

# State of Delaware Office of Auditor of Accounts

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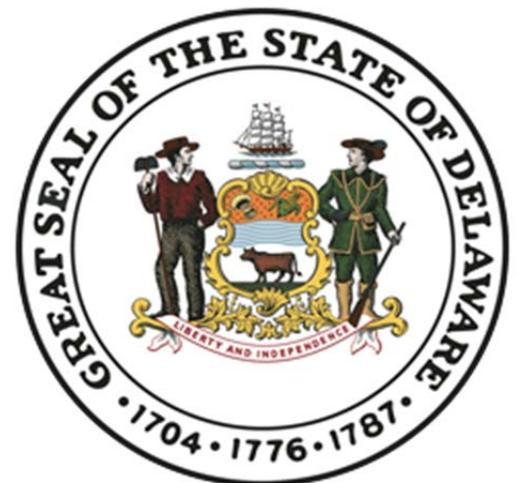
## Procurement Card & Employee Direct Reimbursements

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### Inspection

Issuance Date: July 30, 2014

R. Thomas Wagner, Jr., CFE, CGFM, CICA  
Auditor of Accounts





State of Delaware  
Office of Auditor of Accounts  
R. Thomas Wagner, Jr., CFE, CGFM, CICA

# At a Glance

*Working Hard to Protect YOUR Tax Dollars*

### Report Fraud, Waste, and Abuse

Citizens have the right to demand that their tax dollars are properly spent. Fight fraud, waste, and abuse in State government by contacting our confidential Fraud Hotline with supporting evidence.

Our Fraud Hotline can be anonymously reached through the following options:

**1-800-55-FRAUD**  
or  
**auditor.delaware.gov**

This inspection was performed in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*.

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### Why We Did This Review

Various allegations and speculation surrounding specific Procurement Card (PCard) expenses precipitated the need for independent review. To provide a statewide context, the Office of Auditor of Account’s (AOA) inspection took into account how similarly placed elected and appointed State officials use their PCards.

### What We Found

Our procedures revealed that the State of Delaware *Budget and Accounting Manual* rules surrounding travel and PCard use are confusing and a moving target. So much so that the Office of Management and Budget’s (OMB) own staff, which processes the Governor’s travel and PCard transactions, had various instances of non-compliance.

All state agencies reviewed during this inspection had some form of non-compliance. Selective enforcement of the Out-of-State Travel Authorization Form for elected and appointed officials was the most concerning non-compliance issue. Use of this form will ensure prior approval is obtained and provides an opportunity to communicate any concerns with non-compliance. Additionally, the form should provide documentation of cost-benefit consideration, emergency scheduling, arrangements made based on security concerns, all funding sources, and related reimbursements.

Despite public scrutiny and various reports to the contrary, we found that the Treasury employees charged with internal control responsibility followed timely and appropriate procedures, which directly resulted in restitution to the State.

AOA hopes all State officials will accept the observations, comments, and recommendations in this report in an effort to support efficient and cost effective operations. AOA also encourages necessary communication, even with those in the most highly placed positions.

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## ***Background***

Given the ongoing public dialog between various State Offices, growing public allegations, and widespread speculation about Procurement Card (PCard) and travel improprieties, the Office of Auditor of Accounts (AOA) found it necessary to perform an independent review.

AOA did not identify any statutory authority that would exempt appointed and elected officials from following the State of Delaware *Budget and Accounting Manual* (Budget and Accounting Manual); further, Section 1.2 states, “The Manual provides budgeting and accounting guidance and instruction to citizens, appointed and elected officials, State employees...It is a point of reference for State employees and users of the State’s finance and accounting system.”

### **Delaware’s PCard Program<sup>1</sup>**

Per the *Budget and Accounting Manual* Section 12.1, the State of Delaware through the Division of Accounting (DOA) contracted with JPMorgan Chase (JPMC) Bank to provide state agencies with a VISA card program for procurement and/or travel purchases. JPMC’s online card administration software (PaymentNet) allows for the State to manage certain aspects of the PCard program via the Internet at the state level.

Only state employees<sup>2</sup> are eligible for participation in the PCard program with appropriate approvals from their agency.

The PCard should be used for all common carriers (airlines, rail, or bus), car rental, lodging, meals (food, beverage, tax, and tips) while traveling out-of-state, and authorized miscellaneous expenses. If using a State Fleet vehicle, the PCard may be used for out-of-state gasoline purchases only if the traveler is in a location where the Fleet Services fuel access card cannot be used. Regardless of the reason or type of purchase, all PCard receipts must be kept for reconciliation purposes. All PCard transactions must also comply with accounting procedures and state laws governing purchases.

### **Delaware’s Travel Policy<sup>3</sup>**

According to Section 11.1.1 of the *Budget and Accounting Manual*, Delaware’s travel policy provides guidelines and specific procedures with regard to authorized travel expenses incurred in the conduct of state business. Each agency’s management is responsible for control over and approval of travel-related expenditures. Agencies’ internal controls must include policies covering the designation of approving authorities for travel expenditures.

The travel policy is an “Accountable Plan” for IRS purposes, and as such, employee reimbursements are not reported as pay. “Accountable Plans” require per diem rates be “similar in form to and not more than the federal rate”. The federal rates are established by the U.S. General Support Agency each year.

