



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Purchasing Card Program

Compliance Audit

**For the Two Years Ended
December 31, 2012**

September 20, 2013

Report 13-22

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

September 20, 2013

Senator Roger Reinert, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Spencer Cronk, Commissioner
Department of Administration

This report presents the results of our compliance audit of the state's purchasing card program for the two calendar years ended December 31, 2012. Our scope included the Department of Administration and seven other state agencies.

The audit was conducted by Sonya Johnson, CPA, CFE (Audit Manager), Zach Yzermans, CPA (Auditor-in-Charge) and assisted by auditors Jesse Hon, Lori Leysen, Sandy Ludwig, Carmen Marg-Patton, Leah Miller, Valentina Stone, and Heather Varez, CPA.

We received the full cooperation of the Department of Administration and the other agencies included in our scope, and we thank them for their assistance.

Handwritten signature of James R. Nobles in black ink.

James R. Nobles
Legislative Auditor

Handwritten signature of Cecile M. Ferkul in black ink.

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusion

State employees generally complied with the state's policies, procedures, and other finance-related legal requirements when they used state purchasing cards. However, the state's purchasing card policy had some deficiencies, and some transactions we tested did not comply with certain state policies or other legal requirements.

Findings

- The state's purchasing card policy did not address employees' receipt of benefits through vendor loyalty programs, adequately define some types of prohibited purchases, and did not include a requirement to periodically review and recertify the appropriateness of purchasing card authorizations. ([Finding 1, page 9](#))
- Some employees used purchasing cards to buy items that were prohibited by policy, exceeded authorized transaction limits, or failed to accurately pay state sales and use taxes. ([Finding 2, page 10](#))
- Several state agencies did not have adequate documentation to support some purchasing card transactions. ([Finding 3, page 12](#))
- Several agencies did not comply with some purchasing card program requirements; they lacked adequate documentation to support some employees' purchasing card authorizations and transaction limits and did not notify the Office of the Legislative Auditor about suspected misuse. ([Finding 4, page 13](#))

Audit Scope and Objectives

For the period from January 2011 through December 2012, we obtained from US Bank the detailed transactions of purchases made by employees through the state's purchasing card program. We analyzed the data to identify agencies and transactions at higher risk of noncompliance because of the relatively large number of employees with purchasing cards, the large dollar amount of purchases, or because the purchases seemed to be for unusual items or from unusual vendors. Based on our analysis, we selected and tested a sample of 543 transactions within eight agencies to determine whether those transactions complied with the state's purchasing card policy and other finance-related legal requirements.

Purchasing Card Program

Overview

The Department of Administration established the state's purchasing card program in 1999 to provide an efficient, cost-effective way for state agencies to procure specific types of goods and services. State statutes allow the commissioner of Administration to delegate purchasing authority to agency heads or their designees.¹ During calendar years 2011 and 2012, the Department of Administration operated the purchasing card program through US Bank. Each state agency determined which of its employees could use purchasing cards to make purchases and issued individual purchasing cards in the employees' names.

The Department of Administration established comprehensive policies and procedures that covered the delegation of purchase authority and the administration and monitoring of purchasing card use by state employees.² Agencies could either adopt Administration's statewide purchasing card policy or establish their own, more restrictive policies. The state's purchasing card policy outlined the permissible uses of the purchasing card, as well as restrictions on the use of the purchasing card. According to the policy, employees could not use their purchasing cards for the following items:

- Fuel
- Cash, cash advances, or extensions of credit
- Explosives
- Weapons of any kind, including firearms and ammunition
- Meals for individuals (including the cardholder)
- Alcohol
- Consulting or professional/technical services
- Fixed assets and sensitive items
- Equipment that is required to have a license affixed on it (vehicles, trailers, boats, snowmobiles, ATVs, etc.)
- Telephone calls (either personal or business)
- Construction services
- High-risk services³

A state agency starts the process to issue a purchasing card by identifying an employee with a business need for a purchasing card. The employee completes a purchasing card application, obtains the supervisor's approval, and submits the application to the agency's purchasing card coordinator. The purchasing card coordinator, in conjunction with the supervisor and employee, establishes the

¹ *Minnesota Statutes* 2012, 16C.03, subs. 3 and 16.

² Department of Administration's Purchasing Card Use Policy 2.1, effective July 19, 2010.

³ The state's purchasing card policy did not define "high-risk services."

individual's purchasing limits. The standard purchasing limits for most purchasing cardholders consisted of a \$2,500 single purchase limit (consistent with the state's local purchase authority limit) and a \$10,000 monthly transaction limit. Agencies could set lower limits if they chose; however, higher limits required the approval of the Department of Administration.

To ensure that the state only paid for purchases that were authorized and appropriate, the Department of Administration required the following multiple layers of review:

- 1) Each employee signed a written acknowledgement stating that they will only use the purchasing card for business purposes and acknowledged that misuse of the card could result in loss of purchasing card privileges and disciplinary action.
- 2) The employee maintained a log of all purchasing card activity.
- 3) Each month, the employee received a statement from US Bank that detailed their purchasing card activity for the prior month. The policy required the employee to reconcile the purchases recorded on the bank statement to the employee's receipts and log of purchases.
- 4) The employee's supervisor reviewed and approved the log.
- 5) The log was submitted to the purchasing card coordinator for further review and payment.

As part of the purchasing card agreement between US Bank and the Department of Administration, each participating agency, including the Department of Administration as the oversight agency for the program, received quarterly rebate incentives. Agencies received incentives based on the dollar amount of purchases and the timeliness of payments. From January 2011 through December 2012, state agencies received rebates totaling over \$250,000.

As of December 2012, approximately 4,700 employees at 48 agencies participated in the program. Table 1 summarizes, by agency, the number of employees with purchasing cards, the number of purchasing card transactions, the dollar amount of purchasing card transactions, and the rebate amount each agency received through the state's purchasing card program.

