
**Thomas P. DiNapoli
COMPTROLLER**



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**OFFICE OF THE
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE
GOVERNMENT ACCOUNTABILITY**

MULTI-AGENCY

**SMALL-DOLLAR
PURCHASES**

Report 2007-S-27

AUDIT OBJECTIVES

The objectives of our performance audit were to determine the extent to which State agencies process small-dollar, paper-based transactions, as opposed to procurement (credit) card transactions, and to estimate the related potential cost savings agencies could obtain by using procurement cards rather than the traditional, less-efficient paper-based methods.

AUDIT RESULTS - SUMMARY

We found that the State is not benefiting fully from the efficiencies and cost savings associated with using the State's procurement card (P-Card or credit card) for eligible small-dollar purchases. For the two years ended March 31, 2007, we determined that State agencies processed at least 1.1 million payments for transactions that could have been made using a credit card. Had these transactions been made using the P-Card, the State could have realized at least \$4 million in rebate revenues from the card issuer and likely saved over \$26 million in processing costs.

The use of a credit card instead of a paper-based purchase order and vouchering system has been studied and promoted extensively by both government and industry for more than a decade. Studies show that the use of a credit card is generally more cost-efficient than the use of a traditional purchase order and vouchering system. We researched the studies and found projected cost savings varied widely, ranging from a \$24 per-transaction savings estimate by the State of California to others as high as \$98 by Federal agencies. Using the more conservative estimate from California, we estimated that New York State could have saved about \$13.4 million annually in processing costs by using the P-Card for eligible small-dollar purchases.

We also visited four State agencies (Office of General Services, Department of Environmental Conservation, Office of Children and Family Services, and Department of Correctional Services) to gain an understanding of their purchasing processes. We found that these agencies vary considerably in both the degree to which they use the P-Cards and the efficiency of their processes. They also vary in management support for using the P-Card. We conclude that the extent to which the State can actually realize both process cost savings and rebate revenues is dependent in large part on agency willingness to shift more eligible purchases to the P-Card and to adapt their processes to take best advantage of the efficiencies that can be achieved using the P-Card.

Our report contains two recommendations directed to all four agencies to encourage increased use of the P-Card for eligible small-dollar transactions. Agency officials generally agreed with our recommendations.

This report, dated June 16, 2008, is available on our website at: <http://www.osc.state.ny.us>. Add or update your mailing list address by contacting us at: (518) 474-3271 or
Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

BACKGROUND

Use of procurement (credit) cards has exploded over the past 15 years in both government and private industry settings. The Federal government's 1993 National Performance Review contained recommendations that encouraged using the card because of its promise as a less-costly, more-efficient way to obtain goods and services. Throughout the 1990s, many state governments implemented procurement card

programs. Although New York State introduced credit card-based procurement several years ago, implementation has been inconsistent, and many agencies still lag behind in efforts to take full advantage of this program.

The Office of General Services (OGS) is the Statewide administrator of the P-Card program. State agencies can use the P-Card for purchasing commodities and services such as equipment, supplies, and printing. Generally, a maximum single transaction limit is established for each agency, but agencies can set lower limits for individual cardholders. Participating agencies are expected to develop their own internal procedures to assure appropriate oversight of the program, although OGS staff are available to provide limited assistance to agencies that request it.

In general, it is in the State's best interest to increase the use of more cost-effective payment methods and to avoid the expenses associated with traditional voucher-based payment systems. The voucher or purchase order-based system, along with its multiple paper documents, often includes many layers of sequential approvals and processing associated with each transaction. These preventive controls are labor-intensive and, therefore, expensive to perform for every purchase. With small-dollar purchases, the cost of these controls can easily exceed the risks posed by individual transactions.

The State's P-Card program was designed to be a more-efficient and cost-effective way to expedite small-dollar purchases by eliminating many of the manual processes and instead placing more reliance on detecting problem transactions that may have occurred. These detection controls are more cost-effective because purchases are reviewed, analyzed, and reconciled as a group, resulting

in a smaller cost being spread across all transactions.

In addition to the potential savings from more-efficient processes, effective procurement card programs often result in savings in the form of volume rebates. (The credit card issuer pays rebates to the State based on dollar volume of activity and the speed of payments.) It can also result in the ability to negotiate discounts with vendors and a reduction in paper use. Reducing paper saves money and has positive environmental impacts.

