



FINANCIAL AUDIT DIVISION REPORT

Purchasing Card Program
Internal Control and Compliance Audit
For the Two Years Ended July 2009

July 23, 2010

Report 10-25

FINANCIAL AUDIT DIVISION
Centennial Building – Suite 140
658 Cedar Street – Saint Paul, MN 55155
Telephone: 651-296-4708 • Fax: 651-296-4712
E-mail: auditor@state.mn.us • Web site: <http://www.auditor.leg.state.mn.us>
Through Minnesota Relay: 1-800-627-3529 or 7-1-1

Financial Audit Division

The Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division has a staff of forty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

The Office of the Legislative Auditor (OLA) also has a Program Evaluation Division, which evaluates topics periodically selected by the Legislative Audit Commission.

Reports issued by both OLA divisions are solely the responsibility of OLA and may not reflect the views of the Legislative Audit Commission, its individual members, or other members of the Minnesota Legislature. For more information about OLA reports, go to:

<http://www.auditor.leg.state.mn.us>

To obtain reports in electronic ASCII text, Braille, large print, or audio, call 651-296-4708. People with hearing or speech disabilities may call through Minnesota Relay by dialing 7-1-1 or 1-800-627-3529.

To offer comments about our work or suggest an audit, investigation, or evaluation, call 651-296-4708 or e-mail auditor@state.mn.us.



OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

July 23, 2010

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Sheila Reger, Commissioner
Department of Administration

This report presents the results of our internal control and compliance audit of the state's purchasing card program for the two years ended July 2009. Our scope included the Department of Administration and seventeen other state agencies.

The audit was conducted by Jim Riebe, CPA (Audit Manager), Sonya Johnson, CPA, CFE (Auditor-in-Charge) and assisted by auditors Mark Allan, CPA, CFE, Jerry Foty, CFE, Joan Haskin, CPA, CISA, Bridgette Leonard, Kevin Schoenrock, Alex Weber, and Zach Yzermans, CPA.

This report is intended for the information and use of the Legislative Audit Commission and the management of the Department of Administration. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 23, 2010.

We received the full cooperation of the Department of Administration and the other agencies included in our scope, and we thank them for their assistance.

James R. Nobles
Legislative Auditor

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

Table of Contents

	<u>Page</u>
Report Summary	1
Overview	3
Objectives, Scope, and Methodology	5
Conclusion	6
Findings and Recommendations	7
1. Some state agencies did not retain adequate supporting documentation related to the purchasing card program's administrative requirements and certain purchasing card transactions	7
2. Several state agencies used the state purchasing card to buy items prohibited by state or department policies	9
3. Half of the state agencies we tested did not consistently recognize and pay sales and use taxes to the Minnesota Department of Revenue when vendors failed to charge the tax at the time of purchase	10
4. Several agencies had weak controls over cardholder limits	11
5. The current purchasing card policy lacked a few controls	12
Appendix of Findings by Agency	15
Agency Responses	23
Administration	23
Agriculture	25
Board of Animal Health	27
Board of Dentistry	29
Board of Water and Soil Resources	31
Corrections	33
Employment and Economic Development	35
Health	39
Human Services	41
Labor and Industry	45

	<u>Page</u>
Military Affairs	47
Minnesota Department of Transportation	49
Minnesota State Lottery	51
Minnesota Zoo	53
Natural Resources	57
Office of Enterprise Technology	61
Office of Higher Education	63
Public Safety	65

Report Summary

Conclusion

The state's purchasing card program generally had adequate internal controls to ensure that card purchases complied with the state's policies and procedures. However, we found some control weaknesses and some purchases that did not comply with state policies and procedures.

Findings

- Some state agencies did not retain adequate supporting documentation related to the purchasing card program's administrative requirements and certain purchasing card transactions. ([Finding 1, page 7](#))
- Several state agencies used the state purchasing card to buy items prohibited by state or department policies. ([Finding 2, page 9](#))
- Half of the state agencies we tested did not consistently pay sales and use taxes to the Minnesota Department of Revenue when vendors failed to charge the tax at the time of purchase. ([Finding 3, page 10](#))
- Several agencies had weak controls over cardholder limits. ([Finding 4, page 11](#))
- The current purchasing card policy lacked a few controls. ([Finding 5, page 12](#))

Audit Scope and Objectives

Our objectives were to determine whether the state had adequate internal controls for its purchasing card program and whether employees complied with the state's purchasing card policies. We tested 943 purchases, totaling about \$639,000, made by employees of 18 state agencies using purchasing cards from July 2007 through July 2009.

Purchasing Card Program

Overview

The Department of Administration established the state's purchasing card program to provide an efficient, cost-effective way for state agencies to buy specific types of goods and services.¹ Since the program's inception in 1999, the Department of Administration has operated the purchasing card program through US Bank. Each state agency that participates in the program determines which of its employees can make purchases using a purchasing card issued in the employee's name.

The Department of Administration established comprehensive policies and procedures that cover the delegation of purchasing authority and the administration of purchasing cards used by state agencies. The department issued its original purchasing card policy in July 1999.²

The state purchasing card policy contained numerous controls to ensure purchases are appropriate and comply with state policies and procedures.³ Before a state agency receives permanent authority to participate in the state's purchasing card program, it must establish a pilot project that is limited in scope and subjected to an audit by either the agency's internal auditors or the Department of Management and Budget. Each agency must designate a purchasing card coordinator who has overall responsibility for administration of the program. The policy required that agencies remit sales and use tax on all applicable purchases if the vendor did not charge the tax at the time of purchase. The policy also outlined the allowable and unallowable uses of the purchasing card. According to state policy, cardholders cannot use the card to obtain the following items:

- Cash, cash advances, or extensions of credit
- Explosives
- Weapons of any kind, including firearms and ammunition
- Meals for individuals (including the cardholder)
- Alcohol
- Consulting or professional/technical services

¹ In accordance with *Minnesota Statutes* 2009, 16C.03, subd. 3 and 16, the commissioner of the Department of Administration may delegate to agency heads or their designees "Authority for Local Purchase," which is the statutory authority to acquire needed goods, services, and utilities.

² Department of Administration's Materials Management Division Policy and Procedure 99.4.

³ Agencies may either adopt the Department of Administration's statewide purchasing policy or develop their own policies to more restrictively define and limit their employees' use of purchasing cards.

- Equipment that requires a license to operate (vehicles, trailers, boats, snowmobiles, ATVs, etc.)
- Telephone calls (either personal or business)

In May 2009, the Department of Administration enhanced its purchasing card policy⁴ to specifically prohibit the use of purchasing cards for construction services, high risk services,⁵ fixed assets, and sensitive assets,⁶ and to discourage the use of financial services like PayPal.⁷

The issuance of purchasing cards by state agencies begins with identifying a business need for the employee to obtain a purchasing card. The employee completes a purchasing card application, obtains the supervisor's approval, and submits the application to the agency's purchasing card coordinator. The purchasing card coordinator typically establishes the individual's purchasing limits. The standard purchasing limits for most cardholders consist of a \$2,500 single purchase limit and a \$10,000 monthly transaction limit. Agencies can further restrict these limits if they choose. However, limits above the established thresholds require the approval of the Department of Administration. The standard single purchase limit falls in line with authority for local purchase limits.

Employees also sign written acknowledgements stating that they will only use the purchasing card for business purposes and that misuse of the card can result in loss of purchasing card privileges and disciplinary action. The employee maintains a log of all purchasing card activity. Each month, the individual receives his or her bank statement that details the purchasing card activity for the prior month. The employee then performs a three-way reconciliation between the receipts, bank statement, and log to ensure he or she properly accounted for all purchases. The employee's supervisor reviews and signs off on the log. The log goes to the purchasing card coordinator for further review and payment. These multiple layers of review help ensure that the employee only made appropriate purchases.

As of October 2009, 38 agencies participated in the purchase card program. Our audit scope included 18 of these agencies, and we tested for compliance with the purchasing card policy in effect at the time the purchase was made.⁸ The number of purchasing cards at the agencies we audited varied from as few as three cards to as many as a few thousand cards.

⁴Department of Administration's Purchasing Card Policy 2.0.

⁵High risk services have some type of liability associated with the activity.

⁶Sensitive assets are items that are generally for individual use or that could be easily sold.

⁷PayPal is an e-commerce business allowing payments and money transfers to be made through the Internet.

⁸All agencies included in the scope of our audit used the initial Department of Administration's Policy and Procedure 99.4 except the Board of Animal Health, which implemented the new purchasing card policy on July 1, 2009.

Objectives

The objectives of our audit of the state's purchasing card program were to answer the following questions:

- Does the state have adequate internal controls to ensure that purchasing cards are used in compliance with state policies and procedures?
- For the items selected for testing, did the transactions comply with the state's purchasing card policies?

Methodology

To answer these questions, we interviewed staff at the Department of Administration and the selected agencies included in our scope to gain an understanding of the controls related to purchasing card expenditures. In determining our audit approach, we considered the risk of potential noncompliance with finance-related legal requirements and the risk of other inappropriate purchases. We also obtained and analyzed US Bank detailed transaction data to identify unusual or high-risk transactions for further review. In addition, we selected a sample of specific transactions and reviewed supporting documentation to test whether the entity's controls were effective and if the transactions complied with applicable policies and procedures.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We used the guidance contained in the Internal Control-Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate agency controls.⁹

⁹ The Treadway Commission and its Committee of Sponsoring Organizations were established in 1985 by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity. The resulting Internal Control-Integrated Framework is the accepted accounting and auditing standard for internal control design and assessment.

Scope

Our population consisted of purchasing card transactions totaling \$25.3 million incurred by 18 agencies from July 2007 through July 2009,¹⁰ and we tested 943 transactions totaling about \$639,000,¹¹ as follows:

<u>Agency</u>	<u>Purchasing Card Expenditures</u>	<u>Number of Transactions Tested</u>	<u>Amount of Sample Items Tested</u>
Administration	\$1,201,309	52	\$ 41,533
Agriculture	250,256	33	28,238
Board of Animal Health	84,767	17	8,113
Board of Dentistry	33,261	11	4,589
Board of Water and Soil Resources	28,472	50	15,721
Corrections	556,414	58	24,074
Employment and Economic Development	1,945,683	76	79,541
Health	2,242,225	16	51,528
Human Services	8,255,562	90	106,958
Labor and Industry	249,509	25	9,494
Military Affairs	499,371	40	30,998
Minnesota Department of Transportation	3,699,464	151	99,915
Minnesota State Lottery	157,949	30	10,270
Minnesota Zoo	573,214	50	39,611
Natural Resources	4,228,075	166	51,843
Office of Enterprise Technology	80,033	25	6,180
Office of Higher Education	66,035	28	4,602
Public Safety	1,186,662	25	25,355
Total	<u>\$25,338,261</u>	<u>943</u>	<u>\$638,563</u>

Conclusion

The state's purchasing card program generally had adequate internal controls to ensure that card purchases complied with the state's policies and procedures. However, the program had some control weaknesses, and some purchases did not comply with state policies and procedures. Appendix A provides a list of findings by agency.

