the following:

1) No Competitive Bids Obtained

(1 at Human Services and 2 at Veterans Affairs)

In 3 instances (7 transactions, totaling \$5,323), the purchases were split into two or more transactions, thus circumventing the requirement of competitive bids. The items were not under State contract and there was no evidence that the departments obtained competitive bids in any of these three instances as required by FIAACT 04-04.00.

2) Individual Purchase Card Limits Exceeded

(Legislative Research, Administrative Services–State Mail, Technology Services, Human Resource Management, National Guard, Utah Schools for the Deaf and Blind, Natural Resources, Human Services, Education, Corrections, and Transportation)

In 27 instances (62 transactions, totaling \$168,396), the purchases were split into two or more transactions, thus circumventing the purchase card holder's individual purchase limit. The purchases followed all other applicable purchasing policies or were purchases on a state contract.

DEPARTMENT OF ADMINISTRATIVE SERVICES, DIVISION OF FINANCE

FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD JANUARY 1, 2011 THROUGH DECEMBER 6, 2011

b. Purchase Card Statements Not Reviewed by Cardholder's Supervisor or Manager
(Legislative Research)

While reviewing the population of purchase card transactions, we noted four purchase card statements between June 2011 and November 2011 for one cardholder that had not been reviewed by the cardholder's supervisor or manager as of January 2012. The review and approval of purchase card statements is the only review and approval of the expenditures that make up the purchase card statements. Purchase card statements and supporting receipts should be reviewed and approved by a cardholder's supervisor or manager in a timely manner to ensure that expenditures made on the purchase card are appropriate.

Total State purchase card transactions made to the same vendor on the same day comprised 26% of the total purchase card transactions. We question whether the purchase cards are being used as intended because we believe that there are relatively few reasons that a purchase card would be used for purchases at the same vendor on the same day. The purpose of a purchase card program is to establish a more efficient, cost effective method for purchasing and paying for smaller dollar-value transactions.

Purchase cards should not be used to avoid or bypass appropriate approval and procurement requirements. State Finance should reinforce its policies and procedures over procurement and purchase cards to ensure they are understood and consistently enforced. The State agencies and State Finance may also want to consider whether the individual purchase card limits remain appropriate and whether purchases should go through accounts payable where they are subjected to review and approval *prior* to the disbursement versus being made on a purchase card where they are subjected to review and approval *after* the purchase has been made.

Some of the errors noted above were caused by a lack of understanding of State purchase card policies and some were caused by intentional disregard for the policies. Failure to follow purchase card policies can result in inappropriate or excessive purchases.

Recommendation:

We recommend that State Finance reinforce its policies and procedures over procurement and purchase cards to ensure that they are understood and consistently enforced.

Agency's Response:

We concur with this recommendation. We expect all state agencies to comply with state policies and procedures. We perform post-audits each quarter on a sample of disbursements, including purchase card payments, to determine if they comply with our policies and procedures. We then send a report to the applicable department head and agency management that identifies all instances of noncompliance. We are very concerned about the findings from your audit. We recently stressed with agencies the importance of following proper purchasing policies. We

DEPARTMENT OF ADMINISTRATIVE SERVICES, DIVISION OF FINANCE

FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 1, 2011 THROUGH DECEMBER 6, 2011

also recently received funding for two internal control positions and started an internal control self-assessment program for agencies with the aim of training as well as helping agencies identify and correct internal control and compliance weaknesses. Through these efforts and in our ongoing meetings and trainings with agency personnel, we will continue to stress the importance of following our policies and procedures over procurement and purchasing cards.

2. NONCOMPLIANCE WITH TRAVEL POLICIES AND PROCEDURES

We sampled 67 State travel reimbursements to determine compliance with State travel reimbursement policies included in FIACCT 10-02 and noted the following instances of noncompliance:

a. Duplicate Mileage Reimbursement
(Administrative Office of the Courts)

For 1 reimbursement, the traveler received mileage reimbursement twice for one trip. The traveler was first reimbursed \$218 through payroll (pay period ending November 11, 2011) and was again reimbursed the same amount for the same trip on December 2, 2011 through accounts payable. Management does not know what allowed this duplicate mileage reimbursement to occur.

b. Payment for Private Vehicle Mileage When None Was Used
(Health)

For 1 reimbursement, the traveler was paid for private vehicle mileage but did not use a private vehicle on the trip. The traveler stated that this error occurred because the traveler's subordinate was asked to fill out the travel reimbursement request, but the traveler did not review it thoroughly prior to signing and submitting it. This resulted in the traveler being over reimbursed \$105, and unallowable costs being charged to a federal program.

c. Reimbursements for Higher Rate than Allowed
(Financial Institutions)

For 2 reimbursements, the traveler was reimbursed at a higher rate than is allowable for out-of-state lodging. FIACCT 10-02.04 Section A.5 states that out-of-state lodging costs are reimbursable up to the federal lodging rate for the location, which in this case was \$116 per night plus applicable taxes. However, in these two instances the traveler was reimbursed \$130 per night plus applicable taxes. The overpayments totaled \$210 plus applicable taxes. These errors may have occurred due to a lack of understanding of or intentional disregard for State travel policies.

