

# Secretary of State Audit Report

Kate Brown, Secretary of State

Gary Blackmer, Director, Audits Division



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## Agencies Should Explore Opportunities to Earn Purchase Card Rebates

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### Summary

Purchase cards provide state employees an efficient means to buy inexpensive goods or services that meet the business needs of their agency. For example, an office assistant may use a purchase card to order and pay for office supplies or a caseworker may purchase bus tickets to allow children in the foster care program to visit their parents. The purchase card program was established in an effort to save the state time and money by reducing both the need for purchase orders and the use of petty cash funds. In 2008, state agencies used purchase cards to buy about \$30.3 million in goods and services.

Currently, the overall volume of purchasing qualifies agencies for a rebate of up to roughly 1 percent of net purchases for the year if the agency makes its payments within a specified timeframe. We found that state agencies collectively earned only 25 percent of the available rebate because most did not make payments within the specified timeframe. As a result, the state missed about \$750,000 in available rebates over a six-year period, with about \$220,000 missed for 2008, the most recent year we analyzed. Moreover, the two state agencies with the highest purchase card spending in 2008 missed the average payment timeframe by only one day.

We reviewed efforts to earn the rebate at the six state agencies with the largest dollar volume of purchase card spending in 2008. We found that two agencies consistently earned the rebate in recent years and one was in the midst of a pilot project designed to help meet the specified payment timeframe. While the other three agencies considered some efforts to earn the rebate, they had not clearly identified and systematically evaluated the cost-effectiveness of all available strategies.

Agencies that earned the rebate used various strategies in combination to meet the payment timeframe. Examples included initiating monthly payments based on online data rather than waiting for a mailed statement, increasing the frequency of payments, using a clearing account to make payments, making electronic payments, and automating cost allocation to

reduce processing time. Since agencies have differing business needs, each agency needs to assess whether implementing one or more of these strategies would meet their business needs in a cost-effective manner.

## **Recommendations**

**We recommend** the four agencies that missed the rebate periodically explore available strategies and analyze the associated costs and benefits of obtaining purchase card rebates.

**We also recommend** these four agencies consider the specific strategies listed on page 12.

**We also recommend** the Department of Administrative Services expand efforts to assist state agencies in earning purchase card rebates. We have identified specific steps on pages 12 and 13.

## **Agency responses**

The agency responses are attached at the end of the report.

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## Background

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### Purchase Cards Are Widely Used Across Government

Purchase cards were established as an efficient means to buy inexpensive goods or services and are now widely used across government. Many Oregon state employees use a purchase card to buy goods or services that meet the business needs of their agency. For example, an office assistant may use a purchase card to order and pay for office supplies or a caseworker may purchase bus tickets to allow children in the foster care program to visit their parents.

State agencies in Oregon began using purchase cards in 1991 in an effort to save time and money by reducing the need for purchase orders and the use of petty cash funds. While the Department of Administrative Services (DAS) manages some aspects of the program centrally, individual agencies are responsible for managing their particular purchase card programs. Currently, DAS contracts with US Bank to provide purchase card services to participating state agencies.

### Agencies Must Meet Two Requirements to Earn Volume Rebates

In addition to purchasing inexpensive items more efficiently, state agencies can also receive an annual volume rebate of up to roughly 1 percent of net purchases for the year. This is similar to personal credit cards, which have a rebate incentive to encourage use. The state's purchase card program also includes a performance rebate, but the majority of the incentive is available through the volume rebate.

An agency earns the annual volume rebate if two criteria are met: all participating agencies using the cards collectively meet a minimum spending requirement and the individual agency meets a specified payment timeframe<sup>1</sup>. For the six-year period we reviewed, participating agencies had to collectively spend at least \$3 million annually, with higher rebate rates available at higher spending levels. In addition, individual agencies had to meet a timeframe (days to payment) that averaged 29 days to payment for a given year. If the average days to payment was less than 29 days, agencies also earned a performance rebate (see Table 1 for sample rebate calculation). The average days to payment is based on the number of days that elapsed between the date US Bank funded a charge transaction and the date it received payment for

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<sup>1</sup> Participating agencies include both state agencies and other members of the Oregon Cooperative Purchasing Program. Eligible cooperative purchasing entities include city and county governments, school districts, American Indian tribes and state agencies not subject to DAS rules (e.g. Lottery, Secretary of State, Treasury). Our review focused only on state agencies participating under the DAS contract.



