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We have completed an audit of the Purchasing Division. This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions. The results of our audit, including findings, conclusions, recommendations, and the Division's response, are presented in this report.

We wish to express our appreciation to the management and staff of the Purchasing Division for their assistance during the audit.

Respectfully presented,

A handwritten signature in black ink, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA  
Legislative Auditor

March 25, 2010  
Carson City, Nevada

STATE OF NEVADA  
DEPARTMENT OF ADMINISTRATION  
PURCHASING DIVISION

AUDIT REPORT

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# EXECUTIVE SUMMARY

## DEPARTMENT OF ADMINISTRATION PURCHASING DIVISION

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### Background

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The Purchasing Division is responsible for all functions related to purchasing, renting, or leasing supplies, materials, and equipment needed by state agencies. Purchasing either performs these functions directly or delegates them to using agencies. The Division's purpose is to obtain supplies, equipment and services in a timely manner, to secure the best value, and give vendors an equal opportunity to do business with the State.

The Division's main operating budget had expenditures of about \$3.1 million in fiscal year 2009. These expenditures were funded by an assessment on state agencies. The Division has 40 positions with offices located in Carson City, Reno, and Las Vegas.

The State began a pilot Procurement Card (P-Card) program in 1998, with nine state agencies participating. Currently, the P-Card is a VISA card issued by U.S. Bank, similar to a personal credit card, but the State pays the bill. Cardholders agree to use the card for qualifying purchases only, not loan their card, maintain receipts or invoices for each transaction, and surrender the card upon termination. As of January 2010, 316 state employees had P-Cards.

Agencies are required to develop P-Card policies and procedures that must be approved by the Division of Internal Audits' Financial Management Section. The Purchasing Division then approves agencies to participate in the program and facilitates setting up agencies with the bank. After Purchasing's approval, agencies are responsible for establishing cardholders with the bank, setting up credit and single transaction limits, and monitoring activity on the card.

## EXECUTIVE SUMMARY

### DEPARTMENT OF ADMINISTRATION PURCHASING DIVISION

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## Purpose

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The purpose of this audit was determine if (1) adequate controls are in place to administer and monitor the State's Procurement Card program, and (2) performance measure results are reliable. Our audit focused on controls currently in place over the Procurement Card program and performance measure results for fiscal years 2007 – 2009.

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## Results in Brief

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The Purchasing Division can improve its oversight of the State's Procurement Card (P-Card) program. The Division needs to improve its oversight of procurement card activity to help ensure the program operates effectively and payments are timely. This will help maximize cash rebates available through the program and avoid late payment fees. Oversight can be improved by developing internal controls to guide Purchasing staff and enhancing statewide policies and procedures to assist participating agencies.

The Division can improve the reliability of its performance measures reported in the Executive Budget and internally to management. Specifically, flawed methodologies were used to determine reported results for some measures, which resulted in the Division overstating savings it achieved for state agencies. In addition, math errors occurred when calculating some measures and supporting documentation was not always retained. Finally, current policies and procedures are out-of-date and do not provide staff with adequate guidance to help ensure reported results are reliable and accurate.

## EXECUTIVE SUMMARY

### DEPARTMENT OF ADMINISTRATION PURCHASING DIVISION

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## Principal Findings

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- The Division has not developed internal policies and procedures for the State's Procurement Card (P-Card) program. As a result, Purchasing staff have not received adequate guidance to manage the P-Card program. Additionally, since several staff are involved in various aspects of the program, duties and responsibilities for program activities should be clearly defined to ensure the program receives adequate oversight and monitoring. (page 9)
- The Division has not established an effective process to monitor the State's procurement card activity. A system of monitoring P-Card activities, including specific duties and responsibilities for staff, have not been established in writing. Ongoing monitoring is needed to help ensure the State maximizes rebates, avoids late payment fees, and identifies improper activities. (page 9)
- The Division needs to revise statewide policies and procedures designed to assist agencies in managing their procurement card programs. Existing procedures do not adequately address key procedures such as the reporting and consequences of unauthorized use (personal use), prohibited items, merchant codes, disputed transactions, and timely payments. In addition, the Division's website contains two different versions of internal control procedures agencies are required to follow. Finally, Purchasing should consider combining policies, procedures, forms, and other information into a manual to assist prospective and current P-Card users. (page 11)
- The results for performance measures for fiscal years 2007, 2008, and 2009 were not always reliable. The Division used flawed methods to determine results for some measures. This includes two measures on the

