

**03-8**  
**July 2003**

A Review

# **State Purchasing Cards**

*Department of Administration*

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State Auditor - Janice Mueller

Audit Prepared by

Don Bezruki, Director and Contact Person  
David Varana  
Joanna Balsamo-Lilien  
David Miller  
Jeffrey Ripp

# CONTENTS

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<b>Letter of Transmittal</b>	<b>1</b>
<b>Report Highlights</b>	<b>3</b>
<b>Introduction</b>	<b>9</b>
Statewide Purchasing Card Activity	11
<b>Purchasing Card Transaction Review</b>	<b>17</b>
Agency Oversight	17
University Campus Oversight	19
Purchase Exceptions	21
<b>Best Practices</b>	<b>27</b>
Management of the Purchasing Card Program	27
Oversight Best Practices	28
Program Implementation Best Practices	30
<b>Future Considerations</b>	<b>31</b>
Discretionary Spending	31
Meeting Procurement Goals	33
State Contract for Purchasing Cards	34
<b>Appendix</b>	
Agency and Campus Profiles	
<b>Response</b>	
From the Department of Administration	





State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

JANICE MUELLER  
STATE AUDITOR

22 E. MIFFLIN ST., STE. 500  
MADISON, WISCONSIN 53703  
(608) 266-2818  
FAX (608) 267-0410  
Leg.Audit.Info@legis.state.wi.us

July 11, 2003

Senator Carol A. Roessler and  
Representative Suzanne Jeskewitz, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Dear Senator Roessler and Representative Jeskewitz:

We have completed a review of the State's purchasing card program through which state employees use credit cards to make low-dollar purchases for state business purposes. Purchasing cards represent a new way of paying for needed goods and services and offer increased flexibility by eliminating the need to prepare and submit purchase orders. In July 2002, approximately 17,500 purchasing cards were held by state employees at 43 state agencies and throughout the University of Wisconsin (UW) System. In fiscal year 2001-02, \$86.3 million in goods and services were purchased with the cards, with an average purchase amount of \$196.

Our review of 7,339 purchasing card transactions at five state agencies and three campuses found that abuse of the purchasing card was very rare. In all, we identified 449 exceptions. Most exceptions were purchases for valid business items; however, under Department of Administration or agency purchasing guidelines, these purchases should have been made using an invoice or purchase order. We also identified 107 transactions that appeared to be misuse of the cards, but we found apparent employee abuse of the card in only 2 transactions. We were unable to identify the purpose or the items purchased for 106 transactions.

While we found no evidence of widespread abuse, oversight of purchasing card transactions is important and could be improved, particularly at the campuses we visited. We offer several best practices for agencies and campuses to consider as they seek to improve their management of the program. We also include recommendations for improving guidelines to avoid cardholder errors, as well as for lapsing the purchasing card rebate amount received from the vendor to the funds that supported the original purchases. In calendar year 2002, the rebate amount was \$751,100.

We appreciate the courtesy and cooperation extended to us by the Department of Administration, which administers the purchasing card program, and by the departments and UW campuses we reviewed: Corrections, Health and Family Services, Natural Resources, Transportation, Veterans Affairs, UW-Madison, UW-Milwaukee, and UW-Parkside. The Department of Administration's response follows the appendix.

Respectfully submitted,

A handwritten signature in cursive script that reads 'Janice Mueller'.

Janice Mueller  
State Auditor

JM/DB/ss



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## Report Highlights ■

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***Purchasing cards are increasingly important to agency and campus procurement efforts.***

***Questionable expenditures with purchasing cards were rare.***

***Implementation of best practices could improve the program.***

***More specific guidelines from the Department of Administration and the Department of Employment Relations would be useful.***

In 1996, the Department of Administration (DOA) began the implementation of a program that allows state employees to use credit cards, rather than purchase orders, to make low-dollar purchases for state business purposes. The use of these purchasing cards represents a significant change in the State's procurement procedures because administrative review and approval of purchases happens after, rather than before, a purchase is made. In fiscal year (FY) 2001-02, state and University of Wisconsin (UW) employees used the cards to purchase a total of \$86.3 million in goods and services. The average purchase amount was relatively small—\$196 per transaction.

As part of our systematic statewide effort to evaluate agency purchasing card oversight procedures and expenditures, we reviewed:

- purchasing card activity for all state agencies and UW campuses;
- the State's contract with US Bank/Elan Financial Services, the company that issues the cards;
- purchasing card policies and control procedures at five state agencies and three UW System campuses; and
- selected expenditures, to determine whether they were consistent with state purchasing rules.

## Purchasing Card Use

Purchasing card use has increased significantly since the program's implementation in FY 1995-96, as shown in Figure 1. Total purchasing card expenditures increased from approximately \$654,600 in FY 1995-96 to \$86.3 million in FY 2001-02. These expenditures account for a growing percentage of total procurement and represented an estimated 7.3 percent of all state agency and campus purchasing in FY 2001-02.

Figure 1

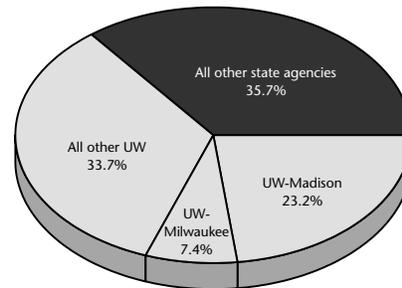
### State Agency and University Purchasing Card Expenditures FY 1995-96 through FY 2001-02



In July 2002, approximately 17,500 purchasing cards were held by employees in 43 state agencies and throughout the UW System. The largest volume of purchasing card expenditures was at office supply stores, computer vendors, hotels, and airlines.

Purchasing cards have been incorporated into procurement activities at most state agencies and campuses. As shown in Figure 2, UW-Madison, UW-Milwaukee, and the other campuses made 64.3 percent of all purchasing card expenditures. Expenditures at all other state agencies combined represented 35.7 percent of total expenditures in FY 2001-02.

Figure 2

**Agency Share of Purchasing Card Expenditures  
FY 2001-02**

The purchasing card program has achieved its original goals of simplifying purchasing and providing flexibility to allow for faster purchasing of low-dollar items. Agencies report that the cards have significantly reduced the number of purchase orders being processed, and the program's flexibility is demonstrated by the approximately 12,700 merchants who received payment in FY 2001-02 through a state purchasing card. However, because cardholders use the cards without prior supervisory review and approval, misuse can occur if cardholders fail to follow documentation and oversight requirements. Since most cardholders are not trained as purchasing officers, adequate oversight is important to ensure that purchases are necessary, appropriate, and at the best price.

Not all agencies and campuses required all of the minimum oversight requirements established by DOA, and we found inconsistent cardholder compliance with documentation requirements. In a file review, we found:

- complete documentation for 94.1 percent of the transactions we sampled at the Department of Natural Resources;
- complete documentation for 91.9 percent at Veterans Affairs;
- complete documentation for 88.1 percent at Transportation;

- complete documentation for 86.3 percent at Corrections; and
- complete documentation for 79.4 percent at Health and Family Services.

Compliance rates were much lower at the three campuses we visited. Complete documentation was available for just 48.1 percent of the transactions we sampled at UW-Parkside, 34.9 percent at UW-Madison, and 34.5 percent at UW-Milwaukee.

## **Exceptions**

Of 7,339 purchasing card transactions we sampled at the five agencies and three campuses, only 449 were determined to be audit exceptions. Most exceptions were purchases for valid business items. However, under DOA or agency purchasing guidelines, the purchases should have been made using an invoice or purchase order. We also identified 107 transactions that appeared to be misuse of the cards, but we found apparent employee abuse of the card in only 2 transactions. We were unable to identify the purpose or the items purchased for 106 transactions. The agencies with the highest rates of compliance with documentation requirements had the fewest audit exceptions.

## **Future Considerations**

The Legislature has established broad procurement goals for state agencies and campuses to meet in their purchasing activities, including purchasing from minority, small, and veteran-owned businesses; purchasing products with recycled content; and purchasing from Badger State Industries. While DOA has not tracked purchasing card activity as it relates to these goals, it recognizes the need for identifying progress made toward them and has made changes to agency reporting on purchasing card expenditures at minority businesses. Further, it has included improved minority business reporting as a requirement of its new purchasing card contract.

The State's original purchasing card contract, signed in January 1997, was for a five-year period but has been extended while DOA develops a request for proposals for a new contract. DOA plans on awarding a new contract in January 2004. In February 2003, we sent a letter to DOA with several recommendations to improve

fraud detection activities, improve activity reporting, change the appearance of the card to help reduce cardholder error, and increase the performance rebate received from the vendor.

## Best Practices

We identified a number of best practices at the agencies and campuses we reviewed. Best practices include:

- requiring cardholders to complete purchasing card logs;
- requiring and properly documenting supervisory review;
- conducting systematic post-audit reviews;
- providing sufficient training for cardholders;
- providing cardholders with clear instructions regarding hospitality expenses for conferences and training sessions hosted by state agencies;
- avoiding paying credit card convenience fees; and
- avoiding the use of purchasing cards to pay for recurring utility bills such as telephone service.