Table 1
Summary of Purchasing Card Transactions by Agency
January 2011 through December 2012

Agency/Board	Employees With Purchasing Cards	Numbers of Transactions	Dollar Amounts of Transactions	Rebate Amounts
Administration	63	6,124	\$ 1,313,418	\$ 8,403
Agriculture	17	1,699	351,778	2,321
Animal Health Board	17	534	95,668	896
Attorney General	8	833	134,435	1,328
Commerce	9	1,152	278,150	2,226
Corrections	139	8,132	1,050,737	7,860
Dentistry Board	2	391	41,450	434
Education	147	2,771	610,542	3,908
Employment and Economic Development	264	15,923	2,438,194	17,303
Governor's Office	10	1,113	137,146	1,163
Health	277	9,378	1,904,756	11,810
Housing Finance	4	567	128,899	1,447
Human Services	813	56,246	5,084,353	45,237
Iron Range Resources and Rehabilitation Board	8	1,099	221,088	1,923
Labor and Industry	75	2,286	417,676	3,164
Legislative Coordinating Commission	12	237	26,158	396
Lottery	4	597	162,406	1,625
Military Affairs	22	1,614	548,679	5,789
Minnesota Management and Budget	4	283	55,561	731
Minnesota State Retirement System	3	171	60,748	643
Minnesota Zoo	51	5,160	853,303	7,571
MN.IT Services	12	321	91,227	1,140
Natural Resources	1,659	64,450	9,041,680	74,439
Office of Higher Education	14	377	73,245	919
Pharmacy Board	11	363	91,973	197
Pollution Control Agency	109	4,554	565,718	4,425
Public Employees Retirement Association	2	105	26,614	398
Public Safety	184	7,180	1,348,346	9,028
Public Utilities Commission	15	818	191,392	2,016
Revenue	125	2,812	625,280	4,804
State Academies	9	626	84,877	921
State Investment Board	1	169	43,710	665
Supreme Court	105	4,878	791,250	5,752
Teachers Retirement Association	2	154	39,803	0
Transportation	451	19,658	2,759,213	19,060
Veterans Affairs	6	169	40,852	299
Water and Soil Resources Board	4	215	40,877	515
All Other Agencies¹	19	668	119,243	1,193
Total	4,677	223,827	\$31,890,445	\$251,949

¹ All other agencies included the Secretary of State, Explore Minnesota Tourism, and nine boards. Individually, these entities' purchasing card transactions totaled less than \$25,000 from January 2011 through December 2012.

Source: US Bank detail of purchasing card transactions.

Objective, Scope, and Methodology

Our audit of the purchasing card program focused on the following audit objective for the period of January 1, 2011, through December 31, 2012:

- Did employees at the agencies selected for review use purchasing cards in compliance with state purchasing card program policies, procedures, and other finance-related legal requirements?

To answer this question, we considered the risk of noncompliance with finance-related legal requirements and the risk of inappropriate purchases. We reviewed the findings and recommendations resulting from our 2010 audit of state purchasing card transactions.⁴ We obtained and analyzed US Bank detailed transaction data to identify agencies at higher risk of noncompliance because of the relatively large number of employees with purchasing cards, the large dollar amount of purchases, or because the purchases seemed to be for unusual items or from unusual vendors. We interviewed staff at the Department of Administration and at the agencies we selected for testing to gain an understanding of the procedures related to purchasing cards.

Based on our analysis, we selected a sample of specific transactions within eight agencies we believed had a higher risk that purchasing card transactions might not comply with state or agency policy or could include inappropriate purchases.

Table 2 identifies the agencies included in our testing, the number of transactions we selected for testing, and the dollar amount of those transactions from January 2011 through December 2012.

⁴ Office of the Legislative Auditor's Financial Audit Division Report 10-25, *Purchasing Card Program*, issued July 23, 2010. Although the types of weaknesses we found in our current audit were similar to those in the previous audit, the entities where these problems occurred varied.

Table 2
Summary of Purchasing Card Transactions Selected for Testing
By Agency

<u>Agency</u>	<u>Number of Transactions Tested</u>	<u>Total of Transactions Tested</u>
Administration	33	\$ 16,969
Employment and Economic Development	56	29,821
Health	68	34,627
Human Services	70	32,012
Military Affairs	43	30,030
Minnesota Zoo	43	22,114
Natural Resources	101	175,597
Transportation	<u>129</u>	<u>67,727</u>
Total	<u>543</u>	<u>\$408,897</u>

Source: Auditor created from US Bank detail of state purchasing card transactions from January 2011 through December 2012.

To test these transactions, we reviewed supporting documentation, including purchase receipts, employees' purchasing logs, and monthly bank statements. As needed to fully understand the circumstances for some transactions, we discussed specific transactions with the employees who made the purchases and supervisors and other employees who authorized the payments.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

We used state laws, regulations, and contracts, as well as policies and procedures established by selected agencies and the Department of Administration as evaluation criteria over compliance.

Conclusion

State employees generally complied with the state's policies, procedures, and other finance-related legal requirements when they used state purchasing cards. However, the state's purchasing card policy had some deficiencies, and some transactions we tested did not comply with certain state policies or other legal requirements.

The following *Findings and Recommendations* provide further explanation about the exceptions noted above.

Findings and Recommendations

The state's purchasing card policy did not address employees' receipt of benefits through vendor loyalty programs, adequately define some types of prohibited purchases, and did not include a requirement to periodically review and recertify the appropriateness of purchasing card authorizations.

Finding 1

The state's purchasing card policy did not adequately direct state agencies and their employees in the following areas:

- Vendors' loyalty program benefits⁵ - The purchasing card policy did not provide state agencies with direction about how to handle vendors' loyalty program benefits. These benefits sometimes accrued when employees made purchases with the state purchasing card. Documentation supporting 31 purchasing card transactions (totaling \$9,230) at the departments of Human Services, Natural Resources, and Transportation, and the Minnesota Zoo showed that an employee's personal rewards account accumulated points or an employee earned some other type of loyalty program benefit from the vendor, such as a gift card or a free product.

