

STATE OF WEST VIRGINIA

FULL PERFORMANCE EVALUATION OF THE

DEPARTMENT OF ADMINISTRATION

Purchasing Division

**Purchasing Division has Provided
the State Auditor Adequate
Cooperation to Make the West Virginia
State Purchasing Card Program "A Leader"
in the United States**

**Purchasing Division Should Consider
Developing a Method to Address Purchasing
Violations Identified in the Use of the
Purchasing Card**

**Use of the Legislative Appropriation
to the Purchasing Division for the
Purchasing Card Program is not Clear**

**OFFICE OF LEGISLATIVE AUDITOR
Performance Evaluation and Research Division
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December 2000

PE-00-31-189

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December 2000

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John Sylvia
Director

December 3, 2000

The Honorable Edwin J. Bowman
State Senate
129 West Circle Drive
Weirton, West Virginia 26062

The Honorable Vicki V. Douglas
House of Delegates
Building 1, Room E-213
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305-0470

Dear Chairs:

Pursuant to the West Virginia Sunset Law, we are transmitting a Full Performance Evaluation of the *Purchasing Division within the Department of Administration*, which will be presented to the Joint Committee on Government Operations on Sunday, December 3, 2000. The issues covered herein are "*Purchasing Division has Provided the State Auditor Adequate Cooperation to Make the West Virginia State Purchasing Card Program "A Leader" in the United States; Purchasing Division Should Consider Developing a Method to Address Purchasing Violations Identified in the Use of the Purchasing Card; and Use of the Legislative Appropriation to the Purchasing Division for the Purchasing Card Program is not Clear.*"

We conducted an exit conference with the *Purchasing Division* on November 15, 2000. We received the agency response on November 29, 2000.

Let me know if you have any questions.

Sincerely,

A handwritten signature in cursive script that reads "John Sylvia".

John Sylvia
Acting Director

JS/wsc

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Executive Summary

Issue Area 1: The Purchasing Division has Provided the State Auditor Adequate Cooperation to Make the West Virginia State Purchasing Card Program “A Leader” in the United States.

In 1995, the West Virginia State Auditor conducted a survey to analyze purchasing transactions for FY 1995. The State Auditor found there had been 954,701 invoice transactions and that 81% were for purchases under \$500. In 1996, following a national bid process, the State selected a financial institution to issue a purchasing card for “small dollar amounts”. It is estimated that the Purchasing Card program has saved over \$47 million in cost avoidance from the beginning of the program four years ago, because the cost of processing invoices for payment has been substantially reduced. The Purchasing Card program has grown rapidly since its inception, and has 100% participation of eligible state agencies. The rapid development, and broad participation of the state’s agencies has made the Purchasing Card program a leader in the United States.

The Purchasing Card program is established as a cooperative arrangement between the State Auditor’s Office and the Purchasing Division, with the State Auditor responsible for most daily operational functions. **The Purchasing Division has provided adequate cooperation with the State Auditor to effectively develop and implement this program.** The Purchasing Division was involved in the initial development of the program, and has played an active role on the Purchase Card Advisory Committee. The Purchasing Division has responsibilities which provide “checks and balances” to the program.

Issue Area 2: The Purchasing Division Should Consider Developing a Method to Address Purchasing Violations Identified in the Use of the Purchasing Card.

The Purchasing Division receives copies of all post audits of agency transactions using the Purchasing Card. Since post audits were initiated in September 1999, certain frequent and common violations of *Policy and Procedure* have been identified. Purchasing violations have also been identified. Since the Purchasing Division by rule has the authority to review spending unit’s records, and ensure the proper use of the purchasing card, the Purchasing Division may want to consider developing a method to address purchasing violations.

Issue Area 3: Use of the Legislative Appropriation to the Purchasing Division for the Purchasing Card Program is not clear.

Legislative appropriations to the Purchasing Division for the Purchasing Card Program total \$332,349 to date. Although Purchasing is involved in training state employees on the use of the purchasing card, and provides administrative assistance to the State Auditor, the Legislative Auditor's concern is whether the appropriation is in excess of what the Purchasing Division needs to assist the State Auditor in this program. The Legislature should consider evaluating whether there is a need to change the appropriation amount.

Review Objective, Scope and Methodology

This full performance evaluation of the Purchasing Division is required and authorized by the West Virginia Sunset Law, Chapter 4, Article 10, Section 4 of the West Virginia Code, as amended. A full performance evaluation is used to determine whether or not an agency is operating in an efficient and effective manner, and the need for continuation of the agency. The Purchasing Division has been given authority to provide purchasing, travel and leasing services to various state agencies.

The objective of this evaluation is to examine the role of the Purchasing Division in the development of the West Virginia Purchasing Card Program. This program is administered by a cooperative effort between Purchasing Division, and the State Auditor's Office.

