

Legislative Audit Division

State of Montana



Report to the Legislature

October 2005

Performance Audit

Assessment of Management Controls Over Procurement Card Use

Montana University System
Office of Commissioner of Higher Education

This report discusses controls over procurement card use on campuses within the Montana University System. We found campuses have formal controls in place over procurement cards. Controls could be further enhanced by:

- ▶ Clarifying policies for meal/food purchases.
- ▶ Clarifying appropriate documentation for on-going purchases.
- ▶ Defining consequences for inappropriate use.
- ▶ Developing criteria for card limits.
- ▶ Improving documentation for reviews of purchases.

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October 2005

The Legislative Audit Committee
of the Montana State Legislature:

The Legislative Audit Committee, at the request of the Commissioner of Higher Education, approved a performance audit to determine if management controls exist over procurement cards used on Montana's campuses.

The report makes a recommendation to further strengthen controls by clarifying procurement card policies and procedures in several areas. Those areas include meal and food purchases, consequences for inappropriate card use, and card limits issued to cardholders. Overall, however, campuses have established controls over procurement card use.

Respectfully submitted,

/s/ Scott A Seecat

Scott A. Seecat
Legislative Auditor

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Performance Audit

Assessment of Management Controls Over Procurement Card Use

**Montana University System
Office of Commissioner of Higher Education**

Members of the audit staff involved in this audit were Lisa Blanford, Bridget Butler, Angie Grove, Angus K. Maciver, Diedra Murray, Joe Murray, and Mike Wingard.

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Appointed and Administrative Officials

Office of the Commissioner of Higher Education

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Mick Robinson, Associate Commissioner for Fiscal Affairs

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Introduction

Procurement cards (procards) are credit cards used by state employees, including university system staff, to purchase goods and services for official state business. In March 2004, the Office of Commissioner of Higher Education (OCHE) formed an 11 member independent panel to examine The University of Montana's (UM) Athletic Department deficit for fiscal year 2003-04. During its review, the panel identified management control weaknesses with the use of procards. In response to the panel's actions, OCHE submitted a written request to the Legislative Audit Committee to prioritize a performance audit of campus procard controls, which the Committee subsequently approved.

Procards are Becoming more Prevalent on Montana Campuses

Procards are becoming more prevalent on Montana campuses. In September 2001, the Legislative Audit Division issued a performance audit report of the State of Montana's purchasing card program (01P-03). At that time, there were approximately 730 total procards issued to employees on Montana's campuses. This compares to over 1,300 procards issued to campus employees as of October 2005.

Campuses have Procard Controls in Place

Campuses generally have procard controls in place and few issues were identified regarding how cardholders were using cards.

Specific controls campuses have implemented include:

- ▶ Policies and procedures providing the basis to properly manage procard programs.
- ▶ Reviews of monthly procard activity including routine monitoring of management reports and reconciling receipts to monthly card statements.
- ▶ Purchases supported with receipts or other supporting documentation and procard managers generally following up with cardholders if receipts were not obtained.
- ▶ Cardholders receiving training on proper use of cards and signing cardholder agreements to use cards responsibly.
- ▶ Cardholders not splitting transactions to stay within purchasing limits or sharing procards with other individuals.

Report Summary

Controls Could Be Strengthened in Some Areas

We noted campuses could strengthen certain portions of their procard policies and procedures to enhance existing controls.

Clarifying Policies for Meal and Food Purchases

We identified differences between written policies for meal and food purchases and how campuses interpreted these policies. Campus policies regarding food and meal purchases should be clarified. The Commissioner of Higher Education may want to direct campuses to re-evaluate restrictions on meal purchases and allow procards to be used for meal purchases when employees are in overnight travel status.

Clarifying Appropriate Documentation for On-Going Procard Purchases

It is common for on-going purchases, such as payment of monthly Internet fees, to be charged to procards. However, documentation did not always exist for these kinds of purchases. Campus officials stated they were unsure what level of documentation should be maintained for these purchases. Procard policies and procedures for campuses should be updated to clarify how on-going monthly charges should be documented.

Defining Consequences for Inappropriate use of Procards

Campus policies should have meaningful, well-defined consequences for employee misuse of procards. This includes consequences for not obtaining receipts, making personal purchases, or deliberate acts of fraud. Campus policies and cardholder agreements generally indicate failure to comply with policies and procedures may result in termination of procard privileges or other disciplinary action. However, they do not clearly define what constitutes inappropriate use of cards or the consequences if cards are not used appropriately. Campus policy should better define what constitutes inappropriate use and specific disciplinary actions to be taken if cards are not used appropriately.

