
Secretary of State

State of Oregon

DEPARTMENT OF ADMINISTRATIVE SERVICES

Small Purchase Order Transaction System (SPOTS)

Special Review



Audits Division

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Audits Division

OFFICE OF THE
SECRETARY OF STATE
Phil Keisling
Secretary of State
Suzanne Townsend
Deputy Secretary of State



AUDITS DIVISION
John Lattimer
Director

(503) 986-2255
FAX (503) 378-6767

Auditing for a Better Oregon

The Honorable John Kitzhaber, M.D.
Governor of Oregon
State Capitol
Salem, Oregon 97310

Jon Yunker, Director
Department of Administrative Services
155 Cottage Street NE
Salem, Oregon 97310

This report includes the results of our evaluation of controls governing the Department of Administrative Services (DAS) Small Purchase Order Transaction System (SPOTS). This program provides state credit cards to individual employees for making small purchases for authorized purposes. The purpose of our review was to determine whether state agencies using the program have adequate controls over SPOTS purchases and whether they comply with DAS policies and guidelines controlling state credit card use.

We found that SPOTS cardholders did not fully comply with program requirements and restrictions intended to safeguard purchasing. In many instances, they did not provide receipts for purchases, permitted other employees to use their cards, made unauthorized purchases or exceeded their credit limits. These weaknesses exist because agency managers do not adequately monitor and control SPOTS purchases. Furthermore, DAS did not provide sufficient oversight to ensure that agencies complied with its program requirements.

Our report includes recommendations to improve DAS's oversight of the SPOTS program. These recommendations include monitoring agencies to ensure they fully comply with SPOTS program policies and procedures, and developing policies outlining specific consequences for agencies not providing sufficient safeguards.

OREGON AUDITS DIVISION

John N. Lattimer
Director

Fieldwork Completion Date:
March 19, 1999

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SUMMARY

BACKGROUND

The Department of Administrative Services (DAS) is the central purchasing authority for state government. It delegates to qualifying state agencies the authority to make certain small purchases using Small Purchase Order Transaction System (SPOTS) credit cards. In addition, it expects state agencies to provide adequate safeguards and controls over such purchases. During September 1998, DAS reported an alleged purchasing fraud involving inappropriate SPOTS purchases occurring during a period of several months. The apparent ease with which the employee perpetrated the alleged fraud prompted our review of statewide controls intended to prevent or detect such incidents.

PURPOSE

The purpose of our audit was to determine whether state agencies have adequate internal controls over SPOTS purchases and whether they comply with DAS policies and guidelines governing their implementation of the program. During our audit we evaluated 774 transactions from 20 of the 37 state agencies participating in the program. We designed our tests to determine whether these purchases were authorized, justified, sufficiently documented and whether agencies otherwise complied with DAS SPOTS purchasing policies and guidelines. At the conclusion of our audit we communicated the details of our findings and recommendations to officials of the applicable state agencies through management letters and conferences. Copies of agency responses to those management letters are included in Appendix A.

RESULTS IN BRIEF

Cardholders do not always utilize the SPOTS program as intended or comply with DAS internal control requirements. In many instances, they did not provide adequate documentation for purchases, made unauthorized purchases, permitted unauthorized employees to use their cards, and exceeded their designated credit limits by splitting purchases. These conditions existed because agency managers did not provide a sufficient level of oversight and control, as DAS policy requires. In addition, DAS did not provide sufficient oversight to ensure that agencies complied with its policy requirements. The weaknesses result in a

greater risk that errors or fraud may not be prevented or timely detected and corrected, should they occur.

RECOMMENDATIONS We recommend that the Department of Administrative Services (DAS) conduct periodic evaluations of agencies' SPOTS programs. These evaluations should determine whether agencies have implemented policies and procedures to effectively control SPOTS purchases. In addition, we recommend that DAS develop and implement policies outlining specific consequences for agencies not complying with SPOTS internal control requirements. We also recommend that DAS more closely monitor agencies carrying past-due balances.

AGENCY'S RESPONSE The Department of Administrative Services generally agrees with the recommendations.

INTRODUCTION

BACKGROUND

The Department of Administrative Services (DAS) serves as the central purchasing authority for state government. Through its Transportation, Purchasing and Print Services Division, DAS maintains pricing agreements, provides technical consultation and training regarding purchasing requirements and processes, and selectively delegates purchasing authority to state agencies. In conjunction with this delegation of purchasing authority, DAS expects state agencies to provide adequate safeguards and controls over purchasing activities.

During the early 1990's DAS recognized a need to change how state government made small, routine purchases. Common purchasing procedures involved submitting requests, preparing purchase orders, and preparing separate checks for each individual transaction. These procedures were designed to ensure that purchases were authorized, justified, and their benefit actually received. However, DAS managers felt that the cost and inconvenience of preparing some of the various forms for each small purchase could be avoided without jeopardizing control over purchasing.

Concerned about the costs of these controls, DAS conducted a pilot program to test the possible benefits of using credit cards to make small purchases. DAS's proposed program eliminated much of the paper work previously used to monitor and control such purchases. Under this method, DAS authorized selected state agencies to participate in the program. In turn, those state agencies authorized employees to use credit cards for certain small, routine purchases. At the end of each month, cardholders were to account for their transactions by providing receipts and a log explaining and justifying the items purchased, thus avoiding processing multiple checks and forms. The agency would then process a single check to pay the balance owed the bank.

Subsequent to its pilot program, DAS management decided that expanded use of credit cards for small purchases would benefit the state. Thus, they authorized the statewide use of procurement credit cards through the

Small Purchase Order Transaction System (SPOTS). To facilitate SPOTS, DAS contracted with US Bank (bank) to provide purchase cards and then, in 1997, began approving state agencies to participate in the new program.