AUDIT FINDINGS AND RECOMMENDATIONS

Statistical Sample of Small-Dollar Purchases

Our analysis of expenditures over the two-year period ended March 31, 2007, showed that State agencies processed about \$864 million in small-dollar purchases using paper-based purchase orders and vouchers. We tested a sample of these small-dollar purchases to determine whether they would have been eligible for P-Card use at the time of purchase. We then projected our results to arrive at an estimate of how many small-dollar purchases could have been made using the P-card.

We obtained data on all expenditures that were under \$2,500 (or under \$1,000 for agencies that had a lower credit card limit). In an effort to include only those small-dollar payments most likely to be good candidates for P-card use, we excluded items such as travel payments, grants, capital construction expenditures, employee moving expenses, utilities and electrical services, employee fringe benefits, and contract payments, as well as payments to other State agencies and the State's credit card providers.

Our statistical sample consisted of 271 small-dollar transactions processed during the 2 years ended March 31, 2007. Each amount was at or below the agency's credit card limit. We analyzed each charge to determine whether it could have been executed using the P-Card. In determining eligibility for P-Card use, we considered such things as (a) whether the total amount of the voucher used to pay the vendor would render the charge ineligible for P-Card use (because the dollar amount exceeded either the agency's credit card limit or our \$2,500 cutoff), and (b) whether the vendor would accept the P-Card. In many cases, we contacted the vendor directly to determine if the P-Card could have been used for payment at the time the transaction was completed. If the vendor did not accept P-Cards at the time of purchase, we considered the transaction ineligible for P-Card use.

During the 2 years ended March 31, 2007, State agencies processed about 1.5 million vouchers, totaling about \$864 million, to pay for purchases under \$2,500. We determined with 95-percent confidence that at least 1.1 million of these vouchers - over 70 percent - could have been avoided by making the payment using a P-Card instead of paper-based methods. We estimate the dollar value of these transactions to be at least \$523 million.

Cost Savings and Revenue Enhancements

The State's contract with the credit card issuer contains a provision for rebates based on the dollar volume of activity and the speed of payments. The higher the volume and more frequent the payments, the greater the rebates repaid to the State. We used a conservative estimate of rebate potential based on current dollar volume spending and payment within 30 days: the least-frequent payment cycle allowed in the rebate provisions. These parameters result in a rebate rate of 0.78

percent of charges. As a result, we conclude that the \$523 million in eligible small-dollar purchases identified by our sample would have resulted in at least \$4 million in additional rebate revenue to the State, had they been processed using the P-Card.

We also researched the potential process cost savings associated with using the P-Card as compared with traditional paper-based processes. In its promotional materials, the State's credit card issuer cites potential savings estimates averaging from \$50 to \$75 per transaction. However, verifying and quantifying this information with certainty is an expensive and complex undertaking that relies largely on time and motion data and is dependent on other estimates as well. Therefore, we looked to other government agencies, industry groups, and private companies that have previously attempted to quantify these potential savings and found the following estimates, which range from \$24 to \$98 per transaction:

- In 2006, the Association of Government Accountants (AGA) produced a report that cited a 1996 US Army Audit Agency assessment of credit card savings at the Department of Defense (DOD). The analysis estimated that, on average, it cost \$155 for DOD to process a purchase order transaction compared with just \$62 for the credit card: a net savings of \$93.
- More recently, the AGA's own 2005 survey of four Federal civilian agencies reported average savings estimates ranging from \$87 to \$98.
- In 1994, the State of California's Department of General Services conducted a pilot study of credit card savings using time and cost data from

five participating test agencies. This analysis estimated that actual per-transaction cost savings totaled \$24.

- We also researched savings estimates for private companies and industry groups. A 2003 study conducted by an internationally-recognized consulting firm, based on survey data from about 50 US and European industries, estimated that the average end-to-end requisition to payment process cost for a manual purchase was \$97. Compared with a \$19 cost estimate with a procurement card, this study projects a per-transaction difference of \$78.

Because the California study was based on detailed analysis of actual time and cost savings experienced by another large state, we believe it has the greatest likelihood of being applicable to similar operations at New York State agencies. Although the other more-recent studies suggest that higher cost savings may be possible, we conservatively estimated that, to the extent that New York State's operations are similar to those in California in terms of its use of P-Cards, the State should be able to save at least \$24 for each transaction moved from the older purchase order process to the P-Card. This would result in annual cost savings of at least \$13.4 million.

Extent to which Savings Are Actually Achievable

In addition to testing our Statewide sample of purchases, we also visited four State agencies to estimate the differences in direct personal service costs that each incurs when processing either a purchase order or a P-Card-based transaction. These factors do not represent the full cost of processing the transactions, but rather represent a small portion of the

costs that is most easily observable and measurable.