## Audit Results

State agencies collectively met the spending requirement each of the six years we analyzed, but earned only 25 percent of the available volume rebate because they did not make payments within the specified timeframe. As a result, the state missed about \$750,000 in available volume rebates over the six-year period. Of the six agencies we reviewed, two consistently earned the rebate in recent years and one was in the midst of a pilot project designed to help meet the specified payment timeframe. The other three agencies considered some efforts to earn the rebate, but had not clearly identified and systematically evaluated the cost-effectiveness of all available strategies.

### State Agencies Earned About 25 Percent of Available Volume Rebate

Over the six-year period, state agencies collectively earned only about 25 percent of the available volume rebate. We used US Bank rebate reports and the contract-specified rebate rates to calculate available, earned, and missed volume rebate amounts from 2003 through 2008 (see Table 2). Based on our calculations, the state missed about \$750,000 in available volume rebates over the six-year period, with about \$220,000 missed for 2008 alone.

**Table 2: Available, Earned, and Missed Volume Rebate for State Agencies, 2003-2008**

Year	Total State Spending	Available Volume Rebate <sup>a</sup>	Earned Volume Rebate	Missed Volume Rebate
2003	\$ 13,514,660	\$ 67,573	\$ 18,695	\$ 48,879
2004	\$ 14,715,154	\$ 73,576	\$ 14,068	\$ 59,508
2005	\$ 20,296,130	\$ 101,481	\$ 27,015	\$ 74,465
2006	\$ 21,559,201	\$ 204,812	\$ 53,125	\$ 151,688
2007	\$ 26,281,177	\$ 252,299	\$ 60,486	\$ 191,813
2008	\$ 30,329,462	\$ 291,163	\$ 69,424	\$ 221,739
Total	\$126,695,784	\$ 990,904	\$242,812	\$ 748,092

<sup>a</sup> The volume rebate rate varied based on contract version and terms. The applicable rate is reflected in the available volume rebate calculation. The 2006 contract revision changed the rebate period to one month earlier than in prior years. As a result, the 2006 data reflects an eleven-month rather than a twelve-month period.

## **Few Agencies Met Payment Timeframe Requirement**

While state agencies collectively met the minimum spending requirement each of the six years we analyzed, most agencies did not meet the payment timeframe requirement in any given year. For example, based on data US Bank provided, only 11 of 68 state agencies met the required days to payment for rebate year 2008, with another 21 agencies within seven days of that requirement. Thirteen agencies met the payment requirement in 2005, the largest number of agencies in any year we analyzed.

## **Six Top-Spending Agencies Showed Varied Success**

To understand the status of rebate earnings, we looked at efforts in place or underway at the six state agencies with the largest dollar volume of purchase card spending in 2008. These agencies were the Department of Human Services (DHS), Oregon Parks and Recreation Department (OPRD), Oregon Youth Authority (OYA), Oregon Department of Transportation (ODOT), Oregon Department of Fish and Wildlife (ODFW), and Oregon Department of Forestry (ODF).

We found this group of agencies showed varied success in their efforts to earn the rebate. Two did well at earning the rebate in recent years, while four agencies did not. The four agencies that did not meet the days to payment requirement missed about \$173,000 in rebates during 2008, representing 78 percent of missed rebate for all state agencies (see Table 3). In 2008, the average days to payment for the six agencies ranged from 13 to 37 days. Two agencies with the most purchase card spending (DHS and OPRD) missed the timeframe by only one day (see Table 4).

**Table 3: Earned and Missed Rebate in 2008 for Six Agencies**

	<b>Earned Volume Rebate</b>	<b>Missed Volume Rebate</b>
DHS		\$ 120,924
OPRD		\$ 22,558
OYA	\$ 20,476	
ODOT	\$ 18,972	
ODFW		\$ 15,577
ODF		\$ 13,978
Subtotal	\$ 39,448	\$ 173,037
All Other Agencies	\$ 29,976	\$ 48,702
State Total	\$ 69,424	\$ 221,739

Note: Agencies are presented in order of greatest spending

**Table 4: Average Days to Payment for Six Agencies, 2003-2008**

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
DHS	34	33	35	32	31	30
OPRD	<b>29</b>	37	31	32	30	30
OYA	<b>26</b>	<b>19</b>	<b>12</b>	<b>12</b>	<b>13</b>	<b>13</b>
ODOT	31	33	<b>21</b>	<b>22</b>	<b>22</b>	<b>23</b>
ODFW	36	38	39	34	38	33
ODF	43	38	38	37	40	37

Note: Bold italicized font indicates when the payment timeframe requirement was met (equal to an average of 29 days to payment or less).