## **EXECUTIVE SUMMARY**

### **DEPARTMENT OF ADMINISTRATION PURCHASING DIVISION**

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savings realized when agencies use the Division to acquire goods and services. In other cases, inaccurate information was reported because math errors were made when calculating results. In addition, documentation supporting results was not always retained. Therefore, decisions affecting Division programs could be made based on unreliable and inaccurate information. (page 13)

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## **Recommendations**

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This report contains six recommendations to improve procurement card oversight and the reliability of performance measure results. Three recommendations address improving procurement card policies and procedures, and the monitoring of card activity. In addition, three recommendations address improving the accuracy and reliability of performance measure results. (page 22)

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## **Agency Response**

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The Division, in response to the audit report, accepted the six recommendations. (page 20)

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# Introduction

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## Background

The Purchasing Division is responsible for all functions related to purchasing, renting, or leasing supplies, materials, and equipment needed by state agencies. Purchasing either performs these functions directly or delegates them to using agencies. The Division's purpose is to obtain supplies, equipment and services in a timely manner, to secure the best value, and give vendors an equal opportunity to do business with the State.

The Division includes three functional units or programs: Central Services Purchasing, Food Distribution, and Property Management. The Central Purchasing program contracts for goods (vehicles, computers, furniture) and services (temporary staffing, court reporting, and mail services) available to all state agencies. Purchasing also assists agencies by obtaining price quotes for purchases of \$5,000, or more; conducting invitations to bid for the purchase of goods of \$25,000, or more; and the purchase of services typically over \$100,000.

The Food Distribution Program provides administrative support, storage, and delivery of U.S. Department of Agriculture surplus food to schools, charitable organizations, senior centers, and Indian reservations. In fiscal year 2009, the Division reported distributing about 30 million pounds of food, and serving about 210 organizations and 10 Indian reservations throughout the state.

The Property Management Program includes three areas: Fixed Asset Management, State Excess Property, and Federal Surplus Property. The Division maintains inventory records for the State's fixed assets with a cost of \$5,000 or more, such as vehicles and equipment. The Division also handles the distribution and disposal of excess property from state agencies including vehicles, equipment, and furniture. Excess items are made available to government agencies and non-profit organizations, and in some cases sold at auction to the public. Finally, the Division assists Nevada government agencies and non-profit organizations with obtaining surplus property donated by the federal government.

The Division has 40 positions with offices located in Carson City, Reno, and Las Vegas. The Division manages two operating budgets: Purchasing and the Food Distribution Program. For fiscal year 2009, the Purchasing budget had expenditures of about \$3.1 million. The Purchasing budget is funded by an assessment on state agencies. For fiscal year 2009, the Food Distribution budget had expenditures of about \$7.2 million. The Food Distribution program is supported by federal funding, and warehousing and delivery fees.

### **Procurement Card Program**

The State began a pilot Procurement Card (P-Card) program in 1998, with nine state agencies participating. Currently, the P-Card is a VISA card issued by U.S. Bank, similar to a personal credit card, but the State pays the bill. Cards have several built-in controls. Each card is assigned a credit limit and a single transaction limit. Each card is blocked from purchasing from vendors in specific categories to help prevent inappropriate purchases. For example, state cards are blocked from purchases in hotels, casinos, and liquor stores. Agencies may block purchases from additional vendors. Furthermore, cardholders agree to use the card for qualifying purchases only, not loan their card, maintain receipts or invoices for each transaction, and surrender the card upon termination. As of January 2010, 316 state employees had P-Cards.

To participate in the P-Card program agencies must designate an employee as the agency's Procurement Card Administrator (PCA) to oversee the program. Agencies are also required to develop P-Card policies and procedures that must be approved by the Division of Internal Audits' Financial Management Section. The Purchasing Division then approves agencies to participate in the program and facilitates setting up agencies with the bank. After Purchasing's approval, agency PCAs are responsible for establishing cardholders with the bank, setting up credit and single transaction limits, and monitoring activity on the card.

