



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



THOMAS H. McTAVISH, C.P.A.
AUDITOR GENERAL

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– Article IV, Section 53 of the Michigan Constitution

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Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit
Procurement Card Program
Financial Services
Department of Technology, Management & Budget

Report Number:
071-0705-10

Released:
January 2011

The State of Michigan's Procurement Card Program began in June 1995 as a method to reduce the administrative expense associated with procuring and paying for low dollar items through the standard purchase order process. Generally, State employees may use procurement cards for noncontract purchases of \$2,500 or less and for approved contract purchases.

Audit Objective:

To evaluate the State's effectiveness in utilizing the Procurement Card Program to reduce purchasing costs.

Audit Conclusion:

We concluded that the State was moderately effective in utilizing the Procurement Card Program to reduce purchasing costs. We noted one reportable condition (Finding 1).

Reportable Condition:

The Department of Technology, Management & Budget (DTMB) did not complete a Statewide cost study to determine the cost of processing procurement card transactions and to evaluate the impact of the Procurement Card Program (Finding 1).

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Audit Objective:

To assess the effectiveness of selected departments' efforts to ensure that procurement card usage is in compliance with State policies and procedures.

Audit Conclusion:

We concluded that selected departments were moderately effective in their efforts to ensure that procurement card usage was in compliance with State policies and procedures. We noted three reportable conditions (Findings 2 through 4).

Reportable Conditions:

Selected departments did not sufficiently monitor procurement card transactions to ensure that purchases were in compliance with State policies and procedures. In addition, the Department of Corrections and the Michigan Department of State Police did not sufficiently monitor procurement card transactions to ensure that all procurement card transaction detail reports were reviewed and adequately supported. (Finding 2)

Selected departments did not ensure that cardholders made authorized purchases with procurement cards (Finding 3).

The selected departments did not sufficiently review procurement card purchases to identify split transactions and deter procurement card users from splitting transactions to circumvent the single item purchase limit (Finding 4).

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Agency Response:

Our audit report includes 4 findings and 5 corresponding recommendations. DTMB's preliminary response indicates that it agrees with all of the recommendations and will comply with them.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



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January 19, 2011

John E. Nixon, C.P.A., Director
Department of Technology, Management & Budget
Lewis Cass Building
Lansing, Michigan

Dear Mr. Nixon:

This is our report on the performance audit of the Procurement Card Program, Financial Services, Department of Technology, Management & Budget.

This report contains our report summary; description of program; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; three exhibits, presented as supplemental information; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a plan to address the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services will review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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Description of Program

The State of Michigan's Procurement Card Program began in June 1995 as a method to reduce the administrative expense associated with procuring and paying for low dollar items through the standard purchase order process. Generally, State employees may use procurement cards* for noncontract purchases of \$2,500 or less and for approved contract purchases.

Financial Services, Department of Technology, Management & Budget (DTMB), is responsible for the overall administration of the Procurement Card Program. The focus of the Procurement Card Program is to continue improving the purchasing process by streamlining small dollar purchases, expanding controls, and increasing efficiency. Each department has its own Procurement Card Program administrator who is responsible for the administration of its departmental program. Certain State employees may use a procurement card to make job-related purchases in person, by mail, by telephone, or via the Internet within their designated account limits. Authorized cardholders must comply with the policies and procedures established in the DTMB Administrative Guide and various State of Michigan Procurement Card Program manuals.

The State receives an annual rebate from the procurement card vendor based on the State's total procurement card spending and promptness of payment. DTMB uses the rebate as Program revenue to offset its administrative costs associated with managing the Procurement Card Program. DTMB entered into a contract with a new procurement card vendor in December 2008.

DTMB reported total Statewide procurement card purchases and vendor rebates for fiscal years 2008-09 and 2009-10 as follows:

	Fiscal Years	
	2008-09	2009-10
Purchases	\$41,146,128	\$39,645,494
Rebates	\$ 489,451	\$ 365,024

As of May 2010, departments issued 3,010 procurement cards to employees.

* See glossary at end of report for definition.

Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our performance audit* of the Procurement Card Program, Financial Services, Department of Technology, Management & Budget (DTMB), had the following objectives:

1. To evaluate the State's effectiveness* in utilizing the Procurement Card Program to reduce purchasing costs.
2. To assess the effectiveness of selected departments' efforts to ensure that procurement card usage is in compliance with State policies and procedures.