¹⁰ Because of other audit coverage, (Office of the Legislative Auditor, Financial Audit Division, Report 09-02, *Department of Natural Resources*, issued January 15, 2009), the scope for the Department of Natural Resources was from May 2008 through July 2009.

¹¹ In April 2009, the Minnesota Department of Transportation's Office of Audit reported on an employee's theft of about \$38,000 through inappropriate purchasing card transactions. Because these transactions had already been identified and investigated, we excluded them from our testing population.

Findings and Recommendations

Some state agencies did not retain adequate supporting documentation related to the purchasing card program's administrative requirements and certain purchasing card transactions.

Finding 1

Several state agencies did not retain adequate documentation to support certain purchasing card transactions. Sample testing highlighted various documentation issues, including missing or incomplete purchasing card applications or acknowledgments, lack of original receipts, lack of approval signatures, and other issues with incomplete or missing documentation. Without evidence of supervisory review and retention of original and itemized receipts, agencies could not provide assurance that a purchasing card transaction was for appropriate state business. In addition, agencies could not ensure the proper remittance of sales and use tax without itemized receipts.

Nine agencies, including the departments of Transportation, Natural Resources, Human Services, Employment and Economic Development, Labor and Industry, and Military Affairs, and the Office of Enterprise Technology, the Office of Higher Education, and the Minnesota State Lottery either had missing or incomplete purchasing card applications or acknowledgments for 27 cardholders. In most of these cases, the agencies either could not find the applications or the applications did not have the proper signatures. It is important to have complete applications and signed acknowledgements on file since they help ensure employees understand and follow the purchasing card policies and procedures.

Four agencies did not have sufficient documentation for some purchasing card transactions. The Department of Transportation did not have 12 purchasing card logs on file, 11 of which pertained to the Aeronautics Division. These exceptions totaled \$17,609. The Department of Transportation's internal purchasing card policy required cardholders to complete a monthly log to record purchases. The Department of Natural Resources had one missing log totaling \$747. The Department of Employment and Economic Development lacked receipts, bank statements, and purchasing card logs for purchases totaling \$1,252. The Minnesota Zoo had one missing log and supporting receipts for \$1,004 of purchases.

In addition, there were five agencies where the purchasing card logs, totaling \$14,005, lacked evidence of supervisory approval or certification by the appropriate employee. The Board of Dentistry had two logs lacking approval signatures for transactions totaling \$4,920. In another case, the Department of Transportation lacked a supervisor's signature on two purchase logs totaling \$2,822. The Department of Labor and Industry lacked supervisory approval on a

\$1,634 purchase log. The Board of Water and Soil Resources lacked the approval signature on one purchase log totaling \$1,400. The Department of Economic Development also had an instance where three employees recorded all their transactions on the same purchase log instead of each employee completing their own log. In a separate instance, one employee signed the log for three cardholders. These two exceptions totaled \$3,229. These exceptions lacked individual accountability for the purchases.

Other agencies, including the Board of Dentistry, Department of Natural Resources, Department of Employment and Economic Development, Military Affairs, the Minnesota Zoo, and the Department of Transportation, had \$10,281 of either non-original or non-itemized receipts. The Department of Corrections did not have a receipt for a recurring monthly charge of \$147, which was an automatic charge to the cardholder's purchasing card.

Four agencies lacked receipts to support specific transactions totaling \$11,473: The Department of Human Services did not have receipts for three separate purchases totaling \$6,450. The Department of Transportation lacked receipts to substantiate two transactions, totaling \$2,880. The Department of Health did not retain a receipt for a \$1,372 transaction. Finally, the Office of Higher Education did not maintain receipts for two transactions that totaled \$771.

The Department of Administration's purchasing card policy states that all purchases must be approved by a supervisor as evidenced by signing the memo statement and/or agency purchasing log.¹² In addition, all payments of purchasing card invoices must be supported by original receipts or a statement in lieu of a receipt provided by the cardholder.

Recommendations

- *Agencies should ensure they retain proper documentation and obtain the required approvals to support the authorization for an individual to have a purchasing card, as well as to ensure that proper support is on file to support the propriety of all purchasing card transactions.*
- *Agencies should ensure that only the cardholders are signing off on their purchasing card logs and that only activity associated with their purchasing card is recorded on the log.*

¹² Department of Administration, Materials Management Division Policy and Procedure 99.4, page 3, item 13.

Several state agencies used the state purchasing card to buy items prohibited by state or department policies.

Finding 2

Four of eighteen state agencies we tested had purchases that were prohibited by the Department of Administration's purchasing card policy or the agency's own internal policy.¹³ The purchases totaled \$9,271.

The Department of Employment and Economic Development purchased three vehicles and a trailer, totaling \$6,819. The purchases were for legitimate client service expenditures under the various programs administered by the department; however, the purchasing card should not have been the mechanism used to make the purchase. The Department of Administration's policy prohibits the purchase of items that require a license or title. The agency could have requested special approval from the Department of Administration for these purchases.

The Department of Natural Resources used the state purchasing card to buy \$1,779 worth of sensitive assets, including a computer and marine radio, that both the state purchasing card and internal policies prohibited. The agency's internal policy, while prohibiting the purchase of sensitive items, did not provide an adequate definition of what the department considered to be sensitive items. Other examples of department purchases that could be considered sensitive assets included digital cameras, binoculars, global positioning devices, and canoes.

The following agencies made group meal purchases totaling \$673 that did not have evidence of prior approval, as required by state policy:¹⁴

- Board of Dentistry had three group meal purchases totaling \$510,
- Office of Higher Education had four food purchases for \$129, and
- Department of Employment and Economic Development had a \$34 meal purchase.

Allowing the purchase of prohibited items increases the chance that agencies bypass established procurement controls and risk noncompliance with purchasing requirements.

Recommendations

- *Agencies should ensure that all items procured with a state purchasing card are allowable under both the statewide policy as well as any internal policies.*

¹³ Department of Administration, Materials Management Division Policy and Procedure 99.4, page 1.

¹⁴ Department of Management and Budget Administrative Procedure 4.4. This policy requires agencies to complete the *Request for Approval of Special Expenses* form before incurring these types of purchases.

- *Agencies should address any necessary policy exceptions, for example, purchases of assets requiring a license or title, directly with the Department of Administration.*

Finding 3

Half of the state agencies we tested did not consistently recognize and pay sales and use taxes to the Minnesota Department of Revenue when vendors failed to charge the tax at the time of purchase.

Nine of eighteen agencies we tested did not consistently recognize and pay sales and use tax totaling approximately \$2,200 to the Department of Revenue.¹⁵ Some agencies left it up to the cardholder to report a tax liability on the monthly purchasing card log when the vendor did not charge the tax at the time of the purchase. Other agencies centralized the process so that the accounts payable section handled any issues related to taxes. The Department of Health did not have an established process to ensure that it consistently applied sales and use taxes. Cardholders were not always aware that online vendors often do not charge sales tax on purchases. It was also difficult to determine sales and use tax because it was not always obvious whether items were taxable or nontaxable. Local tax ordinances with differing tax rates increased the confusion in this area.

Department of Administration's policy requires that agencies accept responsibility for identifying and paying the appropriate state and local sales and use tax when the tax has not been charged by the vendor.¹⁶ If a cardholder makes a purchase that is taxable and the tax is not charged by the vendor at the point of the sale, the agency is then required to pay a use tax to the Department of Revenue. *Minnesota Statutes* impose use tax on the use of tangible personal property or taxable services.¹⁷

When agencies do not pay the appropriate taxes to the Department of Revenue, the state does not receive the funding that it is entitled to by statute.

Recommendation

- *Agencies should ensure that the control structure is in place to pay all sales and use tax that is due to the Department of Revenue.*

¹⁵ The Minnesota Department of Revenue defines use tax as tax that is due on taxable items and services used in Minnesota if no sales tax was paid at the time of purchase.

¹⁶ Department of Administration, Materials Management Division Policy and Procedure 99.4, page 5.

¹⁷ *Minnesota Statutes* 2009, 297A.63, subd.1.

Finding 4

Several agencies had weak controls over cardholder limits.

Agencies did not have adequate controls over purchasing limits granted to cardholders. In some cases, cardholders split purchases into multiple transactions to avoid single purchase limits. In other cases, the limits authorized on the cardholder applications did not agree with the limits on US Bank records.

Some cardholders at the Minnesota Department of Transportation, the Department of Agriculture, and the Minnesota Zoo split transactions, totaling \$46,578, to remain within their established transaction limits. The six transactions at the Minnesota Department of Transportation totaled \$17,335. Three transactions at the Department of Agriculture and three transactions at the Minnesota Zoo totaled \$16,529 and \$12,714, respectively. However, in two of these instances at the Minnesota Zoo (totaling \$8,183) a supervisor approved the split transactions. In one case, the head veterinarian made an emergency purchase of medicine for a zoo animal. In all cases, nothing indicated that the purchases were not for appropriate state business; however, the exceptions violated both the state and agency policies. Agencies can monitor for split purchases through the online reports US Bank provides.

The purchasing card policy prohibits splitting purchases in order to remain within authorized transaction limits. As noted in the Overview section of this report, each cardholder in the purchasing card program has a single purchase transaction limit and a monthly transaction limit that is established by the agency's purchasing card coordinator. The single purchase transaction limit is the maximum amount that can be purchased at one time. Most single purchase and monthly transaction limits are \$2,500 and \$10,000, respectively. Agencies can elect to be more restrictive. However, the Department of Administration must approve any purchasing limits exceeding the standard ones.