P-Cards provide an efficient method for making purchases. Savings result through reduced paperwork compared to the traditional purchasing process and because a check does not have to be issued to each vendor. Additionally, the bank pays a rebate to the State for using the card. Currently, rebates are based on the dollar volume of purchases made and timeliness of payments. The State started earning



rebates in August 2006. Exhibit 1 shows state rebates received from August 2006 through December 2009.

**Exhibit 1**

**Procurement Card Rebates  
August 2006 – December 2009**

<b>Time Period</b>	<b>August 2006 – July 2007 (1 year)</b>	<b>August 2007 – July 2008 (1 year)</b>	<b>August 2008 – July 2009 (1 year)</b>	<b>August – December 2009 (5 months)</b>
<b>Rebate Amount</b>	\$29,969	\$52,189	\$50,606	\$32,631

Source: Purchasing Division.

Rebates in part are based on how timely agencies make payments. The State receives a rebate for payments made from 1 – 59 days after the statement date. The earlier the payment, the higher the rebate. On average, state agencies made payments 41 days after the statement date between March and December 2009.<sup>1</sup> Rebates earned from NDOT purchases are deposited in the Highway Fund and rebates earned from purchases made by other state agencies are deposited in the General Fund.

The bank reported that state P-Card purchases between March and December 2009 totaled \$5.3 million. Most purchases were made by three agencies: the Departments of Transportation, Health and Human Services, and Administration. Exhibit 2 shows purchases by agency.

**Exhibit 2**

**2009 Procurement Card Purchases by Agency  
Using U.S. Bank VISA Card**

<b>Agency</b>	<b>Purchases</b>	<b>Percentage</b>
Transportation	\$3,978,045	75%
Health and Human Services	661,285	12%
Administration	513,371	10%
Other State Agencies	164,375	3%
<b>Totals</b>	<b>\$5,317,076</b>	<b>100%</b>

Source: U.S. Bank information provided to the Purchasing Division.

<sup>1</sup> State contracted with U.S. Bank in January 2009, agencies began using U.S. Bank VISA card in March 2009.

Exhibit 2 shows that 75% of P-Card purchases were made by the Department of Transportation, 12% by Health and Human Services, and 10% by Administration. In Health and Human Services, the primary agencies using P-Cards are the mental health facilities. The Buildings and Grounds and Motor Pool Divisions are the principal P-Card users in the Department of Administration.

Most state agencies have not taken advantage of the P-Card program. As of January 2010, 30 state agencies were participating in the program.<sup>2</sup> However, the Division has recently taken actions that will likely increase the use of P-Cards. This includes revisions to the State Administrative Manual (SAM) in November 2009 that encouraged agencies to use P-Cards and prohibited the use of credit card accounts with other merchants. Revisions to SAM also increased agencies direct purchase authority from less than \$1,000 to less than \$5,000. This change provides agencies with more opportunities to use P-Cards.

## **Scope and Objectives**

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218.737 to 218.893. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility of public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This audit included a review of the Purchasing Division's current processes for administering and monitoring the State's Procurement Card program. It also included a review of the Division's performance measure results for fiscal years 2007 – 2009. Our objectives were to determine if:

- Adequate controls are in place to administer and monitor the State's Procurement Card program, and
- Performance measure results are reliable.

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<sup>2</sup> See Appendix B for a listing of the 30 participating agencies.

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## **Findings and Recommendations**

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### **Procurement Card Controls Can Be Strengthened**

The Purchasing Division can improve its oversight of the State's Procurement Card (P-Card) program. The Division needs to improve its oversight of procurement card activity to help ensure the program operates effectively and payments are timely. This will help maximize cash rebates available through the program and avoid late payment fees. Oversight can be improved by developing internal controls to guide Purchasing staff and enhancing statewide policies and procedures to assist participating agencies.

#### **Division Internal Controls Are Not Adequate**

The Division has not developed internal controls to guide its staff in administering and overseeing the State's procurement card program. Internal controls include written policies and procedures and a process for monitoring procurement activity. Policies and procedures along with monitoring are needed to help ensure purchases are appropriate and payments timely.

#### **Policies and Procedures for P-Card Program Not Developed**

The Division has not developed internal policies and procedures for the State's Procurement Card program. As a result, Purchasing staff have not received adequate guidance to manage the P-Card program. Additionally, since several staff are involved in various aspects of the program, duties and responsibilities for program activities should be clearly defined to ensure the program receives adequate oversight and monitoring. Policies and procedures in this area are also important because agencies direct purchase authority was recently increased and agencies have been encouraged to increase their use of the P-Card. These changes will most likely result in greater P-Card activity and the need for more oversight. Division staff acknowledged that policies and procedures are needed.