SMALL PURCHASE ORDER TRANSACTION SYSTEM

The State Controller's Division (SCD) of DAS assumed responsibility for developing internal control requirements and guidelines for SPOTS purchases. To this end, DAS issued policies and procedures outlining the minimum level of control over SPOTS purchases. SCD also expects participating agencies to further develop individualized policies and procedures to govern their specific implementations of the program. SCD's responsibilities also include coordinating with agencies and the bank, and assisting agencies in establishing the SPOTS program. The DAS Purchasing Section assumed the responsibility for issuing and maintaining the contract with the bank. SPOTS purchasing cards are now widely used by state agencies. More than 2000 cardholders completed approximately 38,000 transactions totaling more than \$4.7 million from September 1997 through September 1998.

During September 1998, the Department of Administrative Services reported an alleged purchasing fraud involving one of its employees. This incident involved inappropriate SPOTS purchases occurring during a period of several months. The apparent ease with which the employee perpetrated the alleged fraud prompted our review of statewide controls intended to prevent or timely detect such incidents.

SCOPE AND METHODOLOGY

The objective of our audit was to determine whether various state agencies have adequate internal controls governing the Small Purchase Order Transactions System (SPOTS) and whether they comply with Department of Administrative Services policies regarding SPOTS purchases.

To achieve our objective, we interviewed managers from DAS and various state agencies participating in the SPOTS program. We also obtained electronic data from US Bank for SPOTS transactions processed between September 1997 and September 1998. We analyzed and reviewed those transactions using various risk categories such as unusual vendor names, amounts, or transaction dates. Based on the results of our analysis, we judgmentally selected a sample of 774 of those transactions for testing. Our sample included transactions belonging to 20 of the 37 state agencies participating in the SPOTS program. We obtained original documentation of our sample transactions from each agency and, when necessary, from cardholders. We reviewed those documents to determine whether transactions were authorized, justified, restricted to the cardholder, within credit limits, reviewed and approved by management, and sufficiently documented. Of the 20 agencies included in our sample, 12 were significantly represented. Thus, those agencies were the primary focus of our review of controls.

At the conclusion of our audit we communicated the details of our findings and recommendations to officials of the applicable state agencies through management letters and conferences. Copies of agency responses to those management letters are included in Appendix A. We conducted our audit in accordance with generally accepted government auditing standards.

AUDIT RESULTS

During our statewide review of SPOTS purchases and controls, we found that cardholders sometimes do not comply with program restrictions or with established internal control requirements. In many instances, cardholders did not retain adequate documentation for purchases, permitted unauthorized employees to use their credit cards, made unauthorized purchases, or exceeded their established credit limits. These conditions occurred because agency managers did not exercise sufficient oversight of SPOTS purchases, as required by DAS policy. For example, some agency managers did not monitor SPOTS purchases and others performed incomplete or ineffective reviews. In addition, many agency SPOTS coordinators did not conduct periodic evaluations of their programs to ensure that procedures were followed and purchasing limits were appropriate. Furthermore, some agencies did not pay their SPOTS invoices timely. Although DAS delegated these responsibilities to agencies, it has not provided sufficient oversight to ensure that agencies comply with requirements or that their controls are effective.

CARDHOLDER NON-COMPLIANCE

Before SPOTS cards are issued, DAS policies require prospective cardholders to sign an agreement indicating they will abide by all the rules governing SPOTS purchases. These agreements specify that cardholders will:

- **Retain invoices and other documents supporting purchases.** These documents would include any cash register receipts, credit card slips, invoices, receiving reports, and copies of order forms used to make purchases. In certain instances, evidence of informal bidding may also be required.
- **Safeguard SPOTS cards and not allow others to use them.**
- **Use the card exclusively for authorized purchases** that further state business such as registrations, certain client services, repairs, or parts and supplies. DAS specifically excludes some items from SPOTS purchasing, including employee airline tickets and other travel costs, cash advances, cash refunds, back orders and items covered on state price agreements. Some agencies elected to further limit SPOTS card usage by adopting more stringent policies than the DAS policies.

- **Abide by assigned credit limits.** To facilitate this control, some agencies elected to invoke single transaction limits for individual SPOTS cards.

The purpose of all of the above requirements and procedures is to safeguard the states assets by lessening some of the risks inherent to credit card purchasing.

We reviewed the approximately 38,000 SPOTS transactions processed from September 1997 through September 1998. From those, we selected 774 transactions for further review to determine whether the cardholders complied with DAS and agency guidelines or requirements. Of those SPOTS transactions:

- **163 were inadequately documented.** These exceptions lacked detailed receipts or other documentation identifying what was purchased; Thus, the agencies responsible for those purchases were unable to ascertain whether the purchases were appropriate.
- **13 had receipts or other documents that disagreed with amounts actually charged** on monthly statements. After further investigation, one agency found that one of its exceptions was an overcharge. The agency subsequently requested a refund from the vendor.
- **13 lacked required informal bidding documents.**
- **43 were purchased by unauthorized employees.**
- **57 included items specifically prohibited by SPOTS policy.** These unauthorized purchases included airfare, items on price agreement, and a cash refund used to purchase items at a different store.
- **9 exceeded the cardholder's single transaction credit limit.** In five of these instances, vendors facilitated the unauthorized transactions by dividing the total amount of the transaction into lesser amounts so that they would process through the system.
- The remaining transactions appeared to comply with program requirements.

Many of the exceptions to purchasing guidelines involved multiple control weaknesses. For example, many purchases lacked sufficient documentation to determine whether they were appropriate and were transacted by someone other than the cardholder. In such instances, the risk is significantly higher that managers will not be able to detect and correct inappropriate or erroneous transactions should they occur.

AGENCY PROGRAM OVERSIGHT

Many of the transaction problems identified in our sample should have been identified and corrected by managers at the agency level. Even though agencies may assign employees to routinely review SPOTS purchases, these reviews do not appear to adequately detect or correct problem transactions or cardholder noncompliance. Additionally, we found that agency SPOTS Approving Officers generally do not provide required program oversight to ensure that controls are functioning as intended and cardholders are aware of their responsibilities. Furthermore, some agencies do not pay SPOTS invoices timely, as required by DAS.