Program control is enhanced when:

- agency or campus leadership emphasizes the importance of following program requirements;
- cards are issued only to staff who have a clear need for a purchasing card;
- credit limits are established that correspond to the employee's job duties; and
- agencies electronically report and reconcile purchasing card logs to ensure that expenditures are accurately allocated within internal agency budgets.

## Recommendations

Our recommendations address the need for DOA to:

- ☑ provide agencies with more specific training in purchasing card policies and procedures, including an overview of the State's procurement goals and how these goals may be achieved using purchasing cards (*p. 33*); and
- ☑ lapse the purchasing card rebate amount received from the vendor, totaling \$751,100 in calendar year 2002, to the funds that supported the original purchases (*p. 35*).

We also include a recommendation for the Department of Employment Relations to:

- ☑ develop rules or guidelines that specify whether it is appropriate for state agencies and campuses to pay for employees' ongoing professional licenses (*p. 24*).

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## Introduction ■

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***Concerns have been raised about whether improper expenditures were made with purchasing cards.***

Since 1996, when agencies began using purchasing cards in their procurement activities, auditors from the State Controller's Office in DOA and from the Legislative Audit Bureau have occasionally noted instances of questionable expenditures made with the purchasing cards and weaknesses in the oversight procedures used. The United States General Accounting Office has issued a series of reports that identified weaknesses in oversight procedures that resulted in questionable expenditures by federal employees under a similar program. As part of our systematic statewide effort to evaluate agency purchasing card oversight procedures and expenditures, we visited five agencies and three UW campuses and examined a total of 7,339 purchases we deemed to pose a potential risk of abuse, including purchases at grocery stores, jewelry stores, and high-end retailers. We also reviewed card purchases from vendors such as gasoline stations and restaurants, for which most state agencies have policies that direct employees to use personal funds and then seek reimbursement, or to use payment methods such as a vehicle fleet credit card rather than the purchasing card.

Transactions were selected from the following agencies and campuses, which accounted for 56.0 percent of all purchasing card expenditures in FY 2001-02:

- the Department of Corrections (DOC);
- the Department of Health and Family Services (DHFS);

- the Department of Natural Resources (DNR);
- the Department of Transportation (DOT);
- the Department of Veterans Affairs (DVA);
- UW-Madison;
- UW-Milwaukee; and
- UW-Parkside.

Additional information about each agency's purchasing card policies and use is included in the appendix.

***Agencies have streamlined procurement rules for purchases of \$5,000 or less.***

DOA is responsible for state purchasing procedures but is authorized under s. 16.71, Wis. Stats., to delegate purchasing authority to most state agencies. If the purchase price of the commodity or service is \$5,000 or lower, DOA leaves price and the choice of the vendor to the "best judgment" of the agency and does not require formal bids, proposals, or justification for sole-source purchasing. For purchases exceeding \$5,000 and up to \$25,000, agencies must seek bids from a minimum of three vendors or obtain price information. For purchases above \$25,000, agencies must typically use a formal bidding process.

Before the purchasing card program was established, state agencies purchased commodities and services only after purchasing staff had reviewed and approved them. The traditional procurement process involved line or program staff identifying a needed item or service, obtaining spending approval from budget managers, and completing a purchase requisition form. Agency business staff then completed a purchase order, a copy of which was sent to DOA, and ensured the item was properly paid for through an invoice or other payment procedure. These general procedures were followed for commodities and services at all price levels and meant that purchasing staff at larger agencies and at DOA were reviewing and processing paperwork for all purchases, including those that represented only a very small portion of agency expenditures.

***Purchasing cards simplify purchasing for low-dollar items.***

By implementing the purchasing card program, DOA hoped to achieve efficiencies by simplifying purchasing of low-dollar items. Purchasing cards do not involve preapproval; therefore, maintaining adequate oversight of purchases made with the cards is important to ensure the purchases are necessary, appropriate, and at the best possible price.

***Expenditures with purchasing cards do not require preapproval by supervisors.***

Unlike the preapproval for traditional purchase orders, oversight of purchases made with the cards takes place after the purchase has already been made. Each cardholder receives an account statement from the vendor every two weeks for information and reconciliation purposes. In addition, a billing file is sent every two weeks by the vendor to the State's accounting system or to the university campus business office, together with a summary of all charges. DOA makes one payment to the vendor on behalf of cardholders who are not university employees, while each campus separately processes payments to the vendor. DOA has developed requirements for agencies and campuses to ensure adequate administrative review and oversight of purchases made with the cards, but agencies and campuses are given flexibility in how they develop, implement, and maintain their oversight system for purchases made with the cards.

### Statewide Purchasing Card Activity

***Purchasing card expenditures represented 7.3 percent of all state purchasing in FY 2001-02.***

The purchasing card has become an increasingly important method of payment. As shown in Table 1, expenditures made using purchasing cards account for a growing percentage of total state procurement and represented an estimated 7.3 percent of the value of all state agency and campus purchasing in FY 2001-02.

Table 1

**Purchasing Card Expenditures as a Percentage of Estimated Total State Purchases<sup>1</sup>**  
FY 1995-96 through FY 2001-02

Fiscal Year	Total Statewide Procurement	Purchasing Card Expenditures	Percentage of Total Procurement
1995-96	\$ 791,319,700	\$ 654,600	0.1%
1996-97	793,723,000	1,746,000	0.2
1997-98	824,171,400	8,854,500	1.1
1998-99	836,575,700	21,443,700	2.6
1999-2000	1,295,715,900	47,178,900	3.6
2000-01	1,107,001,600	76,114,700	6.9
2001-02	1,186,220,300	86,296,000	7.3

<sup>1</sup> Total statewide procurement includes expenditures made using a purchase order or made via purchasing card and excludes architectural and engineering services, construction and facilities development, highway and road construction, most purchases between state agencies, and payments to utilities.

Purchasing card expenditures are significant at the agencies and campuses we reviewed. As shown in Table 2, expenditures made using purchasing cards ranged from \$1.0 million at DVA to \$20.0 million at UW-Madison. We selected most of the agencies we reviewed because of the volume of their expenditures, and we included DVA and UW-Parkside as examples of smaller agencies with purchasing card activity.

Table 2  
Purchasing Card Activity at Reviewed Agencies and Campuses  
In Millions, FY 2001-02

Agency	Purchasing Card Expenditures
UW-Madison	\$20.0
UW-Milwaukee	6.4
DOC	6.2
DNR	5.3
DHFS	4.8
DOT	3.3
UW-Parkside	1.3
DVA	1.0
<b>Total</b>	<b>\$48.3</b>

***A majority of expenditures were made by cardholders at university campuses.***

Expenditures using purchasing cards were made at nearly all state agencies and at all four-year campuses, as well as by UW System Administration and staff at the two-year colleges. However, university expenditures, particularly at UW-Madison and UW-Milwaukee, represented the majority of all purchasing card activity in FY 2001-02. As noted, UW-Madison, UW-Milwaukee, and the other campuses made 64.3 percent of all purchasing card expenditures, while expenditures made at all other state agencies combined represented 35.7 percent of total expenditures in FY 2001-02.

***In FY 2001-02, there were cardholders at 43 state agencies and throughout the UW System.***

Purchasing cards have become an important procurement method for state agencies and campuses not only in terms of expenditure levels, but also in terms of the number of cards issued to employees and the number of agencies and campuses that participate in

the purchasing card program. In July 2002, approximately 17,500 purchasing cards were held by state and UW employees, as shown in Table 3. Purchasing cards were held by employees at 43 agencies and throughout the UW System. However, the extent to which purchasing cards were used by state entities varied significantly. For example, UW-Madison had the highest level of purchasing card expenditures but ranked fourth in the number of purchasing cards issued.