The scope included a review of the Purchasing Card program from fiscal years 1996 to 2000 to determine how the Purchasing Division has fulfilled its responsibility in the joint administration of the Purchasing Card program. Information used to complete this review was drawn from planning committee and advisory committee meeting minutes and briefing books, a national survey on the use of procurement cards, the Request For Proposal for the purchasing card, and the contract with the financial institution that issues the purchasing card.

The methodology included interviews with representatives from the Purchasing Division and the State Auditor's office, including the Director of the Purchasing Card Program and the Division of Purchasing. The evaluation also involved a review of the post audit process, and agency training on policies and procedures to use the state purchasing card. Every aspect of this evaluation complied with Generally Accepted Government Auditing Standards.

Issue Area 1: The Purchasing Division has Provided the State Auditor Adequate Cooperation to Make the West Virginia State Purchasing Card Program “A Leader” in the United States.

A primary purpose for implementing the West Virginia State Purchasing Card Program was to significantly reduce the administrative cost associated with making payments for transactions, and to speed both the acquisition of goods and services for the State and payments to vendors. The State Auditor’s Office analyzed all invoice payments processed during fiscal year 1995. Of the 954,701 invoice transactions, 81% were less than \$500 and were considered small dollar transactions. The typical paper invoice purchasing process contains around 14 steps for each transaction. The use of an electronic payment system cuts the number of steps to make payments down to as low as three. The use of the purchasing card shifts paper processing from State agencies to the financial institution issuing the card through the following process:

- Agency personnel use the card to pay for authorized purchases;
- **The vendor receives payment directly from the card issuer in as little as three business days;**
- **Invoices do not have to be processed by the State Auditor;**
- The financial institution issuing the card sends monthly **consolidated** statements to State agencies, and requires payment within the billing cycle cutoff date.

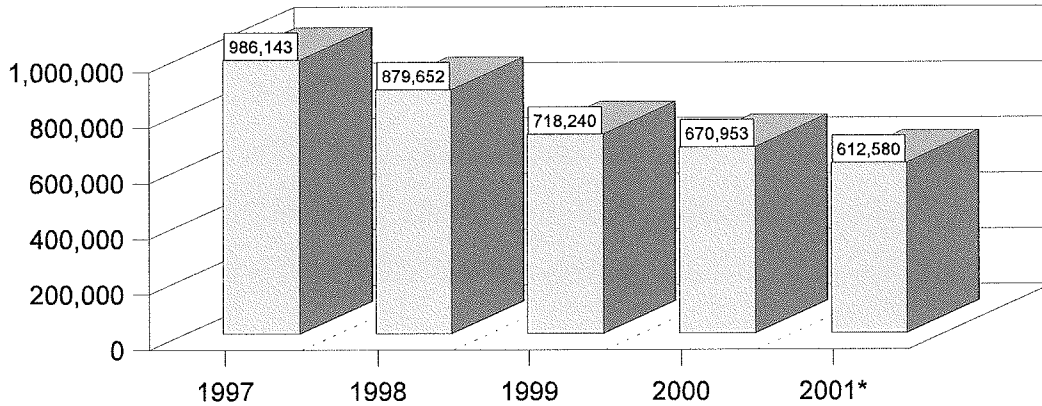
It is estimated that the state has reduced the administrative costs of paying for small transactions by over \$47 million since the inception of the Purchasing Card program.¹ This estimate is based on multiplying the total number of purchasing card transactions made (944,814 as of July 31, 2000) times \$50. The \$50 is an industry standard estimate of the total administrative cost of paying vendors for goods and services through a paper invoice system, which includes preparing invoices, cutting the checks and mailing checks to vendors. The savings to the State is an estimate of *cost avoidance* based on reducing the processing of paper invoices which has been reduced from nearly 1 million in FY 1997 to nearly 600,000 over the past five years (see Figure 1). As a way of illustrating the impact of the reduction in invoicing due to the purchasing card, in September, 1998 the State Auditor reported that “*since this programs’s inception, 26 file cabinets of paper documents have been eliminated.*”

¹ *The cost savings is likely over-stated because it does not take into account the administrative cost associated with making payments through the purchase card. Therefore, the net savings has not been calculated.*

Figure 1

Reduction in Invoice Documents

*FY 2001 is estimated based on 8.6% drop in invoices for the first three months



Purchasing Division Responsibilities With Purchasing Card Program

The State Auditor is authorized to establish a Purchasing Card Program in cooperation with the Department of Administration [WVC §12-3-10a]. As such, the State Auditor's Office has the lead role in developing and administering the Purchasing Card Program. However, the Legislative rules governing the Purchasing Card program are required by law to be jointly proposed by the State Auditor and the Purchasing Division. The Legislative rules indicate the respective responsibilities to be assumed by the State Auditor and the Director of the Purchasing Division. The Director of Purchasing has several responsibilities that **may** be exercised by rule. Some of the major tasks are:

- **Ensure cards are used for official state purposes only;**
- **Review** spending unit records of purchases;
- **Revoke authority to use a card** at any level of use if the Director determines a spending unit is in violation of this rule;
- **Review and approve new card application forms and cardholder maintenance forms** reflecting cancellations or other changes to cardholder information;
- **Advise and train coordinators and cardholders** in joint effort with the Auditor, in correct business usage of the card.