Managerial Review and Approval

SPOTS purchases should be independently reviewed by individuals close enough to the purchases to know whether they are appropriate. In many instances, thorough independent reviews of SPOTS purchases were not performed. In addition, managers often approved monthly credit card statements even though they contained questionable transactions. In other instances, approvers could not verify whether purchases were justified or the items actually received because they were removed from the transactions by location or operation. In addition, numerous purchases were not independently reviewed or approved; instead the cardholder both initiated the transaction and approved it for payment. Furthermore, some managers did not take appropriate and timely action to correct errors. For example, in one agency a cardholder purchased flowers as a gift for a fellow employee. Agency management identified the inappropriate transaction and sent a memo to the cardholder requesting reimbursement; however, the

cardholder did not reimburse the agency until we asked for documentation that the reimbursement was received, approximately 5 months after the purchase was made.

Some agencies rely solely on pre-approval requests or internal audit coverage to ensure purchases are appropriate. Although pre-approval requests document authorization, they do not provide assurance that the purchased item was the approved item, or that its actual cost matches the amount approved or billed. Amounts on the pre-approval requests did not always match the actual purchase price, thus the agencies had little assurance that the amounts charged were correct and that the items received were those requested.

Internal audit coverage provides an important control. However, relying exclusively on periodic internal audit to monitor credit card purchases does not adequately reduce the risk that inappropriate or erroneous transactions may occur and go undetected. For example, we noted reoccurring noncompliance problems in 2 agencies that perform only sample reviews of purchases. Although sample reviews often identified instances of noncompliance, the agencies' resulting actions did not effectively deter reoccurrence or resolve the specific problems.

Approving Officer Responsibilities

Agency Approving Officers are responsible for issuing purchasing cards, providing training, ensuring compliance with SPOTS policies, maintaining required documentation, and serving as the primary agency contact for matters regarding SPOTS. The Approving Officer is also responsible for approving and signing all SPOTS application and agreement forms and for documenting and processing requests for modifying credit limits for cardholders. In addition, DAS policy requires agency Approving Officers to conduct periodic reviews of their agency's SPOTS program to ensure that controls are working as intended. At a minimum, these reviews must include the following:

- Verify that all authorized users have signed a SPOTS agreement and all agreements are on file.

- Verify that only authorized employees use SPOTS cards.
- Verify the accuracy and completeness of purchase card transaction logs and approved invoices by comparing them to supporting documents; and verify the appropriateness of purchase card security procedures.
- Investigate any apparent purchase card abuse or misuse and initiate appropriate corrective action.
- Monitor and review late or finances charges, if incurred.
- Analyze overall agency card volume and the number of cards in use.

We found that agency Approving Officers do not always fully perform these reviews as required. For example, one agency did not appoint an Approving Officer; thus those functions were not performed. In most other agencies, the Approving Officer did not analyze overall card volume and use or verify that credit limits were set appropriately. At one agency, the Approving Officer believed that cardholder single transaction limits were set at \$2,500 to support the agency policy disallowing purchases over this amount; however, 42 of the 74 cardholders had \$250,000 single transaction limits. Although transactions of this magnitude would be stopped by the monthly credit limits, there was no control in place to limit single transactions to the maximum amount allowed by the agency. In addition, some monthly credit limits were excessive. For example, one cardholder had a \$60,000 monthly credit limit and a \$30,000 single transaction limit even though his highest monthly purchases totaled approximately \$28,500 and his highest single purchase was approximately \$6,200. On the other hand several cards were either not used or were used so infrequently that the risk of maintaining the cards may outweigh any benefit. In addition, some agencies did not cancel SPOTS cards timely when employees terminated. For example, at one agency 14 SPOTS cards were open even though some of the cardholders terminated their employment more than 12 months previously.

Untimely Payments

DAS policy prohibits agencies from incurring debt with credit cards. Thus, agency managers are responsible for ensuring that SPOTS purchases do not exceed available budget, cash, or spending authority and for ensuring that SPOTS invoices are paid in full when due. Regarding SPOTS statements, DAS policy dictates that the total amount due must be paid within 14 days of receipt of the statement regardless of whether individual cardholders have supplied account coding or whether statements included disputed items. Review of the past due accounts shows that 12 state agencies do not pay their SPOTS invoices timely but routinely carry past due balances. For example, during September 1998 one agency's past due balance was approximately \$37,200 of the approximately \$84,900 owed. Agency managers said that the delays were due to disagreements in billings and attempts to code transactions before payment. As a result of these untimely payments, the affected agency's obligations are not recorded timely and may exceed available budget, cash or spending authority.

DAS OVERSIGHT

DAS delegates authority for individual agencies to participate in the SPOTS program. Its management encourages use of the card and conducts statewide meetings to promote its use. The State Controller's Division of DAS issued minimum standards governing the SPOTS program, acts as liaison between the bank and agencies, and assists agencies in establishing SPOTS. DAS expects participating agencies to further develop individualized policies and procedures to govern their specific implementations of the program; however, DAS does not provide the necessary oversight to ensure accountability. For example, several agencies have not adopted policies and procedures beyond the minimum DAS guidelines and many of the agency coordinators do not perform their responsibilities as required.

Although DAS regularly receives reports from the bank regarding agency credit limits and past due amounts, it does not use this information to effectively manage the program. For example, DAS did not ensure that agency balances were paid timely and that cardholder credit

limits were set appropriately. In addition, it has not specified consequences for agencies that do not comply with its requirements. Furthermore, DAS meets on a regular basis to further promote and expand use of the SPOTS cards but has not monitored or evaluated the sufficiency or effectiveness of internal controls intended to safeguard the system.