Table 3  
Number of Purchasing Cards Issued at State Agencies and Campuses  
July 2002

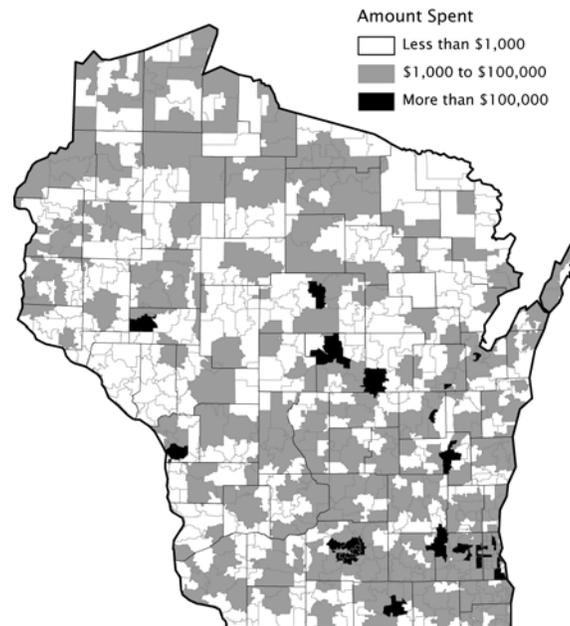
Agency	Number of Purchasing Cards
DNR	2,000
UW-Milwaukee	1,417
DOC	1,173
UW-Madison	1,102
DHFS	1,085
UW Colleges	917
UW-Superior	819
UW-Whitewater	811
UW-La Crosse	768
UW-Eau Claire	650
UW-River Falls	619
DWD	597
DATCP	555
UW-Oshkosh	552
All other Agencies and Campuses	4,418
<b>Total</b>	<b>17,483</b>

***Purchasing card expenditures were made at merchants throughout Wisconsin.***

Because cardholders work at agencies and campuses throughout the state, purchasing card use is distributed across a broad geographic area. However, higher levels of spending tend to occur in locations with state-owned facilities, as shown in Figure 3. For example, six of the top ten zip codes for FY 2001-02 purchasing card expenditures were in Madison or Middleton.

Figure 3

**Purchasing Card Expenditures by Zip Code**  
State Agencies Only, FY 2001-02



***The program has provided significant flexibility in purchasing low-dollar items.***

Because most merchants accept the cards as a method of payment, purchasing cards provide the State's employees with significant flexibility in choosing where to buy items and supplies. Cardholders, excluding those in the UW System, made purchases at approximately 12,700 vendors in FY 2001-02, with office supply stores, computer vendors, and hotels and airlines represented among the top 20 vendors by purchase volume, as shown in Table 4. Agency and campus staff indicate that the primary goals of the program—to increase flexibility and provide for faster purchasing—have been met by the State's purchasing card program. In addition, the program's flexibility is demonstrated by the large number of merchants who received payment through a purchasing card.

Table 4  
**Top Twenty Merchants**  
 State Agencies Only, FY 2001-02

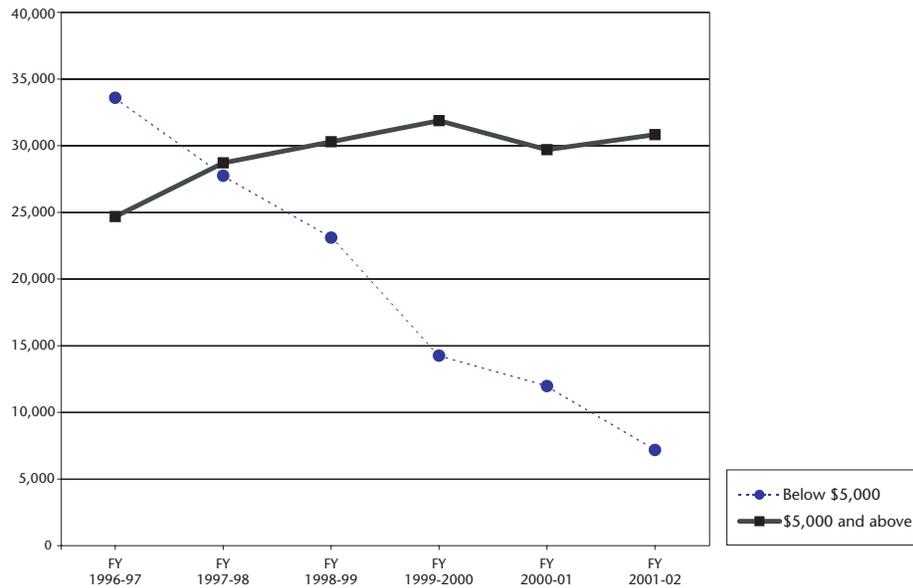
Vendor	Amount	Purchases	Average
Boise Cascade (office supplies)	\$2,755,507	22,218	\$ 124
Dell Marketing (computers)	1,447,090	1,119	1,293
Grainger (office supplies)	519,153	3,438	151
Northwest Airlines	324,564	889	365
Holiday Inn Hotels	268,588	2,307	116
Central Wisconsin Paper	232,822	936	249
United States Postal Service	228,199	5,678	40
Wal-Mart	227,795	4,198	54
Henry Schein (medical equipment)	227,193	341	666
Vanguard Computers	217,268	365	595
Menard's	209,013	2,690	78
Best Western Hotels	207,773	1,907	109
Neher Electric Supply	197,547	595	332
Midwest Express Airlines	188,585	614	307
First Supply (plumbing and heating, venting, and air conditioning products and supplies)	177,760	1,076	165
Fisher Scientific (laboratory and scientific equipment)	171,171	666	257
University of Wisconsin Pyle Center	155,773	771	202
Cartridge Savers (printer and copy machine toner cartridges)	151,730	507	299
US Cellular	151,143	1,136	133
Best Buy	149,783	697	215

***Agencies and campuses reported a reduction in paperwork for low-dollar purchases.***

In addition to greater flexibility and faster purchasing, DOA expected some administrative costs to be avoided because the number of low-dollar requisitions and purchase orders would decline. For example, an analysis of UW-Madison procurement completed in 2002 by UW-Madison staff found that while there are several factors influencing procurement trends, growth in purchasing card use appears to be a main reason for the decline in the number of purchase orders issued for purchases below \$5,000, as shown in Figure 4.

Figure 4

**Number of Purchase Orders Issued by UW-Madison  
By Value, FY 1996-97 through FY 2001-02**



Source: University of Wisconsin-Madison

However, we could not document whether the purchasing card program has led to lower administrative costs. While some agency staff believe that the program saves time for purchasing staff because they no longer have to process requisitions and purchase orders for low-dollar items, agencies were unable to identify any reductions in staff as a result of the purchasing card. Further, the program has introduced significant new documentation responsibilities to program staff who are cardholders, to their supervisors who are now required to review the cardholders' documentation, and also to post-audit requirements for agency and campus business offices.

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## Purchasing Card Transaction Review ■

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In our review of 7,339 purchasing card transactions at five agencies and three four-year campuses, we found that incidents of intentional misuse of the state purchasing card were very rare. Nevertheless, we found oversight weaknesses that expose agencies and campuses to a risk of future misapplication or misuse of the purchasing cards. The agencies with the highest rates of compliance with documentation requirements had the fewest audit exceptions.

### **Agency Oversight**

Working with the contract vendor, DOA has ensured that safeguards against purchasing card misuse are in place for cardholders in all state agencies and campuses. For example, the cards are electronically blocked from being used for purchases at certain categories of merchants or transaction types, such as dating and escort services, massage parlors, tax preparation services and tax payments, bail and bond payments, insurance premiums, travelers checks, and cash withdrawals. Further, the vendor provides fraud detection services, including fraud detection software that flags suspicious card activity, as well as fraud detection staff. Nevertheless, the primary responsibility for ensuring that the purchasing cards are used appropriately falls to the cardholder and supervisory staff.

Although agencies have discretion in organizing the methods used to monitor their purchasing card programs, the State Accounting Manual issued by DOA specifies three minimum requirements for adequately documenting purchasing card transactions:

- retaining original receipts or other documentation—such as Internet purchase confirmations or similar records—by the cardholder for each purchase;
- a purchase log, signed by the cardholder, describing the items purchased; and
- signature of the cardholder’s supervisor or coordinator on the purchase log.

***Documentation requirements are important to ensure accountability for purchases.***

Considering that purchases made with the cards do not require preapproval by supervisors, each of these three documentation requirements is important for different reasons. Retaining original receipts provides assurance that a purchase corresponds to the items reported on the log. Keeping a copy of the receipt is a less-desirable method of documentation, because of the possibility of forgery. Maintaining a purchase log that lists each item purchased provides detailed information that often is not printed on receipts and ensures that cardholders reconcile their purchases to the items listed on the account statement to prevent unauthorized charges from being paid. The supervisor’s signature indicates that independent review of purchases has been completed and, therefore, that someone other than the cardholder has attested the purchases recorded in the log were for valid business purposes and that the cardholder has maintained complete documentation.

***Documentation of purchases made with the cards could be improved.***

Our review of purchasing card transactions at state agencies indicates that many cardholders at state agencies performed well in maintaining complete documentation, including original receipts and both a cardholder and supervisor signature on the purchase log. However, several of the agencies we reviewed could improve the rate at which cardholders follow documentation requirements. As shown in Table 5, the percentage of transactions at the state agencies we reviewed that had complete documentation ranged from 94.1 percent at DNR to 79.4 percent at DHFS.