Audit Scope

Our audit scope was to examine the program and other records of the Procurement Card Program and selected departments' usage of procurement cards. We conducted this performance audit in accordance with generally accepted government audit 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 believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit procedures, conducted from May through September 2010, generally covered the period October 1, 2008 through July 31, 2010.

As part of our audit, we compiled supplemental information about potential procurement card eligible expenditures using Statewide expenditures processed from August 1, 2008 through February 28, 2010 (Exhibits 1 and 2). Our audit was not directed toward expressing a conclusion on the supplemental information presented in these exhibits and, accordingly, we express no conclusion on it.

Audit Methodology

We conducted a preliminary review of the Procurement Card Program's operations to formulate a basis for defining the audit objectives and scope. Our review included

* See glossary at end of report for definition.

interviewing the State's Procurement Card Program manager and selected departments' procurement card program administrators; reviewing the DTMB Administrative Guide, the State of Michigan Procurement Card Program Agency Administrator Manual, the State of Michigan Procurement Card Program Cardholder Manual, and the State of Michigan Procurement Card Program Supervisor Manual; reviewing the procurement card vendor contracts; and analyzing available Program data and statistics to obtain an understanding of the Program.

To evaluate the State's effectiveness in utilizing the Procurement Card Program to reduce purchasing costs, we obtained procurement cardholder lists for each department to analyze the departments' procurement card usage. We also analyzed alternative payment processes used by departments to determine if procurement cards could have been an efficient payment alternative. We reviewed cardholder purchasing totals to determine if cardholders actively used their procurement cards. Finally, we reviewed the procurement card vendor rebate calculation process and rebate earnings totals to verify that the State received both the appropriate and maximum rebate amount.

To assess the effectiveness of selected departments' efforts to ensure that procurement card usage is in compliance with State policies and procedures, we reviewed a sample of 327 procurement card transactions occurring between October 1, 2008 and May 31, 2010 for 5 departments. We selected departments based on the number of procurement card users; the volume of procurement card transactions; and an assessment of various risk factors, such as transactions within merchant category codes (MCCs) that we considered to be susceptible to inappropriate charges, transactions that exceeded cardholder spending limits, potential split transactions, and travel or hotel related transactions. As a result of our data analysis, we selected the Department of Corrections (DOC); Department of Military and Veterans Affairs (DMVA); Michigan Department of State Police (MSP); Department of Technology, Management & Budget (DTMB); and Michigan Department of Transportation (MDOT). We reviewed the transactions to verify that they were properly supported by a receipt and appeared to be for legitimate business purposes and in compliance with State policies and procedures, that the cardholder was the person who used the procurement card to make the purchase, that the purchase was within the cardholder's spending limits, and that the cardholder's supervisor reviewed and approved the purchase in a timely manner.

When selecting activities or programs for audit, we use an approach based on assessment of risk and opportunity for improvement. Accordingly, we focus our audit efforts on activities or programs having the greatest probability for needing improvement as identified through a preliminary review. Our limited audit resources are used, by design, to identify where and how improvement can be made. Consequently, we prepare our performance audit reports on an exception basis.

Agency Responses and Prior Audit Follow-Up

Our audit report includes 4 findings and 5 corresponding recommendations. DTMB's preliminary response indicates that it agrees with all of the recommendations and will comply with them.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require DTMB to develop a plan to address the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services will review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

Within the scope of this audit, we followed up all 7 prior audit recommendations from our August 2005 performance audit of the Procurement Card Program, Office of Financial Services, Department of Management and Budget (07-705-04). DTMB did not comply with 2 of these recommendations. These audit recommendations were repeated in Findings 2 and 4 in this audit report.

COMMENTS, FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS IN UTILIZING THE PROCUREMENT CARD PROGRAM TO REDUCE PURCHASING COSTS

COMMENT

Audit Objective: To evaluate the State's effectiveness in utilizing the Procurement Card Program to reduce purchasing costs.

Audit Conclusion: We concluded that the State was moderately effective in utilizing the Procurement Card Program to reduce purchasing costs. We noted one reportable condition* related to a Statewide cost study (Finding 1).

FINDING

1. Statewide Cost Study

The Department of Technology, Management & Budget (DTMB) did not complete a Statewide cost study to determine the cost of processing procurement card transactions and to evaluate the impact of the Procurement Card Program. A comprehensive Statewide cost study would provide DTMB with information necessary to determine if it should expand the use of the Procurement Card Program. We estimated potential operating savings of \$433,311 if the State maximized the procurement card usage under DTMB's current policy and \$1,378,672 if DTMB increased the transaction limits for procurement card purchases.