SUMMARY

DAS's policies and procedures governing SPOTS purchases are intended to provide necessary control and accountability. During our review we found that many of those requirements intended to ensure the SPOTS program is used appropriately were not being followed. As a result of ineffective controls, an employee misused her SPOTS credit card for personal purchases. This situation continued without timely detection because the employee who perpetrated the alleged fraud was not held appropriately accountable for card use. For example, the employee often did not provide original receipts detailing the items purchased. In addition, agency employees processing her monthly statements for payment did not question unusual vendors or the lack of receipts, and her manager was not aware she had a SPOTS card. For more information on the alleged fraud, see Secretary of State report No. 99-03, *State of Oregon, Department of Administrative Services, State Controller's Division Special Investigation*. During our statewide evaluation of SPOTS purchasing controls we found that these same control weaknesses exist in nearly all the agencies we reviewed.

Although DAS policies and procedures provide guidance to agencies using SPOTS cards, these controls can only be effective in safeguarding the state if agencies ensure cardholders are accountable. Without this accountability the risk is substantially greater that incidents such as the reported alleged fraud will occur and go undetected.

**AUDIT
RECOMMENDATIONS**

We recommend that the Department of Administrative Services perform the following to improve its oversight of the Small Purchase Order Transaction System:

1. Conduct periodic evaluations of agency SPOTS programs to ensure that agencies:
 - a. have implemented policies and procedures to effectively control SPOTS purchases,
 - b. provide independent review and approval of SPOTS purchases by someone close enough to transactions to determine whether they are appropriate, and
 - c. ensure that Approving Officers conduct periodic evaluations of purchasing activity as outlined in its policy.
2. Develop and implement policies outlining specific consequences for agencies that do not comply with SPOTS internal control requirements. In that regard, consider revoking SPOTS purchasing authority for those agencies not providing sufficient control over purchases.
3. Monitor agencies carrying past-due SPOTS balances to ensure that agencies are not using SPOTS credit to exceed their budget, cash or spending authority.

COMMENDATION

The courtesies and cooperation extended by the officials and employees of the state agencies visited during the course of our investigation are very commendable and are sincerely appreciated.

AUDIT TEAM

Sharron E. Walker, CPA, CFE
Neal E. Weatherspoon, CPA
Nancy L. Young, CPA
Shandi Maxwell

DEPARTMENT OF ADMINISTRATIVE SERVICES
RESPONSE TO THE AUDIT REPORT



Oregon

John A. Kitzhaber, M.D., Governor

Department of Administrative Services

Office of the Director
155 Cottage Street NE
Salem, OR 97310-0310
(503) 378-3104
FAX (503) 373-7643

June 16, 1999

John Lattimer, Director
Audits Division, Secretary of State

From:

Jon Yunker, Director
Department of Administrative Services

Thank you for the opportunity to comment on your draft audit report on our statewide Small Purchase Order Transaction System (SPOTS). We agree with your findings that SPOTS is a cost savings improvement in our purchasing process.

The DAS Internal Support Division Accounting Section has improved our own procedures for reviewing and processing statements. We implemented a policy outlining use guidelines, clearly identifying cardholder and manager responsibilities, and describing consequences if a cardholder abuses their privileges. We developed and presented a training program to all cardholders and approving managers. Besides the policies and controls developed by Accounting, some divisions have developed their own procedures for cardholders. DAS Internal Audit is also conducting routine audits of SPOTS transactions.

We appreciate your suggestions to make the statewide SPOTS program more valuable to the State's agencies. Our responses to your three recommendations follow.

Recommendation:

1. Conduct periodic evaluations of agency SPOTS programs to ensure that agencies:
 - a. Have implemented policies and procedures to effectively control SPOTS purchases;
 - b. Provide independent review and approval of SPOTS purchases by someone close enough to transactions to determine whether they are appropriate; and
 - c. Ensure that approving officers conduct periodic evaluations of purchasing activity as outlined in its policy.

Response:

We partially agree. We do not believe that DAS should take on a statewide audit function constitutionally reserved for the Oregon Audits Division. However, we plan to increase our



John Lattimer
June 16, 1999

oversight role in several ways. Our statewide SPOTS coordinator in the State Controller's Division is responsible for these action items.

1. We will send a copy of your final audit to each agency with SPOTS cards and remind them of the importance of adequate agency control procedures. We will complete this task within 30 days of receiving the reports.
2. Our card provider, U.S. Bank, has developed an assessment review questionnaire. U.S. Bank will use the questionnaire to review the control practices of our major SPOTS agencies over the next 90 days. The review will show us if program or control changes are needed. In our next contract with a vendor (our current contract expires June 30, 2000), we plan to request the vendor supply us with continuing on-site assistance.
3. We will revise our policy to encourage agency internal auditors to routinely review the SPOTS program for adequate controls and compliance with guidelines. We expect to have the policy revisions distributed to agencies within 60 days. In addition, we will explore with you the feasibility of ongoing statewide audits of this nature.
4. With your assistance, we will develop and present a training class for agencies using the SPOTS card. The training will emphasize the need for controls, review the processes, and discuss responsibilities.

Recommendation:

2. Develop and implement policies outlining specific consequences for agencies that do not comply with SPOTS internal control requirements. In that regard, consider revoking SPOTS purchasing authority for those agencies not providing sufficient control over purchases.

Response:

We agree. Current policy guidelines addressing employee abuse of the SPOTS card will be revised. SPOTS purchasing authority will be revoked if an agency has a finding of "significant, willful disregard" for providing sufficient controls over the SPOTS program. The finding may come from an audit by the Oregon Audits Division, the card vendor discussed in item 1, above, an internal audit, or a DAS review. The statewide SPOTS coordinator in the State Controller's Division is responsible for this action. We expect to have policy revisions distributed to agencies within 60 days.