According to Section 11.1.3 of the *Budget and Accounting Manual*, all out-of-state travel that extends beyond one day shall be approved by the designated organization approval authority. All requests shall

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<sup>1</sup> The most current version of the *Budget and Accounting Manual* available at the start of the inspection for Chapter 12 is v.5.1, dated October 11, 2011.

<sup>2</sup> Per Section 12.1 of the *Budget and Accounting Manual*, State employees are defined as individuals who receive a paycheck through the PHRST system, and who are paid directly by state agencies.

<sup>3</sup> The version of the *Budget and Accounting Manual* used for Chapter 11 is v.4.13. This version is not dated.

be made on the Out-of-State Travel Authorization Form. The authorization form should be submitted to the agency approval authority prior to traveling and in compliance with agency requirements.

Section 11.1.4 of the *Budget and Accounting Manual* requires that “the primary method of payment for travel expenses is the Delaware PCard. The PCard must not be used for personal or unauthorized purposes. The PCard is to be used for authorized expenses for State personnel only and may not be used to charge expenses for family members or others not on official State business. Employees may not use the PCard to charge expenses for others [nonemployees], even with the intent to reimburse the State...Employees must retain itemized receipts for all PCard transactions...”

## ***Procedures and Results***

It is fairly common knowledge that, particularly in state government, most elected and appointed officials, along with their senior staff, are expected to travel for business purposes. In fact, excessive restrictions and limitations on travel can be disadvantageous to the State and, in the end, not at all cost effective. In addition to being economically advantageous, government business travel provides a transfer of knowledge, communication of government programs, education of regulatory and legal standards, and employee development and training. All of these benefits lead to enriched services to taxpayers. Overall, the government and its citizens cannot afford to forfeit the economic advantages or the knowledge and efficiency that are gained from business travel.<sup>4</sup>

AOA evaluated all types of records throughout the inspection process to allow for the detection of a more sophisticated level of misappropriation and mismanagement. As such, AOA consistently evaluated direct reimbursement activity along with other procedures to ensure a rigorous and thorough inspection. Any and all reportable issues are reflected in this report.

### **Issues with the *Budget and Accounting Manual***

AOA evaluated travel expenses and direct reimbursements against the requirements of the *Budget and Accounting Manual*. In general, we found consistent noncompliance with exhaustive and bureaucratic instructions.

The *Budget and Accounting Manual* could take a more cost effective approach to the guidelines set for agencies to implement internal controls. For example, the *Budget and Accounting Manual* already restricts meals and incidental expenses (MIE) based on the federally published U.S. General Support Agency (GSA) rate, but the Office of Management and Budget (OMB) insists on adding further restrictions and administrative procedures that add no value to the GSA restrictions already in place. Thus, the salary and administrative expenses from the additional processing cost the State more than double the original travel expense. Allowing agencies to choose the most cost effective approach to MIE expenses through a daily MIE allowance approach<sup>5</sup>, in addition to saving taxpayer money, would be less tedious for all involved.

In another example, agencies must obtain prior approval from OMB and Division of Accounting (DOA) when lodging exceeds 150 percent of the GSA rate, even if the agency thoroughly documents the cost benefit of exceeding the authorized rate (e.g. the conference hotel is more expensive per night, but saves on the cost of taxi fare). Currently, none of the agencies and departments reviewed during this inspection, including OMB, is following the *Budget and Accounting Manual* guidelines but were able to make compelling after-the-fact arguments about the need or cost savings.

Moreover, the *Budget and Accounting Manual* is updated frequently throughout the year<sup>6</sup> without any notice to the users. Most of the agencies that were included in this inspection expressed concern with the multitude of updates as well as the conflicting language in the *Budget and Accounting Manual*. To compound the issues, OMB confirmed that there are no “comprehensive archives” to capture changes to

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<sup>4</sup> Obtained from [http://www.ustravel.org/sites/default/files/page/2009/07/Report\\_GovtMeetings\\_June2013.pdf](http://www.ustravel.org/sites/default/files/page/2009/07/Report_GovtMeetings_June2013.pdf) on April 15, 2014.

<sup>5</sup> That can be done through direct reimbursements, not PCard charges. AOA agrees that all PCard purchases should require detailed receipts.

<sup>6</sup> A summary of the changes as of July 17, 2014 can be found at <http://budget.delaware.gov/accounting-manual/policy-manual-changes.pdf?ver=0717>.

the *Budget and Accounting Manual* since 2001. This is in direct violation of the State's archiving policy mandated by 29 Del. C. c. 5.

### **Direct Reimbursements to State Officials**

Direct reimbursements are a perfectly acceptable method to reimburse State employees for various State expenses, including travel. To provide a statewide context, AOA's inspection took into account how similarly placed elected and appointed State officials used direct reimbursements. Of the Governor, Transportation Secretary, State Treasurer, former Deputy Treasurer, Insurance Commissioner, and Director of the Delaware Economic Development Office (DEDO), only three individuals received direct reimbursements from November 1, 2011 through November 30, 2013: the Transportation Secretary, former Deputy Treasurer, and the DEDO Director.

The Transportation Secretary received approximately \$4,071 in direct reimbursements, of which \$3,000 was a reimbursement for relocation expenses when he was first appointed as Transportation Secretary. The remainder of the direct reimbursements included acceptable transactions with 'cash only' vendors, accidental use of his personal card, and Fuelman<sup>7</sup> card problems.