We reviewed reports published by the Association of Governmental Accountants (AGA), a national research corporation survey report, and other states' audit reports. These reports show that the use of a procurement card is generally more cost efficient than the use of traditional purchase orders and vouchering systems, generating projected cost savings from \$7 to \$98 per transaction. We also reviewed DTMB's internal cost study for processing its own purchasing transactions in which DTMB estimated a cost savings ranging from \$4 per transaction to \$12 per transaction, depending on the type of document processed. DTMB did not complete a similar cost study for other State departments.

* See glossary at end of report for definition.

DTMB delegates purchasing authority to the departments for purchases up to \$25,000. However, it generally limits a single procurement card transaction to \$2,500. Based on DTMB's internal cost study and other national studies mentioned in the previous paragraph, it is likely that a Statewide cost study will conclude that it is less costly to process payments with procurement cards, supporting the expansion of the Program from its current limits.

Using expenditures processed from August 1, 2008 through February 28, 2010, we estimated the State's transaction processing cost savings and rebate revenue for fiscal years 2008-09 and 2009-10 under the current procurement card transaction limit and assuming an increased procurement card transaction limit. Based on our review, we noted:

- a. Using the current procurement card transaction limit of \$2,500, the State could have saved \$285,698 (40,814 transactions) in transaction processing costs. Also, the State could have earned an additional \$147,613 in rebate revenue if it would have used the procurement card for eligible transactions of \$9,989,712 as detailed in the Procurement Card Eligible Purchases of \$2,500 or Less Processed by Direct Vouchers (see Exhibit 1, presented as supplemental information).

Our projected cost savings were calculated using a cost savings of \$7 per transaction. This represents the most conservative cost savings from our research of other state audits and studies.

- b. Using an expanded procurement card transaction limit up to \$25,000, the State had the potential to save \$220,204 (55,051 transactions) in transaction processing cost. Also, the State could have earned an additional \$1,158,468 in rebate revenue if it would have used the procurement card for eligible transactions of \$79,568,090 as detailed in the Procurement Card Eligible Purchases Processed by Direct Vouchers or Purchase Orders (see Exhibit 2, presented as supplemental information).

Our projected cost savings were calculated using DTMB's projected average cost savings of \$4 per transaction.

The State's procurement card vendor pays an annual rebate based primarily on the procurement card total purchases. If the State had processed the direct voucher

and purchase order transactions that we identified as eligible procurement card transactions, this rebate could have been increased in fiscal years 2008-09 and 2009-10.

The supplemental information in Exhibit 1 identifies potential procurement card eligible purchases by department under the current policy and Exhibit 2 identifies purchases that may otherwise have been procurement card eligible if not for the \$2,500 spending limit.

In conjunction with completing a Statewide cost study, DTMB should consider potential procurement eligible purchases (Exhibits 1 and 2) and the results of compliance testing (Findings 2 through 5 and Exhibit 3) to help DTMB evaluate the impact of the Procurement Card Program and the potential for expansion of the Program.

RECOMMENDATION

We recommend that DTMB complete a Statewide cost study to determine the cost of processing procurement card transactions and to evaluate the impact of the Procurement Card Program.

AGENCY PRELIMINARY RESPONSE

DTMB Financial Services agrees and informed us that it will pursue the possibility of an expanded Statewide cost study. A current departmental team is studying the Statewide process for vouchers, direct vouchers, procurement card transactions, and purchase orders to make recommendations on efficiencies and cost savings that could result from raising the single purchase limit to \$5,000. DTMB Financial Services also informed us that it agrees that raising the limit for procurement card transactions could result in administrative cost savings and increased revenue. DTMB Financial Services indicated that it will work with Purchasing Operations to evaluate the feasibility of increasing the limit and will present its resulting recommendation to the State Budget Office.

EFFECTIVENESS OF THE DEPARTMENTS' EFFORTS TO ENSURE COMPLIANCE

COMMENT

Audit Objective: To assess the effectiveness of selected departments' efforts to ensure that procurement card usage is in compliance with State policies and procedures.