Table 5

**Agency Success in Documenting Purchases**  
FY 2001-02

Agency	Transactions in Sample	Percentage of Transactions with Complete Documentation
DNR	1,773	94.1%
DVA	384	91.9
DOT	1,472	88.1
DOC	373	86.3
DHFS	1,221	79.4

***Different approaches to oversight can be equally successful in meeting documentation requirements.***

While we found different oversight procedures at each agency, there is not a single approach to oversight that is more likely to ensure proper documentation procedures are followed. For example, DNR relies on cardholder supervisors and staff in regional business offices to ensure that purchases are for valid business purposes and are properly documented. When compared with agencies that have a more centralized approach, such as DOT and DVA, DNR showed a higher level of compliance in our review of transactions. On the other hand, DHFS has also adopted a more decentralized approach to purchasing card oversight, and our review found that among the five state agencies, DHFS had the lowest level of compliance with documentation requirements.

## University Campus Oversight

Administration of the purchasing card program at UW campuses is also decentralized. Like state agencies, the campuses can develop their own purchasing card policies, provided these policies include the basic documentation requirements established by DOA. However, our review of policies and selected purchasing card transactions at UW-Madison, UW-Milwaukee, and UW-Parkside found that the purchasing card programs at these campuses do not completely conform to DOA requirements. Moreover, cardholders do not always adhere to policies established by their respective campuses. We also found more purchase exceptions at campuses than at most state agencies we reviewed.

***Cardholders at three campuses had significantly lower compliance with documentation requirements than those at five state agencies did.***

UW-Madison, UW-Milwaukee, and UW-Parkside had differing policies related to purchasing card documentation. The policies at UW-Madison and UW-Milwaukee did not completely conform to the minimum standards established by DOA. For example, UW-Madison and UW-Milwaukee did not require that a supervisor sign a purchasing card log to ensure that the purchases were for valid business purposes and that documentation was complete. As shown in Table 6, cardholders at all three campuses performed poorly in maintaining complete documentation for the transactions we reviewed when compared to cardholders at state agencies.

Table 6

**Campus Success in Documenting Purchases**  
FY 2001-02

Campus	Transactions in Sample	Percentage of Transactions with Complete Documentation
UW-Parkside	416	48.1%
UW-Madison <sup>1</sup>	658	34.9
UW-Milwaukee	1,042	34.5

<sup>1</sup> UW-Madison results were estimated because campus officials did not supply original receipts for our review, as requested. Results are based on a follow-up review of a subset of transactions.

In addition to policy differences among campuses, individual departments on the same campuses document purchasing card use in different ways. Some departments and centers at UW-Madison and UW-Milwaukee have procedures in place that meet DOA documentation requirements. For example, the UW-Madison College of Engineering requires that cardholders submit reconciled purchasing card reports every two weeks, which are signed by the cardholder and a site manager responsible for reviewing the cardholder’s purchases and documentation. Other departments did not require any documentation of supervisory oversight.

***Inconsistent internal controls expose campuses to a higher level of risk.***

Moreover, UW-Milwaukee cardholders were not required to sign a record of purchases or to submit a log to their supervisors for review. They were required only to submit receipts and the billing statement. Therefore, during our review it was difficult to determine the nature of many of the items purchased, and there was no assurance that cardholders had reconciled billing statements to their receipts and reviewed the statements for unauthorized charges. While UW-Parkside required cardholders to retain original receipts and submit a signed purchase log to a supervisor for his or her review and signature, less than half of the transactions we reviewed had all three required documentation elements. In failing to require and meet documentation standards across departments and centers, all three campuses are exposed to a higher level of risk that purchasing cards will be used improperly.

## **Purchase Exceptions**

Oversight procedures allow agencies to detect misapplication and misuse of purchasing cards in a timely manner. Misapplication occurs when a purchase is for a valid business purpose but the cardholder should have used another means of payment, such as a purchase order. Misuse can be classified in several categories, with some more serious than others. Misuse can include purchases that were for a valid state business purpose but were of an excessive nature, purchases that were not for a valid business purpose, or purchases for personal gain.

***Most purchase exceptions were for valid business items but should have been paid using an invoice or purchase order.***

Among the 7,339 purchasing card transactions we reviewed, we found only 449 exceptions. Most of these transactions involved a misapplication of purchasing card rules, although we also found instances of misuse. In total, we identified 236 transactions that represented a misapplication of purchasing card rules, and 107 transactions that appeared to be misuse. We were unable to identify the purpose or the items purchased for an additional 106 transactions.

***Misapplication of purchasing cards makes it difficult to monitor expenditures.***

We note the limited ability to provide detail for purchasing card expenditures in the State's WiSMART accounting system, a system that combines most purchasing card expenditures into a single accounting category, regardless of whether the purchase was office furniture, cellular phone service plans, food, or paper. For example, DOA prefers that utility and recurring payments be made using more traditional methods that allow agencies to independently track utility expenditures and to properly budget for them. This is also true of the purchase of gasoline for State-owned vehicles in certain agencies. For example, the DNR allocates an amount to the budgets of each of its units to cover the costs of maintaining its fleet of

vehicles. When DNR cardholders use a purchasing card to pay for gasoline instead of using DNR’s designated fleet credit card, the agency’s internal budgeting procedures are affected. In addition, use of the purchasing card during travel creates the risk that employees will accidentally claim these expenditures for reimbursement on travel expense reports after having already used a purchasing card to pay expenses. As shown in Table 7, a majority of purchase exceptions at the agencies we reviewed involved situations such as these, which we termed misapplication of purchasing card rules.

Table 7

**Purchase Exceptions at State Agencies and Campuses  
FY 2001-02**

Category	Number of Transactions	Amount
Misapplication	236	\$20,384
Misuse	107	15,557
Unknown	106	10,720
<b>Total</b>	<b>449</b>	<b>\$46,661</b>

***UW-Madison and UW-Milwaukee had more incidents of misuse than other state agencies we reviewed.***

As noted, we also identified 107 transactions that did not appear to be for a valid business purpose or that were excessive. As shown in Table 8, we found more incidents of possible misuse at UW-Madison and at UW-Milwaukee than at other state agencies we reviewed.

Table 8

**Purchasing Card Misuse Comparison**  
FY 2001-02

Agency	Transactions	Misuse Amount
UW-Madison	24	\$ 9,730
UW-Parkside	2	21
UW-Milwaukee	15	1,514
DNR	43	2,778
DOC	12	604
DVA	1	399
DHFS	4	274
DOT	6	237
<b>Total</b>	<b>107</b>	<b>\$15,557</b>

***Intentional misuse of purchasing cards was very rare.***

Intentional misuse of purchasing cards was very rare. We identified only two transactions, totaling \$137, where this appeared to be the case. Agency staff sought and claimed reimbursement in this case. These violations, by the same employee, included the purchase of a \$49 pendant and an \$88 personal hotel stay.

***Most of the incidents of misuse involved purchases of valid business items that appeared to be excessive.***

More common were transactions that were for a valid business purpose but appeared to be excessive, in the sense that they appeared to have been either luxury items or to have had unnecessary features. Because purchases made with the cards are not preapproved, the danger of excessive purchases is higher under the purchasing card program than with traditional procurement procedures. We found a total of 32 transactions that involved excessive purchases or purchases that did not appear to be necessary. As shown in Table 9, 24 of 32 excessive purchases, or \$9,467 of \$11,267, occurred at either UW-Madison or UW-Milwaukee. Examples of excessive purchases included a \$272 leather laptop computer case, a \$234 stopwatch with features such as an altimeter and barometer, \$55 for ink cartridges for a designer fountain pen, and nine transactions for spices from a gourmet food specialty shop that amounted to \$3,320 in expenditures for a food service operation.

Table 9

**Excessive Purchases Comparison**  
FY 2001-02

	Transactions	Amount
DVA	1	\$ 399
DNR	6	1,295
DHFS	1	106
DOC	0	0
DOT	0	0
UW-Madison	20	8,365
UW-Milwaukee	4	1,102
UW-Parkside	0	0
<b>Total</b>	<b>32</b>	<b>\$11,267</b>

In 9 of these 32 transactions, totaling \$1,565, we found that agencies and campuses paid annual fees for staff professional licenses such as for certified public accountants and real estate appraisers. In two of these cases, reimbursements from staff were sought by an agency and a campus after these expenditures were identified in our review. However, another agency that paid for six licenses believes the expenditures are appropriate and is not seeking reimbursement. Because the State’s Department of Employment Relations does not have any written guidelines regarding the payment of professional licenses by agencies and campuses, it appears that agencies are not restricted from this practice.

**Recommendation**

*We recommend the Department of Employment Relations develop rules or guidelines that specify whether it is appropriate for state agencies and campuses to pay for employees’ ongoing professional licenses that are preconditions for their positions, and the procedures to be followed to seek an exception.*

Finally, we identified 73 transactions that involved errors in cardholder judgment or failure to understand purchasing card program rules. These typically involved hospitality expenses, such as food for a group of employees or supplies for office social gatherings; mistaken use of a purchasing card when the employee intended to use a personal credit card; long distance charges while traveling that exceeded the allowable amounts; and similar errors.

