

**An Evaluation:**

State Purchasing Cards

**Department of Administration**

**July 2003**

# 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 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. 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.

## Key Facts and Findings

*Purchasing card expenditures have risen to \$86.3 million after seven years.*

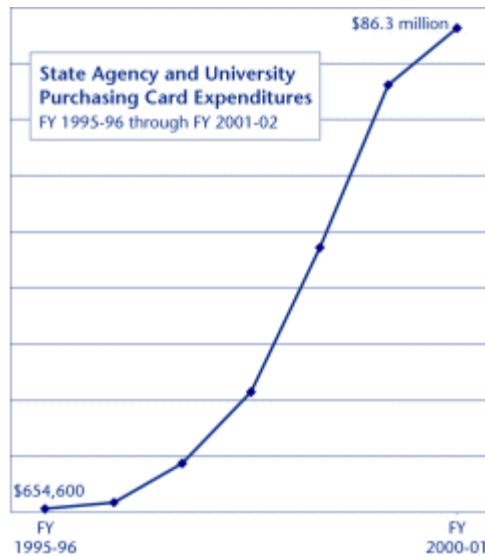
*Purchasing card expenditures represented 7.3 percent of the State's purchasing in FY 2001-02.*

*The program has met its goals of simplifying and providing more flexibility for low-dollar purchases.*

*We reviewed 7,339 transactions and found 449 exceptions, including 107 involving misuse.*

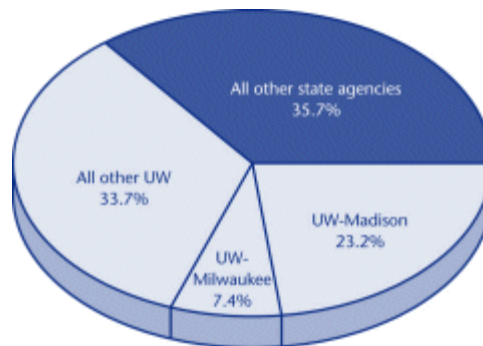
*Oversight could be improved at state agencies and campuses.*

*Effective purchasing card*



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. 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.



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

*programs balance oversight and flexibility.*

*Because of a lack of reporting, the cards' effect on broader procurement goals is unclear.*

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 misuses 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 has 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.

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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