Audit Conclusion: We concluded that selected departments were moderately effective in their efforts to ensure that procurement card usage was in compliance with State policies and procedures. We noted three reportable conditions related to the monitoring of procurement card purchases, compliance with State procedures, and split transactions (Findings 2 through 4).

FINDING

2. Monitoring of Procurement Card Purchases

Selected departments did not sufficiently monitor procurement card transactions to ensure that purchases were in compliance with State policies and procedures (see Exhibit 3, presented as supplemental information). In addition, the Department of Corrections (DOC) and the Michigan Department of State Police (MSP) did not sufficiently monitor procurement card transactions to ensure that all procurement card transaction detail reports were reviewed and adequately supported. Insufficient monitoring of transactions increases the risk that errors and irregularities could occur and not be identified and corrected in a timely manner.

Authorized individuals may use procurement cards for the purchase of goods related to their jobs within designated spending limits. The State and departments have issued policies and detailed procedures governing the use of procurement cards to help prevent and detect any misuse or abuse of the cards.

We reviewed 327 separate purchases totaling \$219,907 from the selected departments in our review for the period October 1, 2008 through May 31, 2010. Our review disclosed:

a. Departments did not provide sufficient oversight of procurement card usage:

- (1) Cardholders did not maintain sufficient supporting documentation for 22 (7%) purchases to identify the items purchased. As a result, departments could not ensure that, and we could not verify whether, the purchases were for official State business.

The State of Michigan Procurement Card Program Cardholder Manual states that cardholders are responsible for obtaining adequate documentation to support the purchases made with their cards, including sales receipts or vendor invoices.

- (2) Supervisors did not always perform detailed reviews of procurement card purchases made by staff or did not review procurement card purchases in a timely manner:
 - (a) In 21 (6%) instances, there was no indication that the supervisors had reviewed the procurement card transactions.
 - (b) In 24 (7%) instances, the supervisors' reviews occurred more than one month after the end of the billing cycle (over 44 days after the transaction).

State policy requires that, at the end of each two-week billing cycle, cardholders match all procurement card transactions to supporting documentation and forward documentation to the cardholders' supervisors for review. In addition, timely review of procurement card transactions could identify misuse of the card or violation of State policies and department controls.

- (3) Procurement card account numbers were not removed from receipts or other documents. In 12 (4%) instances, procurement card account numbers were displayed on the procurement card receipt or the supporting documentation.

The State of Michigan Procurement Card Program Cardholder Manual states that the procurement card should always be treated with a level of care that will reasonably secure the card and that the account number should be carefully guarded. Procurement card account numbers should be removed from all documents to prevent someone from inappropriately obtaining and using the account numbers.

- (4) Departments did not always include equipment susceptible to theft and purchased using procurement cards in department inventory records. We noted 7 instances in which the items were not included in department inventory records. These items included computers, video equipment, and televisions. Our audit did not disclose any instances of missing equipment; however, failure to record equipment in inventory records could result in the loss of equipment going undetected.

The State of Michigan Financial Management Guide requires agencies to record in departmental accounting records all equipment items that have an acquisition value of \$5,000 or greater. The Financial Management Guide also suggests that equipment with a value of less than \$5,000 that is susceptible to theft may be inventoried and included in the departments' records. The procedure was established to help prevent and detect theft or losses of such assets.

In our prior audit, we also noted that departments did not provide sufficient oversight of procurement card usage. In response to that audit, DTMB revised its Administrative Guide to communicate the responsibility for proper supervisory review. However, based on our review, selected departments did not provide the oversight required by DTMB.

- b. DOC and MSP did not sufficiently monitor procurement card transactions to ensure that all procurement card transaction detail reports were reviewed and adequately supported. DOC and MSP distribute the transaction detail reports to regional and field offices for review and recordkeeping; however, neither department has a reporting system in place to ensure that all detail reports are verified to the procurement card receipts by the cardholder and reviewed by the cardholder's supervisor.

The Procurement Card Program Agency Administrator Manual states that the Agency Procurement Card Program Administrator is responsible for the overall administration of the agency's Procurement Card Program. A key component of this responsibility is to ensure that transaction approvals are completed using the matching receipts and justification.

RECOMMENDATIONS

WE AGAIN RECOMMEND THAT DEPARTMENTS SUFFICIENTLY MONITOR PROCUREMENT CARD TRANSACTIONS TO ENSURE THAT PURCHASES ARE IN COMPLIANCE WITH STATE POLICIES AND PROCEDURES.