***Complete documentation and strong oversight allow agencies to identify questionable purchases.***

When strong oversight procedures are in place and cardholders follow documentation requirements, agencies are more likely to detect exceptions. For example, although we identified comparatively more purchasing card misuse at DNR than at other state agencies, particularly instances of cardholder error, these expenditures were more likely to be identified by DNR staff reviewing the transactions. At the time of our review, reimbursement from employees had already been sought and received for all of the \$1,483 worth of cardholder errors that we identified at that agency.

Other agencies and campuses were less successful in identifying misuse, in part because oversight was less strong. For example, DHFS staff first learned of the two instances of intentional misuse at that agency after we identified them in our review, and the agency began an internal investigation into the cardholder's activities. Similarly, instances of cardholder error were identified in our review that had not been detected by oversight staff at DOC, UW-Milwaukee, and UW-Madison.

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## Best Practices ■

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***Effective purchasing card programs balance oversight and flexibility.***

Purchasing card programs are a popular and efficient means of purchasing supplies and services. Purchasing cards can minimize the need for petty cash funds, as well as reduce the amount of paperwork involved in the traditional preapproval and payment process. Effective programs have strong internal control structures and record-keeping requirements, and they incorporate use of the card throughout all levels of an agency for various types of purchasing. In addition, they have policies that provide sufficient oversight, yet also allow participating agencies a degree of flexibility in how the oversight is structured. We identified best practices from among the agencies and campuses in our review that maintain the flexibility and ease of use of the purchasing card program while providing strong oversight of purchases.

### **Management of the Purchasing Card Program**

***It is a best practice for agency and campus leadership to emphasize purchasing card program rules.***

Management of a successful purchasing card program is enhanced by agency or campus leadership that emphasizes the value of the program and the importance of following program requirements. After an incident involving significant purchasing card abuse in 2001 by a now former employee, DOC conducted a thorough review of its purchasing card program, made several improvements to ensure better training for both cardholders and supervisors, and required additional post-audit review by business offices in the

adult institutions. DOC staff believe that cardholder acceptance of oversight changes to the program was significantly increased by an executive order issued by the Department Secretary that addressed the changes.

***It is a best practice to issue cards only to staff who have a clear need for them.***

While DOA considers single purchases of \$5,000 or less to be small enough to require only “best judgment” purchasing procedures, not all purchasing cardholders need a single-purchase limit of \$5,000. Agencies and campuses are allowed to set transaction limits for cardholders. We noted that UW-Milwaukee establishes a default single transaction limit of \$100 and only allows for \$5,000 single transaction limits if the campus’s purchasing unit delegates that level of purchasing authority to the user. Similarly, DOC supervisors establish the limits for their employees. Single transaction limits can range from \$75 to \$5,000, depending on the employee’s position and responsibilities. The site manager at the College of Engineering at UW-Madison not only considers the level of purchasing authority appropriate to the cardholder’s duties, he approves cardholder applications based on his assessment of the likelihood that the prospective cardholder will follow proper documentation requirements.

***It is a best practice to consider using accounts that restrict purchases to a set of merchants.***

Some employees’ job duties require them to make purchases from a narrow range of vendors, and their purchasing card accounts can be structured to limit both the total amount spent in a biennium and the merchants at which the card can be used. For example, DNR designates purchasing authority for computer desktop systems to selected individuals in its information systems unit, and these cardholders make purchases using a virtual account. Virtual account cardholders do not receive cards, and their purchases are restricted to a preferred merchant or set of merchants from a state procurement bulletin. The account has a descending annual credit limit based on the annual budget amount for desktop computer systems. The account expires one month before the end of the fiscal year and must be renewed annually. Agency officials report that the system has had a minimal effect as a budgetary control mechanism, but it has improved inventory control and has standardized the purchase of desktop systems throughout the agency. The virtual account structure can be modified to further increase control over account access while limiting the types of commodities that can be purchased, since the account is merchant-specific.

## Oversight Best Practices

***It is a best practice to require logs detailing purchases.***

Although purchase logs provide clear identification of the items being purchased with the cards and serve as a method for cardholders to guard against unauthorized charges, not all agencies

and campuses require cardholders to maintain purchase logs. In addition to providing assurance that the cardholder has reviewed the billing statement for unauthorized charges, the log provides a record of purchases that includes item descriptions that facilitate post-audit reviews. Cardholders at both large, decentralized agencies such as DNR and smaller, more centralized agencies such as DVA are required to sign and submit logs with their receipts indicating that they have reviewed and reconciled the billing statement with their log. While some campus staff believe that the university setting is too decentralized to make purchase logs practical, we identified on-campus departments and centers that have developed purchase logs even though they are not currently required to do so. Without the logs, oversight is reduced, and there is increased risk of questionable purchases and failure to identify unauthorized charges.

***It is a best practice to require and properly document supervisory review.***

Supervisory review is important to ensure that purchases are necessary, appropriate, and at the best price. We found that some agencies and campuses do not require cardholders to submit their purchase logs for review and approval by supervisors. Additionally, we found one agency at which a supervisor had used a rubber stamp to indicate review and approval of a cardholder's purchase logs. This is not a desirable practice because if the stamp is accessible to other employees, there is no assurance that valid supervisory review and approval has been carried out.

***It is a best practice to conduct systematic post-audit reviews.***

Although cardholders and supervisors provide the most important elements of effective oversight, post-audit reviews of purchase logs and transactions by agency fiscal or business staff provide further assurance that purchasing card program rules are being implemented correctly. While most agencies had some form of regular, systematic post-audit review, we identified one campus that did not appear to follow a systematic post-audit strategy. If there is no consistent post-audit review, the risk increases that supervisors and cardholders will fail to follow program rules correctly, because errors by supervisors will not be caught.

***It is a best practice to provide sufficient training for cardholders.***

Most cardholders are not trained as agency purchasing officers and may be unaware of what is an allowable purchase. Most, but not all, agencies and campuses have developed and carry out training for cardholders. Without sufficient training, cardholders will be unaware of purchasing card program rules and documentation requirements, thus decreasing the likelihood of compliance. Additionally, oversight is stronger when supervisors are required to attend training, since they are required to review purchase logs for completeness and to determine whether purchases are proper.

## Program Implementation Best Practices

***It is a best practice to provide cardholders with clear instructions regarding hospitality expenses.***

In general, clear instructions regarding the appropriate use of purchasing cards should be provided to cardholders. This is particularly true for purchases such as hospitality expenses that, without further information regarding the purpose, would appear to be excessive. We found examples of employees using purchasing cards for hospitality expenses such as flowers, food, office decorations, or sympathy cards for fellow employees in several of the agencies and campuses we reviewed. While the amounts involved are small when considering total purchasing card expenditures, these purchases could be avoided through cardholder training and supervisory oversight of purchase logs.

***It is a best practice to ensure consistent interpretation of allowable purchases in decentralized agencies and campuses.***

In agencies and campuses that have a highly decentralized oversight system, we found instances of purchases that were allowed in one division of the agency but not allowed in another. For example, we identified two instances in which cardholders in separate field offices bought sunglasses for use during outdoor work assignments. In the first field office, the purchase was approved. In the second, it was disallowed, and reimbursement was sought from the employee. Although minor, this incident suggests a need for policy clarification regarding what constitutes a legitimate business purpose.

***It is a best practice to avoid paying credit card convenience fees to merchants.***

Although prohibited by Visa, we found two examples of cardholders paying a “convenience” fee for using a credit card. This fee may be levied by merchants seeking to offset the costs they incur by accepting Visa cards as a method of payment. Because the State receives no value by paying a convenience fee, cardholders should avoid using the purchasing card at vendors that charge an additional convenience fee.

***It is a best practice to avoid using purchasing cards to pay for recurring utility bills.***

Tracking utility bills as a separate item is preferable because it allows agencies and campuses to plan for future expenditures for budgeting purposes, but it is difficult to do this if the purchasing card is used as the payment method. All purchases made with purchasing cards are considered supplies and services under the State’s WiSMART accounting system, regardless of the nature of the item purchased. While most agencies and campuses have avoided this problem, we identified one agency at which lack of cardholder training led to 22 transactions amounting to \$5,611 for local telephone service being paid for using purchasing cards.



## Future Considerations ■

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Because purchasing cards have made it easier for employees of the State and UW System to buy business items and services, it is important that cardholder and supervisor training in procurement policies be in place. While the purchasing card program has provided increased flexibility for cardholders, purchasing cards have the potential to increase discretionary spending on supplies and services and to undermine broader procurement goals that have been established by the Legislature, such as purchasing from minority, small, and veteran-owned businesses; purchasing products with recycled content; and purchasing from Badger State Industries. Also, we have outlined other policy considerations that should guide the choice of a vendor as a new contract is signed and the program is continued.

