

**Office of the Auditor General**  
Performance Audit Report

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**Procurement Card Program**  
Department of Technology, Management, and Budget

September 2015

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State of Michigan Auditor General  
Doug A. Ringler, CPA, CIA

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**The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.**

*Article IV, Section 53 of the Michigan Constitution*

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### *Performance Audit*

### *Procurement Card Program*

### *Department of Technology, Management, and Budget (DTMB)*

**Report Number:**  
071-0705-15

**Released:**  
September 2015

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. As of June 2015, 3,062 procurement cards were in use in all three branches of government covering 25 departments and agencies. In fiscal year 2014, 179,717 procurement card purchases occurred totaling \$51.4 million.

Audit Objective			Conclusion
Objective #1: To assess whether DTMB provided effective oversight of the Procurement Card Program to ensure that departments were in compliance with State policies and procedures.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
DTMB did not ensure that departments provided timely responses to reports which help identify potential card misuse or violations of State policies. Responses were late 58% of the time, and DTMB did not conduct sufficient follow-up until we began this audit ( <a href="#">Finding #1</a> ).	X		Agrees
DTMB did not ensure that departments canceled procurement cards in a timely manner when cardholders separated from State employment. Also, DTMB did not have a process to verify that all cards are held only by current State employees. Departments canceled 17% of cards more than 7 days after the employees separated from State employment, including one instance in which it took 21 months to cancel the card ( <a href="#">Finding #2</a> ).		X	Agrees

<b>Audit Objective</b>			<b>Conclusion</b>
Objective #2: To assess whether departments' procurement card usage complied with State policies and procedures.			Complied
<b>Findings Related to This Audit Objective</b>	<b>Material Condition</b>	<b>Reportable Condition</b>	<b>Agency Preliminary Response</b>
DTMB procedures do not include a deadline for departments to review and approve cardholder purchases. Also, for approximately 18% of tested transaction reports, DTMB did not ensure that departments performed detailed reviews or performed them in a timely manner or did not document a review date ( <u>Finding #3</u> ).		X	Agrees
DTMB did not ensure that departments obtained signed cardholder and supervisor agreements prior to card use. These agreements help ensure that cardholders and supervisors are aware of State policies and procedures governing procurement cards and the consequences of misuse ( <u>Finding #4</u> ).		X	Agrees
DTMB did not ensure that departments maintained documentation of the supervisors' review of transaction reports. Also, DTMB did not ensure that the supervisors reviewed purchases using transaction reports obtained directly from the procurement card vendor's software. Doing so would help to ensure that all transactions were subject to review ( <u>Finding #5</u> ).		X	Agrees

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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**Doug A. Ringler, CPA, CIA**  
Auditor General

September 8, 2015

Mr. David B. Behen, Director  
Department of Technology, Management, and Budget  
Lewis Cass Building  
Lansing, Michigan

Dear Mr. Behen:

I am pleased to provide this performance audit report on the Procurement Card Program, Department of Technology, Management, and Budget.

We organize our findings and observations by audit objective. Your agency provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and submit it within 60 days of the date above to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to 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.

Sincerely,

A handwritten signature in black ink that reads "Doug Ringler". The signature is written in a cursive, flowing style.

Doug Ringler  
Auditor General



## TABLE OF CONTENTS

### PROCUREMENT CARD PROGRAM

	<u>Page</u>
Report Summary	1
Report Letter	3
Audit Objectives, Conclusions, Findings, and Observations	
DTMB Oversight of the Procurement Card Program	8
1. More timely department responses to quarterly reports needed.	9
2. Timely cancellation of procurement cards needed when cardholders leave State employment.	11
Departments' Compliance With Procurement Card Policies and Procedures	13
3. Timely department review of procurement card purchases necessary.	15
4. Improvements needed in obtaining signed cardholder and supervisor agreements.	16
5. Improvements needed in departments' review of procurement card transactions.	17
Supplemental Information	
Exhibit 1 - Number of Cardholders by Entity	18
Exhibit 2 - Card Purchases by Entity	19
Program Description	20
Audit Scope, Methodology, and Other Information	21
Glossary of Abbreviations and Terms	24





# AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

# DTMB OVERSIGHT OF THE PROCUREMENT CARD PROGRAM

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## BACKGROUND

Financial Services, Department of Technology, Management, and Budget (DTMB), is responsible for the overall administration of the Procurement Card Program. The focus of the Program is to continue to improve the purchasing process by streamlining small dollar purchases, expanding controls, and increasing efficiency\*. The Statewide procurement card administrator is responsible for overseeing the operation of the Program and works directly with department procurement card administrators to operate the Program.