This report is limited to evaluating the Purchasing Division's role in assisting the State Auditor in developing the West Virginia Purchasing Card Program, and the Purchasing Division's ongoing support of the program. The findings of this report are that the Purchasing Division has contributed to the success of the program through providing significant cooperation to the State Auditor in developing the Purchasing Card program. The Purchasing Division continues to provide ongoing support; however, the Division should consider becoming more involved in reducing some common problems identified by the State Auditor in its post audits of agencies' use of the card.

The State Now Charges “Small Dollar” Transactions

The State purchasing card has a current transaction limit of \$2,500 per transaction.² The card also has limits for individual cards which may be lower than the official transaction limit, in order to reflect the anticipated use of the card by the cardholder. The card is used by state agencies, departments or institutions for 35,000 transactions per month and \$70 million is charged on the purchasing card annually.

The Purchasing Card program has broadened the involvement of small businesses, due to the immediacy of payments for purchases.³ The purchasing card also allows for control of small dollar expenditures. The use of the purchasing card allows for monitoring of small dollar transactions within 24 hours by:

- 1) the agency
- 2) the Purchasing Card post audit division
- 3) the financial institution administering the charge card

Through the use of computer networks, state agencies have the capability to reconcile and post to ledgers each day, so that expenditures are immediately known. Central monitoring by the State Auditor allows the Purchasing Card post audit division access to the participating agencies' activities. The financial institution is able to block attempted card activities which are prohibited, such as cash advances or transactions over the transaction limit set on the individual card.

The West Virginia State Purchasing Card is a National Leader

In the four years since its inception, the West Virginia Purchasing Card Program has attained a 100% level of participation within the state, with usage by all qualified and eligible West Virginia agencies. Out of 48 states responding to a 1999 survey by the National Association of State Comptrollers, **West Virginia was the only state with complete statewide implementation of the purchasing card.**

The Director of the Purchasing Card Program, located within the State Auditor's Office, has made presentations at two national conferences to describe how the state was able to expand its program and involve all state agencies in a three year time period. Several elements contribute to the success of the West Virginia program. A cooperative effort between the State Auditor, the Treasurer and the Department of Administration allowed the design of the purchasing card program to contain necessary elements for the state, and identify ways to make the program “user friendly” for all state agencies. This was done by:

²The Purchasing Card Program started with a transaction limit of \$500. The transaction limit was subsequently raised to \$1000, and is now set at \$2500 per transaction.

³It is estimated that the use of the Purchasing Card has cut the payment cycle from 45 days to 4 days.

- creating a method for agency participation by developing computer software named the Small Transaction Accounting and Reporting System (STARS) to provide a link between agency accounting systems, the State Auditor and the financial institution;
- allowing the purchasing card to be used flexibly to obtain materials, supplies, designated services, and to make utility payments;
- training and retraining on the policies and procedures to use the purchasing card;
- aggressive marketing to the agencies of the advantages of the purchasing card;
- mandating the use of the purchasing card through a penalty fee for non-usage.

Purchasing Division Assists in Developing the Purchasing Card Program

The Purchasing Card Advisory Committee [WVC §12-3-10e] was created “*to enhance the development and implementation of the purchasing card program*”. The 11 member Purchasing Card Advisory Committee (PCAC) consists of the Auditor as chairman, and three members from the West Virginia college and university system, one member from the Department of Health and Human Resources, and one member of the Division of Highways appointed by the Auditor’s Office; three members from within the Department of Administration, including one from the Purchasing Division, appointed by the Secretary of the Department; and one member each appointed from the Department of Tax and Revenue and the State Treasurer.

