Office of the Secretary of State

Kate Brown
Secretary of State

Barry Pack
Deputy Secretary of State

Audits Division

Gary Blackmer
Director

255 Capitol St. NE, Suite 500
Salem, OR 97310

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

March 17, 2010

Bruce Goldberg, Director
Department of Human Services
500 Summer Street NE, E15
Salem, Oregon 97301-1097

Dear Dr. Goldberg:

This letter transmits the results of our recent review of controls over purchase card transactions at the Department of Human Services (department). This work was done in conjunction with our review of agency efforts to earn purchase card rebates (see Report No. 2010-12).

Management is responsible for assessing risks, setting appropriate risk tolerance levels and applying resources in a manner to best achieve an agency's mission. Internal controls are the policies, procedures and activities that help ensure management's risk responses are appropriately carried out. Auditors are responsible for identifying risks not considered by management and determining whether the organization is implementing controls as management intended.

Purchase cards are widely used across the state and the department is by far the largest user in terms of cardholders and spending. During 2008, the department had about 1,250 active cards, which equates to about one purchase card for every eight employees. Moreover, the department's purchase card spending has increased at about 24 percent per year over the last six years, with approximately $13.9 million in purchases during 2008.

Our review of 15 purchase card statements found that department staff did not consistently follow established controls as required by the Oregon Accounting Manual, department purchase card policy or other program guidance. The attached appendix details the results of our testing.

One of our greatest concerns is that supervisor and purchase card coordinator reviews of cardholder statements and supporting documentation did not detect the deficiencies we noted. Without effective controls, department management cannot timely verify whether exceptions were justified, employees followed expected practices, and expected practices were consistent with the level of control management desired. It is difficult to know with reasonable certainty whether the lack of detection was due to inadequate training, low priority, workload, or some other reason. Additionally, the department has not performed its required annual reviews of the purchase card program (OAM 55.30.00.PO.115), which may have identified these deficiencies.

We also identified concerns with the administration of stored value cards. A stored value card is used to purchase goods or services from a specific vendor and is commonly referred to as a prepaid or gift card. The department uses stored value cards, which are equivalent to cash, for various business reasons. Three of the purchase card statements we reviewed included purchases of stored value cards, totaling in aggregate about $7,500. While the units involved regularly purchased stored value cards, no department-level procedures for administering the cards existed. We found that, in the absence of such procedures, the same individuals who purchased the cards were also responsible for inventory management and distribution of the cards. Moreover, documentation was insufficient to verify that the stored value cards were properly accounted for and used for appropriate purposes.

Based on the results of our review, we recommend that the department:

1. Review the design and operation of its controls over purchase card use to assure that those controls align with the level of risk that management is willing to tolerate.
2. Establish controls over the administration of stored value cards that are consistent with the level of risk that management is willing to tolerate.

Please let me know if you have any questions concerning our review.

Sincerely,
OREGON AUDITS DIVISION

James E. Scott, MM
Audit Manager

JES:tkc:sms

Enclosure
cc: Jim Scherzinger, Deputy Director of Finance
Jeremy Emerson, Deputy Chief Administrative Officer
Shawn Jacobsen, Interim Controller
Stella Transue, Administrator, Office of Contracts and Procurement
Dave Lyda, Chief Audit Officer
Laura Johnston, Internal Auditor
Scott Harra, Director, Department of Administrative Services

A P P E N D I X [1]

SAMPLE ITEM	Statement Amount	Number of Trans-actions	TRANSACTION CONTROLS				STATEMENT CONTROLS			CARD-HOLDER CONTROL
			Pre-approvals Exist[2]	*Receipts Exist*[3]	*Receiving Segregated*[4]	*Single Purchase Limit Observed*[5]	*Activity Log Complete*[6]	*Monthly Credit Limit Observed*[5]	*Supervisor Review Documented*	*Training Received*
1	$154,664.65	743	NA	143	Yes	12	No	No	Yes	Yes
2	$ 14,049.41	115	8	Yes	5	1	No	Yes	No	Yes
3	$ 1,400.37	18	Yes	12	1	Yes	No	Yes	Yes	No
4	$ 2,160.51	13	2	4	Yes	Yes	Yes	Yes	Yes	Yes
5	$ 3,489.03	6	Yes	2	3	Yes	Yes	Yes	Yes	No[7]
6	$ 34,334.99	24	Yes	14	6	6	Yes	Yes	Yes	
7	$ 2,982.71	21	8	4	13	Yes	Yes	Yes	Yes	Yes
8	$ 59.74	4	NA	Yes	4	Yes	Yes	Yes	Yes	Yes
9	$ 9,861.11	4	4	Yes	3	1	Yes	Yes	Yes	Yes[7]
10	$ 2,885.00	7	4	Yes	2	Yes	Yes	Yes	Yes	
11	$ 547.58	7	5	2	3	Yes	Yes	Yes	Yes	No[7]
12	$ 606.38	10	6	1	4	Yes	No	Yes	Yes	
13	$ 7,988.00	19	8	Yes	5	Yes	Yes	Yes	Yes	No
14	$ 3,395.58	25	7	1	2	Yes	Yes	Yes	Yes	No
15	$124,428.88	555	NA	360	Yes	8	No	Yes	Yes	No
TOTAL	**$362,853.94**	**1,571**	**52** ***(31%)***	**543** ***(35%)***	**51** ***(3%)***	**28** ***(2%)***	**5** ***(33%)***	**1** ***(7%)***	**1** ***(7%)***	**6** ***(50%)***

[1] Exceptions are noted in red. "Yes" indicates no exceptions to expected controls. No applicable control is noted with "NA."
[2] Some programs or units at the department require preapprovals to assure purchases fulfilled a business need and that adequate funds existed prior to purchase. Percentage reflects exceptions of applicable total.
[3] State policy (OAM 55.30.00.PR.120) requires that purchasing documentation exist for each purchases. Furthermore, the department requires itemized receipts since this provides more detailed listing of purchases than what is provided on the purchase card statements.
[4] State policy (OAM 55.30.00.PO.112) requires purchasing and receiving responsibilities be assigned to different individuals.
[5] Purchase cards have both single purchase and monthly credit limits. The cardholder's supervisor and the department's Approving Officer establish these limits. State policy (OAM 55.30.00.PR.106) considers purchases that exceed the approved credit limits as unauthorized.
[6] The department requires cardholders maintain an activity log. The log serves as a record of all purchases made as well as the available balance for any given time during the month.
[7] Results reflect two statements from one cardholder. A total of 12 cardholders were included in the sample.