## AUDIT OBJECTIVE

To assess whether DTMB provided effective oversight of the Procurement Card Program to ensure that departments were in compliance with State policies and procedures.

## CONCLUSION

Moderately effective.

## FACTORS IMPACTING CONCLUSION

- Oversight activities helped improve compliance regarding allowable purchases and supporting documentation since the prior audit.
- Requiring that the Statewide procurement card administrator approve requests for transaction limit increases above \$2,500 helps ensure that controls are not bypassed by departments.
- No procurement card administrators received cards, helping to ensure a segregation of duties\*.
- Material condition\* related to late department responses to quarterly reports.
- Reportable condition\* related to untimely cancellation of procurement cards\*.

\* See glossary at end of report for definition.

**FINDING #1**

**Departments did not always respond to quarterly reports in a timely manner.**

DTMB did not ensure that departments provided timely responses to DTMB's quarterly procurement card compliance and transaction reports. These reports identify potential card misuse or violations of State policies and procedures.

DTMB Administrative Guide procedure 0510.20 requires departments to use the procurement card vendor's software to produce a quarterly compliance report to identify transactions that appear to be in violation of Program standards. These reports generally identify transactions that exceed a cardholder's single transaction limit or cycle spending limit or that were split into smaller purchases in order to circumvent single transaction limits. Departments are required to provide an explanation to the Statewide procurement card administrator within 30 days following the close of the fiscal quarter.

Also, DTMB's Financial Services Procedure Manual requires the Statewide procurement card administrator to send a quarterly report of questionable transactions to each department. Departments must provide a written response within 30 days. DTMB has identified certain transactions that it considers high risk including, but not limited to, gasoline, department store, and restaurant purchases.

58% of responses were late, including one response that was almost 10 months late.

We reviewed two quarterly compliance and transaction monitoring tracking spreadsheets maintained by DTMB, including 67 department responses for reports generally covering the third and fourth quarters of fiscal year 2014. Our review identified 39 (58%) instances in which the departments did not provide a response within 30 days.

Department responses ranged from 3 to 294 days late:

Number of Days Past Due	Number of Department Responses	Average Number of Days Past Due Date
1 - 30	12	16
31 - 60	7	48
61 - 90	1	83
91 - 180	12	134
More than 180	7	242
Total	39	100

Of the 39 late reviews, 4 departments submitted their responses to the compliance and transaction reports late in both quarters.

DTMB stated that they did not conduct sufficient follow-up with departments that did not provide responses to the quarterly reviews prior to January 2015. They informed us that they discussed the lack of timely responses and follow-up while evaluating their operations as a part of the biennial internal control evaluation. While they did not include this weakness in

the final internal control evaluation report, they are developing plans to increase their follow-up and are planning to revise policies and procedures.

**RECOMMENDATION**

We recommend that DTMB ensure that departments provide timely responses to DTMB's quarterly procurement card compliance and transaction reports.

**AGENCY  
PRELIMINARY  
RESPONSE**

DTMB provided us with the following response:

*DTMB Financial Services agrees and has complied with the recommendation. However, it is important to note that DTMB Financial Services previously identified this concern during the internal control evaluation. Prior to the start of the audit, DTMB Financial Services initiated corrective actions, which included establishing a process for monitoring returned quarterly report responses. In addition, DTMB Financial Services notes that no fraudulent purchases were discovered due to any delay in obtaining the completed reports. As a result, any lack of timeliness did not contribute to fraud or misuse of the program.*

**FINDING #2**

**DTMB should ensure that departments cancel procurement cards in a more timely manner.**

One card was not canceled for 21 months.

DTMB did not ensure that departments canceled cards at the time that the cardholders separated from State employment. Also, DTMB did not have a process to verify that all cards were held only by current State employees. Cards remaining active after employees have separated from State employment increases the potential for fraud, misuse, and abuse.

DTMB Administrative Guide procedure 0510.17 requires the cardholder to return the card to his or her immediate supervisor when departing State service and the supervisor to notify the department procurement card administrator to cancel the card. DTMB's procedure does not require the department administrator to cancel the card within a certain period of time after the return of the card. Also, DTMB does not have a procedure to conduct periodic checks of cards to ensure that all cards are held only by current State employees.