The committee has worked to identify needs of the purchasing card program, and to solve problems through the work of six sub-committees. The agencies of the state have been able to discuss and devise solutions for a broad range of tasks confronting the development of the purchasing card program. The Purchasing Division of the Department of Administration has attended 6 of 7 meetings of the PCAC, and the Purchasing Division has been actively involved with:

- **Contracts Subcommittee.** A representative of the Purchasing Division chairs this subcommittee which has worked on renewing the financial contract and discussing ways to increase the rebate received from timely payments. As the Purchasing Card program has grown, a number of changes to the contract have been necessary. One aspect of this contract is purchasing during disaster periods. Purchasing Division has also participated in the decisions about the use of the purchasing card in state and national emergencies.
- **Post Audit Subcommittee.** Purchasing Division has also been a part of this committee. Recommendations for the entire post audit process, and the specific role of the Purchasing Division in this process, have resulted from the work of this committee.
- **Utility Payment Development Assessment Team (UPDATE).** A representative of the Purchasing Division has been a member of two sub-teams of this committee. Its mission is *developing and assessing the most efficient and effective methodologies for the payment of utilities by WV state agencies, thereby achieving substantial savings in processing costs for both sectors.*

In the minutes of the PCAC for September 9, 1998, the director of the Purchasing Card program extended

Special thanks for the hard work and efforts of Rick Pickens, Dot Yeager, and the Purchasing Division of the Department of Administration.

Prior to the establishment of the Purchasing Card Advisory Committee in 1998, the Purchasing Division was active in the **initial development** of the program. A member of the Purchasing Division participated on the Purchasing Card Implementation Committee in 1996, and a buyer supervisor from the Purchasing Division was one of three members of the Purchasing Card Program Steering Committee that developed the Request For Proposal for Purchasing Card Provider Services.

The Purchasing Division Approves Purchasing Cards

While the State Auditor is primarily responsible for the **daily activities** of the Purchasing Card program, the Purchasing Division **must review all purchasing cards** through:

- 1) Approval of all card holder applications before processing by the bank
- 2) Approval of all changes to card holder applications
- 3) Approval of all revocations of cards

Approval is made by signature of a designated Purchasing Division representative on a purchasing card form, at the request of the Purchasing Card program. The Purchasing Card program now has 5,000 card holders in the State.

In addition to approval of the cards, the Purchasing Division assists with **all cardholder training**. A member of the Purchasing Division attends all training sessions, and presents information on the proper use of the purchase card. Training is held at the request of participating agencies, either in the conference room at the Purchasing Division, or onsite at the agency. Annual training is held for all card coordinators to update their knowledge of Purchasing Card policies and procedures. Training is considered a necessary component of the Purchasing Card program both for initial agency participation, and in the event that post-auditing reveals problems in the way that the audited agency is utilizing the purchasing card.

Purchasing Division Contracts For Card Provider Services

The Purchasing Division of the Department of Administration also holds the contract for the purchasing card. The West Virginia State Purchasing Card Program began in 1996 with the acceptance of a contract with One Valley Bank for card provider services following a national bid process. The length of the contract was for three years, with two renewals. This contract will either be rebid, or renewed as a "non-obligating contract" in 2001. This contract has several features which have assisted the Purchasing Card program:

- No fees, or basic interest charges for use of money.
- Two types of rebates. One rebate is based on volume of card usage. It has gone from a capped limit of \$180,000 during the first years of the contract, to an uncapped rebate. The second type of rebate is based on timely payments to the financial institution made by agencies. This rebate (about \$277,000 to date) pays for the administration of the Purchasing Card Program in the State Auditor's Office.
- Financial institution has necessary software to provide the State with specific detail on card transactions.
- Immediate response capability through financial institution "800" number for any problems encountered by card holders, and the designation of specific high level individuals at the financial institution to resolve problems.

The features of this contract allowed the development of the Purchasing Card program by minimizing costs, and providing a financial basis to permit the program to pay for itself. Specific detailed transaction information software enables the charge card activity to be scrutinized by the individual agencies or spending units, in a centralized location and by the financial institution. Communications with the financial institution were enhanced by the designation of specific individuals to respond to all purchasing card program concerns.

Delayed Implementation of a Higher Transaction Limit has been Costly

Although the Purchasing Division has provided adequate cooperation in assisting the State Auditor's Office, Purchasing has delayed the implementation of increasing the higher transaction limits approved by the Legislature effective July 1, 2000. According to the State Auditor, the state has lost over \$432,900 since July 1, 2000 in cost avoidance savings, and an estimated \$64,609 in estimated tangible savings by retaining the lower limit. The State has lost a combined \$497,509 in cost avoidance and tangible savings for the six month period since the higher limit was approved. See Appendix B for estimates from the State Auditor's Office.

In order for the higher transaction limit to be implemented, the Purchasing Division must approve the higher limit for each cardholder. According to the Director of the Purchasing Division, his reasons for the delay are as follows:

- a) The contract with the financial institution needed to be amended in order to allow the higher transaction limit. This was complicated by the fact that the financial institution was undergoing a merger. Because of the merger, the Purchasing Division decided to wait until the September 30 contract renewal to amend it instead of amending it earlier.
- b) Concern about the number of *policy and procedural* violations documented in Purchasing Card post audits. The Director felt there was a need to examine certain agencies to determine their level of readiness to handle the higher limit.
- c) Concern about possible violations of bid requirements, and buying from vendors that do not hold statewide contracts.