#### ***Efforts Led Two Agencies to Consistent Rebate Earnings***

Two agencies – OYA and ODOT – actively pursued the purchase card rebate prior to 2008. These agencies identified and established an effective combination of strategies as part of their business practices. Consequently, by 2008, OYA and ODOT had reduced their average days to payment to 13 and 23 days, respectively. OYA met the payment requirement for all six years we reviewed and ODOT met the requirement for four of the six years. As a result, they not only earned the volume rebate but also earned performance rebates totaling about \$3,960 in 2008.

#### ***Pilot Effort Led One Agency to Projected Rebate Earnings***

DHS did not earn rebates during the six-year period we reviewed, but initiated a pilot project in 2008 after receiving information from US Bank about missed rebate amounts for 2007. In response to this information

and in conjunction with the agency's process improvements initiative, DHS assigned a team to look for strategies to improve and accelerate the payment cycle at specific units within the department. DHS decided to increase the frequency of its payments from monthly to weekly for the units participating in the pilot. A preliminary rebate report for 2009 showed that DHS met the 29-day payment requirement and is estimated to earn \$139,565 for that year.

### ***Remaining Three Agencies Considered Some Strategies***

The three remaining agencies – ODF, ODFW, and OPRD – considered some of the available strategies to earn the rebate but anticipated the costs would likely exceed the amount of any available rebate. Agency representatives cited a variety of obstacles related to their payment processes that would be costly to overcome. Examples included geographically disbursed operations, decentralized administration functions, cost allocation prior to payment, and difficulties with allocating any rebate earnings to the appropriate programs. While each of the agencies considered some efforts to earn the rebate, we noted that they had not clearly identified and systematically evaluated the cost-effectiveness of all available strategies such as those listed below.

## **Agencies Used Various Strategies to Meet Payment Timeframe**

We identified various strategies state agencies used in combination to earn the rebate. While not exhaustive, the compilation below serves as a starting point for agencies exploring strategies to earn purchase card rebates. Since agencies have differing business needs, processes and organizational structures, no one approach is likely to work for all. Each agency needs to assess whether implementing one or more of these strategies would meet their business needs in a cost-effective manner.

### ***Initiating Payment Using Online Data Instead of Mailed Statement***

Rather than wait for monthly statements to arrive in the mail, some agencies opted to initiate payment using data available through US Bank's online system. Each state agency has an online account to manage its purchase cards. The system provides downloadable transaction data and electronic statements organized by cardholder or agency. Using the online data, agencies can initiate payment the day after the billing cycle closes rather than waiting for mailed statements, which take around one week to arrive.

### ***Increasing Frequency of Payments***

DAS encourages agencies to increase payments from monthly to weekly. This strategy, used by both OYA and DHS, shortened the time between purchase card charges and corresponding payments, ultimately reducing the days to payment. Over the six-year period, OYA consistently

achieved the lowest days to payment among state agencies because it made weekly payments to US Bank.

### ***Using Clearing Accounts for Payments***

The most time-consuming aspect of the purchase card payment process is waiting for cardholders to submit detailed cost center information and supervisors to review and approve this information. By using a clearing account, agencies can pay US Bank before the cost center information is available. The accounts are then balanced at the end of each month after the cost center information has been submitted and processed.

### ***Making Electronic Payments – ODOT Accounting System***

We compared electronic and check payments, and found differences in the delivery time between the two payment methods. ODOT has its own accounting system and issues electronic payment to US Bank. In contrast, most agencies use the state accounting system that mails out paper checks. When we reviewed payment data, we found that ODOT's payments were processed within an average of three days compared to an average of nine days for an agency that mailed payments to US Bank.

### ***Automating Entries for Cost Allocation***

One of the most labor-intensive parts of agencies' payment process is allocating costs to various parts of the organization. Some agencies automated aspects of their cost allocation process, which reduced processing time at month-end because less data entry was required. For example, OYA set default cost center information for each cardholder profile in US Bank's online system, established an interface between US Bank's online system and the state accounting system, and used electronic tools to upload any non-default cost center information. Similarly, ODOT invested in an in-house platform to combine transaction data from US Bank and cost center information submitted by cardholders into one database interfaced with its accounting system. These electronic tools minimized the need for data to be manually entered into various systems and reduced the likelihood of entry errors.

