



State of Delaware
Office of Auditor of Accounts
Kathleen K. McGuinness, RPh, CFE

Working Hard to Protect YOUR Tax Dollars

Inspection

Purchase Card Inspection – Fiscal Year 2017

March 18, 2019

We performed an inspection of purchasing card transactions for Fiscal Year 2017, focusing on the key controls of authorization and independent receipt. The exceptions noted were communicated directly with the agencies and school districts. Additionally, we provided recommendations to the Governor's Government Efficiency and Accountability Review (GEAR) Board based on observations of agency spending we noted during the procedures.

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Abbreviations

GEAR Government Efficiency and Accountability Review Board
PCard Purchasing card

The mission of the Delaware Office of Auditor of Accounts

The Delaware Auditor of Accounts (AOA) serves Delawareans by ensuring accountability in the use of taxpayer dollars through independent assessments of financial operations, performance management and statutory compliance of state government.

For further information on this release please contact:

Kathleen K. McGuinness, RPh, CFE

kathleen.mcguinness@delaware.gov
(302) 739-5055

Executive Summary

Background

During Fiscal Year 2017, we performed an inspection of the State of Delaware (State) purchasing card (PCard). The PCard is the State's preferred method of vendor payment. It is designed to effectively meet most purchasing and travel needs. It is intended to streamline and simplify the purchasing and accounts payable functions by eliminating waste and low-value activities, ultimately reducing transaction costs, and improving vendor relations. State agencies used these cards to pay for travel and goods and services valued at \$54.2 million for the nine months ended March 31, 2017.

PCards are inherently risky because the State is financially responsible for the charge immediately after the card is swiped. The PCard program is intended to be a cost effective method to purchase and pay for small dollar transactions. The program provides approximately \$2.0 million in annual rebates, which provides additional revenues to the State.

What We Found

We tested 142 items totaling \$188,834. These transactions were selected through data mining procedures and random sampling. Our testing focused on the key controls of authorization and independent receipt, since these controls help to provide assurance that purchases are for legitimate need and not for personal use. The exceptions noted from these procedures were communicated directly to the agency or school district initiating the transaction.

Recommendations

Recommendations related to the internal control testing procedures were communicated directly with the agencies and school districts initiating the transactions.

In October 2017, we recommended that the State consider encouraging increased PCard usage. We estimated the potential impact to be approximately \$1.6 million in increased rebates annually.

We made the following additional recommendations to the GEAR Committee:

- Consider conducting a comprehensive study of people, process, and technology to streamline PCard transaction and accounting.
- Related to the inherent risk of PCard transactions, consider emphasizing the key controls of authorization and independent receipt.
- Consider allocating a portion of the rebate to agencies so that PCard use will be aligned with their program goals.

Background

Our office performs ongoing data analysis and monitoring activities in order to continuously evaluate the State's systems of internal controls. During previous engagements, we identified issues regarding the use and monitoring of State purchasing cards (PCards). State agencies used these cards to pay for travel and goods and services valued at \$54.2 million and \$71.7 million, for the nine months ended March 31, 2017 and twelve months ended June 30, 2016, respectively. Based on the dollars spent, past engagements, and the risk for misuse and unallowable purchases, an inspection was focused in this area.

Delaware's PCard

The PCard is the State's preferred method of vendor payment. It is designed to effectively meet most purchasing and travel needs. It is intended to streamline and simplify the purchasing and accounts payable functions by eliminating waste and low-value activities, ultimately, reducing transaction costs and improving vendor relations. The State received approximately \$2.1 million and \$1.9 million, during Fiscal Years 2017 and 2016, respectively, in rebates which provided additional funds in a time of shrinking resources, while also avoiding cost by issuing approximately 143,000 payments directly to vendors in 2016.

The primary responsibility for purchasing these items rests with cardholders and the agency officials who approve their purchases. Because of the position of public trust held by State employees, the Legislature and citizens of Delaware expect cardholders and approving officials to maintain effective stewardship of public resources. To that end, it is expected that cardholders will follow the Office of Management and Budget's published guidance and exercise a standard of care that would require all purchases to be necessary and reasonable and preclude any personal purchases or ones that are extravagant or excessive.