We also found discrepancies at 14 of the 18 agencies tested between limits authorized on the cardholder's application and the limits recorded on US Bank records without anything on file that documented the authorization of the changes to an individual's limits. Both the Department of Employment and Economic Development and the Minnesota Zoo stated that they had approved temporary increases to three individuals' limits; however, the agencies did not retain documentation of the approvals. The Department of Employment and Economic Development neglected to restore the cardholder's limit back to the original authorized limit. An agency may request a temporary increase in an individual's purchasing limit through the Materials Management Division at the Department of Administration. The current policy requires that agencies complete the *Purchasing Card Policy Exception and Submission of Agency Purchasing Card Policy for Approval* form and retain a copy in their files.¹⁸ Without the control

¹⁸ Department of Administration Purchasing Card Use Policy 2.0, Attachment C.

structure in place, agencies risked violating procurement bidding requirements or inappropriate purchases.

Recommendations

- *Agencies should ensure that cardholders do not split purchases to stay within their authorized spending limits.*
- *Agencies should make use of the online reports US Bank provides as a mechanism to isolate split purchases.*
- *If there are any changes to authorized limits, both the request and approval should be obtained and retained in the agency's files.*

Finding 5

The current purchasing card policy lacked a few controls.

During our audit of purchasing card transactions, we found a few areas where the Department of Administration could make improvements to its existing purchasing card policy to strengthen controls:

- Administration's purchasing card policy did not address the risk of employees obtaining reimbursement through their expense report for items acquired with the purchasing card. Some agencies we audited relied on supervisors approving purchasing card logs and employee expense reports to control this risk. Other agencies implemented an additional control by having another employee verify that an employee did not receive reimbursement for a purchase made with a purchasing card.
- The policy did not provide sufficient information about reports available through US Bank Access Online. Several agencies, including the departments of Employment and Economic Development and Labor and Industry and the Office of Higher Education did not effectively use the online capabilities of US Bank to monitor purchasing card activity. In addition, the Department of Human Services made only minimal use of the capabilities of US Bank Access Online. The current purchasing card policy states that agency purchasing card administrators may manage their purchasing card accounts and cards on the contract vendor's web site and can also create standard or ad hoc reports.¹⁹ The Department of Administration provides training in the use of US Bank Access Online reports and has done so since 2007. However, staff at these agencies stated that they were unaware that certain types of online reports existed. Use of the different reports, including the Declined Transactions Report and the

¹⁹ Department of Administration Purchasing Card Use Policy 2.0, paragraph 2.92.

Transaction Detail Report could help agencies monitor cardholder activity more efficiently and effectively. Use of the Detailed Transactions Report could help agencies readily highlight split disbursement transactions.

Agencies could also use the online reports to ensure the accuracy of any requested limit changes. Several agencies, including the departments of Natural Resources, Public Safety, Employment and Economic Development, Human Services, and Labor and Industry, as well as the Minnesota Zoo and the Minnesota State Lottery had a total of 23 cardholders who had single purchase limits of \$0 in the online bank system, which granted the individuals unlimited purchasing authority up to the cardholders' monthly purchase limit, thereby exceeding the typical \$2,500 transaction limit. At the Board of Water and Soil Resources, the agency changed the limit of one individual; however, US Bank did not record this change correctly. The agency did not verify that the change had been recorded properly. These weaknesses put the agencies at additional risk of noncompliance with Authority for Local Purchase requirements and increased the potential that these individuals could bypass the established procurement controls.

- The policy did not specify the type of documentation that agencies should consider acceptable support for Internet purchases. Agencies often did not receive original receipts for items purchased through the Internet. Original receipts are intended to control against duplicate payments.

Recommendations

- *The Department of Administration should require agencies to develop and implement controls that ensure cardholders are not getting reimbursed through the employee expense reimbursement process for purchases paid for with a purchasing card.*
 - *The Department of Administration should require that agencies include the use of US Bank Access Online functions and review available reports to better manage purchasing card activity and ensure that any limit changes have been input correctly.*
 - *The Department of Administration should consider what is acceptable documentation for purchasing card transactions within the electronic commerce business environment.*
-

Appendix of Findings by Agency

<u>Agency</u>	<u>Finding Number</u>	<u>Finding</u>
Administration	5	Recommended improvements needed to the state purchasing card policy; however, the agency itself had no reportable findings on employees' use of purchasing cards.
Agriculture	3	The department did not recognize and pay an estimated use tax of \$10.
Agriculture	4	Agriculture had three instances totaling \$16,529 in which the cardholder split the purchase to remain within his or her authorized transaction limit.
Agriculture	4	The department did not retain documentation authorizing changes to limits for two cardholders.
Board of Animal Health	4	The board did not document the limit change for one cardholder.
Board of Dentistry	1	The board had two purchasing card logs, totaling \$4,920, that lacked evidence of supervisory review, and a nonitemized receipt for an \$84 purchase.
Board of Dentistry	2	The board had three unallowable purchases of group meals, totaling \$510.
Board of Water and Soil Resources	1	One purchase log, totaling \$1,400, lacked evidence of supervisory review.
Board of Water and Soil Resources	5	Staff did not use US Bank Access Online functionality to ensure that US Bank accurately input a limit change.
Corrections	1	Corrections lacked a receipt for a recurring monthly charge of \$147 for satellite radio.
Corrections	4	The agency did not document the limit changes for two cardholders.

<u>Agency</u>	<u>Finding Number</u>	<u>Finding</u>
Employment and Economic Development	1	The department had an instance where several employees recorded their purchases on one purchasing card log. In another case, one person signed the log for three cardholders.
Employment and Economic Development	1	The department could not provide supporting documentation for two transactions totaling \$1,252. The department also had nonoriginal receipts for items (totaling \$5,405) for client services, food, clothing, and a trailer.
Employment and Economic Development	1	The department did not retain the applications for five cardholders.
Employment and Economic Development	2	The department made unallowable purchases (totaling \$6,853) for vehicles, a trailer, and an individual meal.
Employment and Economic Development	3	The department did not recognize and pay estimated use tax of approximately \$647.
Employment and Economic Development	4	The department did not properly document limit changes for nine cardholders and also neglected to restore one cardholder's limit to its original amount.
Employment and Economic Development	5	The department did not effectively use US Bank Access Online reports to monitor cardholder activity. Also, one cardholder's single purchase limit was \$0, which increased the single purchase limit to the monthly purchase limit and increased the risk of noncompliance with purchasing policies and procedures.
Health	1	Health did not retain the receipt to support a purchase of a lab reservoir costing \$1,372.
Health	3	The department did not have a mechanism to ensure all taxes were captured and neglected to pay use tax of approximately \$103 as a result.

Agency	Finding Number	Finding
Human Services	1	Human Services did not have actual receipts for expenses (totaling \$6,450) for a sewing machine, handcuffs, and a subscription.
Human Services	1	The department did not retain applications for two cardholders.
Human Services	3	The department neglected to recognize and pay use tax of approximately \$30.
Human Services	4	The department did not document the limit changes for ten cardholders.
Human Services	5	The department had 13 cardholders with \$0 single purchase limits on US Bank records, which increased the single purchase limit to the monthly purchase limit and increased the risk of noncompliance with purchasing policies and procedures.
Human Services	5	The department did not effectively use the capabilities of US Bank Access Online.
Labor and Industry	1	One purchase log (for \$1,634) lacked evidence of supervisory approval.
Labor and Industry	1	The department did not retain applications for six cardholders.
Labor and Industry	3	The department neglected to capture and pay use tax of approximately \$20.
Labor and Industry	4	The department did not properly document the limit changes for two cardholders.
Labor and Industry	5	The department did not effectively use US Bank Access Online reports to monitor cardholder activity or limits. Also, three cardholders' single purchase limits were \$0, which increased the single purchase limits to the monthly purchase limits and increased the risk of noncompliance with purchasing policies and procedures.

<u>Agency</u>	<u>Finding Number</u>	<u>Finding</u>
Military Affairs	1	The agency did not retain the applications for three cardholders.
Military Affairs	4	The agency did not document limit changes for four individuals.
Minnesota Department of Transportation - Central Office	1	The Aeronautics Division lacked 11 purchase logs for transactions totaling \$17,609.
Minnesota Department of Transportation - Central Office	1	The central office did not retain the application for one card holder.
Minnesota Department of Transportation - Central Office	3	The central office did not pay sales tax of approximately \$17.
Minnesota Department of Transportation - Central Office	4	The central office did not document limit changes for 11 cardholders.
Minnesota Department of Transportation - Metro District	4	The district did not document the limit change for one cardholder.
Minnesota Department of Transportation - District 1 - Duluth/Virginia	1	The district lacked evidence of supervisory approval for one purchase log, totaling \$548.
Minnesota Department of Transportation - District 1 - Duluth/Virginia	4	The district had two instances, (totaling \$5,403) where the purchase was split to remain within limits.
Minnesota Department of Transportation - District 2 - Bemidji/Crookston	1	The district did not retain the application for one card holder.
Minnesota Department of Transportation - District 2 - Bemidji/Crookston	1	The district had a nonitemized receipt for \$59.
Minnesota Department of Transportation - District 2 - Bemidji/Crookston	4	The district did not document limit changes for three cardholders.
Minnesota Department of Transportation - District 2 - Bemidji/Crookston	4	The district had two instances (totaling \$4,893) where the cardholder split the purchase in order to remain within spending limits.
Minnesota Department of Transportation - District 2 - Bemidji/Crookston	3	The district had various sales tax exceptions, totaling approximately \$139.

<u>Agency</u>	<u>Finding Number</u>	<u>Finding</u>
Minnesota Department of Transportation - District 6 - Rochester/Owatonna	4	The district had one instance (totaling \$4,204) where the cardholder split the purchase to remain within spending limits.
Minnesota Department of Transportation - District 6 - Rochester/Owatonna	4	The district did not document the limit change for one cardholder.
Minnesota Department of Transportation - District 7 - Mankato/Windom	4	The district did not document the limit change for one cardholder.
Minnesota Department of Transportation - District 7 - Mankato/Windom	4	The district had one instance (totaling \$2,836) where the cardholder split the purchase to remain within spending limits.
Minnesota Department of Transportation - District 8 - Willmar/Marshall/Hutchinson	1	The district lacked one purchase log for a \$256 transaction.
Minnesota Department of Transportation - District 8 - Willmar/Marshall/Hutchinson	1	The district lacked receipts to substantiate two transactions (totaling \$2,880) for a shampoo machine and solar screens.
Minnesota Department of Transportation - District 8 - Willmar/Marshall/Hutchinson	3	The district failed to capture and pay use tax of approximately \$415.
Minnesota State Lottery	1	The agency did not retain the acknowledgment form for one cardholder.
Minnesota State Lottery	5	The agency had two individuals with \$0 single purchase limits on US Bank records which increased the single purchase limit to the monthly purchase limit and increased the risk of noncompliance with purchasing policies and procedures.
Minnesota Zoo	1	The Minnesota Zoo was unable to provide supporting documentation for a \$1,004 transaction.
Minnesota Zoo	1	The agency had two nonoriginal receipts for items totaling \$1,145.