The state's purchasing card policy did not discuss how agencies should prohibit, limit, track, or use these types of benefits accrued through employees' use of purchasing cards.⁶ State statutes prohibit employees from receiving gifts, rewards, or future benefits as a result of their employment.⁷ Without a way to identify and track these benefits, agencies may not detect whether employees inappropriately benefit from a vendor's loyalty program.

- Purchases of sensitive items - The policy prohibited purchases of sensitive items, but did not specify criteria that agencies should consider to define sensitive items. For example, a sensitive item might be an item that is easily converted for personal use, such as a camera or television. Agencies often did not define the types of sensitive items which employees could not buy with purchasing cards and did not have processes to monitor those purchases. The policy's prohibition of sensitive item purchases with purchasing cards is intended to aid agencies with the physical custody, financial accountability, and proper recording of these assets.

⁵ Vendors use loyalty programs to reward and, therefore, encourage loyal buying behavior. A loyalty program may give a customer advanced access to new products, special sales coupons, free merchandise, or gift cards.

⁶ The policy did address employees' accrual of airline benefits, stating that any accumulated benefits must only be used for the benefit of the state agency.

⁷ *Minnesota Statutes* 2012, 43A.38, subd. 2 and *Minnesota Statutes* 2012, 15.43, subd 1.

- Updating authorizations - The policy did not include a process to review and recertify an employee's purchasing card authorization. Some of the authorizations we reviewed were over ten years old. Personnel and position changes over that period could affect an employee's need for a purchasing card and a supervisor's decision about the authorization. In addition, changes to the state's or the agency's purchasing card policies may have occurred since the original authorization, diminishing its value as documentation of the employee's awareness of proper use of the assigned purchasing card. Periodic review and recertification of cardholders' agreements would help ensure employees with purchasing cards are properly authorized and are aware of current program rules and regulations.

Recommendation

- *The Department of Administration should enhance its current purchasing card policy to address vendor loyalty program benefits, purchases of sensitive items, and periodic review and recertification of employees' purchasing card authorizations.*

Finding 2

Some employees used purchasing cards to buy items that were prohibited by policy, exceeded authorized transaction limits, or failed to accurately pay state sales and use taxes.

Employees in all the state agencies we tested used purchasing cards to buy some items prohibited by the state's purchasing card policy,⁸ or an agency's more restrictive purchasing card policy. The statutes and policies prohibited certain transactions because those transactions pose a higher risk of noncompliance with other established policies and procedures or require a higher level of authorization to ensure the purchase is appropriate. For example, the state's purchasing card policy prohibits the purchase of fuel to ensure the state maximizes the benefits of its separately issued fleet cards and prohibits sensitive items to ensure appropriate authorization for the purchase and the addition of the purchased item to the agency's inventory records. Similarly, the policy prohibits the purchase of individual meals to avoid the risk that an employee could submit an expense reimbursement claim for costs already paid for with a purchasing card.

In addition to purchases of prohibited items, on some of the transactions we tested, employees split a purchase into two transactions to avoid exceeding the authorized transaction level purchasing limit, a practice explicitly prohibited in the state policy. For other transactions we tested, sales and use taxes were either not paid or were paid at the wrong amount or for purchases of items that were not taxable.

Table 3 summarizes the 94 noncompliant purchases (totaling \$42,509) we identified in our testing of 543 transactions (totaling about \$409,000) at eight

⁸ Department of Administration's Purchasing Card Use Policy 2.1, section 2.45.

agencies. While these transactions were noncompliant, we were satisfied that employees purchased the items for appropriate and authorized state business purposes.

Table 3
Summary of Noncompliant Purchasing Card Transactions
In the Tested Sample
By Type of Noncompliance and Agency

Type of Noncompliance	Number of Errors	Amount of Errors	Agencies
Purchases of prohibited items: ¹			
<i>Fuel</i>	36	\$2,913	Administration, Employment and Economic Development, Health, Human Services, Military Affairs, Minnesota Zoo, and Transportation
<i>Sensitive Items</i> ²	24	\$17,048	Administration, Human Services, Military Affairs, Minnesota Zoo, Natural Resources, and Transportation
<i>Weapons</i>	1	\$76	Minnesota Zoo
<i>Individual employee meals</i>	6	\$123	Health
<i>Prescription drugs</i> ³	1	\$6	Human Services
Split Purchases that exceeded the authorized transaction limit ⁴	10	\$13,504	Employment and Economic Development, Human Services, and Transportation
Sales taxes not paid or inaccurate ⁵	16	On purchases totaling \$8,839	All ⁶

¹Department of Administration's Purchasing Card Use Policy 2.1, section 2.45, b, lists the types of prohibited purchases.

²Purchases of sensitive items included televisions, cameras, computer accessories, and vehicle parts.

³The Department of Human Services' more restrictive purchasing card policy prohibited the purchase of prescription drugs.

⁴Department of Administration's Purchasing Card Use Policy 2.1, section 2.44, prohibits an employee from splitting a purchase into more than one transaction to stay within the authorized transaction limit.

⁵Department of Administration's Purchasing Card Use Policy 2.1, section 2.48, requires state agencies to pay sales and use taxes directly to the Department of Revenue if the vendor did not include them as part of the purchase.

⁶Agencies we selected for testing included Administration, Employment and Economic Development, Health, Human Services, Military Affairs, Minnesota Zoo, Natural Resources, and Transportation.

Source: Auditor created from results of sample transaction tests.

The number of errors, especially those related to prohibited fuel and sensitive item purchases and the sales and use tax requirement, may indicate that some

employees and supervisors do not adequately understand the legal provisions applicable to purchasing card transactions. In addition, without processes to monitor the compliance of employees' purchases, state agencies may increase the risk that noncompliant transactions could occur without detection.

Recommendation

- *Agencies should ensure that employees' purchasing card transactions comply with applicable requirements of state statute and policy. Agencies should consider doing the following:*
 - *training employees and supervisors about the requirements, and*
 - *developing processes to detect and correct noncompliant transactions, including purchases of prohibited items, purchases split to avoid transaction limits, and the accurate payment of sales and use taxes.*

Finding 3

Several state agencies did not have adequate documentation to support some purchasing card transactions.