Ensuring that PCards are used responsibly is of particular concern at a time when the State is experiencing substantial fiscal challenges, because every dollar spent on purchases that are fraudulent, improper or abusive is a dollar that cannot be spent for necessary government services.

GEAR

Executive order #4 signed by Governor John Carney on February 16, 2017, established the Government Efficiency and Accountability Review (GEAR) Board. Its purpose is to develop recommendations for increasing the efficiency and effectiveness of State government.

Report Details

We tested 142 PCard transactions totaling \$188,834. These items were selected through data mining procedures and random sampling.

Control Testing

- *Authorization.* We tested items to verify whether the purchases were legally authorized and initiated by an employee acting within the scope of his or her authority. We looked for evidence, such as agency PCard policy expressing approval for a particular purchase, approved purchase order, emails and other documents expressing official need, or blanket authorizations for routine purchases with subsequent review by a responsible official.
- *Independent Receipt.* We reviewed items for evidence of independent receipt because this control helps to provide assurance that purchases are for legitimate need and not for personal use. We accepted as evidence any signature or initials other than the cardholder on the sales invoice, packing slip, bill of lading, or any other shipping or receiving document.
- *Procurement.* We performed additional procedures to verify whether the purchased item is subject to a State Mandatory Use contract. We obtained evidence that the proper competition was obtained per the applicable thresholds specified in the State's Budget and Accounting Manual.
- *Accountable property.* We verified the item is recorded on the Agency's property listings to verify the existence, location, and condition of each asset.

Results

The exceptions noted from the above procedures were communicated directly to the agency or school district initiating the transaction.

GEAR Recommendations

We observed patterns of spending and noted that certain agencies and school districts incurred minimal PCard use. We reported this observation to the Financial Services section of Governor Carney's Government Efficiency and Accountability Review Board (GEAR) in October 2017.

Recommendations

Internal Controls

Recommendations related to the internal control testing procedures were communicated directly with the agencies and school districts.

GEAR Committee

In October 2017, we recommended the State consider increasing PCard usage to maximize potential rebate savings. We estimated an additional \$1.6 million could be generated if the State redirected \$66.0 million in checkbook transactions to the PCard program. We scanned the Fiscal Year 2017 checkbook to identify checkbook vendors that could be PCard vendors and calculated the estimated rebate based on a percentage of the prior year's amount. This estimate does not include any savings that may be generated through process improvement, or reduced costs from lower check volume.

During the course of our PCard fieldwork, agency and school district officials stated frustrations with certain elements of PCard processing. We made the following additional recommendations to GEAR officials:

- Consider conducting a comprehensive study of people, process, and technology to streamline PCard transaction and accounting.
- Related to the inherent risk of PCard transactions, consider emphasizing the key controls of authorization and independent receipt.
- Consider allocating a portion of the rebate to agencies so that PCard use will be aligned with their program goals.

Objective, Scope, and Methodology

Objective

This inspection was designed to determine if internal control weaknesses exist in the State's PCard program. The inspection focused on the key controls of proper authorization of transactions and independent receipt to ensure that transactions are for legitimate need and not for personal use.

Further, the inspection report will include areas for potential efficiencies and/or cost savings related to the PCard program.

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

Scope

The scope of the inspection was PCard transactions, excluding out-of-state travel, that are greater than \$25, for the Nine Months Ended March 31, 2017.

Methodology

Our procedures consisted of the following:

- Use PCard data for the 9 months ended March 31, 2017 to develop initial population of all PCard transactions over \$25, excluding out-of-state travel.
- Conduct data mining to find transactions or patterns of activity that exhibit predetermined characteristics, associations, or anomalies between different pieces of information.
- Obtain supporting documentation for selected transactions to verify the purchase was properly authorized.
- Review evidence that goods and services were received by an independent party (independent receipt and acceptance).
- Confirm that State procurement procedures were followed.
 - Agree vendor and price to State mandatory use contracts, if appropriate.
 - Verify the requisite number of bids or quotes were obtained, or obtain evidence that competition was not required, for items over the small purchase threshold.
- Agree purchased item to the department's inventory listing and confirm existence of item, for pilferable items.