Our analyses showed that achieving the savings addressed in this report is not as simple as merely directing agencies to change their payment methods. Many factors can affect how much and how easily an agency can benefit from increasing its use of the P-Card, such as how efficient the agency's purchasing process currently is and whether it can be further streamlined; how open or reluctant management and staff are to change; and whether competing priorities present obstacles to changing the process or the amount of P-Card use. Ultimately, the greatest savings for many agencies may lie in their ability to redirect the resources currently devoted to approving and processing paper-based transactions toward activities that provide greater value to the organizations and the citizens they serve.

We selected four agencies to illustrate a varied view of purchasing processes, as well as the differing degrees of P-Card use that exist Statewide. The agencies selected were the Office of General Services (OGS), the Department of Environmental Conservation (DEC), the Office of Children and Family Services (OCFS), and the Department of Correctional Services (DOCS). At each agency, we met with officials and staff directly involved in both the P-Card and purchase order-based processes to identify the steps involved in each process and the title and salary grade of staff assigned to perform them.

In general, whether through a purchase order or a P-Card, all purchases start out with the same steps of determining what to buy and from whom. At some point, the process begins to be different depending on how the payment is going to be made. At each agency, our goal was to track the direct time

that staff devoted to each task from the point that the standard process differed until the bill was paid. We also observed some of the process steps as they were being done by agency staff to assess the amount of time they took to perform.

Depending on the agency and the process, we found some tasks took only seconds to perform, others as long as a half-hour. We then estimated the cost of these tasks using average salary rates for each position, adjusted to account for the cost of paid leave and fringe benefits. We used these agency-specific rates to assign costs to both processes at each of the four agencies. We shared our results with each of the four agencies and each agreed that our estimated costs were a reasonable representation of the difference in the direct personal service costs they incur in their P-Card and paper-based processes.

Following is a summary of our observations at each of the four agencies visited.

Office of General Services

OGS is the State's central service agency, providing a broad range of support services necessary for the efficient operation of government. In its role as Statewide administrator of the P-Card program, OGS also encourages other State agencies to participate in the program and provides advice to agencies that request assistance, including maintaining a website that contains sample purchasing guidelines and training materials.

Our analysis showed OGS has a relatively-efficient purchasing process that takes advantage of the efficiencies offered by the purchasing card program by reducing the paperwork and time traditionally required to

process paper-based payments. State Accounting System records indicate OGS used the P-Card for more than two-thirds of its 20,000 eligible small-dollar transactions during the 2005-06 fiscal year. We concluded that OGS saves about 70 percent of its direct payment processing costs (more than \$11.50 per transaction) every time it makes a purchase using the P-Card instead of processing a traditional paper-based payment.

To make a traditional paper-based purchase, OGS staff first make a request by entering product and service information into the agency's automated purchase tracking system. This information is reviewed and approved before a purchase authorization form is printed and sent to the vendor. After the goods or services are received, the buyer updates the system, while the vendor invoice goes to the Claims Unit where it receives another level of approval prior to payment.

OGS' payment process for P-Cards is much simpler. Prior approvals are eliminated and the buyer is authorized to place the order, make payment using the P-Card, and enter the purchase information into the system once the goods or services are received. Cardholders reconcile their individual statements monthly and forward supporting documentation to the Purchasing Unit for review and approval by the Accounts Payable Unit, which pays the credit card bill.

OGS officials stated that they encourage employees to use P-Cards for payment whenever possible. In addition, the tracking system has a function that automatically reminds purchasers of the P-Card option and, once a purchase is initiated, there is another level of review to determine whether the purchase is P-Card eligible.

Department of Environmental Conservation

DEC is responsible for conserving, improving, and protecting the State's natural resources and environment. DEC has an annual budget exceeding \$1 billion and a workforce of almost 3,500 employees who work from regional offices throughout the State and a central office in Albany.

DEC has a relatively-efficient procurement process, and management endorses the practice of empowering employees to purchase goods and services independently. This includes allowing some employees to charge purchases directly to DEC accounts established with vendors without having to pass through multiple layers of preventive controls, thereby eliminating individual purchase requisitions, vouchers, and prior approvals for many small purchases. P-Card purchases are often made through DEC headquarters in Albany, and individual cards have been distributed to Forest Rangers and Environmental Conservation Officers who work in the field.