Additional detail for these reasons to delay is contained in a November 16, 2000 memorandum from the Director of Purchasing which appears in Appendix C.

As of November 15, 2000, the higher transaction limit had not been implemented. The Director of the Purchasing Division indicated that discussions with the State Auditor's Office were being held to develop the best method of effecting the change. Given that the higher transaction limit will provide for greater cost savings to the State, and since the Legislature approved the higher transaction to be effective July 1, 2000, the Purchasing Division should provide greater priority in implementing this change.

Toward the end of this performance audit, the Legislative Auditor received a letter from the State Auditor (the letter is in Appendix D). He expressed the desire to have the Department of Administration removed from the statutory language in order to have the Auditor's Office assume full control of the Purchasing Card Program. The State Auditor indicated that the Purchasing Division's role is fairly limited and can be easily assumed by the Auditor's Office. He also asserted that the necessary checks and balances between the purchasing process and the payment process are already established in code (Article 10, Section 3 of the Constitution of West Virginia, and WVC§12-3-9); therefore the Purchasing Division is not necessary as a part of the Purchasing Card Program. The Legislative Auditor's Office did not examine this issue during this audit, thus expresses no opinion on this matter.

Conclusion

The Purchasing Division has provided adequate cooperation to the State Auditor to make the West Virginia State Purchasing Card Program a leader in the United States through 100% agency participation in the use of the purchasing card for small dollar purchases. The Purchasing Division's assistance in the development of the Purchasing Card program has given way to a specific role in which the Purchasing Division maintains control of the purchasing cards, administers the financial contract, participates in agency training on cardholder policies and procedures, and assists in post audit sanction decisions.

Recommendation 1:

Continue the structure of cooperative administration of the Purchasing Card Program, with the Division of Purchasing providing necessary "checks and balances".

Issue Area 2: The Purchasing Division Should Consider Developing a Method to Address Purchasing Violations Identified in the Use of the Purchasing Card.

The State Auditor is responsible for the daily administration of the Purchasing Card program, including the performance of post audits which combine the use of computer monitoring and onsite inspection of agency records. Post audits are performed to test the purchasing card transactions for compliance to Purchasing Card *Policies and Procedures*. **Post audit reports are sent to the Director of Purchasing.** The Purchasing Card post audit division of the State Auditor can place an agency, or spending unit within the agency, under probation. In certain instances, card holders may lose the privilege to hold a card, and the card may be revoked. The Purchasing Division of the Department of Administration **must agree** to the card revocation, and sign a form revoking the card.

Purchasing Division is also involved in the post audit process when additional sanctions may be warranted, when the audited agency falls under the Department of Administration’s jurisdiction or when a purchasing violation involving statewide contracts occurs. Post-audits have been conducted for approximately one year, since September 1999. Thus far about 39 agencies have been audited. The Legislative Auditor sampled 10 of these post audits. Table 1 indicates frequent violations identified by the State Auditor⁴.

Table 1 Purchasing Card Program Post Audit Results	
Area of Finding	Policy & Procedure Non-compliance
Lack of Card Security	70%
Sales Tax Being Paid	70%
No Itemized Invoices	70%
No Individual Log Sheets	50%
Stringing of Purchases	40%
Restricted Purchases Made	40%
Cardholders Not Reconciling	40%
Late Payment	30%

The eight violations shown in Table 1 are areas in which Purchasing Card program *Policies and Procedures* have not been followed. Three of these areas (**Itemized Invoices, Individual Log**

⁴A **single** violation in a post audit report results in a finding of non-compliance.

Sheets, and Cardholders Not Reconciling) relate to internal record keeping. **Late Payment** reflects the agency's payment to the State Auditor, and impacts the "timely payments" rebate to the Purchasing Card program. **Stringing of Purchases** is defined as: *The intentional manipulation of the ordering, billing or payment process in order to circumvent the transaction limit.* **Restricted Purchases** are prohibited by the *Policies and Procedures* of the Purchasing Card program. **State tax** being charged violates state statutes, and may result from a lack of understanding on the part of the vendor. **Card Security** can be a lack of security, or a spending unit violation of policy by directing an employee whose name is not on the card to use it for agency purchases.

There are two cases in which legal prosecutions are being pursued, and there have been a few cases in which cardholders were required to make restitution for purchases that were not for State official business. Although violations that require legal prosecution are a small number, there are certain procedural violations identified in Table 1 that are common and occur frequently. Since the Purchasing Division by rule has authority to review spending unit's records, and to ensure proper use of the purchasing card, the Purchasing Division may want to consider developing a method to address these violations which are purchasing issues handled by the Purchasing Division. The post audit division of the Purchasing Card program should provide as much documentation as possible to assist the Purchasing Division in its investigation of purchasing violations.