### **Discretionary Spending**

***Purchasing cards make spending for supplies and services easier to do.***

Because purchasing cards have made it easier to purchase commodities and services, they may, in theory, have the effect of encouraging discretionary spending by cardholders and making it difficult for agencies to keep control of supplies and services budgets. As noted, purchasing card expenditures constituted approximately 7.3 percent of total statewide purchasing in FY 2001-02 and have been growing each year, and purchasing card expenditures are significant in absolute terms. At the five agencies and three campuses we

reviewed, the percentage of supplies and services expenditures made on the purchasing card ranged from 10.5 percent at UW-Parkside to 2.1 percent at DOC and DHFS, as shown in Table 10.

Table 10  
**Purchasing Card Expenditures  
 as a Percentage of Supplies and Services Expenditures**  
 FY 2001-02

Agency	Percentage of Supplies and Services Expenditures
UW-Parkside	10.5%
UW-Milwaukee	9.1
DVA	8.3
UW-Madison	5.5
DNR	4.6
DOT	2.6
DHFS	2.1
DOC	2.1

There are two reasons that purchasing cards may encourage increased discretionary spending. First, prior approval of these expenditures is eliminated under the purchasing card program, and cardholders do not need budget authority from supervisors before making purchases. Staff at two agencies indicated to us that because of higher than expected purchasing card use, managers have had to temporarily suspend purchases made with the cards. In the first case, the supplies and services budget was close to depleted. The agency's actions prevented overspending, but purchases of needed items late in the fiscal year could have been precluded. In the other case, agency managers were wary of significantly increased purchasing card expenditures and sought to restrict spending in light of the State's recent budget difficulties.

The second reason that the cards may encourage discretionary spending is because the cards eliminate the need for cardholders to pay for low-dollar items out of pocket and then seek reimbursement, as was the case before the purchasing card program. With purchasing cards, staff can acquire these items with no waiting time for reimbursement and no preapproval paperwork. Agencies that are concerned with increased discretionary spending have several options to consider. For example, agencies could set annual limits on the number of transactions allowed within a particular time period or use declining balance accounts to set credit limits for each individual cardholder at the time an account is opened.

## Meeting Procurement Goals

***The effect of purchasing cards on broad procurement goals is unknown.***

The Legislature has established broad procurement goals to be met by state agencies and campuses in their purchasing activities, including supporting minority-owned, small, and veteran-owned businesses; purchasing products with recycled content; and purchasing from Badger State Industries. Because the purchasing card is only an alternate method of payment for goods and services purchased by the State, these goals also apply to purchasing cards. While DOA has not tracked purchasing card activity as it relates to these goals, in November 2001 it made changes to state agency reporting requirements for purchasing card expenditures at minority businesses. Further, it has included improved minority business reporting as a requirement of its new purchasing card contract. However, we found other reporting problems in the purchasing card program. For example, we were unable to obtain data relating to the amount cardholders at individual agencies spent before January 1998, and three years of expenditure data for UW-Madison were missing from DOA reports from 1996 through 1998.

Because purchasing cards offer cardholders a great deal of discretion in making expenditures, it is important that cardholders be trained in the State's documentation requirements and purchasing guidelines. While certain aspects of purchasing guidelines are already included in purchasing card user manuals, more extensive and proper procurement training could help to increase adherence to legislative procurement goals.

### **☑ Recommendation**

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*We recommend the Department of Administration provide agencies with more specific training in purchasing card policies and procedures, including an overview of the State's procurement goals and how these goals may be achieved using the purchasing cards.*

## State Contract for Purchasing Cards

The State’s original purchasing card contract, signed in January 1997, was for a five-year period and has been extended until December 2003, while DOA develops a request for proposals for a new contract. DOA plans on awarding a new contract for a purchasing card in January 2004.

***Wisconsin received a lower effective rebate than other states with the same vendor.***

A common feature of state purchasing card programs is for states to receive rebates from program vendors based on either volume of purchases, performance measures such as promptness of payment, or a combination of both. Vendors structure volume and performance rebate incentives in several ways, yet all rebate proposals are comparable when total purchase volume and rebate received are compared. Our review of other states with purchasing card programs operated by US Bank/Elan Financial Service, the State’s current vendor, found that Wisconsin received a lower effective rebate in 2001 than other states with the same vendor. As shown in Table 11, of the five states for which we were able to obtain data, Wisconsin received the second-lowest effective rebate rate. Further, unlike the other states shown in Table 11, Wisconsin’s rebate amount was reduced by fraud losses, which in 2001 amounted to approximately \$38,900. Until January 2002, Wisconsin’s contract in effect shifted liability for fraud losses from the vendor to the State. Fraud losses are unauthorized purchasing card charges that were not the responsibility of the cardholder and that are the result of identity theft or the account number being captured by an outsider in some other way.

Table 11

**Comparison of Effective Rebate Rates**  
States with Same Purchasing Card Program Vendor

State	Volume	Rebate	Effective Rate
Maryland (April 2001 to April 2002)	\$173,000,000	\$1,400,000	0.81%
California (FY 2001)	306,948,340	1,959,168	0.64
Utah (FY 2001)	23,615,272	94,461	0.40
Wisconsin (calendar year 2001)	86,049,492	219,254	0.25
Oregon (May 2001 to April 2002)	36,000,000	10,600	0.03

**DOA obtained better rebate terms from its vendor in 2002.**

While Wisconsin did not receive a large rebate in the first four years of the contract because it had not obtained favorable rebate terms, DOA staff renegotiated the rebate in January 2002 to significantly improve revenue and remove the rebate reduction for fraud losses. It is unclear whether the State's rebate terms have improved relative to other states', because other states also may have sought better rebate terms during the past two years. As shown in Table 12, Wisconsin's rebate increased from \$219,254 in 2001 to \$751,081 in 2002, or by 242.6 percent, while purchase volume increased by 13.4 percent.

Table 12

**Performance Rebates Received for Purchasing Card Expenditures**  
Calendar Years 1998-2002

Year	Amount
1998	\$ 24,375
1999	78,852
2000	181,896
2001	219,254
2002	751,081

Currently the rebate is used as program revenue to offset administrative costs associated with DOA's Bureau of Procurement. Because this revenue represents program activity across a wide range of agencies, we recommended in a June 2001 letter report that the rebate be lapsed to the funds from which the purchases were originally made, including the General Fund, the Transportation Fund, and other funds. However, the Governor vetoed this provision in 2001 Wisconsin Act 16.

**Recommendation**

*We again recommend the purchasing card rebate amount, totaling \$751,100 in calendar year 2002, be lapsed to the funds from which the purchases were originally made.*

In a February 2003 letter, we also recommended contract enhancements for DOA to consider as it developed the request for proposals for a new contract. For example:

- Vendors' proposals for volume or performance rebates should be compared with the effective rebate rates they provide to other states. We recommended DOA's Bureau of Procurement's evaluation of proposals include a comparison of the effective rebates firms offer to other states.
- Agency implementation fees and reporting software charges should be absorbed by the vendor. Under the current contract, each agency participating at the start of the State's purchasing card program pays the vendor an initial fee of \$500 for implementing on-line billing systems. It is reasonable for the vendor to absorb these costs, or for the State to negotiate set-up cost centrally rather than pay a flat fee for each agency.
- Vendor fraud detection staff should contact purchasing card coordinators or supervisors regarding possible fraud. The current vendor commits significant resources to fraud detection activities but contacts the cardholder when possible fraud is detected. This represents an internal control weakness, because a cardholder who is attempting to commit fraud would be alerted before the cardholder's supervisor would be. A stronger control system would require the vendor's staff to contact the agency purchasing card coordinator or cardholder supervisor to follow up on possible fraud. Contact information for the agency coordinator or supervisor for each cardholder is required by the vendor during account setup.

- Cards should have a distinctive appearance to reduce cardholder error. During our review of purchasing card logs, we found several instances of cardholders reimbursing their agency because they had mistakenly used their state purchasing card for personal items. Because the state purchasing card has a similar appearance to many other Visa cards, ensuring that the state purchasing card has a distinctive appearance could reduce the likelihood of this type of cardholder error.
- A state users group's suggestions to require better reporting should be considered. State agency purchasing card coordinators have expressed dissatisfaction with some elements of the reporting options available under the current contract. In particular, users group participants identified shortcomings in the reporting system that is available to purchasing card coordinators.

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## Appendix

### **Agency and Campus Profiles**

The following pages summarize purchasing card policies and use at the five agencies and three campuses we reviewed. Use data presented in the tables represents all purchasing card transactions for the periods indicated.

## Department of Corrections

DOC has a decentralized staffing pattern, with cardholders assigned to facilities throughout the state. Because of this decentralization, oversight and communication of purchasing card program rules is challenging. Beginning in 2001, DOC made efforts to improve oversight following a significant case of intentional purchasing card misuse by a former DOC employee, which was detected by DOC staff. DOC carried out a comprehensive review of its purchasing card program and revised its policies and procedures. For example, at adult institutions, business managers and cardholder supervisors are now required to review purchase logs, and cardholder training was made mandatory for both cardholders and their supervisors. Further, the Department Secretary issued an executive order in September 2001 that emphasized the importance of following purchasing card procedures.