Although management encourages use of the P-Card at the current level, DEC officials have been reluctant to completely endorse its expanded use due to internal control concerns, the decentralized nature of DEC's organization, and difficulties in ensuring that purchases are charged against the correct funds. Management has addressed these concerns by providing training to all cardholders and by instituting a combination of preventive controls (e.g., setting dollar limits on individual card usage and blocking purchases from certain types of merchants like liquor stores) and detection controls (e.g., ensuring that all P-Card transactions are reviewed by the buyer's direct supervisor, as well as by headquarters staff).

Like OGS, our analysis showed DEC also saves about 70 percent of its payment processing costs by using the P-Card. Individual transaction savings are lower than OGS' - about \$4.14, in part because many of the manual tasks in the process that are eliminated by the P-Card are performed by lower-paid staff. State Accounting System records indicate DEC used the purchasing card for only slightly less than 7 percent of about 65,000 small-dollar transactions it processed during the 2005-06 fiscal year, leaving significant room for expansion of the P-Card program.

DEC officials told us they are preparing to implement a new system that would upload an electronic data file for P-Card purchases and allow the purchasers to both assign each transaction an accounting code and then reconcile their own purchases. The new process will add a layer of supervisory approval that doesn't exist under the current procurement card procedures, but should reduce dramatically the amount of paperwork required. This system should allow DEC to further benefit from the enhanced ease and efficiency that comes with automated reconciliation.

Office of Children and Family Services

OCFS' mission is to promote the well-being and safety of the State's children, families, and communities. OCFS employees work out of a central office in Rensselaer, as well as 6 regional offices and 29 residential and day treatment facilities for troubled youth located across the State.

OCFS is a minimal user of the P-Card system, with only three cards in use, all of which are held at the central office. Officials told us that, in order to maintain control over the process, the cards are only used in an emergency, or when a purchase order is not

feasible and the contract management bureau has received and approved a written request form. This requirement is indicative of the agency's reluctance to vest purchasing authority and responsibility at the staff level. As a result, OCFS used the purchasing card for less than 1 percent of about 48,000 potentially-eligible small-dollar transactions processed during the 2005-06 fiscal year.

In general, we found OCFS has relatively-high processing costs, primarily because of its continued emphasis on preventive controls. The agency has established very involved processes that rely on sequential approval and processing, including several layers of pre-purchase approval. Although credit card purchases bypass some of these approvals, these purchases are not managed through the agency's automated purchasing system due to system limitations. As a result, some P-Card processes are still performed manually, resulting in additional costs. Even considering OCFS' sparse usage of the P-Card, our analysis showed the agency's central office saves about 25 percent of its payment processing costs (more than \$9 per transaction) when it does make credit card purchases.

Officials cited the potential for inappropriate use as a key reason for their reluctance to distribute P-Cards to staff, emphasizing that facilities experience high staff turnover and it is difficult to continually recruit, train, and retain staff to the point that they are familiar enough with the procurement rules that assignment of a credit card can be justified. They further indicated that past incidents of inappropriate purchases have made them wary of distributing cards and allowing purchases to be made without prior approval. Officials told us they are concerned that there are few repercussions for making inappropriate purchases and that it may be difficult to recoup funds should such situations occur.

They are also concerned that the agency may not be able to control its budget if purchases are not approved in advance, that verifying the accuracy of charges on credit card statements may cause the agency to pay its bills late and incur interest charges, and that staff may not retain adequate documentation that could be needed for future audits. However, other agencies have overcome similar obstacles by creating a control environment that not only grants employees additional authority, but also communicates corresponding responsibilities and the expectation that they will be monitored and rules will be enforced consistently.

Though management is still reluctant to widely distribute P-Cards to facilities, officials told us they will soon be conducting a pilot program with several of the most-experienced facility Business Officers. Management plans to evaluate such factors as the extent of use and skill-set and training level of the user before they will consider rolling out more cards.

Department of Correctional Services

DOCS is headquartered in Albany and operates approximately 70 adult correctional facilities located throughout the State. State Accounting System records indicate DOCS' headquarters used the purchasing card for slightly less than 15 percent of about 5,500 eligible small-dollar transactions during the 2005-06 fiscal year. DOCS facilities used the P-Card for less than 6 percent of about 200,000 eligible purchases, including 7 facilities that did not use the card at all.