#### **Monitoring Process for P-Cards Not In Place**

The Division has not established an effective process to monitor the State's procurement card activity. A system of monitoring P-Card activities including specific

duties and responsibilities for staff have not been established in writing. Ongoing monitoring is needed to help ensure the State maximizes rebates, avoids late payment fees, and identifies improper activities.

State agencies have primary responsibility to monitor their P-Card activity. Specifically, agency Procurement Card Administrators (PCA) have the primary responsibility to ensure that cards include appropriate restrictions, cardholders understand their responsibilities, and transactions are reviewed. Agency supervisors are responsible for approving and ensuring transactions are appropriate. Agency fiscal staff are responsible for reconciling transactions on billing statements with supporting documentation, such as receipts. However, some additional monitoring by the Purchasing Division on a statewide basis is needed to identify potential systemic problems or issues.

The State's current P-Card vendor, U.S. Bank, through its website provides a variety of reports to assist with monitoring program activity. These include reports identifying the number of cardholders, transactions, payment timeliness, and account balances. Purchasing staff can review P-Card activity collectively for all agencies and by agency. The PCAs have access to reports for their agency. Purchasing and using agencies can also develop customized reports.

We reviewed reports on the bank's website and identified several reports Purchasing should review on a routine basis. These include reports identifying accounts with past due balances and purchases by type of merchant (office supplies, automotive parts, hardware). Reviewing these reports would help ensure that payments are timely and purchases appropriate. For example, P-Cards should not be used in hotels, casinos, and liquor stores. Additionally, the State should not pay sales tax on purchases. There may be additional bank reports that may help Purchasing staff with monitoring program activity. Reviewing these reports on a routine basis should only require limited staff resources.

The Division needs to develop written policies and procedures for monitoring P-Card activity statewide. Procedures should identify monitoring requirements, staff performing monitoring, how often bank reports should be reviewed, and what actions should be taken when problems are found.

## **Statewide Policies and Procedures Can Be Improved**

The Division needs to revise statewide policies and procedures designed to assist agencies in managing their procurement card programs. Existing procedures do not adequately address key procedures such as the reporting and consequences of unauthorized use (personal use), prohibited items, merchant codes, disputed transactions, and timely payments. In addition, the Division's website contains two different versions of internal control procedures agencies are required to follow. Finally, Purchasing should consider combining policies, procedures, forms, and other information into a manual to assist prospective and current P-Card users.

### **Key Provisions Missing**

Purchasing's website contains information on the State's P-Card program. This includes general information, internal control procedures, and forms for PCAs and cardholders to enroll in the program. However, the information available does not address several key areas. Current procedures do not address unauthorized use of P-Cards or what actions agencies should take if unauthorized use occurs. In addition, procedures do not adequately address how to handle disputed transactions, the use of merchant codes to limit where cards can be used, and other provisions.

### **Timely Payments**

Agencies have not received sufficient guidance to help ensure P-Card payments are timely. Purchasing staff indicated that some agencies do not pay bills timely because employees have not turned in receipts, and agencies want to reconcile P-Card statements to receipts before making payment. Failure to turn in receipts and reconcile statements timely is an internal agency issue that should not delay payments. However, current policies and procedures do not provide agencies with sufficient guidance on the need for timely payments.

Timely payments are important for two reasons. First, the State incurs a 2.5% late fee on unpaid balances at 60 days past due and the account is suspended at 61 days past due. Second, the State can receive a rebate on accounts paid from 1 to 59 days after the statement date. The earlier a payment is made the larger the rebate. The bank reported in 2009 state payments were made on average at 41 days. We

estimate if payments were made on average at 30 days, the State's 2009 rebate would have increased by nearly \$6,000.