We reviewed canceled cards and noted:

- a. Departments canceled 12 (17%) of 72 cards more than 7 days after the employees left State employment, including one card that was canceled 21 months after the employee's separation date. The following table summarizes the 12 canceled cards:

<u>Number of Days to Cancel</u>	<u>Number of Cards</u>	<u>Average Number of Days to Cancel</u>
7 - 60	7	22
61 - 180	2	114
More than 180	3	391
Total	<u>12</u>	129

Our review did not identify any unauthorized purchases made with these cards after the employees' separation date.

- b. DTMB did not have a process to verify or periodically validate that all active cards were issued only to current State employees. The current process requires supervisors and department administrators to ensure the cancellation of all cards. DTMB stated that it would have to manually verify all cardholders to State employment records; however, DTMB has not conducted this review at the time of our audit.

DTMB stated that it relies on the cardholder supervisors and the department administrators to determine the status of individual cardholders.

The procurement card vendor informed us that the software can be modified to allow the State to enter the employee identification (ID) number into a data field for each card

issued. Having the employee ID number in the software would allow DTMB to periodically compare all current cardholders with State employment records to identify current cardholders whose cards should have been canceled after they separated from employment. The vendor stated that there would not likely be any additional fee to use the feature.

**RECOMMENDATIONS**

We recommend that DTMB ensure that departments cancel cards upon the cardholders' separation from State employment.

We also recommend that DTMB work with the procurement card vendor to modify the vendor's software to allow DTMB to verify that all cards are held only by current State employees.

**AGENCY  
PRELIMINARY  
RESPONSE**

DTMB provided us with the following response:

*DTMB Financial Services agrees and has partially complied with the recommendations. DTMB Financial Services implemented the process of running a biweekly departure report to identify cardholders who have separated to ensure that the procurement cards were canceled. DTMB Financial Services will update the Administrative Guide to require the supervisor to notify the department procurement card administrator, at the time or before, of the employee's departure for cancellation of the card. However, the responsibility for canceling procurement cards, at the time of an employee's separation from the State, is with the cardholder's supervisor and the department procurement card administrator. The employee ID has been added as a field in the vendor's system. DTMB Financial Services is in the process of loading the information.*

# DEPARTMENTS' COMPLIANCE WITH PROCUREMENT CARD POLICIES AND PROCEDURES

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## BACKGROUND

Certain State employees use cards to make job-related purchases. Authorized cardholders must comply with the policies and procedures established in the DTMB Administrative Guide and various State of Michigan Procurement Card Program manuals.

Each department has its own procurement card administrator. Currently, 25 departments and agencies covering all three branches of government utilize the cards.

During our audit period, there were 428,132 purchases totaling \$122,000,982. The table below represents the top 10 vendors based on total purchases. This unaudited information was compiled from data obtained from the procurement card vendor's information system:

Vendor	Description	Total Purchase
Grainger	Industrial supplies	\$ 4,753,091
OfficeMax	Office supplies	4,522,946
Delta Air	Travel related	3,129,935
Amazon	General merchandise	2,081,012
Home Depot	Building materials	2,067,672
VWR International Inc.	Laboratory supplies	1,543,246
USPS	Postage/Shipping	1,454,318
Lansing Sanitary Supply	Maintenance supplies	1,357,098
UPS	Shipping	1,305,860
Lansing Board of Water and Light	Utility payments	1,040,041
Total		<u>\$ 23,255,219</u>

## AUDIT OBJECTIVE

To assess whether departments' procurement card usage complied with State policies and procedures.

## CONCLUSION

Complied.

## FACTORS IMPACTING CONCLUSION

- 98.9% of transactions reviewed complied with policies for allowable purchases.
- 99.4% of transactions reviewed had sufficient supporting documentation.

- Reportable conditions related to:
  - Timeliness of department reviews.
  - Missing cardholder and supervisor agreements.
  - Missing transaction reports.



## FINDING #3

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**Timely approval is necessary to ensure that cardholders are complying with purchasing policies and procedures.**

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DTMB procedures do not include a deadline for departments to review and approve cardholder purchases. Also, DTMB did not ensure that departments were performing reviews of purchases in a timely manner. Timely reviews would help identify card misuse or violations of State policies and department controls.