We found DOCS has very few procurement cardholders, including only five or six authorized users in the central office at any one time. DOCS officials told us that P-Cards are used infrequently because officials are keenly concerned about the introduction of

contraband at the facilities. Officials insist on prior authorization for all purchases, as well as strict billing and inventory control over the quantity of all items received. As a result, the process for making a purchase with the P-Card is essentially the same as that for a purchase order. Further, we found it is actually more expensive for DOCS staff to use the P-Card, since additional steps are added to the process for monthly reconciliation of each procurement card.

We analyzed the costs associated with transactions processed by DOCS' headquarters, as well as one of its correctional facilities located in Coxsackie. Our analysis showed it costs the headquarters about 10 percent more (about \$2 per transaction) to process a credit card transaction than it does a traditional, paper-based payment. At the facility level, we estimated costs increased by about 5 percent, or \$1.25 per transaction.

DOCS management indicates they have been reluctant to streamline the procurement card process, primarily because of security concerns. As a result, DOCS has a relatively-inefficient procurement card process that follows the same procedures as paper-based transactions, plus two additional reconciliation steps. Relative to other agencies, the process is also more costly, in part, because some prior approval tasks are done by more-highly-paid personnel. At a minimum, we believe more opportunity for efficiency exists at the headquarters level, where security concerns are lessened.

Recommendations

To each agency:

1. Increase and promote the use of the P-Card for eligible small-dollar transactions to realize available process cost savings and rebate revenues.

2. Streamline and automate the P-Card processes, where applicable and feasible, to place more emphasis on detection controls and reduce the time and costs associated with less-efficient preventive controls.

(Agency officials agreed with our recommendations and reported that steps are underway toward implementation.)

AUDIT SCOPE AND METHODOLOGY

We conducted our performance audit in accordance with generally accepted government auditing standards. Our audit included tests of selected small-dollar purchases made during the period April 1, 2005, through March 31, 2007. The objectives of our audit were to determine the extent to which executive agencies process small-dollar, paper-based transactions as opposed to procurement card transactions, and to estimate the related potential cost savings agencies could obtain by using procurement cards versus less-efficient paper-based methods.

To accomplish our first objective, we selected a Statewide statistical sample of small-dollar purchases and evaluated their eligibility for P-Card use. Our sampling population consisted of paper-based transactions valued at under \$2,500 from April 1, 2005, through March 31, 2007 - except for those agencies with credit card limits of \$1,000, for which we only included expenditures under \$1,000. To isolate the small-dollar expenditures most likely to be the best candidates for P-card use, we excluded several categories of payments, including travel payments, grant expenditures, capital construction, employee moving expenses, utilities, electrical and telephone services, employee fringe benefits, not-for-profit loans, and general State or special department charges. We also eliminated

contract payments and payments to the State's procurement card and other credit card providers and the State's correctional industries vendor, which is also a State agency.

To achieve a 95-percent confidence level and a sampling precision of less than 5 percent for our conclusions, we used statistical sampling techniques to select a random sample size of 271 charges from our final population of 2,438,943 transactions that were not made using the P-Card. We then determined whether any of the 271 sample transactions could have been executed using the P-Card. In many cases, we contacted the vendor to determine whether the P-Card could have been used as payment at the time the transaction was completed. If the vendor did not accept P-Cards at the time of purchase, we considered the transaction ineligible for P-Card use. We also considered some transactions ineligible if they were part of a payment of more than \$2,500.

To estimate potential cost savings attributable to using the P-Card, we extrapolated our sample results to the population of vouchers using a conservative estimate of potential process cost savings derived from other studies conducted by outside parties. We did not audit these studies or their reported results. We also extrapolated our sample results using a conservative rebate percentage amount (0.78 percent) derived from the actual P-Card contract to estimate the additional rebate revenue that may have been due to the State from an increase in P-Card activity.

Finally, we visited four State agencies where we met with officials directly involved in the purchasing and payment processes, observed some of the process steps, assembled process flowcharts, and estimated the direct personal service costs incurred to process both paper-based and P-Card-based transactions.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

AUTHORITY

The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1, of the State Constitution and Article II, Section 8, of the State Finance Law.

REPORTING REQUIREMENTS

Draft copies of this report were provided to officials from the four agencies for their review and comment. Their comments were considered in preparing this report and are included as Appendix A.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Commissioners of the Office of General Services, the Department of Environmental Conservation, the Office of Children and Family Services, and the Department of Correctional Services shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to

implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

CONTRIBUTORS TO THE REPORT

Major contributors to this report include Frank Houston, John Buyce, Joel Biederman, Sharon Salembier, Andrea Dagastine, and Raymond Barnes.