Conclusion

There is concern that the frequent violations identified in post audits may be prevalent among users of the purchasing card. Since post audits have been conducted for only a year, and a limited number of agencies have been audited, it is possible that the violations identified by the post-audits are occurring in other agencies. Instead of waiting for post-audits to identify these problems over the next few years, the Purchasing Division should examine ways to reduce purchasing violations as soon as possible.

Recommendation 2:

The Purchasing Division should consider examining ways to reduce the occurrences of purchasing violations of the purchase card, possibly by inspection of agencies not recently audited, or follow-up inspections of agencies with many audit findings.

Issue Area 3: Use of the Legislative Appropriation to the Purchasing Division for the Purchasing Card Program is not Clear.

For fiscal years 1998 through 2000, the Purchasing Division has received an appropriation from the Legislature in the amounts of \$120,000; \$121,788; and \$90,561 respectively. Although Purchasing is involved in training state employees on the use of the purchasing card, and provides administrative assistance to the State Auditor, the Legislative Auditor's concern is whether the appropriation is in excess of what the Purchasing Division needs to assist the State Auditor in this program.

The Legislative Auditor asked the Purchasing Division to provide documentation on the specific uses of these appropriations towards the Purchasing Card program. The Purchasing Division provided a list of expenditures for each year, showing that the appropriations were completely disbursed. However, it was not clear to what extent this appropriation is being spent on the Purchasing Card program.

The Legislative Auditor specifically asked the Director of Purchasing "*Is the appropriation used exclusively for the Purchase Card Program?*" The Director did not respond to this question. Table 2 contains the appropriation information provided to the Legislative Auditor from the Purchasing Division.

Table 2
Purchasing Section - Fund 0210 Purchasing Card Program

Activity 711 Unclassified		FY 1998	FY 1999	FY 2000
001	Personal Services	27,516	10,135	19,362
003	Payroll Reimbursement		14,200	8,665
010	Civil Serv PEIA/PERS	28	28	60
011	Social Security Matching	2,054	1,829	2,119
012	Public Employees Ins	3,645	2,100	1,435
014	Workers Compensation	179	305	177
016	Pension and Retirement	2,614	2,312	2,663
020	Office Supplies	231	15	1,472
021	Printing/Binding	8,121	16,176	7,683
024	Telephone	15,680	4,573	4,280
025	Contractual/Professional	2,655	4,384	
026	Travel	3,625	745	
027	IS&C	39,732	44,962	30,150
030	Machine Rental		4,773	3,139
036	Vehicle Maintenance	257		
038	Maintenance Contracts		138	720
051	Miscellaneous	46		
052	Training & Development	100	225	
053	Postal & Freight	13,100	13,330	8,638
055	Credit Card Pur-Supplies		1,560	
063	Bldg&Household Equip Rep	122		
078	Other Equipment	294		
Total Expenses Activity 099		\$120,000	\$121,788	\$90,561

Conclusion

The Legislative Auditor is concerned that the appropriation received by the Purchasing Division for the program is greater than is needed given the level of involvement that Purchasing currently has. No documentation or statement provided by the Director of Purchasing indicates if the appropriation is used exclusively for the Purchasing Card program.

Recommendation 3:

The Legislature should consider examining whether there is a need to change the amount of the appropriation given to the Purchasing Division for the Purchasing Card program to be consistent with the level of assistance the Purchasing Division provides the State Auditor.

APPENDIX A

Transmittal Letter to Agency

WEST VIRGINIA LEGISLATURE
Performance Evaluation and Research Division

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John Sylvia
Director

November 15, 2000

David Tincher, Director
Purchasing Division
Department of Administration
2019 Washington Street, East
Charleston, West Virginia 25305-0130

Dear Mr. Tincher:

Attached is a revised copy of the draft report on the Purchasing Division's role in the Purchasing Card Program. This report is scheduled to be presented at the December 3 interim meeting of the Joint Committee on Government Operations. In order for the Performance Evaluation and Research Division to include a copy of your response to this report, we will need to receive your written response no later than Wednesday, November 22.

Thank you for your attention to this matter.

Sincerely,

Handwritten signature of John Sylvia in cursive script.
John Sylvia

_____ *Joint Committee on Government and Finance* _____

APPENDIX B

Memo - Purchasing Card Estimated Loss



**West Virginia State Auditor
Purchasing Card Program
Building 1, Room W-502
Charleston, WV 25305
Telephone: 304-558-2251
Fax: 304-558-5200**

Memo

To: Aaron Allred, Legislative Manager
From: Glen B. Gainer, III *Glen B. Gainer III*
Date: November 15, 2000
Re: Purchasing Card Estimated Loss

The West Virginia State Auditor's Office estimates that the delay in implementing a transaction increase for the Purchasing Card Program has cost the State of West Virginia \$248,754.60.