Developing Criteria for Establishing Card Limits

Since high card limits increase the risk of procard abuse, reasonable spending limits should be placed on procards to improve controls over purchasing activity. We noted 78 percent (204 of 260 sampled

cardholders) had monthly card limits between \$20,000 to over \$50,000. Some employees had monthly limits over \$100,000. Campuses are generally using default card limits that are automatically assigned to cardholders when they are approved for a card. Instead, card limits should be commensurate with an employee's purchasing needs. Procard controls could be improved by developing criteria for assigning card limits, which include documentation supporting these decisions.

Documenting Monthly Procard Manager Reviews

Most procard managers follow similar procedures when reviewing monthly procard activity of cardholders. However, we noted several instances where follow-up with cardholders regarding missing receipts or other issues were not documented. In addition, procard managers were not always documenting their monthly reviews. Procard policies and procedures should be revised to require any follow-up with cardholders be documented. Policies should also require reviewing officials to date and sign monthly statements. These changes would help improve internal controls at each campus and provide assurance appropriate levels of managerial oversight exist.

Chapter I - Introduction

Introduction

In March 2004, the Office of Commissioner of Higher Education (OCHE) formed an 11 member independent panel to examine The University of Montana's Athletic Department deficit for fiscal year 2003-04. During its review, the panel identified management control weaknesses with the department's use of procurement cards (procards). Procards are credit cards issued to state employees, including university system staff, to use for purchases associated with official state business.

In response to the panel's actions, OCHE submitted a written request to the Legislative Audit Committee to prioritize a performance audit of campus procard controls. The Commissioner made this request "to provide the Regents, Legislators, and their concerned public a greater degree of confidence of the university system's stewardship of public funds." The Legislative Audit Committee approved OCHE's request and prioritized a performance audit of procard controls on Montana campuses.

Audit Objectives

Audit objectives were directed at procard controls using sample items from all campuses. Our audit objectives were to determine if:

1. Campuses have established formal controls over procards.
2. Campuses are following established procard controls, including existing policies and procedures.

Audit Scope

Our audit assessed procard controls at the following campuses for fiscal year 2003-04:

University of Montana (UM)

UM-Missoula

Missoula College of Technology

Helena College of Technology

Montana Tech

Montana Tech College of Technology

UM-Western

Montana State University (MSU)

MSU-Bozeman

Great Falls College of Technology

MSU-Billings

Billings College of Technology

MSU-Northern

Chapter I - Introduction

Montana's community colleges are not using state procards and were not included in our audit scope. Appendix A provides further information regarding audit scope and methodologies used for evaluating campus procard controls.

UM's Internal Audit Helped Identify Risk Areas Related To Procard Controls

UM's internal audit unit examined the school's Athletic Department procard charges for a three-year time period. The internal audit findings helped us identify potential risk areas for the university system's procard controls. UM's internal audit identified control weaknesses such as missing receipts and procards used for personal purchases. The internal audit attributed these issues to a general lack of internal controls and managerial oversight of department procard use, including the roles and responsibilities of individuals reviewing procard transactions not being well-defined. The internal audit made several recommendations to the Athletic Department and university management to improve the department's procard controls.

Transactions from UM's Athletic Department were not selected as part of our random sample during this audit. However, we interviewed officials from UM's Athletic Department regarding procard use. We also reviewed Athletic Department procard policies and reviewed a judgmental sample of procard transactions for fiscal year 2004-05. Based on this work, it appears the Athletic Department has improved controls over its procard program.

Potential Issue for Further Study - Inventory Control

We identified an issue outside the scope of our audit related to inventory control that could benefit from additional audit work. Presently, neither state policy nor campus procard or purchasing policies specifically require equipment costing less than \$5,000 be tracked via an identity label, inventory system, or other means. However, state policy encourages agencies to track equipment under \$5,000 that is "sensitive to theft." Over the last nine years, 249 items from within the university system were reported as stolen to the Legislative Audit Division. The total value of reported items is estimated at between \$250,000 and \$500,000 and includes computers, projectors, and television monitors.