APPENDIX A - AUDITEES' RESPONSES



DAVID A. PATERSON
GOVERNOR

STATE OF NEW YORK
EXECUTIVE DEPARTMENT
OFFICE OF GENERAL SERVICES
MAYOR ERASTUS CORNING 2ND TOWER
THE GOVERNOR NELSON A. ROCKEFELLER EMPIRE STATE PLAZA
ALBANY, NEW YORK 12242

JOHN C. EGAN
COMMISSIONER

PAUL W. LARRABEE
FIRST DEPUTY COMMISSIONER

April 2, 2008

Mr. John Buyce
Audit Manager
New York State Office of the State Comptroller
State Government Accountability
110 State Street
Albany, NY 12236

Dear Mr. Buyce:

I am writing on behalf of the Office of General Services (OGS) in response to your draft Audit Report 2007-S-27 regarding Small-Dollar Purchases. OGS is pleased that your report found that we have an "efficient purchasing process that takes advantage of the efficiencies offered by the purchasing card program...." OGS has worked hard to implement this process. The agency believes that the use of the procurement card to make routine small value purchases has allowed us to focus our purchasing professional's time on larger purchases where the potential to reduce costs or obtain improved contractual terms through competition is more likely.

Related to the audit recommendations, OGS will continue to make efforts to increase the use of procurement cards for small dollar purchases and is in the process of evaluating our purchasing card process to further streamline it and to enhance our internal controls.

OGS would like to thank you for your review and comments of our practices. It is our objective to implement a strong program that is efficient and contains the appropriate controls. Your review is an independent affirmation of our efforts.

Sincerely,

A handwritten signature in dark ink, appearing to read "Paul W. Larrabee".

Paul W. Larrabee





BRIAN FISCHER
COMMISSIONER

STATE OF NEW YORK
DEPARTMENT OF CORRECTIONAL SERVICES
THE HARRIMAN STATE CAMPUS – BUILDING 2
1220 WASHINGTON AVENUE
ALBANY, N.Y. 12226-2050

April 10, 2008

Mr. Frank Houston
Audit Director
Office of the State Comptroller
Division of State Government Accountability
123 William Street, 21st Floor
New York, NY 10028

RE: Draft Audit of Multi-Agency Small
Dollar Purchases, Report 2007-S-27

Dear Mr. Houston:

In accordance with Section 170 of the Executive Law and in response to your correspondence of March 24, 2008, attached is the Department's reply to the Draft Audit of Multi-Agency Small Dollar Purchases, Report 2007-S-27.

We have complied with the provisions of the Budget Policy and Reporting Manual, item B-410, by forwarding two copies of this response to the Division of the Budget.

Sincerely,

Brian Fischer
Commissioner

Attachment



BRIAN FISCHER
COMMISSIONER

STATE OF NEW YORK
DEPARTMENT OF CORRECTIONAL SERVICES
THE HARRIMAN STATE CAMPUS
1220 WASHINGTON AVENUE
ALBANY, N.Y. 12226-2050

GAYLE HAPONIK
DEPUTY COMMISSIONER
ADMINISTRATIVE SERVICES

April 9, 2008

Mr. Frank Houston
Audit Director
Office of the State Comptroller
Division of State Government Accountability
123 William Street, 21st Floor
New York, NY 10028

Dear Mr. Houston,

Thank you for the opportunity to comment on the draft report on the multi-agency Small Dollar Purchases audit. In response to the two audit recommendation please note the following:

Audit Recommendation 1:

Increase and promote the use of the P-Card for eligible small-dollar transactions to realize available process cost savings and rebate revenues.

DOCS Response:

Correctional Services supports the use of the procurement card process and will renew efforts to increase its use throughout the Department. We are very aware of both the need to maximize use of new methods and technology, and to minimize expenses.

Audit Recommendation 2:

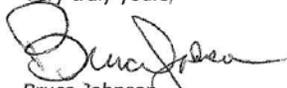
Streamline and automate the P-Card processes, where applicable and feasible, to place more emphasis on detection controls and reduce the time and costs associated with less-efficient preventive controls.

DOCS Response:

Security concerns must remain the primary concern in all areas, and DOCS may not be able to achieve results similar to operations that are less effected by contraband or materials and equipment falling into the wrong hands. We will examine the potential to increase procurement card use where our security concerns are less and the Department is more like other state agencies.

If you have any questions please do not hesitate to contact us.