<u>Agency</u>	<u>Finding Number</u>	<u>Finding</u>
Minnesota Zoo	3	The agency did not capture and pay use tax of approximately \$356.
Minnesota Zoo	4	The agency did not maintain documentation to support the approval of two cardholders' limit changes.
Minnesota Zoo	4	The agency had three instances (totaling \$12,714) where the transactions were split in order to remain within the cardholder's authorized spending limits.
Minnesota Zoo	5	The agency had one cardholder with a \$0 limit on US Bank records, which increased the single purchase limit to the monthly purchase limit and increased the risk of noncompliance with purchasing policies and procedures.
Natural Resources - Central Office	3	The department did not pay sales tax or could not provide evidence of payment for approximately \$162 in sales tax.
Natural Resources - Central Office	4	The department did not document limit changes for 11 cardholders.
Natural Resources - Central Office	5	The department had one cardholder with a \$0 limit on US Bank records, which increased the single purchase limit to the monthly purchase limit and increased the risk of noncompliance with purchasing policies and procedures.
Natural Resources - Central Region	5	The department did not document limit changes for 8 cardholders.
Natural Resources - Northwest Region (Bemidji)	1	The region had a missing purchase log totaling \$747.
Natural Resources - Northwest Region (Bemidji)	1	The region had nonitemized or nonoriginal receipts for purchases totaling \$642.
Natural Resources - Northwest Region (Bemidji)	1	The region had missing signatures on one acknowledgment form.
Natural Resources - Northwest Region (Bemidji)	2	The region had an unallowable computer purchase for \$696.

<u>Agency</u>	<u>Finding Number</u>	<u>Finding</u>
Natural Resources - Northwest Region (Bemidji)	3	The region did not remit approximately \$76 in sales tax.
Natural Resources - Northwest Region (Bemidji)	4	The region did not document limit changes for 12 cardholders.
Natural Resources - Northeast Region (Grand Rapids)	1	The region had a nonitemized receipt for a \$157 purchase.
Natural Resources - Northeast Region (Grand Rapids)	1	The region did not have signatures on applications for five cardholders.
Natural Resources - Northeast Region (Grand Rapids)	2	The region had \$1,082 in unallowable marine radio sensitive item purchases.
Natural Resources - Northeast Region (Grand Rapids)	3	The region did not provide evidence of payment of approximately \$25 in sales tax.
Natural Resources - Northeast Region (Grand Rapids)	4	The region did not document limit changes for 18 cardholders.
Natural Resources - Southeast Region (New Ulm)	3	The region did not document limit changes for 10 cardholders.
Natural Resources - Southeast Region (New Ulm)	4	The region incorrectly remitted \$117 in sales tax on nontaxable items.
Office of Enterprise Technology	1	The agency did not retain the acknowledgement form for one cardholder.
Office of Higher Education	1	The Office of Higher Education lacked receipts for two transactions totaling \$771.
Office of Higher Education	1	The agency did not retain the application for one cardholder.
Office of Higher Education	2	The agency made an unallowable purchase of \$129.
Office of Higher Education	3	The agency failed to pay use tax of approximately \$202.
Office of Higher Education	4	The agency did not document limit changes for four cardholders.
Office of Higher Education	5	The agency did not effectively use US Bank Access Online reports to monitor cardholder activity.
Public Safety	4	The agency did not document limit changes for five cardholders.

<u>Agency</u>	<u>Finding Number</u>	<u>Finding</u>
Public Safety	5	The agency had two cardholders with \$0 limits listed on US Bank records, which increased the single purchase limit to the monthly purchase limit and increased the risk of noncompliance with purchasing policies and procedures.



July 19, 2010

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
658 Cedar Street, Room 140

Dear Mr. Nobles:

Thank you for the opportunity to review and comment on the Office of the Legislative Auditor's internal control and compliance audit of purchasing card expenditures.

The procurement card is an important tool for Administration's efficient delegation of purchasing authority, but one with some inherent risks. In that context, we sincerely appreciate your office's in-depth look at this topic. It provides us with the best data we have had to date on the effectiveness of our policies and oversight.

As you know, Administration was assessed from two perspectives in this audit. One was as an agency utilizing the purchasing card for its own authorized purchases. We were pleased that you were able to report that "the agency itself had no reportable findings on employee use of purchasing cards." We will make every effort to maintain that level of conformance to requirements.

Administration was also assessed in our role as the central procurement agency setting policy and overseeing procurement card use. In that capacity, the audit report recommended three additions to our existing policies:

- Directing agencies to prevent any duplicate payments through the employee expense reimbursement process.
- Directing agencies to use on-line financial management tools provided by the contract vendor.
- Defining acceptable documentation for electronic commerce business transactions.

We agree with these recommendations and have made the changes in our procurement card policies. Agency purchasing card coordinators have been informed of these policy changes.

With the above changes, we believe we have fully responded to the relevant findings. If, however, you need further information or believe additional follow-up is appropriate, please contact Kent Allin, Materials Management Division Director, at 612.201.2400 or kent.allin@state.mn.us.

Sincerely,

A handwritten signature in black ink that reads "Sheila M. Reger".

Sheila M. Reger
Commissioner

July 16, 2010

Mr. James R. Nobles
Legislature Auditor
Office of the Legislative Auditor
Room 140 Centennial Office Building
658 Cedar Street
Saint Paul, Minnesota 55155-1603

Dear Mr. Nobles:

The purpose of this letter is to provide responses to the findings of your office's statewide control and compliance audit of purchasing card use during the 2008-2009 biennium. The Department of Agriculture (MDA) had a finding on the need for increased controls on purchasing cards in our individual control and compliance audit for state fiscal years 2005-2007 and was in the process of implementing changes during the period covered by this statewide audit.

We agree that the use of purchasing cards poses specific risks not found in standard state purchasing activities and requires additional effort to ensure compliance with state laws and employee contracts and the statewide policies designed to implement them.

Specifically for the MDA, the statewide audit noted violations in two of the five findings.

"Finding 3: The majority of state agencies we tested did not consistently recognize and pay sales and use taxes to the Minnesota Department of Revenue when vendors failed to charge the tax at the time of purchase."

MDA is aware of this problem with purchasing card use and has increased enforcement efforts. Current statewide policy directs that tax must be applied "when applicable," but does not provide specific guidance as to when that is. Our agency Purchasing Card Administrator will work with the Departments of Administration and Revenue to seek the additional information we need to better determine taxability. Our expectation is that this issue can be resolved within six months. The person currently assigned Purchasing Card Administrator responsibilities is leaving MDA on July 20, 2010, but we intend to fill the position as quickly as possible.

"Finding 4: Several agencies had weak controls over cardholder limits."

The MDA instances found in the statewide audit occurred on 8-27-07, 9-25-07 and 7-25-08, were for promotional activities (for which the department has unique responsibilities) and two of the three were for international purchases, which pose special challenges. In response to MDA's agency audit, issued December 18, 2008, agency procedures have been improved. MDA issued a revised agency Purchasing Card policy on November 30, 2009, based on the revised statewide policy issued May 15, 2009. The statewide policy states that "an agency...cannot authorize higher limits without written permission from the Department of Administration by submitting a Request for Purchasing Card Policy Exception form." MDA is now following this procedure in cases where increased limits are justified. Our agency Purchasing Card Administrator is responsible for monitoring limits and utilizes reports from the bank that issues the Purchasing Cards to verify appropriate activity.

Sincerely,



Gene Hugoson
Commissioner



Minnesota

Board of Animal Health

Safeguarding Animal Health

www.bah.state.mn.us

July 1, 2010

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155-1603

Dear Mr. Nobles:

On behalf of the Minnesota Board of Animal Health, we appreciate the thoroughness of the Purchasing Card audit. Your guidance will help us to improve the Board's policies and procedures in order to meet all requirements. We recognize the importance of the concern outlined in this audit report and we are committed to resolving each of the items.

Finding:

The Business Management Division did not document the limit change for one cardholder.

Recommendation: If there are any changes to authorized limits, both the request and approval should be obtained and retained in the agency's files.

Response/Resolution: The Board concurs with this recommendation and has taken the following steps to fully resolve the finding:

- US Bank records have been updated to reflect what the cardholder application reflects.

Thank you for the opportunity to respond to your findings and recommendations. The Board has assigned Ms. Barbara Troyer, Business Manager to coordinate these corrective actions. Thank you for the respectful manner in which this audit was conducted.

Sincerely,

A handwritten signature in black ink, reading "W L Hartmann".

William L. Hartmann, DVM MS
Executive Director



MINNESOTA BOARD OF DENTISTRY

University Park Plaza, 2829 University Avenue SE, Suite 450
Minneapolis, MN 55414-3249 www.dentalboard.state.mn.us
Phone 612.617.2250 • Toll Free 888.240.4762 • Fax 612.617.2260
MN Relay Service for Hearing Impaired 800.627.3529

July 14, 2010

James R Nobles
Legislative Auditor
Centennial Building, Room 140
658 Cedar Street
St Paul, MN 55155-1603

Mr Nobles:

This letter constitutes the Minnesota Board of Dentistry's response to the recent internal control and compliance audit of purchasing card expenditures. The Board found the audit process to be comprehensive and the report useful in addressing the complexities of managing and monitoring the use of a State purchasing card. The Board appreciates the need to have strict controls over the use of these cards. Findings that have been reported had been addressed by the Board and the Administrative Services Unit of the Health Related Boards even prior to learning of the audit, and additional controls have been implemented so that similar errors do not recur.

The Board of Dentistry was audited along with 17 other State agencies of varying sizes. The Board of Dentistry maintains two purchasing cards that are used infrequently. Not all findings that have been reported apply to our agency. Those findings that are applicable to Board of Dentistry practices are addressed individually as follows:

FINDING 1: Some State agencies did not retain adequate supporting documentation.