DTMB Administrative Guide procedure 0510.17 requires that, at the end of each two-week billing cycle, cardholders attach all documentation to a transaction report and forward the documentation to the cardholders' supervisors for review and approval. The procedure also states that the supervisor should sign the transaction report with a full signature and date. The procedure does not specifically require departments to review and approve card purchases within a certain deadline. DTMB agreed that 30 days after the end of the two-week billing cycle was an appropriate deadline.

We reviewed 169 transaction reports and noted:

- a. In 7 (4%) instances, there were no signatures or dates on the transaction reports.
- b. In 11 (7%) instances, the supervisors' review occurred between 3 and 38 days after the end of the two-week billing cycle.
- c. In 12 (7%) instances, the supervisors did not date the transaction reports.

Also, a cardholder supervisor informed us that she was approximately 5 months behind in reviewing transactions. We question the value of performing the oversight 5 months after the fact.

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One procurement card supervisor was 5 months behind in her review.

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We noted a similar issue in our prior audit. In response to that audit, DTMB indicated that it would perform an annual review of individual department policies to ensure that the departments are sufficiently monitoring transactions.

## RECOMMENDATIONS

We recommend that DTMB update its procedures to require departments to perform reviews of purchases within 30 days of the two-week billing cycle end date.

We also recommend that DTMB require departments to perform reviews of purchases in a timely manner.

## AGENCY PRELIMINARY RESPONSE

DTMB provided us with the following response:

*DTMB Financial Services agrees with the recommendations and will update the Administrative Guide and Manuals to require that reviews of cardholder transactions must be completed within 30 days of the biweekly cycle end date. DTMB Financial Services will also require that departments complete a secondary review, after the supervisor approves, to ensure compliance.*

## **FINDING #4**

**Cardholder and supervisor agreements were not signed prior to cardholders making purchases.**

DTMB did not ensure that departments obtained signed cardholder and supervisor agreements prior to card use. Signed agreements document that cardholders and supervisors are aware of State policies and procedures governing procurement cards and the consequences of misuse.

DTMB Administrative Guide procedure 0510.17 states that departments are responsible for obtaining signed agreements. DTMB Administrative Guide procedure 0510.20 states that the cardholder's supervisor can designate another approver to review cardholder transactions; however, DTMB stated that the designated approver must also sign a supervisor agreement.

During our testing of transaction reports, we noted:

- a. For 10 (6%) of 157 cardholder agreements, a signed agreement was either not provided or not dated prior to the purchase. One department was responsible for 7 (70%) of the 10 exceptions.
- b. For 29 (18%) of 157 supervisor agreements, a signed agreement was either not provided or not dated prior to the purchase. One department was responsible for 11 (38%) of the 29 exceptions.
- c. For 33 (20%) of 169 transaction reports tested, the signature on the supervisor agreement provided did not match the signature of the person reviewing and approving the transactions. One department was responsible for 12 (36%) of the 33 exceptions.

DTMB stated that frequent changes to department procurement card administrators and cardholder supervisors caused some agreements to be lost or not updated.

## **RECOMMENDATION**

We recommend that DTMB require departments to obtain signed cardholder and supervisor agreements prior to card use.

## **AGENCY PRELIMINARY RESPONSE**

DTMB provided us with the following response:

*DTMB Financial Services agrees with the recommendation and will update the policy to require that the cardholder and supervisor agreement forms are obtained prior to the issuance of a procurement card. DTMB Financial Services will also require that departments' procurement card administrators perform an annual cardholder supervisor review.*

## FINDING #5

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**Departments did not always maintain documentation of the supervisors' review of transaction reports.**

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DTMB did not ensure that departments maintained documentation of the supervisors' review of transaction reports. Also, DTMB did not ensure that the supervisors reviewed purchases using transaction reports obtained directly from the procurement card vendor's software. As a result, DTMB could not ensure that supervisors reviewed and validated all purchases.

DTMB Administrative Guide procedure 0510.17 requires the cardholder's supervisor to obtain a transaction report from the vendor and to compare this transaction report with the receipts and other supporting documentation provided by the cardholder. The procedure also requires the supervisor to resolve any differences between the transaction report obtained from the software and the receipts provided by the cardholder and to approve the transaction report with a full signature and date.

