

# Report Highlights ■

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***Purchasing cards facilitate the State's procurement efforts.***

Since 1996, the Department of Administration (DOA) has administered a program that allows state employees to use credit cards to make purchases for state business purposes. In calendar year 2008, executive branch agencies and University of Wisconsin (UW) institutions used the cards to purchase a total of \$161.7 million in goods and services. The average purchase amount was relatively small—\$233 per transaction— but some purchases exceeded \$25,000.

***Spending limits for some cards could be lowered.***

DOA has established rules for appropriate card use, as well as documentation requirements for purchases. To evaluate purchasing card oversight procedures and expenditures, we reviewed:

***Compliance with documentation requirements could be improved.***

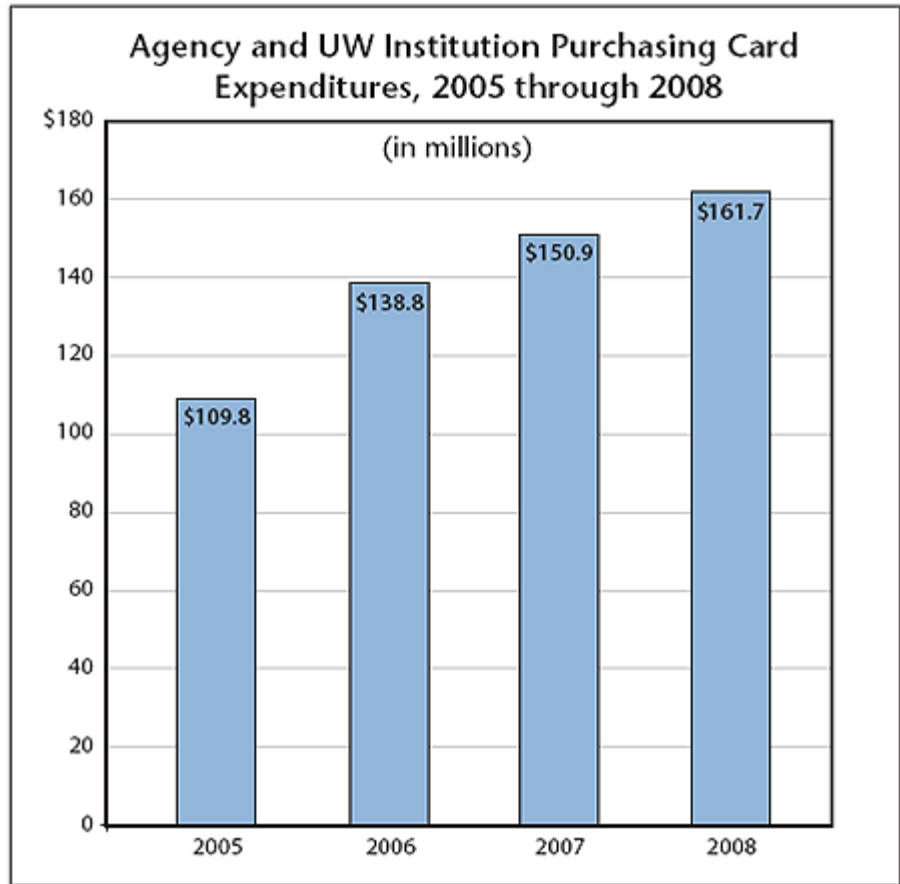
- trends in purchasing card expenditures;
- the State's contract with U.S. Bank, the company that issues the cards;
- purchasing card policies and procedures at executive branch agencies and UW institutions;
- the number of cards issued and the spending limits assigned to them; and
- a sample of selected expenditures we deemed to have a potential for fraud or abuse, to determine whether they were consistent with state purchasing rules and good business practices.

***Use of purchasing cards for personal gain was rare.***

## **Purchasing Card Use**

Purchasing card use by agencies and UW institutions has increased significantly, with total expenditures increasing from \$109.8 million in 2005 to \$161.7 million in 2008. UW institutions accounted for 73.7 percent of all purchasing card expenditures in 2008. All other state agencies combined accounted for 26.3 percent.

Although purchasing card use has increased, purchasing card expenditures represented only 4.0 percent of all supplies and services expenditures in 2008.



## Key Facts and Findings

*Expenditures with purchasing cards typically do not require preapproval.*

*Purchasing card expenditures accounted for 4.0 percent of all supplies and services expenditures in 2008.*

*As of December 2008, agency employees held 8,615 purchasing cards and UW employees held 9,402.*

*Adequate documentation is important in ensuring accountability for purchases.*

*Agencies and UW institutions have generally implemented adequate internal controls for purchasing cards.*

## Spending Limits

Agency employees held 8,615 purchasing cards and UW institution employees held 9,402 as of December 2008. DOA policies do not limit the number of cards an employee may hold, and 40 cardholders held 10 or more cards as of December 2008.

Each purchasing card is assigned two limits to control spending:

- a credit limit, which is the card's maximum balance for each two-week billing cycle; and
- a single purchase limit, which is the maximum amount that can be charged in a single transaction.

Agencies and UW institutions are permitted to set spending limits on cards but are generally required to seek approval from DOA before setting any card's single purchase limit to exceed \$5,000. We observed a wide range of spending limits. At agencies, the average credit limit was \$9,382, while at UW institutions it was \$14,576.