The above figure for the quarter beginning July 1, 2000 consists of \$32,304.60 in tangible dollars that the State of West Virginia would have received had the increased transaction limit taken effect on July 1, 2000. In addition, a cost avoidance savings of approximately \$216,450 would have been realized for the above mentioned quarter.

As of November 15, 2000, the increased transaction limit has not been approved by the Director of Purchasing. The West Virginia State Auditor's Office Purchasing Card Program estimates that it will take 4-6 weeks to implement the increased transaction limit after its approval by the Director of Purchasing. Therefore, immediate approval of the increased transaction limit would result in an implementation date of January 1, 2001. This delayed implementation, given current trends, would result in an additional estimated loss of \$250,000.

Therefore, the total estimated loss due to the delayed implementation of the purchasing card transaction limit increase is approximately \$500,000. Attached is a justification of the above estimates.¹

If you have any questions, please contact me at 558-2251.

¹ The above estimates were compiled by the West Virginia State Auditor's Office Purchasing Card Program.

**PURCHASING CARD ESTIMATED LOSS DUE TO DELAY IN
IMPLEMENTING THE PER TRANSACTION INCREASE TO \$2,500.00**

Actual Figures for the three-month period beginning July 01, 2000:

Total Dollar Volume: \$20,846,434.62
Total Number of Transactions: 12,996

Rounded Figures for the three-month period beginning July 01, 2000 multiplied by one third, which is the estimated percentage of dollar volume and number of transactions that should have been procured utilizing the purchasing card:

Dollar Volume: \$20,800,000 * .333 = \$6,926,400
Transactions: 4,329 * .333 = 4,329

Agencies are billed one dollar per invoice that is sent to the West Virginia State Auditor's Office for payment. The estimated loss to agencies due to this fee is the number of transactions multiplied by the one-dollar fee:

$$4,329 * \$1 = \$4,329$$

The West Virginia State Auditor's Office receives a quarterly rebate on the total dollar volume placed on the purchasing card. The estimated loss to the Auditor's Office for the quarter beginning July 01, 2000 is the total dollar volume multiplied by the rebate percentage:

$$\$6,926,400 * .004 = \$27,705.60$$

The West Virginia State Auditor's Office estimates that fifty dollars is saved for each transaction placed on the purchasing card. Fifty dollars per transaction is the lowest industry standard. This is not a tangible number. It represents costs that have been avoided due to the use of the purchasing card and a more efficient method of processing payments. Multiplying the number of transaction for the period by fifty dollars derives this number:

$$4,329 * \$50 = \$216,450$$

The above information indicates that the delay in implementing the increased transaction limit cost the State of West Virginia an estimated tangible savings of \$32,304.60 and an intangible savings of \$216,450.

Given current trends, an additional \$250,000 will be lost if implementation is delayed until January 1, 2001.

APPENDIX C

Memo - Purchase Card Program



CECIL H. UNDERWOOD
GOVERNOR


STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION
PURCHASING DIVISION
2018 WASHINGTON STREET, EAST
P.O. BOX 60130
CHARLESTON, WEST VIRGINIA 25305-0130

JACK R. BUCKALEW
CABINET SECRETARY

DAVID TINCHER
DIRECTOR

November 16, 2000

To: John Sylvia, Director
West Virginia Legislature
Performance Evaluation and Research Division

From: David Tinchler, Director 

Re: Pcard Program

This memorandum is a follow-up to our Full Performance Audit exit conference yesterday. In that conference, we offered to provide additional information relative to two issues.

The first issue involves the increase in the single transaction limit from \$1,000 to \$2,500. Our concern with this increase includes:

1. The merger of One Valley Bank and BB&T was not consummated until very recently. Since the new corporation would be the company of record, we wanted to assure that BB&T agreed to all contract terms and conditions and were willing to continue. That agreement was not secured until September 30, 2000.
2. The original contract limited the single transaction limit to \$500. That limit was modified in 1998 by change order to \$1,000. The necessary change order to increase the limit to \$2,500 was not agreed to by all parties and received by Purchasing until October 24, 2000.
3. The vast majority of audit reports received from the Auditor's Office Post Audit team have included violations of rules and regulations. We have been reluctant to increase limits in an agency that has a substantial number of violations. We have proposed that increases be granted based on audit performance criteria developed jointly by the Auditor's Office and the Purchasing Division.

4. The current statutory limit by which agencies may purchase without competitive bids is \$1,000 which coincides with the current Pcard single transaction limit of \$1,000. Additionally, many small dollar items are on existing statewide contracts. The increase in the Pcard limit, we believe, may lead to agencies violating bid requirements, and buying items from vendors that do not hold statewide contracts.