While reviewing procard records, we noted inconsistencies between campuses and departments on larger campuses regarding whether equipment under \$5,000 is tracked. Examples of equipment costing under \$5,000 included laptop computers, personal digital assistants, and several other types of equipment. Even though state policy encourages agencies to track equipment with a value of less than \$5,000 that is sensitive to theft, the policy does not define the type of equipment meeting this standard. Audit work could determine whether state policy should be better defined and if it would be cost efficient for the university system, and possibly other state agencies, to improve tracking procedures for equipment costing less than \$5,000.

Report Organization

The remainder of this report is divided into three chapters. Chapter II provides information related to procard activity on Montana campuses. Chapter III provides conclusions regarding controls over procards. Chapter IV discusses recommended improvements to strengthen campus procard controls.

Chapter II – Campus Procard Activity

Introduction

In 1996, the Department of Administration (DofA) entered into a contract with GE Capital Financial, Inc. to provide procurement card (procard) services to the State of Montana. The program permits state and university employees to be issued credit cards to make business-related purchases. The procard program was developed to more effectively manage low dollar purchases such as office supplies, computer equipment, lodging expenses, and airfare. This is done by:

- ▶ Reducing paperwork for small purchases.
- ▶ Enhancing reporting and monitoring of purchases.
- ▶ Eliminating multiple warrants issued to the same vendor.
- ▶ Allowing for more timely payments to vendors.
- ▶ Simplifying employee purchases while working in the field or during emergencies.

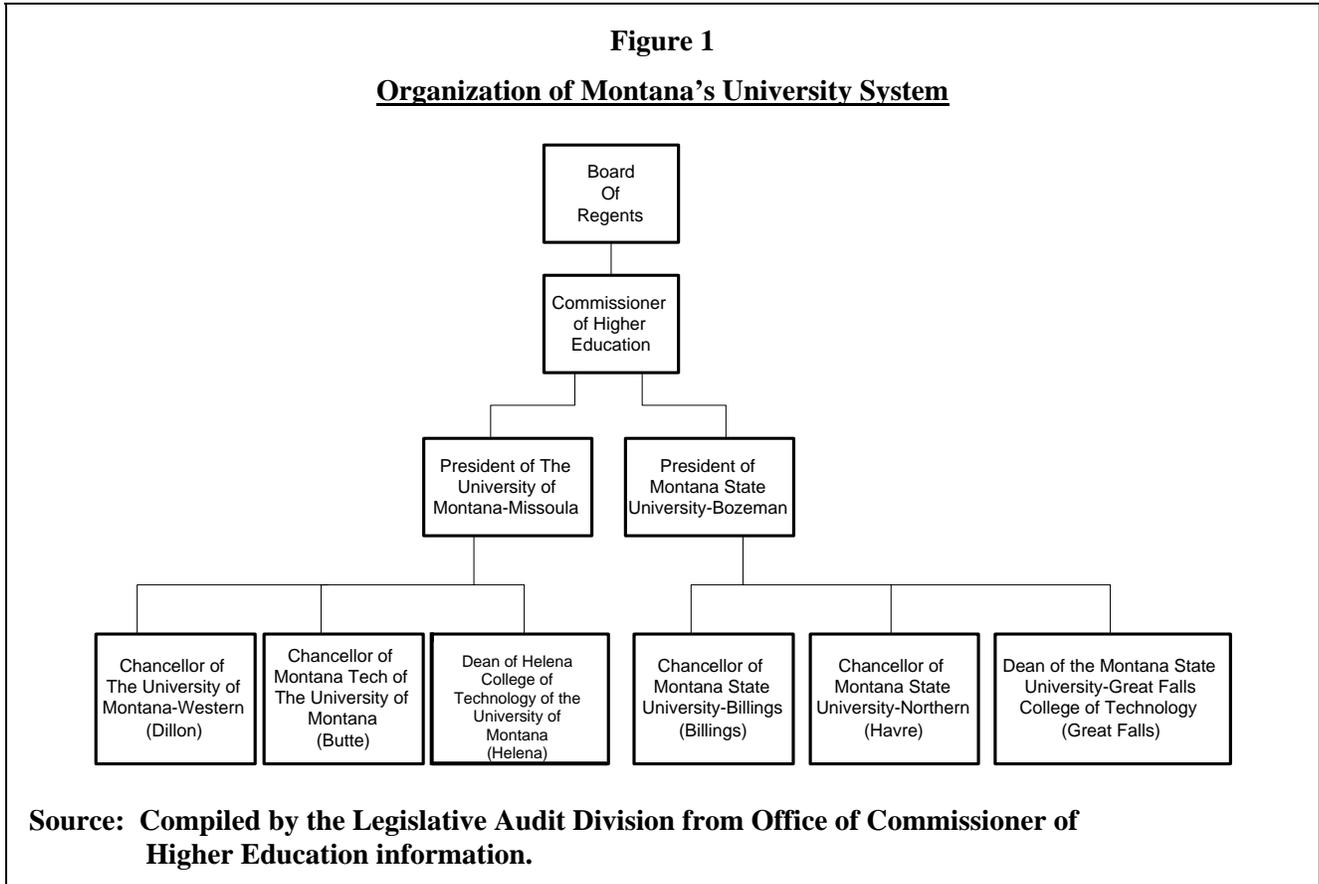
DofA renewed the contract with GE Capital Financial, Inc., until contract renewal options expired in 2004. After issuing a Request for Proposal, DofA signed a three-year contract in March 2005 with U.S. Bank to provide procard services. According to DofA officials, U.S. Bank officially took over contract duties in August 2005. The past and current contract gives DofA responsibility to administer the statewide purchasing card program. However, DofA delegates authority to the Montana Department of Transportation (MDT), The University of Montana (UM), and Montana State University (MSU) to administer their own procard programs. This includes establishing procard policy, issuing cards to employees, and tracking purchases made by cardholders. These agencies must administer their procard programs within DofA guidelines.