John Lattimer
June 16, 1999

Recommendation:

3. Monitor agencies carrying past due SPOTS balances to ensure that agencies are not using SPOTS credit to exceed their budget, cash or spending authority.

Response:

We agree. We currently monitor agency past due balances. We receive a monthly statement from U.S. Bank showing accounts with past due balances and make contact with the agencies listed. We recently strengthened this process. We now contact the agency accounts payable or SPOTS coordinator in writing to request immediate payment of any past due balances. We will continue these efforts to minimize past due balances. Under our new process, continuing, flagrant disregard for this timely payment requirement could be grounds for terminating an agency's use of SPOTS cards. The statewide SPOTS coordinator in the State Controller's Division is responsible for this continuing action item.

c: DAS Audit Committee
Barbara Barr
Cam Birnie
Jim Lamka
Valerie Wicklund

**APPENDIX A: AGENCIES' RESPONSES
TO MANAGEMENT LETTERS**



Oregon

John A. Kitzhaber, M.D., Governor

Department of Consumer and Business Services

June 23, 1999

Director's Office
350 Winter Street NE, Room 200
Salem, OR 97310
Voice/TTY: (503) 378-4100
Fax: (503) 378-6444
<http://www.cbs.state.or.us>

Sharron E. Walker, CPA, CFE
Deputy Director, Oregon Audits Division
255 Capitol Street NE Suite 500
Salem, Oregon 97310

Dear Ms. Walker:

We would like to thank the Audits Division for their recommendations concerning credit card purchases. We will incorporate any action by the Department of Administrative Services in their response to your audit recommendations. In addition, we have met to discuss specific improvements to our procurement card purchasing process.

The approving officer will conduct additional training sessions to instruct cardholders and approvers on the procurement card process and notify the Disbursements Unit of the need to change our standards as to what we consider adequate supporting documentation.

Cardholders will perform the following duties:

- Document any differences between the requisition form and vendor invoice with a signed explanation.
- Submit documentation with the purchase log to the Disbursements Unit for the payment file.
- Notify the vendor of the need for an itemized receipt at the time a phone order is placed.
- Consider using another vendor or a purchase order in those cases when the vendor does not give itemized receipts for credit card transactions.
- Inform the vendor when the person picking up the phone order is not authorized to sign the charge invoice and have them note that it was a phone order.

The DCBS Disbursements Unit staff will review individual card purchases for accuracy and completeness, notify the cardholder of missing documentation, and alert the approving officer to any discrepancies.

As advised in the audit, the approving officer will annually evaluate individual cardholder's credit limits to determine whether they are still appropriate and investigate undocumented differences between the requisition and invoice.

Sincerely,

Michael Greenfield, Director
Department of Consumer and Business Services

c: Joan Hader
John Radford





Oregon

John A. Kitzhaber, M.D., Governor

April 29, 1999

Department of Forestry

State Forester's Office
2600 State Street
Salem, OR 97310
(503) 945-7200
FAX (503) 945-7212
TTY (503) 945-7213/800-437-4490
<http://www.odf.state.or.us>

Sharron E. Walker, Deputy Director
Audits Division, Office of the Secretary of State
255 Capitol Street NE, Suite 500
Salem, OR 97310



STEWARDSHIP IN
FORESTRY™

Dear Ms. Walker:

Subject: Small Purchase Order Transaction System (SPOTS) Audit

Thank you for your letter of April 16, 1999 regarding the recent statewide review of the SPOTS program. The Department recognizes that compliance auditing is a valuable tool in our pursuit of more efficient and effective ways of conducting business. We appreciate the opportunity to be included in this audit and we value and concur with your recommendations.

In accordance with your request, I will indicate how the Department plans to implement your recommendations.

Ensure that SPOTS purchases are independently reviewed by managers who are close enough to the transactions to ascertain that they are appropriate.

As of April 14, 1999, the Department's Fiscal Manager has personally reviewed the procedures of the SPOTS program with every District Forester, which is our principal field manager. In addition, we will be reviewing the procedures with our Program Directors in Salem within the next three weeks.

We are also rewriting our SPOTS procedures information in our administrative manual to clearly define the information that an approving manager should be reviewing when they approve the SPOTS payment, the documentation that is necessary, and the process that managers should follow for handling departures from policy or procedures. We anticipate having this revision completed in the next six to eight weeks.

The Approving Officer should conduct periodic reviews of the SPOTS purchase card program, as outlined in the Oregon Accounting Manual.

Again, we are in the process of revising our procedures as well as creating more definitive policy in the form of an agency directive regarding electronic purchase processes. These revisions will include expansion of the current review of

Sharron E. Walker, Deputy Director
Audit Division, Office of the Secretary of State
April 29, 1999

SPOTS transactions in the Fiscal Services Unit in Salem by the Approving Officer to encompass all of the items recommended by the auditors and outlined in your letter. We anticipate having the procedures and policy revision completed in the next six to eight weeks.

The Approving Officer should review all cardholder credit limits to ensure that they are appropriate for the circumstances. To limit the risk of inappropriate use, we recommend that the Approving Officer cancel cards that are not needed.

We will address this recommendation in the procedures revision outlined above, and again, anticipate that this revision will be implemented in the next six to eight weeks.

We are available for any further discussions or to answer questions. If you do have questions or require further clarification please contact me at 945-7203 or Lorena Buren, Finance Director, at 945-7230.

Sincerely,

Clark W. Seely
Assistant State Forester
Administrative Services Division

cc: James E. Brown, State Forester
Agency Leadership Team
Kate Coffey, Fiscal Manager



Oregon

John .. Kitzhaber, M.D., Governor

Department of Human Resources

Office of the Director
500 Summer Street, NE
Salem, OR 97310-1012
(503) 945-5944
FAX: (503) 378-2897
TTY: (503) 945-5928

May 13, 1999

Sharron E. Walker, CPA, CFE
Deputy Director
Office of the Secretary of State
Audits Division
255 Capitol Street NE, Suite 500
Salem, OR 97310

Re: Small Purchase Order Transaction System (SPOTS)

Dear Ms. Walker:

Thank you for your review of our use of SPOTS card program. Our SPOTS card program is an important initiative to us which makes this feedback valuable at this early stage of implementation.