Several state agencies had the following deficiencies in the documentation required to support some purchasing card transactions we tested:

- **Missing or deficient transaction receipts** – The departments of Health, Military Affairs, Natural Resources, and Transportation did not have receipts to support seven transactions totaling \$2,252. In addition, receipts for 22 transactions at the departments of Employment and Economic Development, Health, Military Affairs, Natural Resources, and Transportation (totaling \$10,648) were either not original or not itemized.
- **Missing, unsigned, or unapproved purchasing logs** – The departments of Health and Human Services were missing some employees' monthly purchasing card logs. Health did not have five logs to support purchases totaling \$9,343; Human Services did not have one log for purchases totaling \$2,987. In addition, some purchasing card logs at seven agencies, totaling \$19,187, lacked the signature of the purchasing cardholder or evidence of supervisory review or approval.

The Department of Administration's purchasing card policy requires each agency to review receipts for purchasing card transactions and monthly logs to identify and eliminate unnecessary and inappropriate charges.⁹ In addition, the policy

⁹ Department of Administration's Purchasing Card Use Policy 2.1, section 2.84.

requires the agencies to have original itemized receipts to support all payments of purchasing card invoices.¹⁰ Without original and itemized receipts and evidence of supervisory review, agencies may not be able to show that a purchasing card transaction was for appropriate state business or complied with purchasing card policies and other legal requirements, such as ensuring the proper remittance of sales and use tax.

Recommendation

- *Agencies should ensure they retain the required documentation to support purchasing card transactions, including original itemized receipts and purchasing logs that are reviewed and approved by the employees' supervisors.*

Several agencies did not comply with some purchasing card program requirements; they lacked adequate documentation to support some employees' purchasing card authorizations and transaction limits and did not notify the Office of the Legislative Auditor about suspected misuse.

Finding 4

Several agencies did not comply with certain program requirements, including the retention of cardholder applications and agreements, appropriately documenting changes in card limits, ensuring that cardholders remain within their single purchase spending limits, and reporting fraud activity.

- **Missing or incomplete applications or employee acknowledgements** - The departments of Employment and Economic Development, Health, and Transportation either were missing or had incomplete purchasing card applications or acknowledgments for 31 of the 175 cardholders we tested. In most of these cases, the agencies either could not find the applications or the applications lacked authorization. The state's purchasing card policy requires these documents to show that 1) employees are authorized to have a purchasing card and 2) employees have acknowledged that they understand and will follow purchasing card policies and procedures and are aware of the consequences for misuse.
- **Card limit discrepancies** – For seven agencies,¹¹ there were discrepancies between agencies authorized transaction limits and US Bank's records for 61 transactions associated with 345 employees we tested. For example, some employees' authorized transaction limits were

¹⁰ In the event that an original itemized receipt is not available from the merchant, lost, or damaged, the policy requires the cardholder to complete, sign, and have notarized an affidavit stating that the purchase was appropriate and made as part of the employee's official duties.

¹¹ We did not identify any discrepancies between authorized transaction limits and US Bank's records in our testing of 17 employees at the Department of Administration.

lower than the limits recorded by US Bank.¹² US Bank does not allow transactions higher than its recorded limits. The standard authorized limits of \$2,500 per transaction and \$10,000 per month help to ensure that the state complies with certain procurement and bidding requirements and limits its exposure for inappropriate or unauthorized transactions.

- **Failure to notify the Office of the Legislative Auditor about suspected misuse** – The departments of Human Services and Health failed to notify the Office of the Legislative Auditor about suspected misuse on three employees' accounts (involving \$7,064, \$516, and \$50). Although either the bank or the employee identified the unauthorized transactions, the departments did not report them to our office, as required by both state statute¹³ and state purchasing card policy.¹⁴

Recommendations

- *Agencies should review purchasing card documentation to ensure they have signed authorizations and acknowledgements for each purchasing cardholder and that authorized purchasing limits agree to the limits recorded by US Bank.*
- *Agencies should promptly report all instances of unauthorized transactions to the Office of the Legislative Auditor.*

¹² Some of the discrepancies were because employees had higher authorized transaction limits than were recorded by US Bank.

¹³ *Minnesota Statute* 2012, 609.456, subd. 2.

¹⁴ Department of Administration's Purchasing Card Use Policy 2.1, section 2.53.



September 13, 2013

Mr. James R. Nobles
Office of the Legislative Auditor
Centennial Office Building, Room 140
658 Cedar Street
Saint Paul, MN 55155-1603

Dear Mr. Nobles:

Thank you for the opportunity to review and comment on the Office of the Legislative Auditor's compliance audit of the state purchasing card program.

We appreciate the thorough work that went into this audit. We agree with its findings and recommendations. They are consistent with the department's objective of enforcing high ethical standards for public procurement.

One recommendation was addressed specifically to this agency:

- The Department of Administration should enhance its current purchasing card policy to address vendor loyalty program benefits, purchases of sensitive items, and periodic review and recertification of employees' purchasing card authorizations.

The department plans to revise our purchasing card policy to address each of the specific issues cited. We will also review the audit's general recommendations and make further revisions to our policy in those instances where it may help reinforce the audit's conclusions. The person responsible for these changes is Kent Allin, Chief Procurement Officer. The policy changes will be completed no later than November 1, 2013.

The report also identified that one of Admin's cardholders purchased a sensitive item. The agency immediately reminded division cardholders that sensitive items are not to be purchased using a state purchasing card. In addition, there were a limited number of purchases for fuel. The vehicle fuel purchases were made when the *fleet card* was not accepted at the station and for other types of non-motorized vehicle fuel.

Following the release of the state purchasing card policy revision, the agency's policy will be updated and purchasing cardholders and their supervisors notified of changes. The person responsible for updating this policy is Lenora Madigan, Financial Management and Reporting Director.

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The agency's policy and purchasing card notification is expected to occur within four months of the release of the statewide policy.