The former Deputy Treasurer's direct reimbursements for mileage and parking totaled approximately \$181 and were in compliance with State policy.

The DEDO Director received approximately \$18,222 in direct reimbursements during the period reviewed. Of this amount, approximately \$8,522 was spent on a trip to Chile to sign and extend Delaware's shipping agreement with Chilean fruit growers. A second reimbursement of approximately \$6,726 was for plane tickets to San Francisco, California to observe the technology of Bloom Energy and perform due diligence pursuant to an offer to locate Bloom Energy in Delaware.<sup>8</sup> For the San Francisco trip, the DEDO Director purchased plane tickets for himself, Deputy DEDO Director, the Governor's Deputy Chief of Staff, and a State Senator. The State Senator cancelled at the last minute. According to DEDO officials, these two trips exceeded the DEDO Director's PCard spending limit, so he opted for a direct reimbursement instead. The remaining \$2,974 in reimbursements was for various travel expenses.

Although the PCard is OMB's preferred choice for travel expenses, direct reimbursement is also acceptable.

### **State Officials' PCard Travel Expenses**

Of the State officials discussed above, we performed a more detailed review of the Governor, Transportation Secretary, State Treasurer, and Deputy Treasurer, as shown in Table 1. This table provides comparative information for all travel PCard activity from November 1, 2011 through November 30, 2013. The table below is **not** all-inclusive of trips taken by State officials as it only includes travel expenses charged to those State Officials' PCards.

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<sup>7</sup> State-owned vehicles are refueled by use of a restricted debit card called Fuelman. A Fuelman card is placed in the key wallet for each vehicle and may only be used at a Fuelman location.

<sup>8</sup> Subsequent to the DEDO Director's trip, Bloom Energy chose Newark, Delaware as the site for their new manufacturing center. Bloom Energy broke ground for the new site April 30, 2012.

<b>Description</b>	<b>Governor</b>	<b>Transportation Secretary</b>	<b>State Treasurer</b>	<b>Deputy Treasurer</b>
Hotels	\$ 6,664	\$ 8,032	\$ 14,597	\$ 8,127
Meals	1,153	1,202	276	2,472
Transportation	13,625	9,579	5,232	7,536
Parking	-	777	572	309
Conferences	-	4,560	4,605	6,615
Fuel	-	404	159	281
Internet Access	52	-	126	17
<b>Total</b>	<b>\$ 21,494</b>	<b>\$ 24,554</b>	<b>\$ 25,567</b>	<b>\$ 25,357</b>

We know of three international trips not reflected in the Table 1 above, in which the Governor did not use his PCard for travel. OMB officials<sup>9</sup> explained that the Governor’s international trips were paid for by the Delaware Department of State “...for trade missions and economic development intended to expand international export opportunities for Delaware businesses, market Delaware’s incorporation services and attract business to locate in Delaware...” Regardless of funding source an Out-of-State Travel Authorization Form is needed. If used properly, the authorization form provides a variety of controls such as justifying the length and purpose of the trip, all costs associated with the trip, refunds, third party subsidies, and subsequent reimbursements to the State.

#### **State Officials’ Reimbursements from Third Parties to Offset Travel Expenses**

Third party organizations often reimburse State employees, particularly State officials, for travel. However, the Treasurer and Deputy Treasurer were the only officials to provide support for these reimbursements during our on-site visits. The remaining agencies did not consistently maintain support with the PCard transactions to show that a third party reimbursed the State for a travel expense; therefore, the agencies had to find the information and provide it to us at a later date. The third party reimbursements that offset the expenses included in Table 1 are as follows:

- OMB officials provided support to demonstrate that the National Governors’ Association reimbursed the State for approximately \$7,583 of the expenses included in Table 1. Further, the Governor personally reimbursed the State \$1,005, of which \$5 was attributed to a meal discussed later in this report.
- DelDOT received approximately \$5,098 in reimbursements from third parties, such as the Northeast Association of State Transportation Officials (NASTO). The Transportation Secretary also personally reimbursed approximately \$295.
- The National Association of State Auditors, Comptrollers and Treasurers (NASACT) reimbursed the State Treasurer’s Office \$1,000 and the National Association of State Treasurers (NAST) also reimbursed the State Treasurer’s Office approximately \$2,926.

If the agencies properly used the Out-of-State Travel Authorization Form to document all funding sources for travel, AOA could have avoided using time after-the-fact for agencies to provide us with travel reimbursement information.

<sup>9</sup> OMB processes all financial transactions for the Governor and the Governor’s Office.

**OMB, Department of Transportation, Office of the State Treasurer, Department of Insurance & DEDO Travel Procedures**

In addition to the three departments reflected in Table 1, we also reviewed the travel procedures for the Department of Insurance and DEDO. During our inspection, we identified the following procedural issues:

- ✘ Five of the six State officials did not use the Out-of-State Travel Authorization Form<sup>10</sup>, illustrated in Figure 1, for any out-of-state travel as required by Section 11.1.3 of the *Budget and Accounting Manual*. The Transportation Secretary is the only State official that used this form. Completion of this form is required prior to travel and provides transparency on the purpose, time period, destination, and anticipated costs and subsidies related to the trip.
- ✘ Five of the six State officials did not use the Personal Expense Reimbursement Form<sup>10</sup>, shown in Figure 2. This action is required upon return from travel by Section 12.4.1 of the *Budget and Accounting Manual*, "...in order to document the expenses of the trip, **even if no money is owed to the employee.**" The Insurance Commissioner is the only State official that used this form. OMB modified the *Budget and Accounting Manual* in v.5.5 to remove the requirement of this form if no reimbursement is needed. There is not sufficient information to document the date of the change.
- ✘ As explained later in our report, the four officials included in Table 1 incurred travel expenses that exceeded 150 percent of the GSA rate and did not fully comply with Section 11.4.2(1)(f) of the *Budget and Accounting Manual*. Under this section, "agencies have the authority to approve lodging expenses up to 150 percent of the locality lodging per diem rate. To qualify for more than 150 percent of lodging per diem rate, it requires prior approval from OMB and Division of Accounting." If an agency finds that additional costs, such as transportation, will exceed the hotel rate, they should be able to use the most economical lodging, provided they document and provide support for the cost-benefit analysis, without obtaining prior approval from OMB and DOA.
- ✘ Section 11.4.2(2) of the *Budget and Accounting Manual* states that meals and incidental expenses are "not to exceed the standard" GSA rate, whereas the example provided in the *Budget and Accounting Manual*, illustrated in Appendix A, shows two calculations for meals and incidental expenses that exceed the standard GSA rate. The example was updated April 23, 2014, to remove the calculations exceeding the standard GSA rate for meals and incidental expenses.
- ✘ The Out-of-State Travel Authorization Form provided in the *Budget and Accounting Manual*, shown in Figure 1, excluded an estimated cost for meals for the majority of the period reviewed. However, with the cooperation of State officials, this section was corrected on April 23, 2014.

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<sup>10</sup> This form is also available at <http://extranet.fsf.state.de.us/forms.shtml>

Figure 1: Budget and Accounting Manual Out-of-State Travel Authorization Form



**STATE OF DELAWARE**  
**Travel Authorization Form**

Exhibit A

Employee Name	Date	Proposed Date(s) of Travel TO
Purpose and Remarks		
Destination	Estimated Cost	
Mode of Travel	A. Mileage (Prior Written Approval)	
Lodging	B. Common Carrier	
Appropriation to be Charged	C. Lodging Cost	
	D. Tolls, Parking, Taxi, etc.	
	E. Registration Fee	
	F. Other	
	Total Cost _____	
<b>TRIP REPORT</b>		
Activities, Accomplishments, Required Follow-up and Remarks		
Employee Signature		Date
Supervisor Signature		Date
Supervisor Name (Print)		
Director Signature		Date
Director Name (Print)		

Meals added to Budget and Accounting Manual as of April 23, 2014

Form # AP006 Page 1 of 1 Revised (12/12/2013)

AOA recommends the following improvements in agency documentation when using the Out-of-State Travel Authorization Form:

- Complete and approve for all employee travel, regardless of funding source;
- Maintain support for PCard credit transactions with the Out-of-State Travel Authorization Form;
- Record reasons and support for cancellations;
- Include support to validate the purpose and length of the trip (e.g. official business purpose, copy of conference flyer, meeting agenda);
- Reconcile estimated cost per the Out-of-State Travel Authorization Form to actual costs and include an explanation for differences that are not self-evident (e.g. preferred seating was the only available option at the time of booking due to limited availability); and
- Include deposit information to demonstrate whether a transaction was reimbursed by a third party. This should stay with the Out-of-State Travel Authorization Form, if applicable.

Figure 2: Budget and Accounting Manual Personal Expense Reimbursement Form

Exhibit C



STATE OF DELAWARE  
Personal Expense Reimbursement

**\*Required**

Business Unit STATE	Voucher ID (system assigned)	*Invoice ID	*Invoice Date	*Goods Received Date	*Voucher Amount \$
*Vendor ID#		INSTRUCTIONS		*EMPLOYEE CERTIFICATION	
<p style="color: red; font-weight: bold;">Completion of the Personal Expense Reimbursement form is required even if no direct reimbursement is requested.</p>		<p>Reimbursement is limited to actual expenses incurred by STATE EMPLOYEES OR OFFICERS ONLY. Receipts are required for common carrier fares, lodging accommodations and for all items which would have required a vendor's bill had the transaction been directly between the agency and the vendor, reason for trip, document, entertainment other than self, list destination, and/or daily tabulation of mileage.</p>		<p>I do solemnly swear that the below mentioned expenses were incurred as a necessary expenditure in the conduct of state business and that the representations contained in this form are true and correct.</p>	
				<p>*Employee Signature/Date (No stamped signatures)</p>	

*DATE	*FROM	*TO	AND RETURN	# AUTO MILES	R.R. PLANE	TAXI BUS	BREAKFAST	LUNCH	DINNER	HOTEL MOTEL	MISCELLANEOUS	DESCRIPTION	AMOUNT
<b>Grand Total</b>				MILES @ .40:	\$	\$	\$	\$	\$	\$			\$

**FISCAL OFFICE USE ONLY**

Inv Line	Description										*Extended Amt	*Category Code	*Ship To	
PO#	Line#	Dist#	Amount	Bud Ref	Fund	DeptID	Oper Unit	Approp	Account	Program	School Code	PC BU	Project	Activity
			\$											
			\$											

Inv Line	Description										*Extended Amt	*Category Code	*Ship To	
PO#	Line#	Dist#	Amount	Bud Ref	Fund	DeptID	Oper Unit	Approp	Account	Program	School Code	PC BU	Project	Activity
			\$											
			\$											

Inv Line	Description										*Extended Amt	*Category Code	*Ship To	
PO#	Line#	Dist#	Amount	Bud Ref	Fund	DeptID	Oper Unit	Approp	Account	Program	School Code	PC BU	Project	Activity
			\$											
			\$											

Form # AP003 Page 1 of 1 Rev. 05/01/2011

**Total PCard Activity for State Officials**

We continued our comparative analysis for the four officials reviewed in Table 1 by looking at **all PCard activity**, not just travel. In Table 2 below, we reviewed all PCard activity from November 1, 2011 through November 30, 2013.