We also recommend that DOC and MSP sufficiently monitor procurement card transactions to ensure that all procurement card transaction detail reports are reviewed and adequately supported.

AGENCY PRELIMINARY RESPONSE

DTMB Financial Services agrees and informed us that it will request all departments to develop policies to specify the monitoring to be performed. DTMB Financial Services indicated that it will perform an annual review of individual department policies to ensure that the departments are sufficiently monitoring procurement card transactions.

DTMB Financial Services also informed us that it will work with DOC and MSP to develop and implement the necessary corrective action plans.

FINDING

3. Compliance With State Procedures

Selected departments did not ensure that cardholders made authorized purchases with procurement cards. Noncompliance with established procedures may indicate fraudulent or abusive procurement card purchases. Our audit disclosed 2 personal purchases and 3 group meals that exceeded the authorized amount for group meals. We also noted 38 purchases that appeared to be reasonable and for State business but were unallowable based on State policy.

DTMB Administrative Guide procedure 0510.17 identifies unallowable procurement card purchases. Included among these are health, legal, and medical services; information technology purchases (without approval from DTMB); travel related

expenses; fuel for State travel or State vehicles; services from a 1099 reportable vendor; and personal use. This procedure also specifies the documentation required for procurement card purchases, including specific documentation required when purchasing meals or catering for group meetings.

Our review of 327 separate purchases from the selected departments disclosed 43 (13%) transactions which were unallowable per DTMB Administrative Guide procedure 0510.17. The following table summarizes the 43 unallowable transactions by type of transaction and department:

Department	Fuel for State Travel or State Vehicles	Travel Related Expenses	Group Meals (Without List of Attendees and/or in Excess of Amount Authorized)	Information Technology Purchases (Without DTMB Approval)	Personal Use	Services From a 1099 Reportable Vendor	Legal Fees	Total
DOC	1	2					1	4
DMVA	1							1
MSP	9	3		2	2	1		17
DTMB	3	6	1					10
MDOT	5	2	3	1				11
Total	19	13	4	3	2	1	1	43

The procurement cardholder and the procurement card supervisor are provided with separate manuals which also specifically identify unauthorized transactions. In our review of these 43 transactions, we noted that the supervisory reviews did not detect these unauthorized transactions.

RECOMMENDATION

We recommend that departments ensure that cardholders make authorized purchases with procurement cards.

AGENCY PRELIMINARY RESPONSE

DTMB Financial Services agrees. DTMB Financial Services informed us that it will continue to meet annually with each procurement card administrator to review his/her departmental controls related to authorized purchases. DTMB Financial Services also informed us that it will issue an annual reminder of the guidelines related to proper procurement card usage, including split transactions and invalid purchases, to cardholders and cardholder supervisors.

FINDING

4. Split Transactions

The selected departments did not sufficiently review procurement card purchases to identify split transactions and deter procurement card users from splitting transactions to circumvent the single item purchase limit. Splitting transactions enables cardholders to avoid purchasing guidelines designed to ensure that purchasers obtain proper levels of supervisory approval and to ensure that purchasers obtain goods through a cost-effective purchasing process.

DTMB Administrative Guide procedure 0510.17 prohibits the splitting of purchases from single vendors that exceed the single item transaction limit for the cardholder. Generally, the transaction limit is \$2,500; however, DTMB can approve an increase in the transaction limit if a department shows that there is a need for an increase. State purchasing procedures require State employees to obtain price quotes from vendors for purchases from \$2,500 to \$25,000 and require a formal bid process for purchases above \$25,000.

We identified 1,266 potential split transactions totaling approximately \$2.9 million from October 1, 2008 through May 31, 2010 for selected departments in our review. Split transactions are multiple transactions to the same vendor for one purchase to circumvent the single item transaction limit.

We reviewed 39 purchases and concluded that 16 (41%) purchases were split to avoid the single item transaction limit. The following table summarizes our transaction review and the total number of split and potential split transactions:

<u>Department</u>	<u>Number of Transactions Reviewed</u>	<u>Number of Purchases Represented</u>	<u>Number of Purchases Determined To Be Split</u>	<u>Total Value of Split Purchases</u>	<u>Number of Potential Split Transactions</u>	<u>Value of Potential Split Purchases</u>
DOC	43	20	9	\$ 34,562	462	\$ 746,512
DMVA	9	3	1	4,230	34	60,156
MSP	4	2	2	9,380	17	37,649
DTMB	13	6	2	10,265	422	1,448,219
MDOT	16	8	2	6,684	331	586,538
Total	85	39	16	\$ 65,121	1,266	\$2,879,074

We also noted this condition in our prior audit. DTMB informed us that its current procurement card vendor implemented an automated tool in July 2010 to help departments identify potential split transactions. DTMB also informed us that its prior procurement card vendor had discontinued its automated tool without providing notice to DTMB because the vendor believed that it was not being used by the State.