#### Internal Control Procedures

Agencies are directed to the Division's website for P-Card program requirements and other information. However, the website includes two different sets of internal control procedures for the P-Card program. Furthermore, these two sets of procedures are different than control procedures on the Division of Internal Audits' website. These procedures include requirements for PCAs, cardholders, and other agency personnel. Procedures include provisions that state agencies must include in their internal control procedures. Although the three sets of procedures contain many of the same requirements, we found several differences, which may cause confusion for agencies. For example, two sets of procedures address agency supervisory review and one does not. One set of procedures addresses State Purchasing's responsibilities, while the other two do not. To avoid confusion and help ensure agencies clearly understand P-Card requirements, Purchasing should establish one set of minimum internal control procedures.

#### Policy and Procedures Manual

When revising policies and procedures the Division should consider combining general P-Card information, internal controls, PCA and cardholder forms, and other program information into a manual. Four of five states we contacted have developed manuals for their P-Card programs. When reviewing these states' manuals we found it was relatively easy to locate key program information. Additionally, Purchasing has a manual for the State's Travel Card program which operates similarly to the P-Card program. A manual would provide one place for key program information and help avoid potential problems resulting from information being in several locations.

### **Recommendations**

1. Develop internal policies and procedures to assist Division staff with administering and overseeing the State's procurement card program.

2. Ensure that key procurement card activities, such as late payments and purchases by merchant code, are monitored on a routine basis.
3. Revise statewide policies and procedures governing the State's procurement card program to assist state agencies participating in the program.

## **Performance Measures Need Improvement**

The Division can improve the reliability of its performance measures reported in the Executive Budget and internally to management. Specifically, flawed methodologies were used to determine reported results for some measures, which resulted in the Division overstating savings it achieved for state agencies. In addition, math errors occurred when calculating some measures and supporting documentation was not always retained. Finally, current policies and procedures are out-of-date and do not provide staff with adequate guidance to help ensure reported results are reliable and accurate.

### **Performance Measure Results Are Not Reliable**

The results for performance measures for fiscal years 2007, 2008, and 2009 were not always reliable. The Division relied on faulty methodologies to determine some results. In other cases, inaccurate information was reported because math errors were made when calculating results. In addition, documentation supporting results was not always retained. Therefore, decisions affecting Division programs could be made based on unreliable and inaccurate information.

#### **Flawed Methods**

The Division used flawed methods to determine results for three performance measures. As a result, reported results do not accurately reflect the benefits Purchasing achieves for the State and other agencies. The three performance measures with flawed methods are:

- Average discount rate on the central procurement of services.
- Average percent saved on purchases.

- Percent of USDA food lost, damaged, or spoiled at the state warehouse.

Purchasing measures the “average discount rate on the central procurement of services.” The measure is determined by calculating the difference between the high and low cost proposal on Requests for Proposals (RFP). The Division reported a discount rate of 41% in fiscal year 2008 and 39% in 2009. However, unlike invitations to bids, costs in proposals are secondary to the vendor’s ability to perform the desired work effectively. Therefore, in many RFPs, the lowest cost proposal may not be selected.

We reviewed five RFPs completed during fiscal year 2009 and found the low cost proposal was not selected on three. Because the lowest cost proposal is not always selected, the methodology used overstates the savings achieved by using Purchasing. For example, the highest cost proposal for one RFP was \$225,796 and the lowest proposal was \$181,292. The Division calculated the savings as 20%, which was the difference between the high and low cost proposals. However, the actual proposal selected had a cost of \$223,800. Therefore, the savings should have been calculated as 1%, which was the difference between the high cost proposal and the actual proposal selected. A similar methodology flaw was noted for the measure called “average percent saved on purchases.”

The Food Distribution Program (FDP) measures on a quarterly and annual basis the percent of USDA food lost, damaged, or spoiled at the state warehouse. However, FDP incorrectly included in the calculation inventory adjustments that were not related to items being lost, damaged, or spoiled. Therefore, the results for this measure were not calculated accurately. Although reported results were inaccurate, the percentage of FDP food lost, damaged, or spoiled was still a very small percentage of the total amount of food handled at the warehouse.

#### Inaccurate Results

We found that incorrect results were reported for some measures due to math errors. These include math errors made identifying the number persons attending division–sponsored training and determining the amount of FDP food lost, damaged, or spoiled. Neither of these errors significantly changed the reported results. These errors



could be avoided by developing a review process to ensure supporting documentation is kept and calculations made to determine the results were accurate.