All of the recommendations are included in current policy for DHR. Accordingly, we believe that these recommendations are an issue of training for DHR staff on both the implementation of, and the importance of, DHR policy and procedure. We already have developed a training program that is delivered at the time the card is issued. We will address these recommendations by continuing to implement a structured approach to training on the control and use of the card. We will further reinforce the proper use and control of the card by other means, such as a list serve E-mail system to provide periodic reminders about DHR policy and procedure.

Additionally, we will implement procedures for review of transactions on an ongoing basis, through the use of internal audit or financial services staff. We will implement these solutions immediately. We have paid all balances which were in arrears, and we have reminded

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Sharron E. Walker, CPA, CFE
May 13, 1999

staff that invoices must be paid within 14 days, whether or not coding detail has been received from the cardholders.

Please let me know if I can provide further information.

Sincerely,

Gary K. Weeks
Director

GKW:cm

C: Julie Jackson, Internal Auditor
Don Charlton, Administrator, Accounting Division



OREGON JUDICIAL DEPARTMENT
Office of the State Court Administrator

June 22, 1999

Ms. Sharon E. Walker, CPA, CFE
Deputy Director
Secretary of State, Audits Division
255 Capitol Street NE, Suite 500
Salem, OR 97310

Re: Response to SPOTS Audit Letter

Dear Ms. Walker:

This letter is in response to the June 17, 1999, letter to Chief Justice Wallace P. Carson, Jr. That letter provided the findings and recommendations to the Oregon Judicial Department (OJD) in association with the Small Purchase Order Transaction System (SPOTS) audit conducted late last year. The OJD SPOTS program is administered under OJD Policy, Volume 3, Chapter 2, Section 5, "SPOTS" Purchasing Card Program and the Central Accounting Team Manual, Procedure C-15.

Response to Findings

We agree in general with the findings in the management letter and appreciate the specific recommendations to improve the control procedures. The OJD had already recognized some of these deficiencies and had taken actions to put improvements in place prior to the time of the audit and the management meeting. We feel the policies and procedures were in place during the time covered by the audit to run an effective SPOTS program; however, the policies were not being applied effectively, and follow-up actions were needed.

Actions Taken

The lack of controls in the SPOTS program became apparent to the Budget and Finance Division (BFD) prior to the beginning of the SPOTS audit process and the management meeting. Effective March 1, 1999, the purchasing officer position, including the SPOTS program responsibilities, came under the supervision of the agency's senior accountant, now Acting Controller, Gail Bouldrey. The purchasing officer position description was updated to include an accounting education and/or knowledge requirement so that the purchasing officer would bring a better understanding of accounting and internal control considerations to the duties and programs associated with the position, including the SPOTS program. Since the reorganization was done in conjunction with changes in staffing, the staff now involved in the administration of

Ms. Sharon E. Walker, CPA, CFE
June 22, 1999

the SPOTS program has changed. Current staff are now proactively involved in administration of the program. We feel this move alone will bring about great improvement in the program oversight.

Ms. Bouldrey and the current purchasing officer are doing a complete review of all policies and procedures associated with the SPOTS program to evaluate updates that could strengthen the internal controls of the program.

While most changes were implemented to the procedures in BFD prior to the management meeting, others have been implemented since that meeting. In addition to the review done at the court or division level, BFD added a second review of the SPOTS transactions when the lack of controls became apparent. The purchasing officer reviews all transactions as the approving officer's designee, and a Budget and Finance specialist does a preaudit review of each transaction. Reviewers are now initialing the SPOTS card memo statements to evidence the review has taken place. The information on documentation problems provided at the management meeting was shared with all staff involved in the review so they could more closely monitor the sufficiency of the documentation provided by the cardholders. In addition to the monthly review, our upcoming policy update will include a periodic review of credit limits.

Actions to Be Taken

As stated above, the Judicial Department policy and procedures used to administer the SPOTS program are under review. The review and policy updates should be completed within three to four months. This review will include consideration of all information provided at the management meeting and in the recommendations. Most of the recommendations are current requirements of the SPOTS program under OJD policy. With the staff now administering the program, I have confidence that the requirements in the OJD policy will be carried out.

In the interim, Ms. Bouldrey is in the process of developing information that will be provided to all cardholders and administrators regarding the findings of the SPOTS audit. This letter will be going out within the next month. We also will be working with our Internal Auditing Director, Jerl Cate, to ensure that the appropriate controls are in place.

Please do not hesitate to contact me if you have any further questions on our programs or responses.

Sincerely,

Carol A. Colley
Acting Budget and Finance Director

CAC:GB:bkv/B2B99006

cc: The Honorable Wallace P. Carson, Jr.
Kingsley W. Click
Gail Bouldrey
Jerl Cate



DEPARTMENT OF JUSTICE

1162 Court Street NE
Justice Building
Salem, Oregon 97310-0506
Telephone: (503) 378-4400
TDD: (503) 378-5938

April 30, 1999

BY HAND DELIVERY

Sharron Walker, CPA, CFE
Deputy Director
Division of Audits
Office of Secretary of State
Public Service Bldg., Suite 500
Salem, OR 97310

Dear Ms. Walker:

Thank you for your letter of April 16, 1999, which provided us with valuable feedback as to ways to improve the Department of Justice's use of the Small Purchase Order Transaction System (SPOTS). We have reviewed your findings and recommendations of the Department's control procedures over SPOTS purchases. We agree there are changes we can implement to increase effectiveness of controls. The following are actions we have taken or will take:

The Department has implemented a procedure that requires all SPOTS purchases be reviewed and approved by managers who can ensure that purchases are justified. Because the Department's current procedure requires all purchases to come from a central location, all SPOTS purchases will be reviewed by the Approving Officer, Operations Manager Al Nelson, to ensure compliance with purchasing policies and procedures and that sufficient authorization and documentation accompanies each purchase.