We value the work of your agency and the professionalism of your staff. If you have additional questions, please contact either [Kent Allin](#) or [Lenora Madigan](#).

Sincerely,

A handwritten signature in black ink that reads "Spencer Cronk". The signature is written in a cursive style with a long horizontal flourish at the end.

Spencer Cronk
Commissioner

September 10, 2013

Mr. James Nobles,- Legislative Auditor
First Floor, Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to the findings and recommendations related to the state purchasing card audit for the two year period ending December 31, 2012. The report indicates that employees generally complied with the state's policies and procedures, but noted some deviations.

Audit Finding 2: Some employees used purchasing cards to buy items that were prohibited by policy, exceeded authorized transaction limits, or failed to accurately pay states sales and use taxes.

Recommendation:

Agencies should ensure that employees' purchasing card transactions comply with applicable requirements of state statute and policy. Agencies should consider doing the following:

- *training employees and supervisors about the requirements, and*
- *developing processes to detect and correct noncompliant transactions, including purchases of prohibited items, purchases split to avoid transaction limits, and the accurate payment of sales and use taxes.*

Response: The audit tested fifty-six purchasing card transactions initiated by DEED cardholders. These transactions totaled \$29,821. There were three transactions totaling \$111.29 in which employees used the card to purchase fuel. There was one instance in which an employee split a purchase to the same vendor and thereby exceeded the single transaction limit. One transaction failed to accurately assess the sales/use tax. During the two years ending December 31, 2012, DEED purchasing card payments totaled over \$2.4 million.

The department will follow up with employees who have used the card to purchase fuel and we will take appropriate action to help prevent future infractions. Employees are required to complete a purchasing violation form and are given instructions on how to appropriately

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purchase fuel. While it does not appear that there are any preventive controls which will block split transactions, the department recently began using the bank's split transactions data analytics tool. This will assist us in detecting transactions initiated to the same vendor on the same day which may have been split in order to avoid the single transaction limit. The department's financial services unit reviews purchasing card transactions to determine the sales/use tax calculation. We believe that this provides adequate internal control to ensure accurate assessment of the sales/use tax.

Julie Freeman, chief financial officer, will oversee resolution of this finding by November 30, 2013.

Audit Finding 3: Several state agencies did not have adequate documentation to support some purchasing card transactions.

Recommendation:

Agencies should ensure that they retain the required documentation to support purchasing card transactions, including original itemized receipts and purchasing logs that are reviewed and approved by the employees' supervisors.

Response: The auditor identified six transactions in which cardholders failed to provide an original or itemized receipt. We will reinforce the need for cardholders to obtain an original itemized receipt. We require notarized affidavit when a technical or mechanical issue prevents a cardholder from obtaining an original itemized receipt. The auditor identified two transactions in which cardholders did not sign the purchasing card log. One transaction indicated the lack of a supervisor's signature on the log and one transaction indicated that the employee who signed as the supervisor did not have such authorization. We will reinforce the requirement for appropriate and authorized signatures among cardholders and supervisors. Our financial services employees who process bank payments return logs to cardholders and supervisors when signatures are missing. We believe that this is an adequate internal control procedure.

Julie Freeman, chief financial officer, will oversee resolution of this finding by November 30, 2013.

Audit Finding 4: Several agencies did not comply with some purchasing card program requirements; they lacked adequate documentation to support some employees' purchasing card authorizations and transaction limits and did not notify the Legislative Auditor about suspected misuse.

Recommendations:

- *Agencies should review purchase card documentation to ensure that they have signed authorizations and acknowledgments for each purchase cardholder and that authorized purchasing limits agree to the limits recorded by US Bank.*

- *Agencies should promptly report all instances of unauthorized transactions to the Office of the Legislative Auditor.*

Response: The auditor identified one instance in which the cardholder credit limits on the application did not match the bank's limits. Of the approximately one hundred twenty signed cardholder applications, three applications were not signed by the purchasing card administrator. Two applications lacked supervisor signatures and one cardholder agreement was not on file.

We will obtain the necessary signatures and agreement. Our file indicates that the cardholder with an apparent discrepancy signed a special use agreement authorizing up to \$5,000 per transaction and \$25,000 per month. When the cardholder completed the transactions which exceeded the normal limits, an authorized employee made the appropriate electronic entry which reduced those limits to the standard levels. We do not believe that there is any policy directive to obtain additional documentation when credit limits are reduced. However, we will modify the current practice which will include file documentation showing the return to standard authorization limits.

Julie Freeman, chief financial officer, will oversee resolution of the finding by November 30, 2013.

If you have any questions or need additional information, please contact Julie Freeman, chief financial officer, at Julie.Freeman@state.mn.us or 651-259-7081.

My best regards,



Katie Clark Sieben
Commissioner

cc: Julie Freeman, CFO
Keith Deckert, Internal Auditor



Protecting, maintaining and improving the health of all Minnesotans

September 13, 2013

Mr. James R. Nobles
Office of the Legislative Auditor
658 Cedar Street
Suite 140 Centennial Office Building
St. Paul, MN 55155-1603

Dear Mr. Nobles:

Thank you for the opportunity to respond to your audit report regarding compliance with the state's purchasing card program. The following statements describe the corrective actions already taken or that will be taken to address the findings and recommendations in your report.

Finding #2

Some employees used purchasing cards to buy items that were prohibited by policy, exceeded authorized transaction limits, or failed to accurately pay state sales and use taxes.

Recommendation

Agencies should ensure that employees' purchasing card transactions comply with applicable requirements of state statute and policy. Agencies should consider doing the following:

- training employees and supervisors about the requirements, and
- developing processes to detect and correct noncompliant transactions, including purchases of prohibited items, purchases split to avoid transaction limits, and the accurate payment of sales and use taxes.

Response

We agree with the finding and have already taken some steps to remedy the issues. We plan to hold trainings for new and existing cardholders by June 30, 2014. We have split the purchase card functions among two staff to ensure proper sales tax payment and better monitoring of purchase card transactions.

Person(s) Responsible

Sherry Kromschroeder, Financial Services Director

Finding #3

Several state agencies did not have adequate documentation to support some purchasing card transactions.