#### Documentation Not Retained

Documentation supporting performance measure results was not retained for three of seven measures. For example, staff could not provide documentation supporting reported results for the “average percent saved on purchases” measure during fiscal years 2007 - 2009. Although the Division reported savings of 25% for fiscal year 2008 in the latest Executive Budget, the reliability of reported results cannot be verified without supporting documentation. Section 2512 of the State Administrative Manual (SAM) requires state agencies to retain supporting documentation for performance measures for at least 3 years.

#### Policies and Procedures Need to Be Updated

The Division’s policies and procedures governing performance measures are outdated and incomplete. As a result, staff do not receive sufficient guidance to help ensure reported results are reliable and accurate. Outdated and incomplete policies and procedures contributed to reliability and accuracy problems found with performance measure results.

Procedures do not provide sufficient guidance to help ensure that methods for developing reported results are sound, and sources of information and calculations used are maintained for at least 3 years. We also found procedures lacked a review process to ensure information was accurate. Procedures should include a process that identifies the sources of information used to determine results, the calculations used to compute results, and a review process to help avoid errors in collecting and calculating results.

Procedures also do not accurately identify which staff positions should be involved in collecting and analyzing information, and calculating performance measure results. We found current procedures identified staff positions that no longer exist. In other cases, we found current staff positions involved in preparing performance measure results that were not identified in procedures.

Finally, we found that methodologies for six of seven measures were not sufficiently addressed in the Division’s procedures on performance measures. SAM

2512 requires agencies to develop written procedures on the methodology used to calculate performance measures.

### **Recommendations**

4. Revise methodologies used to calculate performance measures to ensure they reasonably reflect what they were intended to measure.
5. Develop written procedures requiring that calculations and supporting documents used to determine performance measures be retained for at least 3 years.
6. Update Division policies and procedures for performance measures to address which staff positions are responsible for collecting information, calculating the results, and reviewing the results to ensure measures are accurate, complete, and reliable.

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# Appendices

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## Appendix A Audit Methodology

To gain an understanding of the Purchasing Division, we interviewed management and staff, and reviewed statutes, regulations, policies, and procedures significant to the procurement card (P-Card) program and performance measures. In addition, we reviewed financial information, reports and statistics, legislative and executive budgets, minutes of various legislative committees, prior audit reports, performance measures and results, and other information describing Division activities.

To determine if adequate P-Card controls are in place we reviewed policies, procedures, internal controls, and other program guidance. We analyzed these policies, procedures, and controls for adequacy and completeness. We reviewed and assessed various bank reports available to the Purchasing Division and the agencies. We then identified several reports from U.S. Bank's website that may assist the Division with monitoring program activity. We discussed policies, procedures, guidelines, bank reports, and other controls with Division staff. We also discussed P-Card programs with staff in five surveyed states and reviewed policies, procedures, and other controls used by these states.

To determine the appropriateness of P-Card purchases we reviewed monthly statements from September through November 2009 for three state agencies (based on volume of card activity). We reviewed statements for large dollar purchases (over \$500) and transactions that seemed unusual (based on items purchased). In addition, we reviewed purchases made by eight cardholders from July through November 2009 (based on volume of card activity). We examined the types of items purchased, number of purchases made, dollar amount, and supporting documentation. Furthermore, from a listing of cardholders we randomly selected 30, and verified that all 30 were state employees.

To evaluate performance measures, we obtained copies of results and supporting documentation for fiscal years 2007, 2008, and 2009. We verified the

reliability of performance measures by comparing reported results with supporting documentation. We reviewed the reasonableness of methods used to determine results. We recalculated results to verify that reported results were accurate. We then analyzed measures and compared them with state requirements and best practice. We also discussed performance measures, methodologies, results, and discrepancies with Division staff.

Our audit work was conducted from August 2009 to February 2010. 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 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.

In accordance with NRS 218.821, we furnished a copy of our preliminary report to the Administrator of the Purchasing Division. On March 16, 2010, we met with agency officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix C which begins on page 20.