University System Organization

The Montana Board of Regents (the Board) has constitutional and statutory responsibility and authority to supervise, coordinate, and manage Montana's university system. The Office of Commissioner of Higher Education communicates and implements the policies and directives of the Board to the campuses. The following figure

Chapter II - Campus Procard Activity

illustrates the organizational structure of Montana's university system.



Campuses Are Responsible for Procard Activity

Each campus is responsible for monitoring its own procard activity. This includes approving employees to receive procards, training cardholders on proper use of procards, and reviewing procard transactions. Campuses assign procard responsibilities to individuals who perform these duties as part of their overall job responsibilities. The following sections briefly describe the process for monitoring procard activity at each campus.

Montana State University and Affiliated Campuses

The Controller's Office at Montana State University-Bozeman (MSU) is responsible for approving employees to receive procards, training cardholders on using cards, and conducting monthly reviews of procard transactions for all departments on the MSU campus.

Chapter II - Campus Procard Activity

Prior to submitting information to the Controller's Office, accounting technicians within each MSU department compile and review procard documentation on a monthly basis. MSU's Internal Audit Unit conducts monthly audits of department procard activity to verify compliance with campus policies and procedures. MSU's affiliated campuses are responsible for monitoring their own procard activity. Depending on the campus, this may be done by the Business Office, the Controller's Office, or procard managers within individual departments.

University of Montana and Affiliated Campuses

The Business Services Office at The University of Montana-Missoula (UM) is responsible for approving employees who receive procards and training employees on the proper use of cards. Business Services also performs annual audits of department and affiliated campus procard activity. Each department on UM's campus has a procard manager responsible for reviewing monthly procard activity of department cardholders and following up on any concerns. UM's affiliated campuses are responsible for monitoring their own procard activity. Depending on the campus, this may be done by the Business Office, the Controller's Office, or procard managers within individual departments.

Computer Software Tracks Procard Activity

As part of its former contract, GE Capital Financial, Inc., provided the state with procard activity reporting software. The Purchasing Accounting Reporting Information System (PARIS) record procard activity using several data fields, such as purchase amount, date, and vendor. PARIS allows for daily update and review of information, which is generally available within 48 hours after purchases are made. PARIS generates a number of reports that assist procard managers in evaluating procard activity such as items purchased by cardholders, the number of purchases made, dollars expended by cardholders, vendors where purchases were made. UM and MSU campuses each use PARIS to track procard activity. Similar computer software will also be provided by U.S. Bank.

Chapter II - Campus Procard Activity

Procards are Becoming More Prevalent on Montana Campuses

Procards are becoming more prevalent on Montana campuses. In September 2001, the Legislative Audit Division issued a performance audit report of the State of Montana's purchasing card program (01P-03). At that time, there were approximately 730 procards issued to university employees. This compares to over 1,300 procards currently issued to campus employees. Table 1 provides information on the approximate number of cardholders at each campus during fiscal year 2003-04.