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### Purchasing Card Activity FY 1998-99 through FY 2001-02

Fiscal Year	Expenditures
1998-99	\$ 1,611,000
1999-2000	2,065,600
2000-01	6,015,700
2001-02	6,184,000
<b>Total</b>	<b>\$15,876,300</b>

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### Top Ten Merchants FY 2001-02

Merchant	Amount
Boise Cascade (office supplies)	\$693,900
Grainger (office supplies)	235,500
Henry Schein (medical equipment)	218,400
Marshall Medical Systems	116,300
US Cellular	92,600
CenturyTel (telephone services)	81,700
First Supply (plumbing and heating, venting, and air conditioning products and supplies)	78,500
Central Wisconsin Paper	77,600
Aearo Company (industrial safety products)	65,700
Wal-Mart	63,700

## Department of Health and Family Services

Like other state agencies we reviewed, DHFS has cardholders distributed across the state at facilities and institutions. Such decentralization presents a challenge for consistent interpretation of program rules. Unlike other state agencies we reviewed, DHFS does not require cardholders to complete and submit purchase logs for supervisory review along with original receipts and biweekly billing statements. Of the five state agencies included in our review, DHFS had the lowest rate of success in maintaining complete documentation of purchases. In addition to making post-audit reviews of purchasing card transactions more difficult and increasing the risk of misuse by cardholders, failure to meet documentation requirements increases the risk that fraud will not be detected by the cardholder or supervisor.

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### Purchasing Card Activity FY 1998-99 through FY 2001-02

Fiscal Year	Expenditures
1998-99	\$ 342,500
1999-2000	3,049,500
2000-01	4,141,800
2001-02	4,841,700
<b>Total</b>	<b>\$12,375,500</b>

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### Top Ten Merchants FY 2001-02

Merchant	Amount
Boise Cascade (office supplies)	\$403,100
Grainger (office supplies)	91,200
Northwest Airlines	74,800
Holiday Inn Hotels	69,600
Compaq (computers)	66,800
CDW Government, Inc. (computer systems)	59,000
Paragon Development Systems (computer systems)	58,400
Midwest Express Airlines	58,000
Wal-Mart	55,000
Best Western Hotels	49,800

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## Department of Natural Resources

With cardholders assigned to regions throughout the state, DNR is challenged to maintain consistent interpretation of program rules. Although we identified 194 exceptions out of 1,773 transactions, the high rate of compliance with documentation requirements indicates that DNR is monitoring the purchasing card program closely. Although cardholder errors did occur, they were typically detected by program administrators, and reimbursement has either been made or is pending. Misapplication of the purchasing card, such as using it for fleet-related purchases, or cardholder errors such as food purchases were routinely identified and questioned by fiscal staff conducting post-audit oversight.

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### Purchasing Card Activity FY 1998-99 through FY 2001-02

Fiscal Year	Expenditures
1998-99	\$ 197,600
1999-2000	1,526,700
2000-01	4,905,500
2001-02	5,322,400
<b>Total</b>	<b>\$11,952,200</b>

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### Top Ten Merchants FY 2001-02

Merchant	Amount
Dell (computers)	\$1,410,500
Boise Cascade (office supplies)	296,600
Vanguard Computers	132,200
Menard's	82,400
Cabela's (sporting goods)	79,300
US Postal Service	69,800
Forestry Suppliers, Inc.	62,500
Mills Fleet Farm	62,300
Best Buy	57,500
Wal-Mart	56,200

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## Department of Transportation

DOT has a large number of cardholders based in Madison, as well as in facilities throughout the state. Nevertheless, it has developed effective procedures to ensure compliance with purchasing card program rules. Unlike other state agencies we reviewed, DOT does not require purchase logs to be reviewed by cardholders' direct supervisors. Instead, purchasing card coordinators, who are trained in DOA and DOT procurement policies, review and approve the logs. Although data were not available to measure the effect of this practice, having purchasing staff review purchase logs may make it more likely that purchases meet broader procurement goals, such as supporting minority businesses, and that cardholders are made aware of state procurement bulletins.

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### Purchasing Card Activity FY 1998-99 through FY 2001-02

Fiscal Year	Expenditures
1998-99	\$ 1,095,300
1999-2000	4,034,000
2000-01	4,291,000
2001-02	3,274,100
<b>Total</b>	<b>\$12,694,400</b>

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### Top Ten Merchants FY 2001-02

Merchant	Amount
Boise Cascade (office supplies)	\$483,700
Tessco Technologies (telecommunications products)	72,800
Micron Business Products (computers)	61,000
Traffic & Parking Control Company (traffic and parking equipment)	58,100
Streicher's Police Equipment	53,400
Newark Electronics	46,500
Graybar Electric Supply	42,500
Intoximeters	41,700
Neher Electric Supply	40,000
Ja Mar Electric Supply	33,700

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## Department of Veterans Affairs

Cardholders at DVA are generally located at the central office in Madison or at a small number of facilities, which makes it easier to maintain oversight of purchasing card transactions. Our review of transactions at the Madison office of DVA found a high level of compliance with purchasing card documentation requirements, and very few instances of improper expenditures. DVA fiscal staff review every purchasing card transaction on a post-audit basis, which has led to the high compliance rate by cardholders in maintaining proper documentation and in proper use of the purchasing card.

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### Purchasing Card Activity FY 1998-99 through FY 2001-02

Fiscal Year	Expenditures
1998-99	\$ 317,900
1999-2000	748,100
2000-01	1,008,200
2001-02	994,600
<b>Total</b>	<b>\$3,068,800</b>

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### Top Ten Merchants FY 2001-02

Merchant	Amount
Boise Cascade (office supplies)	\$86,100
Harker's Distribution, Inc. (food service)	26,900
Direct Supply Healthcare	22,300
Piggly Wiggly	19,900
Wal-Mart	17,700
Home Hospital	14,200
Sunrise Medical	11,100
Meat Processors, Inc.	10,300
Arjo, Inc. (personal therapy and assisted living equipment)	10,100
Service Motor, Inc. (agricultural and construction equipment)	9,000

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## University of Wisconsin-Madison

Like other campuses included in our review, UW-Madison has a highly decentralized administrative structure, which poses a challenge to ensure consistent oversight and interpretation of program rules. We noted significant differences in how the purchasing card program was implemented and in how oversight was exercised in different campus departments. For example, documentation of supervisory review and approval was not required by all departments. Our review identified more excessive purchases than at any other campus or state agency we visited. Their causes included inconsistent oversight, and cardholder confusion regarding purchasing card policies. Further, UW-Madison business staff did not question several of the expenditures we considered to be of an excessive nature because they were below the \$5,000 threshold for “best judgment” purchasing, and because the purchases were approved by a manager.

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### Purchasing Card Activity FY 1998-99 through FY 2001-02

Fiscal Year	Expenditures
1998-99	\$ 3,522,000
1999-2000	9,801,800
2000-01	15,754,300
2001-02	19,989,200
<b>Total</b>	<b>\$49,067,300</b>

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### Top Ten Merchants FY 2001-02

Merchant	Amount
Dell (computers)	\$ 1,411,300
UW-Madison DoIT (computers and service)	1,145,800
CDW (computers)	367,200
Gateway (computers)	358,000
Buy.Com	210,400
FedEx	204,600
Amazon.com	173,300
Digital Memory, Inc. (data storage products)	165,200
Full Compass Systems, Ltd. (audio/video and lighting products and services)	129,200
Best Buy	111,000

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## University of Wisconsin-Milwaukee

Like other campuses, UW-Milwaukee has a highly decentralized administrative structure, which poses challenges for consistent oversight and interpretation of program rules. However, our review found that no formal training was provided to cardholders or supervisors. Instead, cardholders were required to read the purchasing card manual and to sign a form attesting that they understood the program requirements. We also found significant differences between campus departments in how the program was implemented and whether purchase logs were required, and documentation of supervisory review was not required by UW-Milwaukee. Because of the lack of these oversight systems, we found more audit exceptions at UW-Milwaukee than at most other agencies we reviewed.

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### Purchasing Card Activity FY 1998-99 through FY 2001-02

Fiscal Year	Expenditures
1998-99	\$ 1,595,800
1999-2000	3,761,200
2000-01	5,927,000
2001-02	6,421,200
<b>Total</b>	<b>\$17,705,200</b>

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### Top Ten Merchants FY 2001-02

Merchant	Amount
Boise Cascade (office supplies)	\$449,000
Dell (computers)	264,600
Milwaukee Journal Sentinel	203,000
Fisher Scientific (laboratory and scientific equipment)	172,700
Office Depot	147,600
Omnitech (computers)	90,300
UW-Milwaukee Bookstore	86,200
Shadow Fax (printers, copiers, and fax machines products and service)	68,400
Vanguard Computers	59,000
Milwaukee Business Journal	58,900

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## University of Wisconsin-Parkside

Our review found a low level of compliance with internal control procedures at UW-Parkside when compared with state agencies. However, unlike UW-Madison and UW-Milwaukee, UW-Parkside has purchasing card documentation requirements that conform to DOA policy by requiring all cardholders to maintain and sign purchasing card logs and requiring supervisors to review and sign the logs. Because of this requirement, UW-Parkside had the lowest incidence of improper expenditures among the three campuses we reviewed.