Contributors to this report included:

Lee Pierson  
Deputy Legislative Auditor

Tom Tittle, CPA, CIA, CFE  
Deputy Legislative Auditor

Richard A. Neil, CPA  
Audit Supervisor

**Appendix B**  
**Agencies Participating in the Procurement Card Program**  
**As of January 2010**

1. Division of Aging Services
2. Office of the Attorney General
3. Budget and Planning Division
4. Buildings & Grounds Division
5. Consumer Health Assistance
6. Office of the State Controller
7. Division of Child and Family Services
8. Desert Regional Center
9. Division of Emergency Management
10. Gaming Control Board
11. Office of the Governor
12. Governor's Mansion
13. Department of Information Technology
14. Motor Pool Division
15. Department of Transportation
16. Nevada Magazine
17. Northern Nevada Adult Mental Health Services
18. Northern Nevada Child and Adolescent Services
19. Department of Personnel
20. Public Utilities Commission
21. Purchasing Division
22. Purchasing Division – Food Distribution Program
23. Risk Management Division
24. Secretary of State
25. Sierra Regional Center
26. Silver State Industries
27. Southern Nevada Adult Mental Health Services
28. Nevada Supreme Court
29. Office of the State Treasurer
30. Department of Wildlife

## Appendix C

### Response From the Purchasing Division



JIM GIBBONS  
Governor

STATE OF NEVADA  
DEPARTMENT OF ADMINISTRATION  
PURCHASING DIVISION  
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ANDREW K. CLINGER  
Director

GREG SMITH  
Purchasing Administrator

March 23, 2010

Paul Townsend, CPA Legislative Auditor  
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Carson City, Nevada 89701-4747

Dear Mr. Townsend,

The Purchasing Division appreciates the thorough and professional manner in which the Legislative audit was conducted. Per your letter dated March 8<sup>th</sup> and our subsequent March 16<sup>th</sup> meeting, we are pleased to respond to the following recommendations:

1. Develop internal policies and procedures to assist Division staff with administering and overseeing the State's procurement card program.

***Accepted. The Division will create written policies and procedures to provide direction to the Division's staff for administering the procurement card program.***

2. Ensure that key procurement card activities, such as late payments and purchases by merchant code, are monitored on a routine basis.

***Accepted. The Division will assign the additional responsibility to a designated staff member to run a monthly delinquency report for the procurement card program, and will monitor the merchant codes on a quarterly basis. Written internal policies and procedures will be created to support these additional functions.***

3. Revise statewide policies and procedures governing the State's procurement card program to assist state agencies participating in the program.

***Accepted. The Division will enhance the existing procurement card program policies and procedures and make them available electronically to all state agencies.***

4. Revise methodologies used to calculate performance measures to ensure they reasonably reflect what they were intended to measure.

*Please visit our website at <http://purchasing.state.nv.us>*

*Accepted. The Purchasing Division will request assistance from and work with the Department of Administration's Budget Division and/or Internal Audits Division to develop revised performance measures and methodologies.*

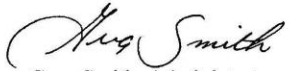
5. Develop written procedures requiring that calculations and supporting documents used to determine performance measures be retained for at least 3 years.

*Accepted. The appropriate Division staffs' procedures will be updated to include the requirement that all supporting documents and calculations utilized in the development of the performance measures be retained for a period of not less than 3 years.*

6. Update Division policies and procedures for performance measures to address which staff positions are responsible for collecting information, calculating the results, and reviewing the results to ensure measures are accurate, complete, and reliable.

*Accepted.*

Sincerely,



Greg Smith, Administrator  
Purchasing Division

## Purchasing Division Response to Audit Recommendations

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Develop internal policies and procedures to assist Division staff with administering and overseeing the State's procurement card program.....	<u>  X  </u>	<u>      </u>
2	Ensure that key procurement card activities, such as late payments and purchases by merchant code, are monitored on a routine basis.....	<u>  X  </u>	<u>      </u>
3	Revise statewide policies and procedures governing the State's procurement card program to assist state agencies participating in the program .....	<u>  X  </u>	<u>      </u>
4	Revise methodologies used to calculate performance measures to ensure they reasonably reflect what they were intended to measure.....	<u>  X  </u>	<u>      </u>
5	Develop written procedures requiring that calculations and supporting documents used to determine performance measures be retained for at least 3 years.....	<u>  X  </u>	<u>      </u>
6	Update Division policies and procedures for performance measures to address which staff positions are responsible for collecting information, calculating the results, and reviewing the results to ensure measures are accurate, complete, and reliable .....	<u>  X  </u>	<u>      </u>
	TOTALS	<u>    6    </u>	<u>    0    </u>