## **Additional Strategies Can Help Meet Payment Timeframe**

In addition to the strategies agencies employed, we identified other strategies that have the potential to help meet the payment timeframe. These include expanding the use and availability of electronic payments, reviewing rebate reports to help inform management decisions, changing the billing cycle period and monitoring timeliness of payments.

### ***Expanding Use and Availability of Electronic Payments – State Accounting System***

US Bank allows electronic payments, but it requires a specific type of process that is not currently supported by the accounting system most

state agencies use. In the past, DAS identified an alternative method for electronic payment using the mail code field in the state accounting system. However, because agencies made errors that resulted in misallocated payments across purchase card accounts, DAS no longer provides this option. DAS has not recently assessed the costs and benefits of providing the mail code payment method to selected agencies or upgrading the state accounting system to facilitate electronic payments to US Bank. In addition, US Bank recently made electronic payment available through its online system for the six agencies with the most purchase card spending. To date we are not aware of any agencies that have taken advantage of the online payment option. While the time and resources needed for this payment option have yet to be fully assessed, it has the potential to shorten payment delivery time.

### ***Reviewing Annual and Interim Rebate Reports***

US Bank issues an annual rebate report with agency purchase card spending and days to payment data. The report is delivered to DAS, but is not distributed to individual agencies unless they request it. In addition, the state does not receive interim rebate reports that could provide agency management with timely information to track progress toward rebate earnings and help inform agency decisions about whether and how to pursue rebate earnings.

### ***Changing Billing Cycle Period***

US Bank allows state agencies to establish their billing cycle end dates within a certain period of the month. Currently, state agencies have billing cycles that end on the 25<sup>th</sup> of the month. Depending on purchasing patterns and workload, individual agencies may find it advantageous to adjust the billing cycle period to better fit their business needs. For example, if purchase card use consistently peaks during the same period each month, a billing cycle end date immediately after the peak would reduce the days to payment, all other things being equal.

### ***Monitoring Payment Timeliness***

In order to earn the volume rebate, agencies must ensure consistent, prompt payment of purchase card invoices and monitor for practices that could slow payments. State rules require that agencies pay purchase card statements within 14 days of the billing cycle end or risk removal from the purchase card program. We noted that some agencies could earn the volume rebate simply by meeting this requirement<sup>2</sup>. Moreover, by monitoring the timeliness of purchase card payments, all agencies can look for specific units or steps in the process that could be improved.

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<sup>2</sup> Specifically, agencies with purchase card transactions either spread evenly throughout the billing cycle or grouped toward the end of the billing cycle would likely meet the specified payment timeframe requirement for the volume rebate.

## Future Rebate Opportunities Remain

Looking forward, continued missed rebates represent potential lost revenue for state agencies. Given the state's recent fiscal challenges, it is unknown whether purchase card spending will continue to follow the increased activity trends of recent years. However, DAS renewed its contract with US Bank and an amendment to the contract effective April 2009 increased the rebate rates. For example, based on 2008 total spending, the volume rebate increased from 0.96 to 1.05 percent.

Moreover, agencies can further maximize earnings through the performance rebate incentive. Performance rebates are applied when the days to payment for an individual agency is less than 29 days. The maximum performance rebate available in 2008 was 0.14 percent for agencies that had days to payment of 15 days or less. While not the focus of this audit, we estimated state agencies could have earned an additional \$36,730 in performance rebates during 2008.

To assess whether purchase card rebates would be cost-effective, agencies need to periodically compare the value of available rebates with the extent and nature of costs necessary to earn those rebates. Making this comparison of costs and benefits on a recurring basis is important because of potential amendments to the purchase card contract, improvements in available technology, and changes in cost factors.

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## Recommendations

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**We recommend** the four agencies that missed the rebate periodically explore the available strategies and analyze the associated costs and benefits of obtaining the annual volume and performance purchase card rebates offered through US Bank.

**We also recommend** these four agencies consider the following specific strategies:

- DHS selectively expand its existing pilot efforts to units and/or programs where it would be cost-effective to do so and consider exploring options for electronic payment and interim rebate reports.
- OPRD consider adjusting its billing cycle period, developing electronic tools to automate cost allocation, increasing payment frequency for select units, and exploring options for electronic payment and interim rebate reports.
- ODFW consider changing from monthly payment to a more frequent basis, and exploring options for electronic payment and interim rebate reports.
- ODF consider adjusting its billing cycle period, establishing a clearing account, developing electronic tools to automate cost allocation, and exploring options for electronic payment and interim rebate reports.