Recommendation

Agencies should ensure they retain the required documentation to support purchasing card transactions, including original itemized receipts and purchasing logs that are reviewed and approved by the employees' supervisors.

Response

We agree with the finding and recommendation. We have implemented a new process to ensure that all documentation is received from the cardholders in a timely manner. All cardholders who do not respond will have their cards revoked. We consider this finding to be resolved.

Person(s) responsible

Sherry Kromschroeder, Financial Services Director

Finding #4

Several agencies did not comply with some purchasing card program requirements; they lacked adequate documentation to support some employees' purchasing card authorizations and transaction limits and did not notify the Office of the Legislative Auditor about suspected misuse.

Recommendation

Agencies should review purchase card documentation to ensure they have signed authorizations and acknowledgements for each purchase cardholder and that authorized purchasing limits agree to the limits recorded by US Bank.

Response

We agree with the finding and recommendation. We have split the purchase card functions among two staff to ensure better monitoring of purchase card transactions and better documentation for authorizations and transaction limits. We consider this part of the finding to be resolved.

Person(s) responsible

Sherry Kromschroeder, Financial Services Director

Recommendation

Agencies should promptly report all instances of unauthorized transactions to the Office of the Legislative Auditor.

Response

We agree with the finding and recommendation. As part of the reconciliation process, all inappropriate transactions will be flagged, resolved, and reported to MDH internal audit for reporting to the OLA. We consider this finding to be resolved.

Person(s) responsible

Sherry Kromschroeder, Financial Services Director

Sincerely,

A handwritten signature in black ink, appearing to read "Edward P. Ehlinger". The signature is fluid and cursive, with a long horizontal stroke at the end.

Edward P. Ehlinger, M.D., M.S.P.H.
Commissioner
P.O. Box 64975
St. Paul, MN 55164-0975



Minnesota Department of **Human Services**

September 13, 2013

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Centennial Office Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to review and comment on the findings in the multi-agency report titled Purchasing Card Program Compliance Audit for the Two Years Ended December 31, 2012. We recognize the important role purchasing cards play in our daily operations and take very seriously the risk that comes with administering over 800 cards.

The audit results confirm our belief that we have built a strong control environment over this process, and we appreciate your efforts to help us maintain and improve these controls. Below are the department's responses to the findings and recommendations.

Audit Finding #1

The state's purchasing card policy did not address employees' receipt of benefits through vendor loyalty programs, adequately define some types of prohibited purchases, and did not include a requirement to periodically review and recertify the appropriateness of purchasing card authorizations.

Audit Recommendation #1

Recommendations

- *The Department of Administration should enhance its current purchasing card policy to address vendor loyalty program benefits, purchases of sensitive items, and periodic review and recertification of employees' purchasing card authorizations.*

Department of Human Services'
Response to the Legislative Audit Report titled
Purchasing Card Program Compliance Audit
For the Two years Ended December 31, 2012

Agency Response to Audit Recommendation #1-1

The department agrees with this finding and recommendation. We will coordinate with the Department of Administration and create an internal policy to be included in the 2014 revision of the department's Purchasing Card Policies and Procedures. The revised policies will be communicated to all cardholders by November 30, 2013. This revision and new process will also be included in our 2014 annual purchasing card recertification course that we expect all card holders to complete by the end of this fiscal year.

Person Responsible: Mike LaValle
Estimated Completion Date: June 30, 2014

Audit Finding #2

Some employees used purchasing cards to buy items that were prohibited by policy, exceeded authorized transaction limits, or failed to accurately pay state sales and use taxes.

Audit Recommendation #2

Recommendation

- *Agencies should ensure that employees' purchasing card transactions comply with applicable requirements of state statute and policy. Agencies should consider doing the following:*
 - *training employees and supervisors about the requirements, and*
 - *developing processes to detect and correct non-compliant transactions, including purchases of prohibited items, purchases split to avoid transaction limits, and the accurate payment of sales and use taxes.*

Agency Response to Audit Recommendation #2

The department agrees with this finding and recommendation. We will send a memo to all card holders emphasizing compliance with all applicable requirements of state statute and policy no later than November 30, 2013. We will also utilize our annual recertification course to review the policies regarding sensitive items and the splitting of purchases to avoid transaction limits. Additionally, our annual recertification process will instruct cardholders on the SWIFT payment/reconciliation process for sales tax obligations that are now required pre-voucher. We will review this process with the card coordinators.

Person Responsible: Mike LaValle
Estimated Completion Date: June 30, 2014

Department of Human Services'
Response to the Legislative Audit Report titled
Purchasing Card Program Compliance Audit
For the Two years Ended December 31, 2012

Audit Finding #3

Several state agencies did not have adequate documentation to support some purchasing card transactions.

Audit Recommendation #3

Recommendation

- *Agencies should ensure they retain the required documentation to support purchasing card transactions, including original itemized receipts and purchasing logs that are reviewed and approved by the employees ' supervisors.*

Agency Response to Audit Recommendation #3

The Department agrees with the finding and recommendation. The department is confident the related purchases were reviewed and approved. We recognize that we initially encountered some deficiencies in our scanning and records retention process and those issues were resolved shortly after our staff discovered them. The department will send a memo to all card holders emphasizing the importance of documenting compliance with all applicable requirements of state statute and policy no later than November 30, 2013. We will use our annual recertification class to remind cardholders of the documentation requirements as well as design and utilize a repository for purchasing card records in addition to the Accounts Payable records management process.

Persons responsible: Mike LaValle
Estimated completion date: June 30, 2014

Audit Finding #4

Several agencies did not comply with some purchasing card program requirements; they lacked adequate documentation to support some employees' purchasing card authorizations and transaction limits and did not notify the Office of the Legislative Auditor about suspected misuse.