The Board of Dentistry had two logs lacking approval signatures for transactions totaling \$4,920.

In September and November 2007, the purchasing logs submitted by the Board's Executive Director were not signed to indicate review by the Board's Office Manager, as they should have been. This was a procedural oversight that did not impact any purchases, but does require more careful processing.

Other agencies, including the Board of Dentistry... [had] either non-original or non-itemized receipts. When an original receipt was not available, the Board of Dentistry followed established procedures to complete a notarized Statement in Lieu of Receipt. The Board's process recognizes that there are times when an original receipt may not have been issued or may have been misplaced; this should admittedly occur less frequently than it does. Additionally, there was an instance when a receipt for a meal purchased for staff training was not itemized: this was a matter of keeping the charge card receipt and not also the itemized receipt. Board staff are now aware that both documents are required.

FINDING 2: Several State agencies used the purchasing card to buy items prohibited by State or departmental policies.

The Board of Dentistry had three group meal purchases totaling \$510 [that did not have evidence of prior approval].

The Board of Dentistry has a limitation from certain types of purchases using the purchasing card without prior authorization. The purchase of food/meals is one of those limitations. In order to be able to even use the card with a restaurant vendor, the Board must (and did) seek prior authorization. In those instances, the Board neglected to complete a Special Expense Form, a process that has since been addressed and corrected in order to provide appropriate documentation of these purchases.

ADDITIONAL FINDINGS

Several additional findings are addressed in the report that do not directly involve the Minnesota Board of Dentistry. Regardless, the Board has reviewed the additional findings to ensure that it remains in full compliance into the future.

We appreciate your professionalism and guidance.

Sincerely,



Marshall Shragg, MPH
Executive Director



July 12, 2010

James R. Nobles, Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
Saint Paul, Minnesota 55155

Dear Mr. Nobles;

Please accept this correspondence as the Board of Water and Soil Resources' (BWSR) response to the findings and recommendations included in the draft report of the internal control and compliance audit of purchasing card expenditures conducted by your office for the two years ended July 2009. There were two of the audit's findings that referenced BWSR, and they are addressed below.

For each recommendation we have noted the response, person(s) responsible for resolving the finding, and the estimated completion date of the action planned.

Finding 1: Some state agencies did not retain adequate supporting documentation related to the purchasing card program's administrative requirements and certain purchasing card transactions.

Recommendation: Agencies should ensure they retain proper documentation and obtain the required approvals to support the authorization for an individual to have a purchasing card, as well as to ensure that proper support is on file to support the propriety of all purchasing card transactions.

Response: We agree with the recommendation. The Board was cited for not having the approval signature on one purchase log. The missing signature was on a log from October 2007. That occurred during our pilot period, when procedures were being "tried out." BWSR had a purchasing card audit by Minnesota Management and Budget (then Department of Finance) in April 2008 and our procedures for approvals were found to be well established. Our current approval process is performed on a monthly basis and there have been no approvals missed since that time.

Person Responsible: William Eisele

Estimated Completion Date: In place

James R. Nobles, Legislative Auditor
July 12, 2010
Page Two

Finding 5: The current purchasing card policy lacked some key controls.

Recommendation: The Department of Administration should require that agencies include the use of US Bank Access Online functions and review available reports to better manage purchasing card activity and ensure that any limit changes have been input correctly.

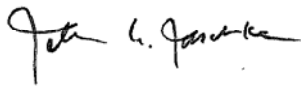
Response: We agree with this finding. The Board was cited for having made a change in limit for one employee that was not recorded correctly by U.S. Bank and further BWSR had not verified that the change had been recorded properly. BWSR sent an employee to training on the Access Online system in early 2010 and now a staff person looks at the U.S. Bank reports on a regular basis to cross check against Board records.

Person Responsible: William Eisele

Estimated Completion In place

This concludes the agency response. We want to acknowledge the high degree of professionalism demonstrated by your staff during the audit research work conducted in our offices. Please let me know if you have any questions.

Sincerely,



John Jaschke
Executive Director

cc: Randy Kramer, Board Chair



CENTRAL OFFICE

Contributing to a Safer Minnesota

July 1, 2010

James R. Nobles
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155-1603

Dear Mr. Nobles,

Thank you for the opportunity to review and respond to the findings and recommendations reported as a result of the recent internal control and compliance audit of purchasing card expenditures at the Department of Corrections (DOC) for the two years ended July 2009. The DOC takes the oversight of the purchasing card program seriously and appreciates the professional review conducted by your office. While this audit encompassed multiple state agencies there were two specific references to the DOC that we are responding to below.

Finding 1: The Department of Corrections did not have a receipt for a recurring monthly charge of \$147, which was an automatic charge to the cardholder's purchasing card.

Recommendations

- *Agencies should ensure they retain proper documentation and obtain the required approvals to support the authorization for an individual to have a purchasing card, as well as to ensure that proper support is on file to support the propriety of all purchasing card transactions.*

Response

The DOC agrees with this recommendation. To address the inherent risks recurring charges pose, the DOC will expand the purchasing card policy to address this specific type of purchase. As part of our change, we plan to restrict the use of recurring charges to DOC buyers and to require monthly documentation and approval for the charge when they complete the purchasing log.

Person Responsible:

Lori Caspers, Financial Management Director

Estimated Completion Date:

September 30, 2010



www.doc.state.mn.us

1450 Energy Park Drive, Suite 200 St. Paul, Minnesota 55108-5219 PH 651.361.7200 FAX 651.642.0223 TTY 800.627.3529

EQUAL OPPORTUNITY EMPLOYER

Finding 4: The agency did not document the limit changes for two cardholders.

- *If there are any changes to authorized limits, both the request and approval should be obtained and retained in the agency's files.*

The DOC agrees with this recommendation. Documentation from 2000 shows the DOC approved a \$500 limit for cardholders during a pilot phase, with the intent to increase the limit upon successful completion of the pilot. Consequently, the DOC did not require individuals to complete a new request at the time the limit was raised. In the future, a new request and policy acknowledgement will be completed anytime a limit is changed.

Person Responsible:

Lori Caspers, Financial Management Director

Estimated Completion Date:

Completed

Thank you again for the opportunity to respond, and for the efforts of your staff. It is our intent to resolve these finding as quickly as possible.

Sincerely,



Joan Fabian, Commissioner

July 15, 2010

Mr. James Nobles
Legislative Auditor
First Floor, Centennial Office Building
658 Cedar Street
St Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to the findings and recommendations related to the Department of Employment and Economic Development (DEED) as a result of the audit of the statewide purchasing card program for the two year period ended July 2009.

Audit Finding 1: The department had an instance where several employees recorded their purchases on one purchasing card log. In another case, one person signed the log for three cardholders. The department could not provide supporting documentation for two transactions totaling \$1,252. The department also had nonoriginal receipts for items, totaling \$5,405, for client services, food, clothing, and a trailer. The department did not retain the applications for five cardholders.

Recommendations:

- *Agencies should ensure they retain proper documentation and obtain the required approvals to support the authorization for an individual to have a purchasing card, as well as to ensure that proper support is on file to support the propriety of all purchasing card transactions.*
- *Agencies should ensure that only the cardholders are signing off on their purchasing card logs and that only activity associated with their purchasing card is recorded on the log.*

Response: The department agrees with the finding and the recommendations. The department has contacted the office that was sharing the purchasing card log to remind those individuals that individual logs need to be maintained and approved. DEED issued a revised purchasing card policy in January of 2010. This policy reinforces the need to obtain and submit original receipts with the purchasing card log. DEED has also improved its filing system for maintaining cardholder records. The department considers this finding to be resolved.

Audit Finding 2: The department made unallowable purchases of vehicles, a trailer, and an individual meal, totaling \$6,853.

Recommendations:

- *Agencies should ensure that all items procured with a state purchasing card are allowable under both the statewide policy as well as any internal policies.*
- *Agencies should address any necessary policy exceptions, for example, purchases of assets requiring a license to operate, directly with the Department of Administration.*

Response: The department agrees with the finding and the recommendations. DEED routinely uses the purchasing card for allowable purchases made on behalf of clients enrolled in its vocational rehabilitation programs. Occasionally, the purchase may be for a particular item prohibited by the statewide policy. These situations will be evaluated on a case-by-case basis and DEED will request exceptions from the statewide policy through the Department of Administration, as necessary. The list of prohibited purchases was reinforced with all cardholders through the revised purchasing card policy issued in January of 2010. The department considers this finding to be resolved.

Audit Finding 3: The department did not recognize and pay estimated use tax of approximately \$647.

Recommendation:

- *Agencies should ensure that the control structure is in place to pay all sales and use tax that is due to the Department of Revenue.*

Response: The department agrees with the finding and the recommendation. DEED staff responsible for reviewing the cardholder logs have been reminded of their responsibility to ensure that sales and use taxes are appropriately paid. For the errors identified, DEED has processed the payments to remit the sales and use tax to the Department of Revenue. The department considers this finding to be resolved.

Audit Finding 4: The department did not properly document limit changes for nine cardholders and also neglected to restore one cardholder's limit to its original amount.

Recommendation:

- *If there are any changes to authorized limits, both the request and approval should be maintained and retained in the agency's files.*

Response: The department agrees with the finding and the recommendation. DEED has completed a review of all approved cardholder limits and made adjustments, as necessary. The department will ensure that supporting documentation is maintained for all future cardholder limit changes. The department considers this finding to be resolved.

Audit Finding 5: The department did not effectively use US Bank Access Online reports to monitor cardholder activity, including a cardholder whose single purchase limit was \$0.

Recommendation:

- *The Department of Administration should require that agencies include the use of US Bank Access Online functions and review available reports to better manage purchasing card activity and ensure that any limit changes have been input correctly.*

Response: The department agrees with the finding and the recommendation. DEED staff have received training on the use of US Bank's online reporting system and are now using it as a tool to assist in managing the purchasing card program. The department considers this finding to be resolved.

If you have any questions or need additional information, please contact Cindy Farrell at 651-259-7085 or Cindy.Farrell@state.mn.us.

Sincerely,

A handwritten signature in black ink, appearing to read "Dan McElroy". The signature is fluid and cursive, with the first name "Dan" being more prominent.