Description	Governor	Transportation Secretary	State Treasurer	Deputy Treasurer
Total PCard Activity	\$21,705	\$26,955	\$22,456	\$25,595
Affidavits <sup>11</sup> Used/Total Transactions	19/152	17/249	20/79	32/132
Value of Transactions with Affidavits	\$913	\$157	\$2,075	\$4,704
Improperly Supported Transactions/Total Transactions	1/152	7/249	7/79	26/132
Value of Improperly Supported Transactions <sup>12</sup>	\$(549) <sup>13</sup>	\$525	\$550	\$2,061

**Governor**

Since the Governor did not complete the travel form illustrated in Figure 1 above, AOA could not determine the intended duration and total cost of trips for travel taken by the Governor, regardless of the funding sources. AOA constructed Table 3 below based on isolated PCard transactions charged to the Governor’s PCard and the purpose of the trips as provided by OMB officials.

Destination	Purpose	PCard Activity
Palm Beach, FL	Invitation to speak at the Wall Street Journal Executive Task Force for Women in the Economy.	Flight Only
Hartford/Springfield, CT	Attendance at the CEO Summit “Reaping the Benefits of Disability Employment” and met with the CEOs of several large employers, including Walgreens.	Flight Only
Tokyo, Japan and Seoul, South Korea	Trade Mission organized by the Department of State.	Hotel and One Meal
Zurich, Switzerland	Attendance at the World Economic Forum 2013 as a representative and Chairperson of the National Governors Association.	Flight and One Meal
Reno, NV	Attendance at a Board Meeting of Jobs for America's Graduates in Reno, Nevada.	Flight Only
Los Angeles, CA	Invitation to speak at the Milken Institute 2013 Global Conference: Public Policy and Business Conference on the subjects of K-12	Flight and One Meal

<sup>11</sup> An affidavit is used when an employee cannot provide support (e.g. receipt) for a transaction. Further, Section 11.5 of the *Budget and Accounting Manual* states that “an affidavit should only be used once the employee has exhausted all reasonable measures for obtaining receipts. PCards may be cancelled due to excessive misuse of this form.”

<sup>12</sup> Section 12.3.2(e) of the *Budget and Accounting Manual* states that "Receipts, logs, and invoices must be maintained for audit purposes." Section 12.4.1(a) of the *Budget and Accounting Manual* states "Whenever a credit card transaction is made...documentation must be retained as proof of purchase..."

<sup>13</sup> The Governor’s Office received a \$549 refund for a cancelled hotel reservation, but the affidavit provided as support was not signed by anyone.

	Education and Global Capital Markets.	
Pittsburgh, PA	Attendance at the National Governors Association conference for his Chair's Initiative: A Better Bottom Line: Employing People with Disabilities.	Flight and One Meal
Seattle, WA	Attendance at the National Governors Association conference for his Chair's Initiative: A Better Bottom Line: Employing People with Disabilities.	Flight, Hotel, and One Meal
Milwaukee, WI	Attendance at the Summer Meeting of the National Governors Association.	Flight and two meals
Los Angeles, CA	Participation in the Australian American Leadership Dialogue (AALD) in Sydney, Australia and met in the Los Angeles area with leadership of the Dole Food Company about the Port of Wilmington.	Flight Only
San Francisco, CA	Meeting with entrepreneurs from the Plug and Play Tech Center and the App Academy to discuss opportunities in Delaware and also attended a meeting of Advanced Energy Economy.	Flight Only
Las Vegas, NV	Attendance at the National Association of Home Builders Annual Convention, at which Delawarean Kevin Kelly became Chairman of that organization.	Flight Only

Additionally, we found three separate transactions in which the Governor was not in compliance with Section 12.1.2 (b) (4) of the *Budget and Accounting Manual*, which states that “the PCard may be used to pay for meals for several employees while traveling within the same agency.” The total for all three transactions equaled approximately \$511 and was for occasions when the Governor hosted individuals who are not employees of the Governor’s Office, including Delaware legislators, the First Lady, and a Delaware cabinet secretary. The National Governors’ Association (NGA) reimbursed the State \$284 for these meals. The Governor also personally reimbursed the State \$5 for a portion of the meals.

The Governor’s PCard was also used to purchase \$128.50 of taffy that he gave to members of the Delaware National Guard deployed in Afghanistan. The Governor’s Office represented that this purchase was a form of employee recognition. The Deputy Treasurer purchased a \$59.99 ColdStone Cake to recognize a State employee for 50 years of service, which was disallowed and subsequently reimbursed by the former Deputy Treasurer. These two instances demonstrate a disparity in the requirement and enforcement of employee recognition.