We noted:

- a. Departments could not provide transaction reports for 14 (8%) of the 169 requested. One department was responsible for 8 (57%) of the 14 exceptions.
- b. Of the 19 supervisors that we interviewed regarding the transaction approval process, 3 (16%) supervisors stated that they reviewed the purchases using the transaction report provided by the cardholder. Requiring supervisors to review purchases using a transaction report obtained directly from the vendor would help ensure the completeness of purchases subject to review.

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Supervisors obtaining transaction reports from the vendor's software could help identify fraud.

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Although DTMB's procedure requires departments to obtain and review the transaction report obtained directly from the software, DTMB did not ensure that the departments maintained the documentation once reviewed and approved.

## RECOMMENDATIONS

We recommend that DTMB ensure that departments maintain documentation of the supervisors' review of transaction reports.

We also recommend that DTMB ensure that supervisors review purchases using transaction reports obtained directly from the vendor's software.

## AGENCY PRELIMINARY RESPONSE

DTMB provided us with the following response:

*DTMB Financial Services agrees with the recommendations and will update the Administrative Guide to require a secondary review of transaction reports. In addition, DTMB Financial Services will require that departments conduct the secondary review, using transaction reports obtained directly from the vendor, after the supervisor's initial approval.*

# SUPPLEMENTAL INFORMATION

UNAUDITED  
Exhibit 1

PROCUREMENT CARD PROGRAM  
Department of Technology, Management, and Budget

Number of Cardholders by Entity  
As of June 18, 2015

Entity	Number of Cardholders	Percentage
Department of Natural Resources	565	18.5%
Michigan Department of Transportation	524	17.1%
Department of Technology, Management, and Budget	388	12.7%
Department of Corrections	348	11.4%
Michigan Department of Health and Human Services - Department of Human Services	278	9.1%
Michigan Department of State Police	275	9.0%
Department of Environmental Quality	109	3.6%
Department of Licensing and Regulatory Affairs	107	3.5%
Michigan Department of Health and Human Services - Department of Community Health	94	3.1%
Department of Military and Veterans Affairs	93	3.0%
Michigan Department of Education	78	2.5%
Department of State	69	2.3%
Michigan Department of Agriculture and Rural Development	59	1.9%
Department of Treasury	23	0.8%
Department of Civil Rights	12	0.4%
Department of Insurance and Financial Services	7	0.2%
Civil Service Commission	6	0.2%
Judiciary	5	0.2%
Department of Attorney General	5	0.2%
Casino Gaming Board	5	0.2%
Office of the Auditor General*	4	0.1%
Bureau of State Lottery	3	0.1%
Michigan State Housing Development Authority	2	0.1%
Executive Office	2	0.1%
State Capitol Commission	1	0.0%
Total	<u>3,062</u>	

\* Cards associated with the Office of the Auditor General were excluded from this audit.

Source: The Office of the Auditor General prepared this exhibit from information obtained from the procurement card vendor's information system.

PROCUREMENT CARD PROGRAM  
Department of Technology, Management, and Budget

Card Purchases by Entity  
During the Period October 1, 2012 Through February 28, 2015

Entity	Total Card Purchases	Percentage
Department of Corrections	\$ 30,169,461	24.7%
Michigan Department of Transportation	27,795,092	22.8%
Department of Technology, Management, and Budget	19,260,349	15.8%
Michigan Department of State Police	8,196,055	6.7%
Department of Natural Resources	6,883,969	5.6%
Department of Military and Veterans Affairs	5,837,849	4.8%
Department of Community Health	5,676,617	4.7%
Department of Human Services	3,479,072	2.9%
Department of Licensing and Regulatory Affairs	3,364,618	2.8%
Michigan Department of Education	3,094,407	2.5%
Michigan Department of Agriculture and Rural Development	2,855,345	2.3%
Department of Environmental Quality	1,673,033	1.4%
Department of Treasury	1,022,711	0.8%
Department of State	669,017	0.5%
Michigan State Housing Development Authority	420,159	0.3%
Department of Insurance and Financial Services	335,487	0.3%
Department of Attorney General	289,854	0.2%
Casino Gaming Board	283,653	0.2%
Department of Civil Rights	214,973	0.2%
Bureau of State Lottery	173,007	0.1%
Judiciary	134,967	0.1%
Civil Service Commission	67,731	0.1%
Executive Office	59,502	0.0%
Office of the Auditor General*	44,053	0.0%
Total	<u>\$122,000,982</u>	

\* Purchases associated with the Office of the Auditor General were excluded from evaluation during this audit. These transactions are subject to review during independent audits of the Office.