Dan McElroy
Commissioner



Protecting, maintaining and improving the health of all Minnesotans

July 12, 2010

Mr. James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
658 Cedar Street
Room 140 Centennial Office Building
St. Paul, MN 55155-1603

Dear Mr. Nobles:

Thank you for the opportunity to respond to the findings and recommendations of the Office of the Legislative Auditor's Purchasing Card Audit for the Minnesota Department of Health for the two year time period of July 2007 through July 2009.

Recommendation:

- *Agencies should ensure they retain proper documentation and obtain the required approvals to support the authorization for an individual to have a purchasing card, as well as to ensure that proper support is on file to support the propriety of all purchasing card transactions.*

Response:

The department concurs with this recommendation. Although it is department policy to maintain proper documentation with the purchasing card log, one individual was cited for not retaining all receipts/packing slips after reviewing their monthly credit card statement. In response to the audit finding, purchasing coordinators and their supervisors have been reminded of the purchasing card approval process and department policy on document retention.

Recommendation:

- *Agencies should ensure that the control structure is in place to pay all sales and use tax that is due to the Department of Revenue.*

Response: The department concurs with the recommendation to verify that vendors charge sales and use tax on invoices. Due to the complexity of sales and use tax policy, including the different collections rates in various jurisdictions, MDH employees may not be able to determine the rate of all taxes due across all geographical boundaries. The department will change internal purchasing card processes and forms to include a check off column for sales and use taxes on the credit card logs, including those for on-line vendors, to help ensure compliance with this recommendation.

I have assigned Barb Juelich, the agency's Chief Financial Officer, to oversee these activities to address the recommendations in your report. The department will comply with the recommendations by implementing the described changes to internal process by the end of August. I want to thank you for the respectful manner in which the audit was conducted.

Sincerely,

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

Sanne Magnan, M.D., Ph.D.
Commissioner
P.O. Box 64975
St. Paul, MN 55164-0975



Minnesota Department of **Human Services**

July 21, 2010

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Centennial Office Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

The enclosed material is the Department of Human Services response to the findings and recommendations included in the draft audit report on Minnesota's purchase card program. It is our understanding that our response will be published in the Office of the Legislative Auditor's final audit report. Early on the department realized that once the purchase card program was fully implemented, we could have over 900 cardholders. Last fiscal year, we had 1,078 active cards with about 39,000 transactions worth a little more than \$3.2 million. To reduce the high risks associated with these cards, we tightened our internal controls on these cards by implementing spending controls and stricter limits. For example, our policy on spending limits for the majority of our cardholders is \$500 per transaction and \$5,000 per billing month rather than the Department of Administration's \$2,500 per transaction and \$10,000 per month. This reduces our internal control risk for 95 percent of the department's cardholders. We also do not allow the purchase cards to be used for employee expenses such as travel, meals, and hotels. We believe this is an effective control on double dipping or billing on employee related expenses. Another management control is the ongoing fiscal and compliance audits and special reviews during internal investigations conducted by our Internal Audits Office.

The Department of Human Services policy is to follow up on all audit findings to evaluate the progress being made to resolve them. Progress is monitored until full resolution has occurred. If you have any further questions, please contact David Ehrhardt, Internal Audit Director, at (651) 431-3619.

Sincerely,

/s/ Cal R. Ludeman

Cal R. Ludeman
Commissioner

Enclosure

**Department of Human Services
Response to the Legislative Audit Report
on Minnesota's Purchase Card Program**

Audit Finding #1

Some state agencies did not retain adequate supporting documentation related to the purchasing card program's administrative requirements and certain purchasing card transactions.

Audit Recommendation

Agencies should ensure they retain proper documentation and obtain the required approvals to support the authorization for an individual to have a purchasing card, as well as to ensure that proper support is on file to support the propriety of all purchasing card transaction

Department Response: The Department agrees with the recommendation. We will review and confirm that the original applications are on file for all card holders. Any older applications that may be missing will be replaced with a current version on file. All cardholders will fill out and sign an current Letter of Understanding (LOU) as part of the new updated Policies and Procedures that is being implemented

Person Responsible: Jeff Swanson, Manager

Estimated Completion Date: October 1, 2010

Audit Finding #3

The majority of state agencies we tested did not consistently recognize and pay sales and use taxes to the Minnesota Department of Revenue when vendors failed to charge the tax at the time of purchase.

Recommendation #3

Agencies should ensure that the control structure is in place to pay all sales and use tax that is due to the Department of Revenue.

Department Response #3

We will revisit this topic at our monthly DHS Business Meeting and address the issue. The Card Coordinators managers/supervisors will be reminded of policy on reporting applicable taxes and the DHS process for doing so will be reviewed. Staff members in the Accounts Payable Office along with the Central Office P-Card administrator will review the tax reporting requirements and be re-trained if needed.

**Department of Human Services
Response to the Legislative Audit Report
on Minnesota's Purchase Card Program**

Person Responsible: Jeff Swanson, Manager

Estimated Completion Date: August 18, 2010

Auditing Finding #4

Several agencies had weak controls over cardholder limits.

Audit Recommendation #4

If there are any changes to authorized limits, both the request and approval should be obtained in the agency's files.

Department Response #4

The Department agrees with the recommendation. The new DHS Policies and Procedures require that any cardholder whose limits are not at the standard \$500 per transaction/\$5,000 per cycle must have an approved exception form on file. This form will serve as the approved exception to the application and Letter of Understanding on file.

Person Responsible: Jeff Swanson, Manager

Estimated Completion Date: Completed

Audit Finding #5

The current purchasing card policy lacked some key controls.

Audit Recommendation #5-1

The Department of Administration should require agencies to develop and implement controls that ensure cardholders are not getting reimbursed through the employee expense reimbursement process for purchases paid for with a purchasing card

**Department of Human Services
Response to the Legislative Audit Report
on Minnesota's Purchase Card Program**

Department Response #5-1

The Department does not allow for the purchasing card to be used for expenses that would typically be reimbursed. In rare cases where an exception is made, an Authorization for Special Expense form is completed prior to the purchase and signed by the supervisor. This is typically the same supervisor that would sign for an employee reimbursement which also requires a Special Expense form to be completed for reimbursement.

Person Responsible: Jeff Swanson, Manager

Estimated Completion Date: Completed

Audit Recommendation #5-2

The Department of Administration should require that agencies include the use of US Bank Access Online functions and review available reports to better manage purchasing card activity and ensure that any limit changes have been input correctly.

Department Response #5-2

The Department's Purchasing Card Administrator is responsible for all account set up and maintenance. Upon completion of opening new accounts, the administrator will confirm the accuracy with an account over view. DHS will also implement a scheduled report to monitor any inadvertent account changes.

Person Responsible: Jeff Swanson, Manager

Estimated Completion Date: August 1, 2010

July 9, 2010

Mr. James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
Centennial Office Building
658 Cedar Street
Saint Paul, Minnesota 55155-1603

Dear Mr. Nobles:

Thank you for the opportunity to review and respond to your office's evaluation of the internal controls within the Department of Labor and Industry (DLI) in regards to purchase card expenditures. We appreciate the thoroughness with which your staff conducted the evaluation.

The report's overall finding indicates there is room for improvement regarding our internal controls. DLI continually assesses our processes and procedures for improvement and will work to resolve the issues identified in the audit report.

Our responses to your findings and recommendations are provided below.

Findings and Recommendations

Finding 1:

Some state agencies did not retain adequate supporting documentation related to the purchasing card program's administrative requirements and certain purchasing card transactions.

Department Response: Financial Services Director will complete by July 30, 2010

DLI agrees with the recommendation. DLI will have acknowledgments signed by the 6 card holders and will monitor supervisory approvals for purchase logs. Financial Services will verify approvals prior to making payments and obtain approvals as needed.

Finding 3: The majority of state agencies tested did not consistently recognize and pay sales and use taxes to the Minnesota Department of Revenue.

Department Response: Financial Services Director will complete by July 30, 2010

DLI will continue to be more vigilant in verifying tax payments reported to the Department of Revenue to ensure all payments are reported. This will be discussed at the Financial Services staff meeting in July.

James R. Nobles

Page 2

July 9, 2010

Finding 4:

Several agencies had weak controls over cardholder limits.

Department Response: Financial Services Director will complete by July 30, 2010

DLI recently reviewed cardholder limits and established criteria for providing purchase cards and established limits based on business needs. We will work with US Bank to ensure the established limits are updated.

Finding 5:

The current Department of Administration purchasing card policy lacked some key controls.

Department Response: Financial Services Director will complete by August 31, 2010

DLI has requested support from US Bank to have access and training on the various reports that will assist the agency in monitoring purchase card activity by our employees.

Certainly, our processes and procedures can always be improved with the help of the good people working here at DLI and the Department of Administration.

Thank you for the work your office has done on behalf of the State.

Sincerely,



Steve Sviggum
Commissioner

DEPARTMENT OF MILITARY AFFAIRS

MINNESOTA ARMY AND AIR NATIONAL GUARD



OFFICE OF THE ADJUTANT GENERAL

VETERANS SERVICE BUILDING

STATE OF MINNESOTA

20 WEST 12TH STREET

ST. PAUL, MINNESOTA 55155-2098

July 8, 2010

James R. Nobles
Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155-1603

Dear Mr. Nobles

We have received a copy of the draft audit report of the State of Minnesota Purchasing Card Program for the two years ended July 2009. This is our written response to the audit findings and recommendations outlined in the draft report that are attributable to our agency in the body of the report or in the appendix.

AUDIT FINDINGS

Finding #1

The Department of Military Affairs did not retain the applications for three cardholders

Recommendation

- *Agencies should ensure they retain proper documentation and obtain the required approvals to support the authorization for an individual to have a purchasing card, as well as to ensure that proper support is on file to support the propriety of all purchasing card transactions.*

Response

The department concurs with the recommendation. The Department of Military Affairs disposed of applications for employees who no longer had purchasing cards or who had retired or left the department.

We will retain applications in accordance with the records retention schedule for financial documents.

Person Responsible

Terrence Palmer – Purchasing Card Administrator

Estimated Completion Date

Immediate.

Finding #2

The Department of Military Affairs had weak controls over cardholder limits.

Recommendation

- *If there are any changes to authorized limits, both the request and approval should be obtained and retained in the agency files.*

Response

The department concurs with the recommendation. The Department of Military Affairs had several cardholders whose initial limits were below the standard default amounts. When the supervisor felt the employee was in compliance with the purchasing card program policy and needed the higher default limits, they requested that the Purchasing Card Administrator increase the cardholder's limit. This was generally done via phone call. The limit changes were then requested via fax or phone call to the US Bank representative. Military Affairs will get all requests for changes in cardholder limits in hard copy, will request changes to US Bank in some manner that provides an audit trail, and will retain these documents with the cardholders' initial applications.