Table 1
Approximate Number of Campus Cardholders
FY 2003-04

Montana State University Campuses	
MSU-Billings and College of Technology	94
MSU-Northern	33
MSU-Great Falls College of Technology	24
MSU-Bozeman	447
MSU TOTAL	598

University of Montana Campuses	
UM-Missoula and College of Technology	610
UM-Tech and College of Technology	88
UM-Western	31
UM-Helena College of Technology	19
UM TOTAL	748

Source: Compiled by the Legislative Audit Division from PARIS records provided by UM and MSU Internal Audit.

Procard Purchases are Increasing

Over the last three years, campus procard purchases increased more than 36 percent, increasing from \$14.3 million in 2002 to approximately \$19.6 million in 2004. The following table shows total procard purchases for UM, MSU, and their affiliated campuses for each of the last three years.

Table 2
Total Procard Purchases for UM and MSU Campuses
Contract Years 2002 through 2004

	2002*	2003*	2004*
Campus**			
UM	\$9,144,271	\$9,809,180	\$10,983,410
MSU	\$5,188,473	\$7,127,759	\$8,581,996
Total	\$14,332,744	\$16,936,939	\$19,565,406

* Contract year is September-August
 ** Includes affiliated campuses

Source: Compiled by the Legislative Audit Division from DofA information.

Rebate Programs Encourage Procard Use

The State of Montana’s procard contract incorporates a rebate program as incentive to use procards when making purchases. The rebate program encourages procard use because higher dollar volumes of purchases result in higher rebates to the state. The state also receives rebates for timely payments.

The majority of rebates the state receives are based on net annual procard purchases with a smaller portion based on timely payments to vendors. State agencies will receive larger rebates under the new contract with U.S. Bank. For example, if a state agency has \$10 million in net purchases, U.S. Bank will pay a rebate of .8760 percent rather than a .10 percent rebate offered in the previous contract. According to DofA officials, the larger rebates were an important factor in U.S. Bank being awarded the contract.

Campuses Receive Rebates

Rebates are distributed to campuses based on their percentage of total card use. For example, in contract year 2004, campuses accounted for 61.57 percent of the state’s procard purchasing volume and received \$51,754.21 in rebated funds. These funds assist campuses in administration of their procard programs.

Chapter II - Campus Procard Activity

Summary

The state's procard program was created to more effectively manage small purchases made by state agencies, including Montana's campuses. Various incentive programs and higher numbers of procards issued to campus employees has led to continued increases in procard purchases over the last several years. Indications are procard use will continue to grow. With procard use becoming more common, it is important management control systems exist to ensure the integrity of procard programs on the state's campuses. The next chapter discusses our assessment of campus procard controls.

Chapter III - Campus Procard Controls

Introduction

This chapter discusses existing management controls on Montana's campuses, and addresses our audit objectives. Our objectives were to determine if:

- ▶ Campuses have established formal controls over procards.
- ▶ Campuses are following established procard controls, including existing policies and procedures.

Overall Conclusion:

Campuses have procard controls in place and few issues were identified during audit fieldwork. Campuses could strengthen portions of their procard policies and procedures to enhance existing controls.

The remainder of this chapter discusses existing controls. The following chapter provides a recommendation on how these controls could be enhanced.

What Controls Should Exist Over Procards?

The Institute of Internal Auditors (IIA) is an international professional association that provides standards and technical guidance to the internal auditing profession. According to the IIA, even procard programs with well-designed controls cannot be assured of being problem-free. Therefore, while good controls can help reduce the number of problems, controls do not always prevent problems from occurring. However, a control system incorporating sufficient checks and balances reduces the number of occurring problems, and just as importantly, identifies problems early so they can be resolved in a timely manner.

We contacted a variety of sources to determine what constitutes appropriate levels of controls over procards. Information was obtained from the IIA, the banking industry, other state procard programs, and interviews with campus procard administrators and managers. Based on information obtained from these sources, several different controls should exist over procards. These include:

1. Policies and procedures defining card issuance and use.

Chapter III – Campus Procard Controls

2. Reviews of procard transactions by someone other than cardholders.
3. Purchases supported with receipts or other documentation.
4. Cardholder training on procard use and cardholder agreements.
5. Reasonable card limits based on a cardholder's purchasing needs.

The following sections describe how campuses have implemented each of these controls.