Source: The Office of the Auditor General prepared this exhibit from information obtained from the procurement card vendor's information system.

## PROGRAM DESCRIPTION

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

As of June 2015, DTMB had 2 full-time equated staff administering the Program at the State level and 3,062 active cards issued to State employees. Also, there were 22 department procurement card administrators who assisted the Statewide procurement card administrator in operating the Program.

For fiscal year 2014, there were 179,717 card purchases totaling \$51.4 million.

## **AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION**

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### **AUDIT SCOPE**

To examine the program and other records of the Procurement Card Program except for purchases associated with the Office of the Auditor General, which are subject to review during independent audits of the Office. We conducted this performance audit\* in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### **PERIOD**

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered the period October 1, 2012 through February 28, 2015.

### **METHODOLOGY**

We conducted a preliminary survey to gain an understanding of the Program to establish our audit objectives and methodology. During our preliminary survey, we:

- Interviewed procurement card management staff to gain an understanding of the Program.
- Interviewed selected department procurement card administrators regarding the administrators' functions and responsibilities.
- Reviewed applicable State laws and DTMB Administrative Guide policies and procedures.
- Reviewed cardholder, supervisor, and administrator manuals.
- Reviewed the contract with the procurement card vendor.
- Analyzed card data to gain an understanding of operational activities.
- Reviewed DTMB-created cost studies comparing Program costs with traditional purchase methods.

\* See glossary at end of report for definition.

## **OBJECTIVE #1**

To assess whether DTMB provided effective oversight of the Procurement Card Program to ensure that departments were in compliance with State policies and procedures.

To accomplish our first objective, we:

- Reviewed all 22 department procurement card administrators to ensure that they were not issued cards.
- Randomly selected and tested 50 of 2,957 active cards to determine if the cards were issued to current State employees.
- Randomly and judgmentally selected and tested 72 of 935 canceled cards to determine if the cards were canceled when the employees left State employment.
- Judgmentally selected and tested 6 of 67 quarterly reports to determine if DTMB included all transactions it deemed questionable in the review and if the responses were reasonable.
- Reviewed receipt dates for all 67 quarterly reports covering two quarters to determine if the agencies provided responses to the questionable transactions within 30 days.

## **OBJECTIVE #2**

To assess whether departments' procurement card usage complied with State policies and procedures.

To accomplish our second objective, we:

- Randomly and judgmentally selected 181 of 428,132 card purchases, including high-risk, hotel, and split transactions, to verify that purchases were:
  - Properly supported by receipts.
  - For legitimate State business purposes.
  - In compliance with State policies and procedures.
  - Within cardholder spending limits.
  - Properly reviewed using documentation separate from the cardholder.
  - Subject to proper supervisory reviews conducted in a timely manner.
- Analyzed merchant category codes (MCCs) that DTMB identified as unallowable to ensure that purchases were limited in these coding blocks.



- Analyzed emergency MCCs coding to ensure that purchases were limited in these coding blocks.
- Interviewed 19 supervisors regarding their processes for reviewing cardholder transactions.
- Reviewed cardholder and supervisor agreements for the transactions selected during our testing of transactions.

## **CONCLUSIONS**

We base our conclusions on our audit efforts and the resulting material conditions and reportable conditions.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

## **AGENCY RESPONSES**

Our audit report contains 5 findings and 8 corresponding recommendations. DTMB's preliminary response indicates that it agrees with all 8 recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion at the end of 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 an audited agency to develop a plan to comply with the 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 is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

## **PRIOR AUDIT FOLLOW-UP**

We released our prior performance audit of the Procurement Card Program, Financial Services, Department of Technology, Management, and Budget (071-0705-10), in January 2011. DTMB complied with 3 of the 5 prior audit recommendations. We rewrote 2 recommendations for inclusion in Findings #3 and #5 of this audit report.

## GLOSSARY OF ABBREVIATIONS AND TERMS

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DTMB	Department of Technology, Management, and Budget.
efficiency	Achieving the most outputs and the most outcomes practical with the minimum amount of resources.
ID	identification.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
MCC	merchant category code.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to 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, is less severe than a material condition and 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 audit objectives; 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.
segregation of duties	Assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets to reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of his or her duties. Proper segregation of duties requires separating the duties of reporting, review and approval of reconciliations, and approval and control of documents.