Person Responsible

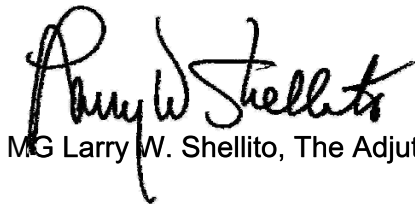
Terrence Palmer – Purchasing Card Administrator

Estimated Completion Date

Changes will be implemented immediately

We hope this is responsive to your findings. If you have any further questions or concerns, please feel free to contact me.

Sincerely,



MG Larry W. Shellito, The Adjutant General

Cc: Terrence Palmer
Nan Martinek
Sonya Johnson
Jim Riebe



Transportation Building

395 John Ireland Boulevard
Saint Paul, Minnesota 55155-1899

July 9, 2010

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor, State of Minnesota
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

On behalf of the Minnesota Department of Transportation, the following is in response to the Office of the Legislative Auditor internal control and compliance audit of purchasing card expenditures for the two years ended July, 2009.

Finding and Recommendations:

Finding 1

Some state agencies did not retain adequate supporting documentation related to the purchasing card program's administrative requirements and certain purchasing card transactions.

Recommendations

- Agencies should ensure they retain proper documentation and obtain the required approvals to support the authorization for an individual to have a purchasing card, as well as to ensure that proper support is on file to support the propriety of all purchasing card transactions.
- Agencies should ensure that only the cardholders are signing off on their purchasing card logs and that only activity associated with their purchasing card is recorded on the log.

Agency Response

The Minnesota Department of Transportation agrees with the recommendations. Control mitigation processes have been implemented within each district to address the findings. In addition, the CFO will issue a control bulletin by July 30, 2010 to reinforce control requirements for all of the findings represented in the OLA purchasing card expenditure audit for the two years ended July 2009.

Finding 3

The majority of state agencies we tested did not consistently recognize and pay sales and use taxes to the Minnesota Department of Revenue when vendors failed to charge the tax at the time of purchase.

Recommendations

- Agencies should ensure that the control structure is in place to pay all sales and use tax that is due to the Department of Revenue.

Agency Response

The Minnesota Department of Transportation agrees with the recommendations. Control mitigation processes have been implemented within each district to address the findings. In addition, the CFO will issue a control bulletin by July 30, 2010 to reinforce control requirements for all of the findings represented in the OLA purchasing card expenditure audit for the two years ended July 2009.

Finding 4

Several agencies had weak controls over cardholder limits.

Recommendations

- Agencies should ensure that cardholders do not split purchases to stay within their authorized spending limits.
- Agencies should make use of the online reports US Bank provides as a mechanism to isolate split purchases.
- If there are any changes to authorized limits, both the request and approval should be obtained and retained in the agency's files.

Agency Response

The Minnesota Department of Transportation agrees with the recommendations. Control mitigation processes have been implemented within each district to address the findings. In addition, the CFO will issue a control bulletin by July 30, 2010 to reinforce control requirements for all of the findings represented in the OLA purchasing card expenditure audit for the two years ended July 2009.

I appreciate the professional approach of your staff and the cooperative manner in which the audit was conducted.

Sincerely,



Thomas K. Sorel
Commissioner

Cc: Jim Riebe, CPA, Audit Manager
Thomas Halverson, Chief Financial Officer
Pam Tschida, Division Director
Dan Kahnke, Audit Director



July 9, 2010

James R. Nobles
Legislative Auditor
100 Centennial Office Building
658 Cedar Street
St. Paul, Minnesota 55155

Re: 2010 Internal Control and Compliance Audit of
Purchasing Card Expenditures

Dear Mr. Nobles:

Thank you for the opportunity to respond to the internal control and compliance audit of purchasing card expenditures for the two (2) years ending July, 2009. We recognize the importance of having an independent audit of these expenditures and appreciate the time and effort invested by your staff in this audit and the professional manner in which the audit was conducted.

The Minnesota State Lottery is committed to implementing each of the recommendations in this report. Our response to each audit finding and recommendation is listed below.

Finding 1 – Some state agencies did not retain adequate supporting documentation relating to the purchasing card program's administrative requirements and certain card purchasing card transactions.

Auditor's Recommendation: *Agencies should ensure they retain proper documentation and obtain the required approvals to support the authorization for an individual to have a purchasing card, as well as to ensure that the proper support is on file to support the propriety of all purchasing card transactions.*

Response: The Lottery agrees with this recommendation and recognizes the importance of retaining the proper documentation relating to individual's individual authorization to have a purchasing card. The audit report noted that the Lottery did not retain the acknowledgment form for one (1) cardholder. The Lottery has documented and filed the required authorization for this individual.

Staff Responsible for Implementation: Dale McDonnell, Assistant Director & General Counsel.

Implementation Date: July 1, 2010.

Finding 2 – The current purchasing card policy lacked some key controls.

Auditor's Recommendations: *The Department of Administration should require that agencies include the use of US Bank Access Online functions and review available reports to better manage purchasing card activity and ensure that any limit changes have been input correctly.*

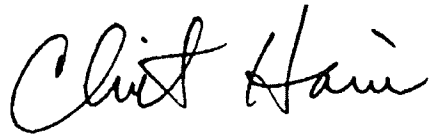
Response: The Lottery agrees with the recommendations and has begun to review reports to ensure that any limit changes have been inputted correctly. The audit report noted that the Lottery had two (2) individuals with \$0 single purchase limits on US Bank records. The two (2) individuals referred to in the report no longer have purchasing cards.

Staff Responsible for Implementation: Carolyn Ross, Contracts & Purchasing Manager.

Implementation Date: July 1, 2010.

Again, thank you for the opportunity to respond to this report.

Sincerely,

A handwritten signature in black ink, appearing to read "Clint Harris". The signature is fluid and cursive, with the first name "Clint" and last name "Harris" clearly distinguishable.

Clint Harris
Executive Director



July 8, 2010

Mr. James R. Nobles, Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155-1603

Dear Mr. Nobles:

We appreciate the opportunity to respond to your audit findings in your letter dated June 24, 2010.

Finding 1: Some state agencies did not retain adequate supporting documentation related to the purchasing card program's administrative requirements and certain purchasing card transactions.

The Minnesota Zoo was unable to provide supporting documentation for a \$1,004 transaction.

The agency had two original receipts which were not original for items totaling \$1,145.

Recommendation: Agencies should ensure they retain proper documentation and obtain approvals to support the authorization for an individual to have a purchasing card, as well as to ensure that proper support is on file to support the propriety of all purchasing card transactions.

Response: The Zoo requires submission of supporting documentation including a completed purchasing card log with appropriate receipts and retains these documents in a central file. The monthly log for \$1,004 was misplaced. We are confident that all supporting documentation will be located in future audits. Since January 2010 staff have been required to submit an affidavit form along with any non- original receipts. Receipts issued for internet activity are accepted as original. Per your Finding 5, the Minnesota Zoo will revise this policy if the Department of Administration determines this is not acceptable documentation for purchasing card transactions within the electronic commerce business environment.

Person Responsible to Resolve: Accounting Director. These issues have been resolved. If revisions to our current policies are needed due to changes required by the Department of Administration, the Accounting Director will make changes to our policies.

Finding 3: The majority of state agencies we tested did not consistently recognize and pay sales tax and use taxes to the Minnesota Department of Revenue when vendors failed to charge the tax at the time of purchase.

The agency did not capture and pay use tax of approximately \$356.

Recommendation: Agencies should ensure that the control structure is in place to pay all sales and use tax that is due to the Department of Revenue.

Response: The Zoo requires submission of supporting sales tax not paid forms each month with completed purchasing card logs identifying those transactions which require payment of appropriate sales tax. Since January 2010 the finance staff review all transactions to ensure that the appropriate sales tax is computed and paid.

We are confident that appropriate sales tax will be paid to the Department of Revenue for future purchases.

Person Responsible to Resolve: Accounting Director. We believe this has been resolved since January 2010.

Finding 4: Several agencies had weak controls over cardholder limits.

The agency did not maintain documentation to support the approval of two cardholders' limit changes.

The agency had three instances, totaling \$12,714, where the transactions were split in order to remain within the cardholder's authorized spending limits.

Recommendation: Agencies should ensure that cardholders do not split purchases to stay within their authorized spending limits. Agencies should make use of the online reports US Bank provides as a mechanism to isolate split purchases. If there are any changes to authorized limits, both the request and approval should be obtained and retained in the agency's files.

Response: The Zoo will maintain documentation to support approval of cardholder's limit changes and the zoo will review US Bank reports to ensure that cardholders do not split orders.

Person Responsible to Resolve: Accounting Director. We believe this has been resolved.

Finding 5: The current purchasing card policy lacked some key controls.

Recommendation: The Department of Administration should require agencies to develop and implement controls that ensure cardholders are not getting reimbursed through the employee expense reimbursement process for purchases paid for with a purchasing card.

The Department of Administration should require that agencies include the use of US Bank Access Online functions and review available reports to better manage purchasing card activity and ensure that any limit changes have been input correctly.

The Department of Administration should consider what is acceptable documentation for purchasing card transactions within the electronic commerce business environment.

The agency had one cardholder with a \$0 limit on US Bank records.

Response: The Zoo Purchasing Card Program Manager currently uses US Bank Access Online to review activity and to verify authorized spending limits.

Person Responsible for Resolving: Buyer 2 who acts as the Purchasing Card Program Manager. We believe this issue has been resolved. We will look to the Department of Administration for guidance on acceptable documentation for electronic commerce transactions.

Thank you for your efforts on this audit. We look forward to working with you in the future.

Sincerely,

A handwritten signature in black ink, appearing to read 'Lee Ehmke', with a long horizontal stroke extending to the right.

Lee Ehmke

Director

cc: Peggy Adelman

Jeff Higgins

Minnesota Department of Natural Resources

500 Lafayette Road · Saint Paul, Minnesota · 55155-4037

Office of the Commissioner

651-259-5555



July 19, 2010

Jim Riebe
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155-1603

Dear Mr. Riebe:

Our response to the findings in your internal control and compliance audit of the Department of Natural Resources' purchasing card expenditures ending July 2009 is provided below.