The overarching recommendation above was based on work performed at six agencies. However, we believe that similar rebate opportunities exist at other state agencies. Therefore, we encourage all state agencies with purchase cards under the Department of Administrative Services' contract to explore whether pursuing the purchase card rebate may be cost-effective and take action as appropriate.

To assist in this effort, **we also recommend** DAS:

- Ensure US Bank's annual rebate report data is provided to state agencies that participate in the purchase card program;
- Explore options with US Bank to provide interim rebate reports to state agencies;
- On a trial basis, provide state agencies with significant purchase card spending with the option to use the mail code electronic payment method in the state accounting system and work with them to ensure accuracy of mail code selection; and

- Periodically assess the costs and benefits of providing a widely available electronic payment system, whether through upgrading the state accounting system, negotiating new terms with the purchase card provider, or some other mechanism.

### **Agency responses**

The agency responses are attached at the end of the report.

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## Objectives, Scope and Methodology

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We conducted this audit to assess purchase card rebate efforts and successes at six state agencies that are under the Department of Administrative Services' purchase card contract with US Bank. To accomplish our objective, we reviewed information related to the purchase card program as well as the rebate opportunity. This included state policy, the state contract with US Bank, and communications from the Department of Administrative Services to state agencies.

We also analyzed rebate data US Bank provided for the period May 2002 to March 2008. In order to understand purchase card payment practices, we also interviewed employees at state agencies and reviewed documents they provided. We selected the six agencies with the largest dollar volume of purchase card spending during the period April 2007 to March 2008 for further review: Department of Human Services, Oregon Parks and Recreation Department, Oregon Youth Authority, Oregon Department of Transportation, Oregon Department of Fish and Wildlife, and Oregon Department of Forestry. This period, which was covered in a US Bank rebate report issued in September of 2008, was the most recently reported rebate period. Toward the end of fieldwork, we also received and reviewed a preliminary report of projected rebate earnings for 2009.

The agency rebate earnings we included are based on US Bank's computations. While we did some reasonableness testing, ultimately, we relied on US Bank for the spending totals and average days to payment data we used during this audit.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



# Oregon

Theodore R. Kulongoski, Governor

**Department of Human Services**

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January 8, 2010

Gary Blackmer, Director  
Oregon Audits Division  
255 Capitol Street N.E., Suite 500  
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Re: Department of Human Services Response to Agencies Should Explore Opportunities to Earn Purchase Card Rebates Draft Audit Report

Dear Mr. Blackmer:

This letter is the Department of Human Services (DHS) response to the Secretary of State draft audit titled, "Agencies Should Explore Opportunities to Earn Purchase Card Rebates." The department appreciates the opportunity to respond to this draft audit regarding opportunities to earn purchase card rebates.

DHS concurs with the report's suggestion to periodically explore available strategies and analyze the associated costs and benefits of obtaining purchase card rebates, including some of the specific examples outlined in the report. As outlined below, the department is also in the process of expanding our current pilot to other areas of the organization. As noted in the draft report, the department implemented a successful pilot project to begin earning these rebates for the 2009 time period.

The department's original pilot project included the Director's Office, Seniors and People with Disabilities Division, and the Office of Vocational Rehabilitation Services. The department's assessment of the pilot was positive as we will successfully receive a Small Purchase Order Transaction System (SPOTS) rebate for 2009. We plan to expand the pilot project to other areas within the department, including the Oregon State Hospital.

The department started making weekly SPOTS payments in July 2009 for areas paid by Accounts Payable in Salem. Department staff at the Portland State Office Building recently began making their SPOTS payments weekly as well. The

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Accounts Payable team in Salem is also working with various parts of the department to increase appropriate payments being made with SPOTS cards.

While the department considered using automated clearinghouse for payment, we believe it is not feasible at this time. DHS has newer equipment than US Bank and the different versions are incompatible. However, the department will continue to look for ways to streamline the process.

Maximizing the department's SPOTS Rebate is an ongoing process and is reviewed regularly to improve efficiencies and effectiveness. Our goal is to increase annual spending using SPOTS cards and to make payments on SPOTS invoices within the twenty-nine day average. We believe these actions will result in increased rebate earnings and a more efficient SPOTS process.

Nancy Walton, Disbursements Unit Manager, will be overseeing the department's efforts in this area. We expect further improvements by June 30, 2010.

In summary, the department agrees with the report's recommendation that efforts to earn purchase card rebates should be continued and increased at the Department of Human Services.

Thank you for this opportunity to respond to this draft audit. If you have any questions regarding our response, please contact Dave Lyda, DHS Chief Audit Officer at 503-945-6700.

