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*Auditing for a Better Oregon*

September 20, 2005

Bryan Johnston, Interim Director  
Department of Human Services  
500 Summer Street NE, Dept 15  
Salem, OR 97301-1097

Dear Mr. Johnston:

The Oregon Audits Division has recently completed a review of Small Purchase Order Transaction System (SPOTS) transactions occurring within the Department of Human Services (department). The SPOTS program provides state credit cards to individual employees for making small purchases for authorized purposes. The purpose of our review was to determine whether the department is using SPOTS cards to make purchases that further the business of the state and whether those purchases comply with Department of Administrative Services (DAS) policies and guidelines controlling state credit card use. During our review, we reviewed 571 transactions occurring during calendar year 2004. Results of our review found weaknesses directly related to the use of the SPOTS card, as well as other matters needing management's attention.

### **SPOTS CARD**

#### Lack of Compliance with Program Requirements and Restrictions

Our review found that SPOTS cardholders did not fully comply with program requirements and restrictions intended to safeguard purchasing. Examples include the following:

- Cardholders permitted other employees to use their cards. For example, at Oregon State Hospital three employees were sharing a card with a \$25,000 card limit.
- Cardholders split purchases circumventing the single purchase limit.
- Cardholders purchased floral arrangements, which are specifically prohibited in the *Oregon Accounting Manual* (OAM).
- One cardholder purchased airline tickets with a SPOTS card, which is prohibited in the OAM and circumvented the states price agreement.

#### Purchase Card Transactions Are Not Properly Recorded and Documented

The ability to verify whether a purchase is proper depends on the availability of original support documents. Verbal assurances are not adequate. Signed monthly statements, receipts, transactions logs, and written approved justifications for normally prohibited

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items are essential to ensuring a purchase card program has adequate controls and purchases further the states business. We found a number of areas where support documentation was lacking or could be improved. Specifically:

- Supervisory approvals were missing on 9 percent of statements reviewed.
- Itemized receipts and billing statements were missing on 20 percent of statements reviewed.
- A transaction log was not consistently used in 8 percent of statements reviewed.
- Documented purpose or reason for the purchase was not found on 20 percent of transactions reviewed.
- Uniform purchasing forms (i.e., Request for Purchase Forms) were not consistently used.
- Patient outings were not adequately documented as to who attended and how many of those were staff versus patients.

We also found that managers have not received any training on what to look for when reviewing and approving purchases and as such, the review and approval process appears perfunctory.

**We recommend department management responsible for the Small Purchase Order Transaction System:**

- Develop and provide training to agency managers who are responsible for reviewing and approving purchase card transactions in order to ensure policies are adhered to and transactions are properly recorded and documented.
- Take corrective action when cardholders do not comply with policy and guidelines as directed in the OAM, which states:
  - Agencies are *required* to cancel the purchase card for employees who do not provide appropriate supporting documentation.
  - If an employee abuses the purchase card privilege or disregards the purchase card agreement guidelines, the card is *forfeited* and *cancelled*.
  - Agencies must initiate *corrective* action.
  - Agencies must develop specific policies and procedures including specifics on *discipline* for any misuse of the purchase cards.

**Other Matters**

In addition to the weaknesses identified, we noted several program weaknesses relating to: Questionable Purchases, Meals and Refreshments, and Lack of Controls.

**Questionable Client Purchases**

Our review found cardholders used the SPOTS card to purchase items that appear questionable. For example, we found several instances of excessive spending on clients without documentation to justify the expense. Examples include:

- Senior pictures costing \$400.00 for one graduating teen.
- Clothing for \$200.00, yet \$118.00 was spent on one dress.

- One meal costing \$97.80 that included lobster tail, mussels and appetizers for a teen.
- One cardholder purchased several meals on the card. Documentation indicated that the agency was paying for meals for a foster family while a child recovered from surgery. However, meal amounts ranged from \$14.23 per person to \$30.22 per person. In addition, it was not clear if the cardholder permitted the family to use the card, or if the cardholder participated in the meals with the family.

In addition, we noted similar issues in our 2003 multi-agency review of SPOTS purchases at the department. For example:

- A four-person hot tub in the amount of \$1,948.95 for one child when a hot tub costing \$1,247.63 (including shipping) was identified.
- Two senior packages purchased for two graduating teens costing \$542.65 and \$532.65, respectively. The senior packages purchased were the most expensive of the packages available and included senior rings costing approximately \$300.00 each.

#### Employee Meals and Refreshments

Our review found that cardholders are using the SPOTS card to pay for non-travel meals and refreshments that appear unreasonable and excessive. For instance, we found numerous meals and refreshments purchased for business meetings that exceed per diem amounts when broken down per person. The majority of the documentation for the meetings indicated the meal was provided during a “working lunch”; however, it was not always clear how the meal provided a benefit to the state rather than dismissing attendees to obtain a meal as required in the OAM. Documentation provided did not always include a written agenda and list of attendees as required in the OAM.

#### Lack of Controls

Our review at Oregon State Hospital found purchases made with the SPOTS card for gift cards (i.e. Movie Theatres, Fast Food Restaurants and Grocery Stores). For instance, we found a \$500.00 purchase for gift cards from Safeway, and a \$558.00 purchase for gift cards to Regal Cinemas as well as several other high dollar amounts to various other merchants. Management explained that gift cards are purchased and used for patient outings and as incentives. Upon further review of the gift card process, we found that management is not adequately safeguarding or securing gift cards. Additionally, management is not performing a reconciliation between the cards initially purchased, cards used, and cards remaining.

Without adequate controls in place intended to prevent, and detect unauthorized use or theft of the cards, the state is exposed to errors or fraud going undetected and corrected in a timely manner.

**We recommend** Department of Human Services management:

- Implement boundaries and guidelines on spending.
- Adhere to OAM policy on non-travel meals and refreshments.

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- Develop and implement internal controls intended to safeguard gift cards.

Should you have any questions, feel free to contact Jamie Ralls or me at (503) 986-2255.

Sincerely,  
OREGON AUDITS DIVISION

Nancy L. Young, CPA, CISA, CFE  
Audit Manager

NLY:brk

cc: Cynthia Scheick, Chief Audit Officer  
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