We also identified nine instances in which the Governor was upgraded to ‘preferred’ or ‘choice’ seating. The additional charges totaled \$321. This directly contradicts Section 11.2.1 of the *Budget and Accounting Manual*, which states, “State funds shall not be expended to pay for priority boarding or preferred seating unless it is deemed medically necessary.” NGA reimbursed the State \$123 for these transactions. According to the Governor’s Office, air travel is sometimes booked on short notice, which may limit availability to premium seating.<sup>14</sup> Based on the justification provided by the Governor’s Office, these transactions are **not** permitted by the *Budget and Accounting Manual*.

AOA found that the Governor exceeded the 150 percent GSA lodging rate three times, totaling approximately \$312. While these GSA overages are in conflict with Section 11.4.2(1)(f) of the *Budget and Accounting Manual*<sup>15</sup>, the Governor’s Office represented that two of these overages, totaling

<sup>14</sup> This information was provided after AOA’s initial review and was not included in the original documentation.

<sup>15</sup> Section 11.4.2(1)(f) of the *Budget and Accounting Manual*, states that "agencies have the authority to approve lodging expenses up to 150 percent of the locality lodging per diem rate. To qualify for more than 150 percent of lodging per diem rate, it requires prior approval from OMB and DOA."

approximately \$248, occurred because it was more practical for the Governor to stay at the conference location. The United States Embassy recommended that the Governor stay in a certain hotel for security purposes, which caused the third GSA overage. In addition, NGA reimbursed the State for \$165 of the GSA overages.<sup>16</sup>

### ***Transportation Secretary***

We found three instances in which the Transportation Secretary exceeded 150 percent of the GSA rate for lodging required by the *Budget and Accounting Manual*<sup>17</sup>, totaling approximately \$178. AOA confirmed that \$21 of this overage was reimbursed by the NASTO.<sup>16</sup>

When reviewing support for the Transportation Secretary's \$14.90 purchase at a Rehoboth Beach restaurant<sup>18</sup>, we found a memo stating that the Department of Transportation hosted an in-state retreat on April 19, 2012, in Rehoboth Beach "in order to enable key staff to get away from their day-to-day duties and to focus on long-range strategic planning." This two-day retreat included an overnight stay for 18 DelDOT employees, which is against Section 11.4.2 (1)(a) of the *Budget and Accounting Manual*. This Section states that "lodging costs are authorized when approved official travel is out-of-state, more than 12 hours, and overnight lodging is required." The trip occurred despite DelDOT Administration advising the Secretary that in-state travel expenses are not allowed, and further suggested they move the venue to Ocean City, Maryland. Although we do not know the total cost of the event, the memo estimates lodging costs to be \$119 per each of the 18 attendees.

DelDOT retains all supporting documents per the State's retention schedule and scans the documents into a program called DocStar, a virtual archiving system. The agency represented during this process that the seven transactions reported in Table 2 were misplaced and not scanned.

### ***State Treasurer***

There were two instances in which the State Treasurer stayed at a conference location beyond the date of the conference. The first conference, hosted by NASACT, ended on the evening of August 15, 2012, but the Treasurer's return flight departed from Seattle, Washington on August 17, 2012. Assuming there was an available flight, he would have returned by August 16, 2012, except that he had meetings with investment companies. He also paid \$181.50 for a rental car from August 15, 2012, through August 16, 2012. Hotel expenses incurred for the extended stay totaled \$244. AOA confirmed that the State Treasurer received \$1,000 from NASACT as reimbursement toward trip expenses. The State Treasurer also reimbursed the State for a portion of what was already paid by NASACT, as explained below. Much like the Governor's Office, the State Treasurer provided AOA with the purpose of the trip because an Out-of-State Travel Authorization Form was not used. In our opinion, proper completion of this form should be enough to overt concerns about the nature or timing of the trip.

On a second occasion, the Treasurer attended a NAST conference in Anchorage, Alaska that was scheduled to conclude on September 12, 2012. His flight did not leave Anchorage, Alaska until

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<sup>16</sup> The reimbursements for GSA overages were provided after AOA's initial review and were not included in the original documentation.

<sup>17</sup> Section 11.4.2(1)(f) of the *Budget and Accounting Manual*, states that "agencies have the authority to approve lodging expenses up to 150 percent of the locality lodging per diem rate. To qualify for more than 150 percent of lodging per diem rate, it requires prior approval from OMB and DOA."

<sup>18</sup> After review of 29 Del. C. §5112, which permits state employees to be supplied with food during normal working hours, if the food is supplied as a part of an agency training function, such as a retreat or workshop, held away from the agency's home location." AOA did not take exception to the meals consumed during this event.

September 17, 2012. The Treasurer met with NAST officials and law firms regarding State portfolios and there were treasurers from other states present. Hotel expenses incurred for the extended stay totaled approximately \$617. The State Treasurer also received a \$2,926 check from NAST, which he applied to the September 2012 trip to Alaska, including the extended stay. NAST confirmed that the Treasurer could use these funds in any way that he saw fit. The State Treasurer also reimbursed the State for a portion of what was already paid by NAST, as explained below.

We verified that the State Treasurer reimbursed the State \$1,343 for various travel expenses, much like the Governor. When we questioned why the State Treasurer would reimburse the State if the funds were used for a legitimate business trip, he claimed that he was simply trying to address the media's accusations, and then stated that he was "tired of seeing his name in the...News Journal."