Audit Recommendation #4

Recommendations

- *Agencies should review purchase card documentation to ensure they have signed authorizations and acknowledgements for each purchase cardholder and that authorized purchasing limits agree to the limits recorded by US Bank.*
- *Agencies should promptly report all instances of unauthorized transactions to the Office of the Legislative Auditor.*

Department of Human Services'
Response to the Legislative Audit Report titled
Purchasing Card Program Compliance Audit
For the Two years Ended December 31, 2012

Agency Response to Audit Recommendation #4

The Department agrees with this finding and recommendation. We will review and confirm the purchasing card documentation for each cardholder and include that in our newly designed purchasing card repository under each cardholder's profile. The process for reporting unauthorized transactions will be reviewed and updated to report all cases regardless if there was a financial loss or not to the agency.

Persons Responsible: Mike LaValle
Estimated Completion Date: December 31, 2013

Thank you again for the professional and dedicated efforts of your staff during this audit. The Department of Human Services policy is to follow up on all audit findings to evaluate the progress being made to resolve them. Progress is monitored until full resolution has occurred. If you have any further questions, please contact Gary L. Johnson, Internal Audit Director, at (651) 431-3623.

Sincerely,



Lucinda E. Jesson
Commissioner



DEPARTMENTS OF THE ARMY AND THE AIR FORCE
JOINT FORCE HEADQUARTERS MINNESOTA
OFFICE OF THE ADJUTANT GENERAL
20 12TH STREET WEST
SAINT PAUL, MN 55155-2004

September 11, 2013

The Adjutant General

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
140 Centennial Office Building
658 Cedar Street
St. Paul, MN 55155-4708

Dear Mr. Nobles:

Thank you for the opportunity to review and respond to the recommendation outlined in the draft audit report of the state's purchasing card. This is our written response to the audit findings and recommendations outlined in the draft audit report.

Audit Finding 2

Some employees used purchasing cards to buy items that were prohibited by policy, exceeded authorized transaction limits, or failed to accurately pay state sales and use taxes.

- Fuel
- Sensitive items

Audit Recommendation

Agencies should ensure that employees' purchasing card transactions comply with applicable requirements of state statute and policy. Agencies should consider doing the following:

- Training employees and supervisors about the requirements, and
- Developing processes to detect and correct noncompliant transactions, including purchases of prohibited items and the accurate payments of sales and use taxes.

Agency Response to Recommendation

The department concurs with the recommendation. The agency will conduct training for employees and supervisors. Moreover, the agency will implement a review process to detect and correct noncompliant transactions.

Person Responsible: CPT Eric Athman, Military Auditor, Department of Military Affairs
Estimated Completion Date: November 30, 2013

Audit Finding 3

Several state agencies did not have adequate documentation to support some purchasing card transactions.

- Missing or deficient transaction receipts
- Missing, unsigned, or unapproved purchasing logs

Audit Recommendation

Agencies should ensure they retain the required documentation to support purchasing card transactions, including original itemized receipts and purchasing logs that are reviewed and approved by the employee’s supervisors.

Agency Response to Recommendation

The department concurs with the recommendation. The agency will implement a review process to ensure that the agency retains the required documentation to support purchasing card transactions, including original itemized receipts and purchasing logs that are reviewed and approved by the employee’s supervisors.

Person Responsible: CPT Eric Athman, Military Auditor, Department of Military Affairs
Estimated Completion Date: November 30, 2013

Audit Finding 4

Several state agencies did not comply with some purchasing card program requirement; they lacked adequate documentation to support some employees’ purchasing card authorization and transaction limits.

- Card limit discrepancies

Audit Recommendation

Agencies should review purchase card documentation to ensure they have signed authorizations and acknowledgements for each purchase cardholder and that authorized purchasing limits agree to the limits recorded by US Bank.

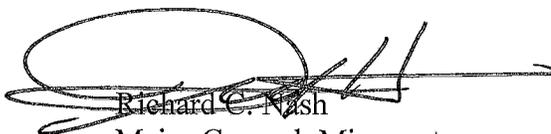
Agency Response to Recommendation

The department concurs with the recommendation. The agency has updated signed authorizations and acknowledgments to ensure that purchasing limits agree to the limits recorded by US Bank.

Person Responsible: CPT Eric Athman, Military Auditor, Department of Military Affairs
Estimated Completion Date: Completed

Again, thank you for the opportunity to review and respond to the department’s audit findings. If you have any further questions or concerns, please do not hesitate to contact me.

Sincerely,



Richard C. Nash
Major General, Minnesota
Army National Guard
The Adjutant General

CF:
Donald Kerr
Eric Athman
Ben LaBelle
David Polisen



September 9, 2013

Mr. James Nobles
Office of the Legislative Auditor
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles,

We appreciate the opportunity to respond to your audit findings in your letter dated August 29, 2013.

Finding 1:

The State purchasing card policy did not address employees receipt of benefits through vendor loyalty programs, adequately define some types of prohibited purchases, and did not include a requirement to periodically review and recertify the appropriateness of purchasing card authorizations.

Recommendation: The Department of Administration should enhance its current purchasing card policy to address vendor loyalty program benefits, purchase of sensitive items and periodic review and recertification of employees purchasing cards authorizations..

Response: The Minnesota zoo will adhere to the revised purchasing card policy issued by the Department of Administration. Since your field work at the Zoo, loyalty programs have been cancelled and the zoo began a review and recertification of all purchasing cardholders authorizations.

Finding 2: Some employees used purchasing cards to buy items that were prohibited by policy, exceeded authorization transaction limits, or failed to accurately pay state sales taxes.

Recommendation: Agencies should ensure that employees' purchasing card transactions comply with applicable requirements of state statute and policy. Agencies should consider doing the following:

- training employees and supervisors about the requirements, and
- developing processes to detect and correct non-compliant transactions, including purchases of prohibited items, purchases split to avoid transaction limits, and the accurate payment of sales and use taxes.

Response: The Zoo sent an updated notification to all purchasing cardholders of prohibited transactions. In addition individual cardholders were contacted and notified of the following procedures: issuance of additional gas cards for purchasing fuel, and the consequences of violating prohibited purchases, such as suspension of cards for a specified period.

Appropriate sales tax will be paid to the Department of Revenue for future purchases.