Very truly yours,


Bruce Johnson
Chief Fiscal Officer



New York State
Office of
Children & Family
Services

April 22, 2008

Mr. John Buyce, Audit Manager
Office of the State Comptroller
Division of State Government Accountability
110 State Street, 111th floor
Albany, New York 12236

www.ocfs.state.ny.us

Re: Report 2007-S-27 Multi-Agency Small Dollar Purchases

Dear Mr. Buyce:

The Office of Children and Family Services (OCFS) is in receipt of the Draft Report 2007-S-27 prepared by the Office of the State Comptroller (OSC) related to the performance audit associated with the Multi-Agency Small-Dollar Purchases. OCFS offers the following formal response to the findings and recommendations:

David A. Paterson
Governor

Gladys Carrión, Esq.
Commissioner

Capital View Office Park
52 Washington Street
Rensselaer, NY 12144

Audit Summary and Findings

OCFS was one of four agencies selected for review in the OSC Multi-Agency Small-Dollar Purchase audit. The audit examined the practices of State Agencies with respect to the use of the Procurement Card (P-Card) for small purchases. P-Card use varies from minimal usage at OCFS and Corrections, moderate usage at ENCON, to extensive usage at OGS. The Small-Dollar Purchase Audit pointed out that the use of P-Cards in both government and private industry has exploded over the past 15 years. New York State usage, however, lags behind in this effort. OSC also points out that the use of P-Cards provides for processing, payment and cost savings efficiencies.

At the time of the audit, the OCFS utilized the P-Card for emergency and small-dollar purchases that did not warrant an extended procurement process. It is important to note that OCFS' usage was minimal based on emergency use. As a result of experiences during the disaster relief effort in the summer of 2006 the Agency was considering an expansion of the card distribution.

Audit Recommendation

OSC offers two recommendations to each of the four agencies included in the audit. The recommendations include: increasing and promoting the use of P-Cards for eligible small-dollar transactions to realize available process cost savings and rebate revenues; and streamline and automate the P-Card processes where applicable and feasible to place more emphasis on detection controls and reduce time and costs. OCFS concurs with these recommendations and will be moving forward on increasing the use of P-Cards and automating the P-Card process.



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OCFS Response

OCFS did take the opportunity to respond to the preliminary OSC findings in October 2007 and participated in the audit exit conference on February 11, 2008. The agency appreciates OSC responding to concerns raised in those forums in regard to information shared at the kick-off meeting in August 2007 and adjusting the final draft accordingly. OCFS does request two additional edits to the report to further clarify the concerns related to the issue of staff turnover. It is requested that the statement on page 8 stating "...emphasizing that facilities experience high staff turnover and that it is difficult to recruit, train and retrain staff to be entrusted with cards" be rephrased as follows: "...emphasizing that facilities experience high staff turnover and it is difficult to continually recruit, train, and retain staff to the point that they are familiar enough with the procurement rules that assignment of a credit card can be justified." Additionally on page 9 the reference "...to evaluate such factors as extent of use, honesty of users" be rephrased to read "...to evaluate such factors as extent of use and skill-set and training level of the user".

* Comment

OCFS articulated at the exit conference that the current environment of accountability and fiscal integrity warrant close review of the risks associated with the purchasing card. Anticipated fiscal reductions, lower Federal revenue and potential shifts in program needs, necessitate that OCFS proceed cautiously with this program. OCFS will proceed with a measured approach to move forward with P-Card usage in an effort to employ cost-effective and efficient purchasing practices.

Prior to the audit, OCFS was in the process of revising Agency policies and procedures for planning, requesting, conducting and confirming the purchase of services and commodities. Subsequently, OCFS initiated a P-Card pilot that will authorize the issuance of a Citibank Procurement Card to select OCFS employees including five Facility Office Business Managers, the Bureau of Finance, the Office of Management Services and the Capital Facilities Bureau. Additionally, P-Cards have also been available to Procurement Mangers in an effort to cover many areas where emergencies might occur. This distribution represents a good cross section of the small-dollar and emergency-based users for the pilot.