In addition, AOA found that the State Treasurer exceeded the 150 percent GSA lodging per diem rates required by the *Budget and Accounting Manual*<sup>19</sup> two times, totaling \$113. The State Treasurer represented that he reimbursed the State for these two GSA overages.

### *Deputy Treasurer*

AOA reviewed supporting documentation for all of the former Deputy Treasurer's PCard transactions from October 2011 through November 2013.

Throughout the period of our review, the former Deputy Treasurer reported fraudulent transactions on her PCard on three separate occasions, which meant that three new PCards were issued to her within two years.

During our review, the former Deputy Treasurer had 34 instances worth \$6,399 of personal transactions charged to her State PCard. Treasury staff questioned the former Deputy Treasurer about the nature of the transactions during the PCard reconciliation process. AOA verified that the former Deputy Treasurer reimbursed the State for every personal transaction identified, including the Cold Stone cake purchase for an employee's 50-year employment celebration. Treasury staff refused to approve the monthly PCard payment until they had supporting receipts or an affidavit for all transactions. Further, in some instances the Treasury staff would wait on the reimbursement from the former Deputy Treasurer before approving the transaction. For these reasons, the monthly payments often extended past the 30-day deadline. This was Treasury staff's ongoing process during the former Deputy Treasurer's tenure. Although Treasury staff worked diligently to address the issue, they never directly communicated the former Deputy Treasurer's issues with the State Treasurer until after he was approached by the Secretary of Finance in April 2013. After the State Treasurer was notified, the former Deputy State Treasurer made no personal transactions for the remainder of her service to the State.<sup>20</sup>

In addition, the former Deputy Treasurer had four lodging transactions, totaling approximately \$346 that exceeded 150 percent of the GSA rate required by the *Budget and Accounting Manual*.<sup>21</sup> Of the \$346 overage, the former Deputy Treasurer reimbursed \$218 at the Treasury staff's request. The remaining

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<sup>19</sup> Section 11.4.2(1)(f) of the *Budget and Accounting Manual*, states that "agencies have the authority to approve lodging expenses up to 150 percent of the locality lodging per diem rate. To qualify for more than 150 percent of lodging per diem rate, it requires prior approval from OMB and DOA."

<sup>20</sup> The State Treasurer's Office, in conjunction with OMB, have addressed any personnel matters, which are confidential and will not be addressed in this report.

<sup>21</sup> Section 11.4.2(1)(f) of the *Budget and Accounting Manual*, states that "agencies have the authority to approve lodging expenses up to 150 percent of the locality lodging per diem rate. To qualify for more than 150 percent of lodging per diem rate, it requires prior approval from OMB and DOA."

three lodging transactions, totaling \$128, were incurred because Treasury personnel opted to stay at the hotel that hosted the conference, rather than paying for commute charges, which is typically more cost effective.

The former Deputy Treasurer also stayed in Seattle, Washington until August 17, 2012, when the NASACT conference concluded on August 15, 2012, and in Anchorage, Alaska until September 18, 2012, when the NAST conference concluded on September 12, 2012. Hotel expenses incurred for the extended stay in Seattle, Washington totaled approximately \$197. While in Alaska, the former Deputy Treasurer charged lodging of approximately \$890 for the extended stay and a car rental for \$331. These charges were included in the \$6,399 reimbursement from the former Deputy Treasurer described above.

According to Treasury personnel, the former Deputy Treasurer did not attend the same business meetings as the State Treasurer during their extended stays in Alaska and Seattle. If the Out-of-State Authorization Form was utilized, the details of the extended stay would have been clearly documented; however, as described previously, this practice was not isolated to the Office of the State Treasurer.

DOA sent eight emails to the Treasury PCard Coordinator over a 17-month period requesting validation of the former Deputy Treasurer's questionable purchases without copying or notifying the State Treasurer until April 2013.

As a result of the Secretary of Finance contacting the State Treasurer, the State Treasurer began discussion with his accounting staff and subsequently making improvements to Treasury's PCard process, ordering an internal review of the Treasury's PCard program, and addressing the Treasury staff's perception of an unapproachable tone of management. With the aid of his accounting staff, the State Treasurer also obtained personal reimbursement from the former Deputy Treasurer. We confirmed that all personal transactions were repaid. Further detail regarding the State Treasurer's actions can be found in the report released from his office at <http://treasury.delaware.gov/wp-content/uploads/Treasury-Report.pdf>.

AOA confirmed with DOA that they did not perform a formal audit or investigation of Treasury's PCard transactions.

### **Additional Items Identified in the PCard Activity Reviewed**

State employees occasionally use their own State PCard to purchase an item for a State official. Therefore, AOA also reviewed PCard activity of individuals who were employed in the State officials' administrative offices.

#### ***Governor's Administrative Office***

We reviewed a total of \$44,478 in PCard transactions at the Governor's Administrative Office. After review of the supporting documents, we found that all transactions were properly supported and approved, and five affidavits were used. We found the expenses to be reasonable for "purposes necessary to carry out the functions" of the Governor's Office, as permitted by 29 Del. C. §6505(c). The expenses reviewed include technical equipment for the Governor's communication team, chair covers for the State fair booth, printing of the Governor's photograph for dignitaries and associates of the Governor, and Delaware related gifts for foreign dignitaries.