DEPARTMENT OF ADMINISTRATIVE SERVICES, DIVISION OF FINANCE

FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD JANUARY 1, 2011 THROUGH DECEMBER 6, 2011

d. Lodging Not Obtained Through State Travel Office
(12 at Financial Institutions, 1 at Public Safety)

For 13 out-of-state lodging reimbursements for non-conference hotels, the travelers did not obtain the reservations through the State Travel Office. FIACCT 10-02.04 Section A.5, requires all out-of-state lodging (unless booked at a conference hotel) to be reserved through the State Travel Office. The total amount of lodging paid for these reimbursements was \$15,650. These errors may have occurred due to a lack of understanding of or intentional disregard for State travel policies.

e. Improper Processing of Meal Reimbursements
(2 at Natural Resources and 1 at Health)

For 3 reimbursements, the travelers received meal reimbursements of \$197 for non-overnight trips that should have been taxable to the traveler, but were not. According to FIACCT 10-02.03 Section D and IRS Regulations, meal allowances are taxable when the traveler's destination is at least 100 miles from their home base and they do not stay overnight. These errors may have occurred because of a lack of understanding of and/or intentional disregard for travel policies.

f. No documentation for Taxi Use
(1 at Utah National Guard and 1 at Natural Resources)

For 2 reimbursements, the travelers did not adequately document their use of taxis for business purposes. FIACCT 10-02.05 Section B requires individual ground transportation uses of less than \$20 to be documented by submitting a schedule of such payments that includes the date, to destination, from destination, type of conveyance (taxi, bus, etc.) and dollar amount. The total amount reimbursed for the use of taxis for these two travelers was \$71. These errors may have occurred due to a lack of understanding of or intentional disregard for state travel policies.

State travel policies and procedures help reduce the State's travel costs and provide oversight to an area of business expense that is subject to misuse. If compliance with these policies is lacking, departments may spend more on travel than they otherwise would and increase their chances of employee misuse of funds.

Recommendation:

We recommend that State Finance reinforce its policies and procedures over travel to ensure they are understood and complied with.

DEPARTMENT OF ADMINISTRATIVE SERVICES, DIVISION OF FINANCE

FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD JANUARY 1, 2011 THROUGH DECEMBER 6, 2011

Agency's Response:

We concur with this recommendation. We are very concerned about the high error rate noted in your audit. We expect all state agencies to comply with state policies and procedures. As previously stated, we have a post-auditing program in place, the funding for two new internal control positions, and the start of a new internal control self-assessment program for agencies. Through these efforts and in our ongoing meetings and trainings with agency personnel, we will continue to stress the importance of following our policies and procedures over travel.

3. LACK OF WRITTEN POLICIES AND PROCEDURES FOR MERCHANT-ISSUED CREDIT CARDS

(Human Services, Education, School & Institutional Trust Lands, and Community and Culture)

During our testwork, we noted four different State agencies that used and still currently have credit cards obtained through a particular merchant or retail service which State Finance had no knowledge of prior to our testwork. In at least one instance, a merchant credit card in the agency's name was obtained without management's signature on the application. Anyone who has access to such a credit card would be able to charge at the merchant, allowing for potential abuse and the possibility of the misuse of State funds. Also, some of these types of credit cards earn rewards on purchases that could be converted to cash or other items that may not benefit the State agency.

The State agencies indicated that they have these particular merchant credit cards because the merchant (Costco) does not accept State purchase cards, but they still want to take advantage of the convenience and tax benefits when making purchases at this merchant. The purpose of the State purchase card program is to have a more efficient, cost-effective method of purchasing and payment with policies and procedures in place to ensure proper controls and prevent abuse. State Finance does not currently have written policies and procedures regarding merchant-issued credit cards obtained by State agencies from a retail establishment. Because of the inherent risk with credit cards and the potential for abuse, policies and procedures similar to those of the State Purchase Card Program should be implemented for guidance when obtaining and using a merchant credit card in the State's name.

Recommendation:

We recommend that State Finance establish written policies and procedures to provide guidance to State departments obtaining and using merchant credit cards.

Agency's Response:

We concur with this recommendation. We will establish written policies and procedures to provide guidance to State departments regarding obtaining and using merchant credit cards.