Thank you for your efforts on this audit. We look forward to working with you in the future.

Sincerely,

A handwritten signature in black ink, appearing to read "Lee C. Ehmke". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Mr. Lee C. Ehmke
Director / CEO
Minnesota Zoological Society

Minnesota Department of Natural Resources



September 13, 2013

Mr. James Nobles, Legislative Auditor
Office of the Legislative Auditor
658 Cedar Street
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to the findings of the audit of the State Purchasing Card Program for the period January 1, 2011 through December 31, 2012. While this audit encompassed multiple state agencies, there were two specific references to the Department of Natural Resources (DNR) that we are responding to below.

Audit Finding 2: Some employees used purchasing cards to buy items that were prohibited by policy, exceeded authorized transaction limits, or failed to accurately pay sales and use taxes.

The DNR had two items purchased that were prohibited by policy totaling \$1,228. The purchases were appropriate and for authorized state business purposes.

The DNR had one instance of inaccurate sales and use tax payment totaling \$54.

Audit Recommendation:

- *Agencies should ensure that employees' purchasing card transactions comply with applicable requirements of state statute and policy. Agencies should consider doing the following:*
 - *training employees and supervisors about the requirements, and*
 - *developing processes to detect and correct noncompliant transactions, including purchases of prohibited items, purchases split to avoid transaction limits, and the accurate payment of sales and use taxes.*

DNR Response

The DNR will expand its annual purchasing card training to include supervisors of cardholders and those involved with purchasing card log reviews. We will include clear information about prohibited purchases including defined sensitive items. We will train purchasing account managers and staff charged with reviewing logs to use appropriate tools such as those available through the purchasing card contract to detect certain prohibited practices.

Person Responsible: Jerry Hampel

Implementation Date: 3/1/2014

Audit Finding 3: Several state agencies did not have adequate documentation to support some purchasing card transactions.

The DNR had one instance of missing supervisor signature on an affidavit in lieu of receipt for a purchase totaling \$77. The supervisor did sign the purchasing log.

The DNR had two non-original or non-itemized receipts for purchases totaling \$2,998.

The DNR had two instances of incorrect supervisor signature and three instances of missing supervisor signature on purchasing logs.

Audit Recommendation:

- *Agencies should ensure they retain the required documentation to support purchasing card transactions, including original itemized receipts and purchasing logs that are reviewed and approved by the employees' supervisors.*

DNR Response

The DNR will expand its annual purchasing card training to include supervisors of cardholders and those involved with purchasing card log reviews. In the annual training, we will remind staff of the steps that are to be taken to ensure logs are properly signed by both cardholders and supervisors.

Person Responsible: Wanda Dahlhoff

Implementation Date: 12/1/2013

The DNR has a dispersed workforce and relies on decentralized purchasing to support this workforce. We take seriously the need for strong safeguards while balancing the need for effective program operations. The DNR looks forward to working with Admin, MMB and other state agencies on continuous improvement initiatives that streamline policies, procedures and documentation requirements.

Again, thank you for the opportunity to respond to the audit findings and recommendations.

Sincerely,



Tom Landwehr
Commissioner

Copy: Denise Anderson, Chief Financial Officer
Jerry Hampel, Assistant Administrator, Office of Management and Budget Services



Minnesota Department of Transportation
395 John Ireland Boulevard
Saint Paul, MN 55155

Date: September 13, 2013

James R. Nobles
Legislative Auditor
100 Centennial Office Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Thank you for the opportunity to review and respond to the compliance audit of purchasing card expenditures where the scope included transactions from the Department of Transportation. This letter is the Department of Transportation's response to the draft report issued by the Office of Legislative Auditor.

Finding 1 – No response needed. This finding was written for another agency.

Finding 2 – Some employees used purchasing cards to buy items that were prohibited by policy, exceed authorized transaction limits, or failed to accurately pay state sales and use tax.

Recommendation 2 – Agencies should ensure that employees' purchasing card transactions comply with applicable requirements of state statute and policy. Agencies should consider doing the following:

- **Training employees and supervisors about the requirements, and**
- **Developing processes to detect and correct noncompliant transactions, including purchases of prohibited items, purchases split to avoid transaction limits, and the accurate payment of sales and use taxes.**

***Response -** The Department of Transportation believes strongly in internal controls and concurs with this finding and recommendation. The department will have the MnDOT Office of Audit review the discrepancies to ensure that no inappropriate purchases were made. They will also follow-up with personnel and determine where the internal control broke down and recommend appropriate action.*

Finding 3 – Several state agencies did not have adequate documentation to support some purchasing card transactions.

Recommendation 3 –Agencies should ensure they retain the required documentation to support purchasing card transactions, including original itemized receipts and purchasing logs that are reviewed and approved by the employees’ supervisors.

Response - The Department of Transportation believes strongly in internal controls and concurs with this finding and recommendation. The department will have the MnDOT Office of Audit review the discrepancies, follow-up with personnel, determine where the internal control broke down and recommend appropriate action.

Finding 4 – Several agencies did not comply with some purchasing card program requirements; they lacked adequate documentation to support some employees’ purchasing card authorizations and transaction limits and did not notify the Office of Legislative Auditor about suspected misuse.

Recommendation 4

- **Agencies should review purchase card documentation to ensure they have signed authorizations and acknowledgements for each purchase cardholder and that authorized purchasing limits agree to the limits recorded by US Bank.**
- **Agencies should promptly report all instances of unauthorized transactions to the Office of the Legislative Auditor.**

Response - The Department of Transportation believes strongly in internal controls and concurs with this finding and recommendation. The department will have the MnDOT Office of Audit review the discrepancies, follow-up with personnel, determine where the internal control broke down and recommend appropriate action.

Thank you for the opportunity to respond to your findings and recommendations. MnDOT will monitor the implementation to the successful resolution of these findings. Please contact Suzanne Thayer, Safeguarding MnDOT Program Manager, at 651-366-3941 with questions.

Sincerely,



Charles A. Zelle
Commissioner of Transportation