As of May 1, 1999, the Approving Officer will be reviewing all purchases on a monthly basis. As part of this review the following will occur:

- Verification that only authorized employees use SPOTS purchasing cards.
- Verification that transactions are accurate and complete.
- Investigation and appropriate corrective action if any apparent SPOTS abuse or misuse is identified.

Sharron Walker
April 30, 1999

The Approving Officer is currently evaluating overall agency use of the SPOTS program for card volume and the number of cards in use. As part of this evaluation, the Department will be piloting the use of purchasing cards in a Department field office within the next 60 days. Procedures will be in place to ensure that purchases are justified, and appropriately documented, and that managers are trained to identify significant departures from policy. The Approving Officer will then conduct periodic reviews to ensure compliance of the SPOTS purchase card program with the guidelines set forth in the Oregon Accounting Manual.

As a result of preliminary discussions with the Audit Division, we immediately conducted a review of all cardholders and credit limits. We made adjustments to card holders and individual purchase limits based on need and prior spending patterns. A review will occur periodically to determine if further adjustments are necessary.

I appreciate your bringing these matters to our attention. The audit process is extremely helpful in giving us direction on specific procedures we can improve.

Sincerely,

HARDY MYERS
Attorney General

cc: SueWilson
Frank Peccia
Barbara Folawn
Al Nelson

HM/mch/AGS02110



It Does Good Things



April 30, 1999

Sharron E. Walker, CPA, CFE
Deputy Director
Secretary of State, Audits Division
255 Capitol Street NE, Suite 500
Salem, Oregon 97310

Dear Ms. Walker:

This letter is in response to your management letter dated April 16, 1999, which discusses findings and recommendations resulting from the Small Purchase Order Transaction System review conducted at the Lottery.

Lottery's Visa procurement card program has been in operation since September 1994. Our Agency Operating Agreement provides an option to develop our own policies and procedures for the program; however, our practice has been to follow Department of Administrative Services (DAS) policies and procedures for procurement. We have developed separate policies and procedures for paying travel expenditures.

Mike Ryan has asked Nancy Young for detail of the out-of-compliance transactions. These transactions will be used as an aid in developing our procurement policies and procedures, which we intend to implement by May 31, 1999. In addition, we intend to formally execute a new Agency Operating agreement with DAS, as the existing agreement is for the pilot program and appears to be obsolete.

In response to your recommendations, we are taking the following action:

- I have appointed our Controller as Approving Officer.
- The Approving Officer will take custody of and maintain documentation related to the issuance, changes, and cancellation of Lottery Visa cards. By July 31, 1999, we plan to have cardholders resubmit their applications and all documentation complete.
- We are developing policies and procedures for procurement cards. Our policies and procedures will be consistent with those in the Oregon Accounting Manual (OAM). They will be adopted by May 31, 1999.

500 Airport Road SE • Salem Oregon 97301-5075 • PO Box 12649 • Salem Oregon 97309-0649

PHONE 503-540-1000 • FAX 503-540-1001 • www.oregonlottery.org ☼

- By July 31, 1999, the Approving Officer will perform an initial review, and initiate periodic reviews of card volume, number of cards in use, credit limits and activity, to ensure limits are appropriate and issued cards are being used enough to justify their need.
- After July 31, 1999, Lottery's Internal Auditor will initiate periodic reviews of the program as recommended. These reviews will include verification that only authorized employees use cards, that recorded transactions are accurate and complete, and any misuse has resulted in appropriate corrective action.
- The cardholder's next-level manager will be required to review, approve, and sign monthly bills. The review will include verification of exclusive use by the cardholder, that transactions are authorized and appropriate, and transactions are adequately documented with receipts. This will be initiated by May 31, 1999.
- Cardholders and managers will be adequately trained. Training will include review of the policy, with emphasis on their individual responsibilities for authorizing and purchasing only appropriate goods and services with Lottery credit cards. Training will commence as soon as the policies and procedures are adopted, but no later than May 31, 1999.

I am confident these improvements will alleviate the internal control issues raised in the management letter.

Sincerely,

Chris Lyons
Director

c: Lee Moore
Dave Brown
Shirley Petrich
Mike Ryan
Deborah Lee



Oregon

John A. Kitzhaber, M.D., Governor

Oregon Youth Authority

530 Center Street NE, Suite 200

Salem, OR 97301-3740

(503) 373-7205

FAX (503) 373-7622



June 14, 1999

John N. Lattimer, Director
Audits Division
Office of the Secretary of State
255 Capitol Street NE, Suite 500
Salem, OR 97310

Dear Mr. Lattimer:

RE: Response to Oregon Secretary of State Audits Division

The Oregon Youth Authority is pleased to respond to the Secretary of State Audits Division's review of purchases made through the Small Purchase Order Transaction System (SPOTS).

OYA concurs with the Audits Division's review and report. We have strengthened our agency's internal controls over the SPOTS program in accordance with recommendations specific to our agency.

We have found the SPOTS program to be a cost effective, low risk tool for making small purchases. As such, we believe SPOTS plays an important role in helping our agency accomplish its purchasing needs, and in making the best use of state resources. Recommendations from your review will strengthen controls over SPOTS purchases, and further ensure proper use of public funds.

Sincerely,

Rick Hill, Director

Cc: John Middleton

April 30, 1999

Secretary of State, Audits Division
255 Capitol Street NE
Salem, Oregon 97310

Reference: Statewide SPOTS Audit

This letter is sent in response to your April 16, 1999, letter summarizing audit findings made during the October 1998 audit of Small Purchase Order Transaction System (SPOTS) purchases. The Audit Division recommendations for improving control over SPOTS purchases have been restated, below, followed by Oregon Park and Recreation Department's (OPRD) plan for correcting and improving control procedures.