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### Purchasing Card Activity FY 1998-99 through FY 2001-02

Fiscal Year	Expenditures
1998-99	\$ 4,900
1999-2000	239,400
2000-01	1,047,300
2001-02	1,295,700
<b>Total</b>	<b>\$2,587,300</b>

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### Top Ten Merchants FY 2001-02

Merchant	Amount
Emery-Pratt Company (book distributors)	\$96,400
Lee Plumbing	27,700
Neher Electric Supply	24,300
Kranz, Inc. (industrial packaging and cleaning supplies)	23,900
Interstate Electric Supply	19,000
Menard's	17,500
Sears Roebuck	16,500
Pieper Electric, Inc.	16,400
Edward Don & Company (food service equipment)	15,300
Grainger (office supplies)	15,100

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**WISCONSIN DEPARTMENT OF  
ADMINISTRATION**

**JIM DOYLE**  
GOVERNOR

**MARC J. MAROTTA**  
SECRETARY

Office of the Secretary  
Post Office Box 7864  
Madison, WI 53707-7864  
Voice (608) 266-1741  
Fax (608) 267-3842  
TTY (608) 267-9629

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July 1, 2003

Ms. Janice Mueller, State Auditor  
Legislative Audit Bureau  
22 East Mifflin Street, Suite 500  
Madison, WI 53703

Dear Ms. Mueller:

Thank you for the opportunity to respond to the Legislative Audit Bureau's (LAB) report on the State's purchasing card program. The Department of Administration appreciates the significant amount of effort invested by the Audit Bureau in completing this report, which will be of use to the Department in its ongoing efforts to improve the program.

The audit report identifies a number of best practices that we will continue to support and expand upon. Since its implementation, national publications and organizations have recognized the State's purchasing card program. Most recently, the State has been invited to participate in a study of "Procure-to-Pay Best Practices for State Agencies," sponsored by Visa and conducted by Deloitte Consulting. It is an honor to be recognized as a state with best practices that will be shared with other public and private entities. As a result of the study, the State will receive diagnostic tools to gauge performance and measure program costs and benefits. In addition to the best practices noted in the audit report, the purchasing card program has been cited for the following best practices:

- Joint Ownership by Procurement and Finance. Since the purchasing card is essentially a payment tool used to simplify the ordering and payment processes, the most successful programs in the public and private sectors are those with joint ownership and support. While many states hire purchasing card administrators, the department's State Bureau of Procurement and the State Controller's Office work jointly to implement and oversee the program.
- Strong Central Administration Combined with Local Control. Best practice programs recognize the need for strong central administration to establish enterprise-wide policies and procedures and provide the necessary level of training and oversight. The effectiveness of the State's program model is demonstrated by purchasing card user compliance. For example, out of the approximately 400,000 annual purchasing card transactions, only two cases of apparent employee abuse of the card were identified from the audit's targeted sample of 7,339 transactions "deemed to pose a potential risk of abuse."

- Executive Sponsorship. In the first few years of implementation, the Department of Administration upper management provided critical support by endorsing the program and encouraging other agency heads to take advantage of the administrative savings it offers.
- Purchasing Card Use with Statewide Contracts. The State Bureau of Procurement leverages the state's purchasing volume to negotiate statewide contracts. State agencies and the university system use the statewide contracts to make purchasing card transactions. In calendar 2002, five of the top six purchasing card vendors were statewide contract vendors. Rather than potentially increasing discretionary spending and undermining broader procurement goals, as the audit asserts, statewide contracts help to ensure that purchases are made at the lowest cost and are in compliance with procurement rules. The program anticipates a growth in the number of purchasing card transactions off statewide contracts, thus providing additional oversight and assurance of compliance with state purchasing rules.
- An Active Users Group. Wisconsin's Purchasing Card Users' Group includes program administrators from state agencies, university campuses, the State Bureau of Procurement and State Controller's Office, as well as a representative from the vendor bank. To assist the program administrators in their jobs, the group meets twice a year to discuss issues, share ideas and learn industry news. This forum for the exchange of ideas and policy updates has been critical to the success of the state's program.
- Flexibility and Administrative Efficiencies. The report indicates that the program has met its goals of increased flexibility and efficiency in purchasing and recognizes that different approaches to oversight in the agencies can be equally successful in meeting documentation requirements. This is significant because while purchasing card purchases represent approximately seven percent of the State's total purchasing spend, they represent the greatest number of transactions. Efficiencies at this low-dollar end allow purchasing and program staff to focus time and effort on contracting for and managing higher-dollar transactions where greater risk is involved and greater overall savings can be achieved.
- Continuing Oversight. State Controller's Office (SCO) staff performed purchasing card audits in 16 agencies over the past four years. The general findings of these audits are consistent with the internal control findings of LAB's report. A summary of the State Controller's Office efforts in reviewing the purchasing card program can be found in the attachment.

The report states that the department has not tracked purchasing card activity related to the broad procurement goals established by the legislature such as purchasing from minority business enterprises (MBE); purchasing products with recycled content; and purchasing from Badger State Industries. In fact, the department does collect and track data for each of these programs. For example, for the past year, in recognition of the critical need for state-specific data on minority business expenditures, the State Bureau of Procurement has been working with the purchasing card vendors, US Bank and Visa, to improve the accuracy of

purchasing card spend reporting for Wisconsin-certified MBEs. Currently, US Bank provides MBE reporting based on federal certification. However, due to Wisconsin's unique certification process, state agencies must manually match Wisconsin-certified MBEs to those that are flagged as MBEs in the US Bank reports. We are pleased to report that US Bank has recently developed technology that should permit electronic reporting of Wisconsin-certified MBE purchases in the near future. Further, the State Bureau of Procurement tracks purchasing activity at Badger State Industries, which amounted to over \$225,000 in calendar year 2002. Finally, the bureau tracks purchasing card expenditures for recycled copy paper to the state, which amounted to almost \$306,000 in calendar year 2002.

As the report notes, there are several factors, including volume of purchases, average transaction size and payment turn around time, which are used to calculate the vendor rebate. The report compares Wisconsin's 2001 rebate with four other states and notes that three of these states had higher rebate percentages. It should be noted that two of these states had approximately two and three times the volume in purchases than Wisconsin and as such, it is expected that their rebate rates would be higher. The State Bureau of Procurement intends to negotiate a higher rebate percentage under the 2004 contract, due to potential increases in expenditure volume and transaction size related to the consolidation of the purchasing, travel and fleet card programs under one provider and expanded use of statewide contract purchases.

The report recommends that the department provide agencies with more specific training in purchasing card policies and procedures. The audit findings suggest a particular need for increased training and oversight related to use of the purchasing card at the university campuses. The State Bureau of Procurement will continue to provide no-cost training to purchasing card users, including the University of Wisconsin System Administration and its campuses, no-cost access to our Understanding the Wisconsin Purchasing Process training and training on the use of the purchasing card.

Finally, as noted earlier, the department is developing a request for proposals (RFP) for a new contract potentially to combine the state's purchasing, travel and fleet card programs under one provider. We anticipate awarding this contract by January 1, 2004, to replace the current contract that was extended through December 31, 2003. The RFP attempts to address issues raised by LAB, specifically a distinctive card design, to avoid cardholder confusion, an improved rebate calculation, and no cost for software installations.

Thank you again for the opportunity to comment on the audit report. We appreciate the time, effort and professionalism of your staff throughout this audit.

Sincerely,



Marc J. Marotta  
Secretary

Attachment

Department of Administration  
State Controller's Office  
Purchasing Card Audits

The State of Wisconsin began its purchasing card program in 1997 with the first full year of the program being 1998. The State Controller's Office (SCO) first official audit of the purchasing card program was at the Department of Public Instruction and covered the time period June 1997 through July 1998. Since that first purchasing card-only audit in 1998, the SCO has included the purchasing card transactions as a separate part of our regular compliance audits of the agencies performed under our statutory authority and the cooperative agreements.

Agencies that have been audited are:

Technical College System Board  
Department of Tourism and the Lower Wisconsin State Riverway Board  
Department of Public Instruction  
Ethics Board  
Department of Employment Relations  
Public Service Commission  
Higher Educational Aids Board  
Courts  
State Public Defender  
Department of Transportation  
Wisconsin State Historical Society  
Department of Agriculture Trade and Consumer Protection  
Department of Revenue  
Department of Employee Trust Funds  
Department of Military Affairs  
Educational Communications Board.