Finding 1: Some state agencies did not retain adequate supporting documentation related to the purchasing card program's administrative requirements and certain purchasing card transactions.

Recommendations:

- Agencies should ensure they retain proper documentation and obtain the required approvals to support the authorization for an individual to have a purchasing card, as well as to ensure that proper support is on file to support the propriety of all purchasing card transactions.
- Agencies should ensure that only the cardholders are signing off their purchasing card logs and that only activity associated with their purchasing card is recorded on the log.

DNR Response: The DNR agrees with the finding.

- The department conducted a 100 percent review of the active cardholders to identify individuals with missing, incomplete or inaccurate applications and agreement acknowledgements on file. Those individuals and their supervisors will be required to submit accurate and complete applications and agreements, or the cards will be suspended or deactivated.
- Training will be required for accounts payable staff, purchasing card users and supervisors annually to improve controls over purchasing card transactions.

Person Responsible: Jerry Hampel

Implementation Date: August 30, 2010



Finding 2: Several state agencies used the state purchasing card to buy items prohibited by state or department policies.

Recommendations:

- Agencies should ensure that all items procured with a state purchasing card are allowable under both the statewide policy as well as any internal policies.
- Agencies should address any necessary policy exceptions, for example, purchases of assets requiring a license to operate, directly with the Department of Administration.

DNR Response: The DNR agrees with the finding.

- The purchasing card administrator and coordinator(s) will periodically monitor US Bank detailed transaction and declined transaction reports to ensure items purchased are allowable by state and internal policies.
- The department will continue to work with the Department of Administration to request applicable waivers, or clarification in policy or statutory authority.

Person Responsible: Jerry Hampel

Implementation Date: December 30, 2010

Finding 3: The majority of state agencies we tested did not consistently recognize and pay sales and use taxes to the Minnesota Department of Revenue when vendors failed to charge the tax at the time of purchase.

Recommendation:

Agencies should ensure that the control structure is in place to pay all sales and use tax that is due to the Department of Revenue.

DNR Response: The DNR agrees with the finding.

- Training will be required for accounts payable staff, purchasing card users and supervisors annually to improve controls over purchasing card transactions.
- The purchasing card administrator and coordinator(s) will periodically monitor detailed transaction reports for compliance with the payment of state sales tax.

Person Responsible: Jerry Hampel

Implementation Date: August 30, 2010

Finding 4: Several agencies had weak controls over cardholder limits.

Recommendations:

- Agencies should ensure that cardholders do not split purchases to stay with their authorized spending limits.
- Agencies should make use of the online reports US Bank provides as a mechanism to isolate split purchases.
- If there are any changes to authorized limits, both the request and approval should be obtained and retained in the agency's files.

DNR Response: The DNR agrees with the finding.

- Training will be required for accounts payable staff, purchasing card users and supervisors annually to improve controls over purchasing card transactions.
- The purchasing card administrator and coordinator(s) will periodically monitor US Bank detailed transaction reports to identify prohibitive practices such as split purchases.
- Oversight of the purchasing card coordinator's duties was moved from the Materials Management Bureau to the Office of Management and Budget Services Bureau, and monitoring will be performed by the purchasing card administrator.

Person Responsible: Jerry Hampel

Implementation Date: August 30, 2010

Finding 5: The current purchasing card policy lacked some key controls.

Recommendations:

- The Department of Administration should require agencies to develop and implement controls that ensure cardholders are not getting reimbursed through the employee expense reimbursement process for purchases paid for with a purchasing card.
- The Department of Administration should require that agencies include the use of US Bank Access Online functions and review available reports to better manage purchasing card activity and ensure that any limit changes have been input correctly.
- The Department of Administration should consider what is acceptable documentation for purchasing card transactions within the electronic commerce business environment.


DNR Response: The DNR agrees with the finding.

- The department will seek further guidance from the Department of Administration regarding acceptable documentation for purchasing card transactions within the electronic commerce business environment.

Person Responsible: Jerry Hampel

Implementation Date: August 30, 2010

Sincerely,

A handwritten signature in black ink, appearing to read "Mark H/Lt".

Mark Holsten, Commissioner
Minnesota Department of Natural Resources

c: Denise Anderson, Chief Financial Officer



July 12, 2010

James R. Nobles, Legislative Auditor
658 Cedar Street
140 Centennial Office Building
St. Paul, MN 55155

Dear Mr. Nobles:

I would like to thank you and Sonya Johnson for the work done on the internal control and compliance audit of purchase card expenditures at the Office of Enterprise Technology for the two years ending July 2009. We understand the importance of financial and business process control and compliance, and we are committed to resolving the identified concern.

With this letter, we are delivering our formal response to your finding that relates to Office of Enterprise Technology and was identified in the section of the report titled Appendix of Findings by Agency.

Finding 1 – Some state agencies did not retain adequate supporting documentation related to the purchasing card program's administrative requirements and certain purchasing card transactions. Specifically, for the Office of Enterprise Technology, the agency did not retain the acknowledgement form for one cardholder.

Recommendation – The Office of Enterprise Technology should ensure proper documentation is retained in the purchasing card file.

Response – The Office of Enterprise Technology (OET) agrees with the finding and understands the need for strong and effective internal controls related to proper purchasing card documentation and adherence to administrative requirements. Of the nine active purchasing cardholders, one of these cardholders did not have a signed acknowledgement form on file. OET will ensure that the missing acknowledgment form is signed and placed in the purchasing card file to attest that the cardholder understands the cardholder responsibilities and will follow the purchasing card policies and procedures.

Person responsible: Julie Freeman, Financial Management Director
Target implementation date: July 30, 2010

If you have questions or need additional information about OET's response, please feel free to contact Larry Freund or Julie Freeman.

Sincerely,

Gopal Khanna
State CIO

July 12, 2010

Mr. James Nobles
Office of Legislative Auditor
Room 140, Centennial Office Building
658 Cedar Street
St. Paul, Minnesota 55155-1603

Dear Mr. Nobles:

With this letter, the Minnesota Office of Higher Education conveys our response to the audit report prepared by the Minnesota Office of the Legislative Auditor relating to the statewide review of purchasing card purchases.

Sincerely,



David R. Metzen
Director

DRM:kb
Att.

Audit Recommendations and Responses

Recommendation: Agencies should ensure they retain proper documentation and obtain the required approvals to support the authorization for an individual to have a purchasing card, as well as to ensure that proper support is on file to support the propriety of all purchasing card transactions.

Recommendation: Agencies should ensure that only the cardholders are signing off on their purchasing card logs and that only activity associated with their purchasing card is recorded on the log.

Office of Higher Education Response: In the testing performed by the Legislative Auditor the Agency had one instance of not retaining the original cardholder application and two transactions that did not have receipts. The Agency concurs with the finding and recommendations and has changed its procedure to have two staff review documentation before payment is made to US Bank. Person Responsible: Timothy M. Geraghty, CFO

Recommendation: Agencies should ensure that all items procured with a state purchasing card are allowable under both the statewide policy as well as any internal policies.

Recommendation: Agencies should address any necessary policy exceptions, for example, purchases of assets requiring a license to operate, directly with the Department of Administration.

Office of Higher Education Response: The Legislative Auditor found payments totaling \$129 for which there was no special expense request on file. These purchases would have been "allowable" had the special expense forms been completed. The Agency has changed its procedure for this type of purchase to insure the special expense form will be completed in advance of the purchase. Person Responsible: Timothy M. Geraghty, CFO

Recommendation: Agencies should ensure that the control structure is in place to pay all sales and use tax that is due to the Department of Revenue.

Office of Higher Education Response: The agency agrees with this finding and recommendation. OHE staff who process the monthly purchasing card payment to US Bank will now pay sales tax to the Department of Revenue on a monthly basis. Person Responsible: Timothy M. Geraghty, CFO

Recommendation: If there are any changes to authorized limits, both the request and approval should be obtained and retained in the agency's files.

Office of Higher Education Response: The agency agrees with this recommendation and finding and will retain documentation relating to authorization limit changes. Person Responsible: Timothy M. Geraghty, CFO



Alcohol
and Gambling
Enforcement

Bureau of Criminal
Apprehension

Driver
and Vehicle
Services

Emergency
Communication
Networks

Homeland
Security and
Emergency
Management

Minnesota
State Patrol

Office of
Communications

Office of
Justice Programs

Office of
Traffic Safety

State Fire Marshal

Office of the Commissioner

445 Minnesota Street • Suite 1000 • Saint Paul, Minnesota 55101-5100
Phone: 651.201.7160 • Fax: 651.297.5728 • TTY: 651.282.6555
www.dps.state.mn.us

July 12, 2010

James R. Nobles
Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

We were provided a copy of the draft audit report dated June 24, 2010 regarding the state purchasing card program. The Department of Public Safety was referenced in the report on page 19. Our response to the findings and recommendations are the following:

1. The agency did not document limit changes for five cardholders.

Recommendations:

If there are any changes to authorized limits, both the request and approval should be obtained and retained in the agency's files.

Response:

Four of the five cardholder's limits were increased to cover travel expenses. The other cardholder was increased to cover facility expenses. The cardholders have all since had their single purchase limits changed so they are now within the limits outlined in our DPS policy. Should we need to increase a cardholders single purchase limit or monthly purchase limit, the DPS purchasing card coordinator will document the cardholders file and be sure to keep these records for a longer period of time.

2. The agency has two cardholders with \$0 limits listed on US Bank records.

Recommendations:

The Department of Administration should require that agencies include the use of US Bank Access Online functions and review available reports to better manage purchasing card activity and ensure that any limit changes have been input correctly.

July 12, 2010
Mr. James Nobles
Page 2

Response:

These are longtime cardholders whose applications were processed manually through US Bank. In calling US Bank to inquire, it was explained that this error occurred during the original data entry process at US Bank. The applications for new cardholders are now processed online by the DPS purchasing card coordinator. The coordinator now has knowledge of a report that can be created online to access this information periodically to make sure that should an error take place in the entry process, it will be listed on the report and quickly fixed. The coordinator has changed the two cardholders in question to their single purchase limits as outlined in the DPS policy.

If you have any questions or concerns, feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Campion". The signature is fluid and cursive, with the first name "Michael" and last name "Campion" clearly distinguishable.

Michael Campion, Commissioner