RECOMMENDATION

WE AGAIN RECOMMEND THAT DEPARTMENTS SUFFICIENTLY REVIEW PROCUREMENT CARD PURCHASES TO IDENTIFY SPLIT TRANSACTIONS AND DETER PROCUREMENT CARD USERS FROM SPLITTING TRANSACTIONS TO CIRCUMVENT THE SINGLE ITEM PURCHASE LIMIT.

AGENCY PRELIMINARY RESPONSE

DTMB Financial Services agrees and informed us that it now has a process in place to identify split transactions. DTMB Financial Services also informed us that the current Procurement Card Program has software to identify transactions that may have costs split to avoid the spending limit. In addition, DTMB Financial Services indicated that DTMB Administrative Guide procedure 0510.20, Procurement Card Purchase Review and Reporting, provides the process for reviewing and reporting on questionable transactions. DTMB Financial Services also indicated that departments provide reporting to the Statewide Administrator quarterly. The first report was generated for the fourth quarter of fiscal year 2009-10.

SUPPLEMENTAL INFORMATION

PROCUREMENT CARD PROGRAM
Financial Services
Department of Technology, Management & Budget
Procurement Card Eligible Purchases of \$2,500 or Less
Processed by Direct Vouchers
During the Period August 1, 2008 through February 28, 2010

<u>Department</u>	<u>Direct Voucher Purchases of \$2,500 or Less</u>	<u>Total Number of Purchases</u>
Agriculture	\$ 43,601	184
Attorney General	54,646	235
Civil Service	9,793	58
Community Health	225,602	1,682
Corrections	1,669,266	4,699
Education	65,783	158
Environmental Quality	200,786	1,390
History, Arts and Libraries	129,455	704
Human Services	134,056	414
Information Technology	97,737	238
Labor and Economic Growth	396,483	1,513
Military and Veterans Affairs	108,922	214
Natural Resources	4,475,707	21,717
State	184,453	1,013
State Police	734,904	3,636
Technology, Management & Budget	283,079	593
Transportation	1,076,665	1,923
Treasury	98,775	443
Total	<u>\$ 9,989,712</u>	<u>40,814</u>

Source: Auditor prepared using direct voucher purchases of \$2,500 or less that were potentially procurement card eligible based on the Department of Technology, Management & Budget procurement card procedures in effect at the time of the purchase.

Purpose: The purpose of this exhibit is to provide summary information by department of purchases that potentially qualified to be paid with a procurement card.

Observation: If State departments had used a procurement card to pay for these 40,814 purchases totaling \$9,989,712, the State could have saved \$285,698 in processing costs and earned an additional rebate of \$147,613 (Finding 1).

PROCUREMENT CARD PROGRAM
 Financial Services
 Department of Technology, Management & Budget (DTMB)
 Procurement Card Eligible Purchases
 Processed by Direct Vouchers or Purchase Orders
During the Period August 1, 2008 through February 28, 2010

Department	Purchases of \$2,500 or Less	Purchases Greater Than \$2,500 up to \$5,000	Purchases Greater Than \$5,000 up to \$7,500	Purchases Greater Than \$7,500 up to \$10,000	Purchases Greater Than \$10,000 up to \$15,000
Agriculture	\$ 67,751	\$ 89,625	\$ 48,723	\$ 16,844	\$ 67,139
Attorney General	25,170	36,765	6,120	9,998	
Civil Service	6,999	17,179	22,509	17,884	
Community Health	1,033,589	523,645	225,286	207,470	302,650
Corrections	14,107,035	7,767,423	4,533,334	3,053,410	3,857,445
Education	204,815	167,755	12,052	36,051	126,542
Environmental Quality	60,879	60,099	49,249	76,739	97,603
History, Arts and Libraries	40	7,556	11,946	26,759	
Human Services	722,863	144,050	98,731	49,090	66,736
Information Technology	2,127,297	1,730,943	1,546,328	1,135,790	1,733,458
Labor and Economic Growth	201,491	322,375	344,383	160,951	240,647
Military and Veteran Affairs	906,926	578,444	444,008	377,698	1,941,565
Natural Resources	955,287	939,123	675,820	603,591	717,683
State	164,035	53,841	100,795	70,261	
State Police	310,937	404,146	364,869	261,492	414,979
Technology, Management & Budget	80,322	203,536	91,563	140,053	126,103
Transportation	607,746	1,043,248	1,160,053	927,927	1,476,221
Treasury	80,382	92,625	22,901	50,351	47,000
Total	\$ 21,663,564	\$ 14,182,380	\$ 9,758,669	\$ 7,222,360	\$ 11,215,772