*Woodburn Expenses*

Most surrounding states provide a much higher amount of funding for their Governor's residence than the State of Delaware. For example, the New Jersey Governor's Office receives \$95,000 each year for "official reception on behalf of the state, operation of an official residence, and other expenses." According to the Pennsylvania Governor's Office, approximately \$60,000 is received for food for the Governor's personal use and for official functions at the Governor's residence. For the fiscal years 2012 through 2015, the Maryland Governor's Office budget averaged \$117,500 per year, which is intended to fund food purchases for the Governor's residence.

In comparison, the Delaware Budget Bill provides the Governor's Office with \$70,100 each fiscal year to cover a line item titled "Woodburn Expenses." When AOA questioned OMB Officials, they cited 55 Del Laws c. 115, which states that the Governor's residence, referred to as Woodburn, was to be "...a government house, to be used as a Governor's Mansion, executive office, and a place of official entertainment."

We identified approximately \$27,395 in PCard transactions used to purchase groceries, personal hygiene products, and embellishments (e.g. flowers, magazines) for Woodburn. These purchases were closely tied with meeting and event dates at Woodburn, provided by OMB Officials.

The Governor's Office also spent approximately \$5,891 in kitchen supplies (e.g. small kitchen appliances) and approximately \$752 in house supplies (e.g. holiday décor, vacuum, dry cleaning for linens/bed coverings) at Woodburn. Pastry trays and other take-out food worth approximately \$561 were also delivered to Woodburn.

Because the nature of these transactions would not be permitted by other State agencies, AOA recommended that OMB modify the *Budget and Accounting Manual* to include 55 Del Laws c. 115 and exempt the Governor's Office from any restrictions, such as Woodburn expenses, that would prohibit fulfillment of the office's mission.

*Transportation Secretary's Administrative Office*

We reviewed a total of \$7,706 in PCard transactions at the Transportation Secretary's Administrative Office. After review of the supporting documents, we found that six affidavits were used, and all transactions were properly supported and approved. When reviewing the transactions of DelDOT staff, AOA found that DelDOT used an Out-of-State Authorization Form for all trips taken.

DelDOT employees in the Transportation Secretary's Administrative Office exceeded the GSA lodging rate required by the *Budget and Accounting Manual*<sup>22</sup> on two occasions, totaling \$105. AOA confirmed that both overages were reimbursed by NASTO.

*State Treasurer's Administrative Office*

One Treasury employee, other than the State Treasurer or former Deputy Treasurer, had one lodging transaction that exceeded 150 percent of the GSA rate required by the *Budget and Accounting Manual*.<sup>23</sup>

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<sup>22</sup> Section 11.4.2(1)(f) of the *Budget and Accounting Manual*, states that "agencies have the authority to approve lodging expenses up to 150 percent of the locality lodging per diem rate. To qualify for more than 150 percent of lodging per diem rate, it requires prior approval from OMB and DOA."

The overage equaled approximately \$88 and was incurred because Treasury personnel opted to lodge at the conference location rather than pay additional commuting expenses, which is typically more cost effective.<sup>24</sup>

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<sup>23</sup> Section 11.4.2(1)(f) of the *Budget and Accounting Manual*, states that "agencies have the authority to approve lodging expenses up to 150 percent of the locality lodging per diem rate. To qualify for more than 150 percent of lodging per diem rate, it requires prior approval from OMB and DOA."

<sup>24</sup> This information was provided after AOA's initial review and was not included in the original documentation.

**Appendix A: Budget and Accounting Manual Travel Policy – Exhibit D**

**Example of Travel Request to Exceed 150% Limit Using Actual Expense Method**

- I. Reason to Exceed
  - Brief description of the travel required and why the need to exceed the prescribed threshold is warranted.
- II. Support or Detail
  - Please split details between lodging and meals/incidentals. Do not include taxes in your rate calculation. Please detail separately if hotel/motel charges a “resort fee”.
  - GSA Rate
  - GSA Rate x 150%
  - GSA Rate x N%
    - i. The N% should be the percentage above GSA rate needed to reserve room described in Section I
- III. Manager Sign-off
  - Please have manager sign-off on request prior to sending for OMB and DOA approval. This sign-off can be in the form of an e-mail as long as it clearly references the travel request and plainly grants approval.
- IV. Process Request Path
  - Please send all requests to John D. Nauman, OMB (SLC D570E)

Below is an example of Section II requirements (do not include tax)

<b>GSA Rate</b>				
Destination	County	Max Lodging	M&IE	First/Last Day
Miami (Oct 1 - Feb 29)	Miami-Dade	\$146.00	\$59.00	\$44.25
<b>GSA Rate @ 150%</b>				
Destination	County	Max Lodging	M&IE	First/Last Day
Miami (Oct 1 - Feb 29)	Miami-Dade	\$219.00	\$88.50	\$66.38
Actual expense for hotel for this training is \$299.00 per night plus 13% tax, which is 191% of the GSA rate.				
<b>GSA Rate @ 191%</b>				
Destination	County	Max Lodging	M&IE	First/Last Day
Miami (Oct 1 - Feb 29)	Miami-Dade	\$278.86	\$112.69	\$84.52

Meals and incidental expenses are “not to exceed the standard” GSA rate per Section 11.4.2(2) of the Budget and Accounting Manual.