Sincerely,



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Clyde Saiki  
DHS Deputy Director of Operations

cc: Bruce Goldberg, M.D., DHS Director  
Jim Scherzinger, DHS Deputy Director of Finance  
Jeremy Emerson, DHS Deputy Chief Administrative Officer  
Shawn Jacobsen, DHS Interim Controller  
Stella Transue, Administrator, Office of Contracts and Procurement  
Dave Lyda, Chief Audit Officer  
Nancy Walton, Disbursements Unit Manager



# Oregon

Theodore R. Kulongoski, Governor

## Parks and Recreation Department

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January 14, 2009

James E. Scott, Audit Manager  
Oregon Secretary of State, Audits Division  
255 Capitol St NE, Suite 500  
Salem, OR 97310



Nature  
HISTORY  
Discovery

Dear Mr. Scott,

This letter is the agency response to the draft audit report regarding purchase card rebates.

The Oregon Parks and Recreation Department (OPRD) generally agrees with the recommendations and will explore the options that are suggested. As we discussed with your audit staff over the course of the audit, there are some external barriers that have hampered our efforts in this area. However, since we are very close to meeting the requirements for the rebate, consideration of the changes you suggest may reveal a way to obtain the rebate at reasonable cost.

In the audit, you make the following recommendations:

- Explore available strategies and analyze the associated costs and benefits of obtaining purchase card rebates.
- Consider adjusting the billing cycle period, developing electronic tools to automate cost allocation, increase payment frequency for select units, and explore options for electronic payment and interim rebate reports.

OPRD agrees that exploration and consideration of these options, in general, is prudent. We will consider the changes along with associated costs to determine if they are cost effective and we will, of course, implement the options that prove to be cost effective.

In particular, OPRD will work with DAS to explore electronic payment and interim rebate reports and will plan on implementing the electronic payment and interim rebate reports as soon as they are made available.

We would like to thank the audit team for the professional and collaborative approach taken to conduct this audit.

Sincerely,

Tim Wood,  
Director





# Oregon

Theodore R. Kulongoski, Governor

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January 4, 2010

Gary Blackmer, Director  
Secretary of State, Audits Division  
255 Capitol Street N.E., Suite 500  
Salem, Oregon 97310

Re: Purchase Card Rebate Audit

Dear Mr. Blackmer:

Thank you for providing Oregon Youth Authority (OYA) with the final draft of the Secretary of State Audit Report on Purchase Card Rebates. OYA appreciates the work performed by the audit team to provide us with performance feedback. OYA has reviewed the final draft and agrees with the findings included within the report.

OYA is committed to continuing to maximize the rebate benefits available to our agency. We also welcome opportunities to strategize and share lessons learned with our fellow agencies.

Thank you for the opportunity to respond to your final draft audit report. If you have any questions regarding our response, please contact Carolina Marquette, Accounting Manager at 503-373-7288.

Sincerely,

Colette S. Peters, Director  
Oregon Youth Authority





Oregon

Theodore R. Kulongoski, Governor

Oregon Department of Transportation

355 Capitol St. NE, Room 135

Salem, OR 97301

January 12, 2010

James E. Scott, MM  
Audit Manager, Audits Division  
Office of the Secretary of State  
255 Capitol Street NE, Suite 500  
Salem, OR 97301

Dear Mr. Scott:

I am responding to your letter dated December 30, 2009 concerning the statewide audit on purchase card rebates.

The department reviewed the report and agrees the contents accurately reflect the agency's purchase card program as it relates to rebates.

The Oregon Department of Transportation appreciates the timely and professional manner in which you and your staff conducted this audit. If you have any future questions regarding our purchase card program, please feel free to contact Deb Tennant, the department's Deputy Chief Financial Officer at 503-986-3134.

Sincerely,

Matthew L. Garrett,  
Director

cc: Les Brodie, Chief Financial Officer, Financial Services Branch  
Deb Tennant, Deputy Chief Financial Officer, Financial Services Branch  
Joe Bonawitz, Revenue and Expenditure Accounting Manager  
Marlene Hartinger, Audit Services Chief



# Oregon

Theodore R. Kulongoski, Governor

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January 21, 2010

Gary Blackmer, Audit Director  
Secretary of State Audits Division  
255 Capitol St. NE, Suite 500  
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Dear Mr. Blackmer:

This letter is in response to the findings and recommendations noted by the Audits Division in the Secretary of State Audit Report *Agencies Should Explore Opportunities to Earn Purchase Card Rebates*.