Source: Auditor prepared using purchase orders from \$0 to \$25,000 and direct vouchers greater than \$2,500 and up to \$25,000 that were potentially procurement card eligible based on DTMB procedures and an increased spending limit.

Purpose: The purpose of this exhibit is to provide summary purchase amounts by department at various spending levels that potentially could be paid with a procurement card if DTMB were to increase the procurement card spending limits.

Observation: If DTMB were to increase the procurement card limit to \$7,500, an additional \$45,604,613 of purchases may qualify to be paid with a procurement card. This would result in increased cost savings and rebate revenue (Finding 1).

UNAUDITED
Exhibit 2

Purchases Greater Than \$15,000 up to \$20,000	Purchases Greater Than \$20,000 up to \$25,000	Total	Number of Purchases
\$	\$ 49,495	\$ 339,577	173
20,000		98,053	69
		64,571	27
267,334	585,778	3,145,752	3,355
3,192,690	2,728,066	39,239,403	35,561
33,274	21,600	602,089	1,025
37,446	63,188	445,203	200
	68,404	114,704	11
101,901	113,280	1,296,651	1,243
1,061,185	708,251	10,043,251	4,615
153,151	285,545	1,708,544	584
497,496	342,528	5,088,665	2,435
465,960	551,831	4,909,294	2,739
51,786	44,707	485,425	296
236,132	363,402	2,355,957	627
128,237	83,102	852,915	226
1,377,259	1,852,989	8,445,443	1,680
15,481	23,850	332,591	185
<u>\$ 7,639,331</u>	<u>\$ 7,886,015</u>	<u>\$ 79,568,090</u>	<u>55,051</u>

PROCUREMENT CARD PROGRAM
 Financial Services
 Department of Technology, Management & Budget
Summary of Audit Testing Results

Department	Total Number of Procurement Card Transactions Between October 1, 2008 and May 31, 2010	Dollar Value of Total Procurement Card Transactions Between October 1, 2008 and May 31, 2010	Number of Transactions Reviewed	Dollar Value of Transactions Reviewed
Department of Corrections	60,660	\$ 19,817,339	103	\$ 87,895
Department of Military and Veterans Affairs	12,505	3,174,127	31	14,729
Michigan Department of State Police	19,761	3,423,362	41	16,751
Department of Technology, Management & Budget	24,353	9,140,712	67	38,601
Michigan Department of Transportation	65,136	15,988,609	85	61,931
Total	182,415	\$ 51,544,149	327	\$ 219,907

Lacked Sufficient Documentation (Finding 2.a.(1))	No Supervisor Review (Finding 2.a.(2)(a))	Supervisor's Review More Than 44 Days After Transaction (Finding 2.a.(2)(b))	No Date of Supervisor's Review	Account Numbers Displayed (Finding 2.a.(3))	Equipment Not Inventoried (Finding 2.a.(4))
14	12	2	4	3	3
0	1	4	1	1	0
7	8	18	0	3	2
0	0	0	1	0	0
1	0	0	0	5	2
22	21	24	6	12	7

GLOSSARY

Glossary of Acronyms and Terms

DOC	Department of Corrections.
DMVA	Department of Military and Veterans Affairs.
DTMB	Department of Technology, Management & Budget.
effectiveness	Program success in achieving mission and goals.
MDOT	Michigan Department of Transportation.
MSP	Michigan Department of State Police.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve program operations, to facilitate decision making by parties responsible for overseeing or initiating corrective action, and to improve public accountability.
procurement card	A credit card issued to State employees for purchasing commodities and services in accordance with State purchasing policies.
reportable condition	A matter that, in the auditor's judgment, falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the objectives of the audit; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.