- **Recommendation.** Ensure that SPOTS purchases are independently reviewed by managers who have been trained in their responsibilities of approving purchases. Manager review is for appropriateness of the purchase, adequate documentation, and any significant departures from purchasing policies or procedures. Managers are to inform the Approving Officer of any such departures so that corrective action may be taken.

Agency Corrective Action. *OPRD has drafted a revision to its policy on VISA Credit Card Guidelines (OP 00-08) to require prior approval by the appropriate Manager before SPOTS purchases are made. The policy will identify guidelines by which the manager can determine appropriateness of the purchase, whether or not documentation is adequate, and if the purchase is in accordance with State purchasing policies. The policy will also require that Managers inform the Approving Officer of any such departures. **The policy is expected to be finalized and distributed to staff within the next two weeks, and we will forward a copy to you at that time.***

*OPRD's compliance auditor will add compliance with SPOTS credit card policy to the Audit Checklist and will identify where corrective action and additional training are recommended. The compliance audit reports are shared with the Financial Services Manager and the appropriate Area Manager and Park Manager after completion of an initial audit. At a later date, the compliance auditor returns to the park to assess areas still needing improvement. **These audits are ongoing.***



1115 Commercial St. NE
Salem, OR 97310-1001
(503) 378-5019
FAX (503) 378-8936

- **Recommendation.** The Approving Officer should conduct periodic reviews of the SPOTS purchases program as outlined in the Oregon Accounting Manual. This review should accomplish the following: Verify that only authorized employees use SPOTS cards; Verify that transactions are accurate and complete; Investigate any apparent purchase card abuse or misuse, and initiate appropriate corrective action; analyze overall agency card volume and the number of cards in use.

Agency Corrective Action. OPRD will be ordering Audit Command Language (ACL) software next week. This software has been used by the Audits Division in their SPOTS review of statewide purchases. ACL will allow OPRD to run a download of SPOTS purchases from the U.S. Bank and then to sort and sample the data. The software provides a mechanism for easily being able to analyze card volume, number of cards being used, average purchase amounts, and name of account holder. With this information, the Approving Officer will be able to sample transactions and to look for misuse of the cards by unauthorized users, purchases that are not relevant to OPRD's mission, or purchases that do not follow purchasing guidelines.

OPRD policy is being revised to include a requirement for a quarterly review of the SPOTS program by the Approving Officer. This review will encompass the items mentioned in Audit Divisions' recommendations listed above. **The first review and report will be completed by May 31, 1999, for the January - March 1999 quarter.** A copy of OPRD's report will be forwarded to the Audits Division. The first review, completed by May 31, will be performed, most likely, through a sampling of TEAMS transactions. After our SPOTS Coordinator receives training, we will perform the quarterly audits utilizing ACL. These reviews will identify those areas where purchases are not in compliance with OPRD policy.

- **Recommendation.** The Approving Officer should review all cardholder credit limits to ensure they are appropriate for the circumstances. Also, the Approving Officer should cancel cards that are not needed to limit risk of inappropriate use.

Agency Corrective Action. OPRD is amending its policy to require the Approving Officer to perform a quarterly review of cardholder credit limits. The policy will also require a monthly review of employees who have terminated employment to determine cards that should be cancelled. **The time frame for completing a review of cardholder credit limits will be completed by May 31, 1999 for the January - March 1999 quarter. Future reviews will be completed**

45 days after the end of the quarter. Review of cards to be cancelled because of an employee leaving employment with OPRD, will take place monthly, with the first review completed by the end of May 1999. By the end of June 30, 1999, The Approving Officer will make a recommendation for how to reduce the number of authorized cards.

- **Recommendation.** SPOTS invoices should be paid within 14 days of receipt as outlined in the Oregon Accounting Manual. Timely payments should be made whether or not cardholders have provided account coding or resolved all discrepancies.

Agency Corrective Action. OPRD policy will be revised to emphasize the importance of paying invoices within 14 days of receipt. In addition, cards will be recalled and cancelled in cases where a pattern of delinquent payments exists.

The policy will be amended to include the following statement: "Timely payments are to be made whether or not cardholders have provided account coding or resolved all discrepancies."

Please call me if you have any questions concerning our plan to correct deficiencies noted in the summary of audit findings.

Sincerely,

Robert L. Meinen
Director

cc Pam Ryan
Susan Middleton
Karen Kostenborder
Pollv Parker



Oregon

John A. Kitzhaber, M.D., Governor

Department of State Police

General Headquarters
400 Public Service Bldg.
Salem, OR 97310
(503) 378-3720
General FAX
(503) 363-5475
Supt's Office FAX
(503) 378-8282
Personnel/Payroll FAX
(503) 378-2360
V/TTY (503) 585-1452

June 11, 1999

John Lattimer, State Auditor
Division of Audits
Secretary of State
255 Capitol St. NE Suite 500
Salem OR 97310

Re: SPOTS Program Audit

We wish to thank Nancy Young for her recent review of the SPOTS program within the Oregon State Police. She provided us with valuable information regarding proper internal controls over this program.

As a result of our meeting with Ms. Young, our agency is currently writing an internal policy and will be conducting a training session for all of our SPOTS cardholders. We will be implementing new controls to ensure compliance with the DAS policy as well as our internal policy.

When we have the final draft of our SPOTS policy, we will be forwarding a copy to Ms. Young for comment. Our goal is to have an exemplary program while taking advantage of the efficiencies it provides.

Sincerely,

Ronald C. Ruecker, Major
Operation Services Bureau

DE

CC: Nancy Young, CPA, Audits Division
Ken Weese, Director of Human Resources, OSP
Dagmar Grieve, SPOTS Coordinator, OSP
Denice Eames, Fiscal Manager, OSP

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