Following are the recommendations of the Audits Division. Following each recommendation is the department's specific response and correction action planned.

**Secretary of State's Recommendation:** We recommend that the Department explore available strategies and analyze the associated costs and benefits of obtaining purchase card rebates.

The Department generally agrees with the recommendation.

The Department will document a cost benefit analysis of obtaining purchase card rebates. This analysis is scheduled for completion by July 1, 2010.

**Secretary of State's Recommendation:** We also recommend the Department consider the specific strategies listed on page 13: *"ODFW consider changing from monthly payment to a more frequent basis, and exploring options for electronic payment and interim rebate reports."*

The Department generally agrees with the recommendation. The Department will consider each of the mentioned strategies when preparing the cost benefit analysis mentioned above.

Thank you for the Oregon Audits Division's work performed on this audit along with the recommendations made.

Sincerely,

Roy Elicker  
Director

cc: Debbie Colbert, Deputy Director of Administration, ODFW  
Shirlene Gonzalez, Administrative Services Division Administrator, ODFW  
Cathy Stevens, Fiscal Services Manager, ODFW  
James E. Scott, Audit Manager, Oregon Audits Division



# Oregon

Theodore R. Kulongoski, Governor

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January 15, 2010

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"STEWARDSHIP IN FORESTRY"

RE: Purchase Card Rebate Audit

Dear Mr. Blackmer:

This letter is in response to the Purchase Card Rebate audit transmitted to us in Report Number 2010-xx dated January 2010. The following constitutes our response to and corrective action plan for the item's identified in the audit report.

We agree with the recommendation from the audit that we explore the available strategies and analyze the associated costs and benefits of obtaining the annual volume and performance purchase card rebates offered through US Bank. We will determine the best method of making more frequent payments to US Bank that will allow us to take advantage of the rebates offered. We will also assess the advantages of volume discounts and submit the concept and analysis for the consideration of Agency Management. Our plan is to develop and implement the process of weekly payments to coincide with the beginning of the 2010-11 rebate cycle which begins in April 2010. We will also be requesting the rebate reports from DAS and will investigate the possibility of receiving and using an interim rebate report.

We agree in part with the recommendation that ODF consider adjusting its billing cycle period, establishing a clearing account, developing electronic tools to automate cost allocation, and exploring options for electronic payment and interim rebate reports. We will look into the use of a clearing account, options for electronic payment and the use of interim rebate reports in accomplishing the recommendation in the previous paragraph. We will be looking at a better way to allocate costs as part of our Forestry Business Improvement Initiative process in the submissions that are made for POP's in our 2011-13 budget. If we implement the processes outlined in this letter we don't see the necessity of changing the billing cycle.

On behalf of the agency staff who worked directly with your audit team, I would like to thank Mr. Scott and Ms. Choephel for the professional approach taken by the team, and the genuine interest that they demonstrated in making this a positive, collaborative process that will truly assist us in making improvements to our business and financial management practices. We recognize that auditing is a valuable tool and your audit team's approach and attitude during this process has been helpful and supportive in creating possibilities for practical improvements for the Department.

Mr. Gary Blackmer, Director  
Audits Division, Office of the Secretary of State  
Management Letter Response, Purchase Card Rebates Audit  
January 15, 2010  
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We look forward to our continued working relationship with the Audits Division. Please contact me at any time if you have questions or need information.

Sincerely,



Paul Bell  
Associate State Forester  
Oregon Department of Forestry

cc: James E Scott, MM, Audit Manager  
Tenzin Choephel, Principal Auditor  
Scott Harra, Director, Department of Administrative Services  
Pamela J. Stroebel-Valencia, CPA, CIA, Chief Audit Executive, DAS  
Marvin Brown, State Forester  
David Clouse, Quality Assurance Program Director  
Mark Hubbard, Business Services Program Director  
Agency Leadership Team  
Oregon Board of Forestry



# Oregon

Theodore R. Kulongoski, Governor

## Department of Administrative Services

Office of the Director  
155 Cottage Street NE, U20  
Salem, OR 97301-3966  
(503) 378-3104  
FAX (503) 373-7643

January 8, 2010

James E. Scott, MM  
Audit Manager, Oregon Audits Division  
Office of the Secretary of State  
255 Capitol Street NE, Suite 500  
Salem, OR 97310

Re: Agencies Should Explore Opportunities to Earn Purchase Card Rebates

Dear Mr. Scott:

Thank you for providing us the draft audit report concerning purchase card rebates on December 30, 2009. We appreciate the time and effort your team has spent reviewing the purchase card rebate program. The Department of Administrative Services (Department) generally agrees with the recommendations as stated in the report and offers the following specific responses to the Department's areas noted for improvement:

The report recommended: **Ensure US Bank's annual rebate report data is provided to state agencies that participate in the purchase card program;**

Although agencies received communication indicating the availability of rebate information upon request, very few agency staff requested the information. Every year the Statewide Financial Management Services (SFMS) section of the State Controller's Division (SCD) sends rebate information to the agencies that have earned a rebate. Beginning with the 2009 rebate SFMS will also communicate to the agencies that did not earn a rebate.