We compared spending limits to spending activity in 2008 and found that spending limits were in many instances higher than necessary. For example, at the Department of Revenue, 96 cards with single purchase limits of \$5,000 were used exclusively for purchases of less than \$400 each.

*We identified 131 exceptions to purchasing policies totaling \$74,499.*

*Cardholders violated procurement rules for 16 purchases totaling \$128,541.*

Similarly, at the Department of Health Services, 27 cards with bi-weekly credit limits of \$20,000 were used exclusively for transactions totaling less than \$100 each. The potential financial risk to the State could be reduced by setting spending limits at a level that is more consistent with cardholder needs.

In addition, we found 1,101 cards that were active for all of 2008 but never used in that year, and 377 cards that were never used since they were issued, including 97 that were issued more than three years ago. We include a recommendation for DOA to work with agencies and UW institutions to close unused accounts.

## **Documentation of Purchases**

The State's accounting and procurement manuals require cardholders to retain original, itemized receipts for each transaction; document each transaction on a purchase record; and sign their purchase records and submit them, along with receipts, to their supervisors for review. Of the 3,071 transactions we reviewed, 2,341, or 76.2 percent, satisfied these documentation requirements, but 730 did not. The percentage of transactions that met the requirements ranged from 58.4 percent at UW-Milwaukee to 90.7 percent at the Department of Regulation and Licensing.

In addition to requirements contained in the State's procurement and accounting manuals, s. 16.53(1)(c)1, Wis. Stats., requires documentation of the nature and particulars of all state purchases. However, the purchasing card policies established by DOA do not specifically require cardholders to document a state business purpose for purchases, and we found that documentation for only 1,278 of 2,506 transactions, or 51.0 percent, included an explicit description of the state business purpose.

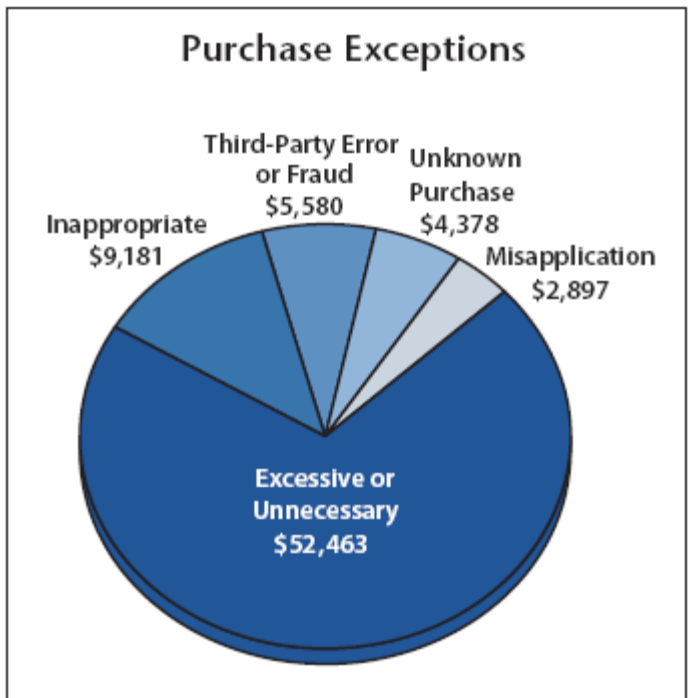
Adequate documentation of the business purpose enables supervisors and other agency reviewers to determine whether purchases are appropriate. We therefore include a recommendation for DOA to require documentation of the business purposes of purchasing card transactions.

## **Exceptions to Purchasing Policies**

We generally found that agencies and UW institutions had established adequate controls, and instances of inappropriate purchases were rare.

In the 3,071 transactions we reviewed, we identified 131 purchase exceptions totaling \$74,499. The exceptions we identified included:

- \$52,463 in excessive or unnecessary purchases, including purchases that



have a state business purpose but appear to be luxury items or to include avoidable costs such as late fees;

- \$9,181 in inappropriate purchases, including purchases made for personal use or that are otherwise unallowable;
- \$5,580 in third-party error or fraud, including erroneous or fraudulent charges made by vendors or unauthorized users;
- \$4,378 in unknown purchases, including instances in which there was not sufficient documentation for us to determine what was purchased or whether it was appropriate, typically because of a lack of a receipt; and
- \$2,897 in purchases that represented misapplication of a purchasing card, including purchases that had a state business purpose but were not allowed to be made using a purchasing card.

## Recommendations

Our report includes recommendations for DOA to work with agencies and UW institutions to:

- reduce spending limits whenever possible and close the accounts of cards that are unused (*p. 29*);
- develop procedures requiring cardholders to explicitly document the state business purpose of purchases made with purchasing cards (*p. 39*);
- reinforce prohibitions regarding the use of purchasing cards to pay for certain travel expenses (*p. 46*);
- clarify purchasing card policies in an effort to eliminate purchases from ineligible vendors (*p. 49*); and

- ensure state employees receive adequate training in appropriate card use, including documentation requirements and other program rules ([p. 50](#)).

In addition, we include a recommendation for DOA to:

- incorporate procedures for the vendor to contact purchasing card administrators or supervisors, as well as cardholders, regarding possible fraud ([p. 34](#)).

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