The second issue involves expenses related to the Pcard appropriation. We have one full time employee that works on the Pcard program on a part-time basis. Additional staff provide assistance as he needs it. The employee indicates a percentage to allocate current expenses such as mailing and telephone, based on his estimate of the portion that relates to the Pcard program.

If you have questions or need additional information, please let me know.

APPENDIX D

**Letter - Auditor's Office Assume Full Control of Purchasing
Card Program**



State of West Virginia

Office of the State Auditor
Building 1, Room W-100
Charleston, West Virginia 25305

Telephone: (304) 558-2251
FAX: (304) 558-5200
Internet: <http://www.wvauditor.com>

Glen B. Gainer III
State Auditor

November 14, 2000

Mr. Aaron Allred
Legislative Manager
Building 1, Room E-132
Charleston, WV 25305

Dear Mr. Allred:

The West Virginia State Auditor's Office respectfully requests that the Office of Legislative Auditor consider making a recommendation to the Government Operations Committee to draft legislation removing the Department of Administration from §12-3-10a, and allowing the Auditor's Office to assume full control of the Purchasing Card Program.

The Purchasing Card Program in the State Auditor's Office is currently responsible for the day-to-day activities of the Purchasing Card. The Purchasing Division's involvement has been limited to approving purchasing card applications, approving basic card maintenance, and approving revocations of cards. Because this process involves little more than an employee in the Purchasing Division signing applications delivered to him by the Auditor's Office, it is a process that could easily be assumed by the Auditor's Office.

In the draft Full Performance Evaluation of the Department of Administration, Purchasing Division, Ms. Gail Higgins recommends the continuation of "the structure of cooperative administration of the Purchasing Card Program, with the Division of Purchasing providing the necessary checks and balances." The State Auditor's Office asserts that the necessary checks and balances between the purchasing process and the payment process are clearly established in Article 10, Section 3 of the Constitution of West Virginia, as well as §12-3-9 of the West Virginia Code. The Purchasing Card is actually a payment card. All goods and services purchased by state agencies must comply with purchasing guidelines established by the Purchasing Division, regardless of the method of payment. The Purchasing Card merely facilitates payments to the vendor.

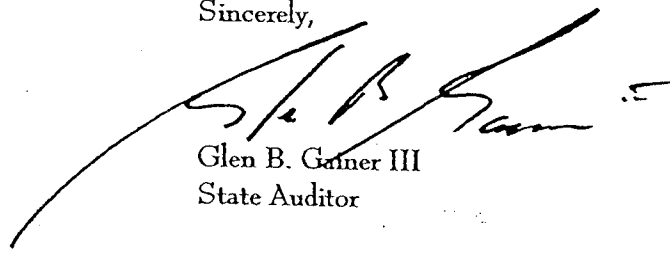
Mr. Aaron Allred
November 14, 2000
Page Two

As you are aware, the relationship between the Purchasing Card Program and the Purchasing Division has become strained over recent refusals by the Purchasing Division to implement rules adopted by the State Legislature. The Purchasing Division has indicated its reluctance in implementing this law stems from the findings presented in several Purchasing Card post-audits. Although the Purchasing Card Post-Audit staff has found some record keeping errors in the review of the Purchasing Card transactions of several agencies, no actual financial loss has been realized by the State.

The Purchasing Card Program asserts that the proper controls are currently in place to ensure that Purchasing Card Policies and Procedures, as well as State Law, are followed by every cardholder. An aggressive post-audit program has been established and is effective at assuring compliance. The removal of the Department of Administration from the Purchasing Card Program would provide a more effective, cost efficient payment process and would facilitate the future success and expansion of the program.

Your consideration of this very important matter would be greatly appreciated.

Sincerely,



Glen B. Garner III
State Auditor

APPENDIX E
Agency Response



STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION
PURCHASING DIVISION
2019 WASHINGTON STREET, EAST
P.O. BOX 50130
CHARLESTON, WEST VIRGINIA 25305-0130

CECIL H. UNDERWOOD
GOVERNOR

JACK R. BUCKALEW
CABINET SECRETARY

DAVID TINCHER
DIRECTOR

November 29, 2000

Mr. John Sylvia
Research Manager
WV Legislature
Performance Evaluation and Research Division
Building 1, Room W-314
1900 Kanawha Boulevard, East
Charleston, WV 25305-0610

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**RESEARCH AND PERFORMANCE
EVALUATION DIVISION**

Dear Mr. Sylvia:

In response to your November 15, 2000 letter, please be advised that the Purchasing Division agrees with the recommendations made by the Performance Evaluation and Research Division in the draft report of the Purchasing Division's role in the Purchasing Card Program.

If you have any questions or need additional information, please let me know.

Sincerely,

David Tincher, CPPO, Director
Purchasing Division

DT/dw