The report recommended: **Explore options with US Bank to provide interim rebate reports to state agencies;**

The US Bank Relationship Manager provided the first interim rebate report the second week in December. We understand this information will be sent to the Deputy State Controller quarterly. Plans are to disseminate quarterly information to each agency that participates in the Small Purchase Order Transaction System (SPOTS) program. To avoid confusion between the fiscal year 2009 (FY09) rebate information and the quarterly information, SFMS will not send quarterly data to agencies until after the FY09 rebate process is finalized.

The report recommended: **On a trial basis, provide state agencies with significant purchase card spending with the option to use the mail code electronic payment method in the state accounting system and work with them to ensure accuracy of mail code selection;**

SFMS will be placing an edit in the Statewide Financial Management Application's (SFMA) mail code payment processing for SPOTS cards. After the edit is in place SCD will offer an automated clearing house (ACH) option to the eight agencies using SFMA for SPOTS card payments with a 2009 yearly spend of over \$750,000. The purpose of



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January 8, 2010  
James E. Scott, MM  
Office of the Secretary of State

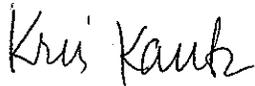
the edit is to assure there is a relationship between the agency number of the requestor and the mail code. Because some agencies have multiple US Bank managing accounts, this process will not be fool proof. SFMS staff met with the SFMA programming staff to review edit requirements. Based on their response and the SFMS staffs' workload, we expect to have this edit in place by the end of the first calendar quarter in 2010.

The report recommended: **Periodically assess the costs and benefits of providing a widely available electronic payment system, whether through upgrading the state accounting system, negotiating new terms with the purchase card provider, or some other mechanism.**

The resources to perform an upgrade of this magnitude to SFMA were removed with the April 1, 2009 SFMS Enhancement Package reduction. With successful mail code edits in place we plan to make electronic payments available to all participating SFMA SPOTS agencies over the next year.

If you have any further questions regarding the Department's responses to the audit report recommendations, please contact Joy Sebastian, Deputy State Controller, at (503) 373-1044, extension 228 or Joy.Sebastian@state.or.us.

Sincerely,



Kris Kautz, Deputy Director  
Department of Administrative Services

cc: Scott L. Harra, DAS Director  
Gary Blackmer, Oregon Audits Division Director  
John Radford, DAS Administrator, State Controller's Division, DAS  
Jan Dean, DAS State Services Division (SSD) Administrator  
Joy Sebastian, DAS Deputy State Controller  
Dianne Lancaster, DAS Chief Procurement Officer, SSD  
Tim Hay, DAS Lead State Procurement Analyst, SSD  
Pamela J. Stroebel Valencia, DAS Chief Audit Executive

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## About the Secretary of State Audits Division

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The Oregon Constitution provides that the Secretary of State shall be, by virtue of her office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

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### Audit Team

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William K. Garber, CGFM, MPA, Deputy Director

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James E. Scott, MM, Audit Manager

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Tenzin K. Choephel, MPA, Senior Auditor

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Wendy Kam, MBA, Staff Auditor

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Ashwini S. Prasad, MBA, Staff Auditor

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Karen Peterson, Principal Auditor

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This report, a public record, is intended to promote the best possible management of public resources. Copies may be obtained from:

internet: <http://www.sos.state.or.us/audits/index.html>

phone: 503-986-2255

mail: Oregon Audits Division  
255 Capitol Street NE, Suite 500  
Salem, OR 97310

The courtesies and cooperation extended by the officials and employees of the Department of Administrative Services, Oregon Department of Fish and Wildlife, Oregon Department of Forestry, Department of Human Services, Oregon Parks and Recreation Department, Oregon Department of Transportation, and Oregon Youth Authority during the course of this audit were commendable and sincerely appreciated.

We are also grateful to Kevin Noren at US Bank for his assistance during the audit.