The OCFS transaction limit on the facility P-Cards of \$500 is consistent with the Purchase Order threshold exemption previously utilized. Card holders have been advised that transactions should not be split to make purchases above this limit. OCFS will utilize a process designed for accountability of the card user transactions. The process entails filing a request form by the cardholder combined with a monthly invoice audit by Procurement Services Unit staff. The P-Card would replace the purchase order process and require the users to be responsible and accountable for the P-Card usage. OCFS will employ the following business process:

- All purchases must continue to be consistent with the NYS Procurement Council Guidelines.
- The P-Card is issued to the specific employee who would be responsible for the purchase activity and is restricted to use by that individual only. The P-Card must be kept in a secure location.
- A P-Card Request Form OCFS-4874 must be completed in detail justifying the need and purpose of the purchase prior to its use. The cardholder and their supervisor must jointly determine if the purchase is necessary.
- The purchase receipt will be required to reconcile the monthly invoicing.
- At the end of the month the Procurement Services Unit will provide the cardholder a copy of the P-Card invoice. The cardholder will reconcile their portion of the P-Card invoice and

* The final report has been modified as a result of the agency's response.

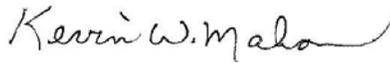
submit the Request Form(s) and receipt(s) for the purchase(s) (or a copy) to the Procurement Services Unit within five (5) business days.

- The cardholder will verify that they have receipts for all charges that appear on the invoice and provide appropriate coding for the charge. A P-Card coding form will be provided to the user after they receive the card, to assist in the reconciliation of monthly charges.
- The cardholder will obtain the appropriate documentation or take corrective action to correct any discrepancy.
- If the result of a discrepancy results in a credit, the amount of the invoice should be adjusted accordingly. A copy of the credit slip from the vendor must be included with the reconciliation submitted to the Procurement Services Unit.
- All P-Card purchases on the monthly statement will be audited by the Procurement Services Unit staff to ensure that all procurement guidelines were followed and that purchases are properly documented.
- Any impropriety or failure to provide appropriate documentation may result in the termination of the card and may subject the P-Card holder to personal liability for inappropriate charges.
- The Procurement Services Unit will place emphasis on fraud detection and review processing efficiencies. At the six month point of the pilot the OCFS Audit and Quality Control Unit will perform a review of the process.

In addition to the P-Card pilot OCFS is in the process of updating the Procurement Process System which will provide for automation of the P-Card process. Provided further fiscal reductions are not realized OCFS expects the project to be completed by mid-year 2009.

OCFS would like to thank you for the opportunity to respond to the draft Multi-Agency Small-Dollar Purchases Audit Report 2007-S-27. If you have any questions regarding the content of this response, please contact me at 402-3985.

Sincerely,



Kevin W. Mahar
Director
Audit and Quality Control

cc: Karen Lopiccoco
Director, Bureau of Contract Management



DAVID A. PATERSON
GOVERNOR

STATE OF NEW YORK
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
ALBANY, NEW YORK 12233-1010

ALEXANDER B. GRANNIS
COMMISSIONER

APR 25 2008

Mr. Frank J. Houston
Audit Director
Office of the State Comptroller
Division of State Government Accountability
123 William Street, 21st Floor
New York, N.Y. 10038

Dear Mr. Houston:

The DEC has reviewed the State Comptroller's draft report, *Multi-Agency, Small-Dollar Purchases (2007-S-27)*. The enclosed pages contain DEC's response to the draft report.

Thank you for the opportunity to respond. If you would like any additional information, or have any additional questions, please contact Tom Kulzer at (518) 402-9147.

Sincerely,

A handwritten signature in black ink, appearing to read "A. Grannis", written over a horizontal line.

Alexander B. Grannis

Enclosure

cc: Ms. Lisa Ng, Division of the Budget

**Department of Environmental Conservation
Response to Comptrollers Draft Audit Report
Multi-Agency, Small-Dollar Purchases - (2007-S-27)**

The DEC's Division of Management and Budget Services has reviewed the findings and recommendations contained in the State Comptroller's draft report Multi-Agency, Small-Dollar Purchases (2007-S-27) and below are the DEC's responses to the recommendations contained in this report.

Response To Recommendations

Recommendation 1- Increase and promote the use of the P-Card for eligible small-dollar transactions to realize available process cost savings and rebate revenues.

DEC Response: DEC is implementing a financial management system enhancement to better support procurement card accounting and reconciliation. This enhancement and supporting administrative changes should be in place by June 2008. At that time, DEC will more aggressively promote the use of the P-Card for eligible small-dollar transactions to realize available process cost savings and rebate revenues.

Recommendation 2 - Streamline and automate the P-Card processes, where applicable and feasible, to place more emphasis on detection controls and reduce the time and costs associated with less-efficient preventive controls.

DEC Response: In addition to the enhancements noted in response to Recommendation 1 above, DEC has implemented post audit activities (detection controls) to enable more efficient review of P-Card transactions.