Campuses Have Established Procard Policies and Procedures

All campuses follow policies and procedures for procard issuance and use. Policies and procedures outline card approval/issuance, training requirements for new cardholders, responsibilities of cardholders, prohibited uses of cards, and the process for monitoring card usage. The following provides examples of general policy requirements/controls:

- ▶ Card issuance - Employees must complete an application to receive a card. The employee's supervisor and/or department head must approve the need for the card and sign the application. The application is forwarded to the campus procard administrator for additional approval. Prior to receiving a procard, employees receive training on policies and procedures, card use, record-keeping requirements, etc. from the campus procard administrator. Once training is completed, employees sign a cardholder agreement signifying they understand all procard policies and will only use the procard for business-related purposes.
- ▶ Responsibilities of cardholders - Policies outline the responsibilities of cardholders to ensure proper use of the procard. Responsibilities include obtaining documentation of all purchases, only using cards for allowable expenses, complying with other campus purchasing and expenditure guidelines, not sharing procards with other individuals, and not splitting purchases into multiple transactions to stay within approved purchasing limits.
- ▶ Documentation requirements - Purchases must be supported with itemized receipts describing the goods or services purchased with procards. Acceptable documentation includes cash register receipts, shipping invoices, or information from Internet websites if purchases are made on-line. Receipts are a basic control providing evidence procards were used for appropriate purposes.

Chapter III – Campus Procard Controls

- ▶ Monitoring procard use - Policies require card transactions be monitored to ensure they comply with campus policies. Campuses have designated at least one person with responsibility to review purchase documentation and follow-up on any questions regarding purchases. Some campuses use a centralized system where documentation is submitted to one place and for review, such as the campus Business Office. Other campuses use a decentralized system where an authorized person within individual departments reviews procard documentation. Campuses with high levels of procard use, such as UM and MSU, also conduct audits of department procard activity to ensure purchases and documentation comply with policy.

Policies Prohibit Certain Items From Being Purchased with Procards

Even though procards can be used to purchase most low cost items, state and campus policies prohibit the purchase of certain items to help protect the integrity of the procard program. For example, state procard policies do not allow procards to be used for personal expenses, cash advances, or meals during day trips away from the office. Campus policies and procedures generally have similar requirements as state policy, but with some added restrictions. For example, even though state policy allows cards to be used to purchase meals for overnight travel, campuses generally do not allow procards to be used for meals when employees are traveling. The one exception on most campuses is the Athletic Department, where personnel are often authorized to use procards for team meals or to purchase meals when recruiting student athletes to help reduce the amount of cash coaches must carry.

Conclusion:

Campuses have established procard policies and procedures providing the basis for properly managing their procard programs.

Reviews of Procard Activity

Monitoring procard use through on-going reviews of purchases is generally considered the most important control over procards. These reviews verify policies and procedures are followed and purchases are appropriate. Reviews of procard activity also provide a level of oversight to help identify and address potential issues. Management reports are generated providing data to campus procard

Chapter III – Campus Procard Controls

managers such as items cardholders purchased, the number of purchases made, and dollars expended. Campus procard managers monitor this information on a routine basis.

Procard managers are conducting independent reviews of procard activity. These reviews include routine monitoring of management reports and reconciling receipts to monthly procard statements. In addition, procard managers generally have authority to question purchases or address problems with cardholders. In some cases, limited staff resulted in someone subordinate to cardholders conducting reviews. In these cases, however, individuals can discuss questionable purchases with management, such as department heads or controllers. In addition, campuses such as UM and MSU, conduct procard audits which provide an additional compensating control over procard activity.

Conclusion:

Campus procard managers are conducting on-going reviews of procard activity. These reviews include routine monitoring of management reports and reconciling receipts to monthly statements. Campuses are also conducting audits of department procard activity.

Purchases are Generally Supported With Receipts or Other Documentation

For the campuses visited, we reviewed 2,453 procard purchases totaling more than \$543,000. We found 95 percent of all items purchased with procards were supported with receipts or other supporting documentation. In addition, we noted most purchases made with procards were items allowed by policy. We did not find any items of significance that were purchased and not supported with receipts or other documentation. Examples of items not appropriately documented included napkins, light bulbs, Internet service, conference registrations, and miscellaneous food items.

Officials overseeing procard programs at campuses said there were several reasons why receipts were missing. In some cases, cardholders forgot to obtain a receipt or misplaced the receipt before it was turned in. In other cases, campus officials said receipts were

Chapter III – Campus Procard Controls

maintained somewhere other than in the procard file. In many cases, alternative documentation was found in procard files indicating why receipts were missing and efforts made to obtain documentation related to purchases. For example, we found e-mails between reviewing officials and cardholders discussing why receipts were missing and efforts made to obtain duplicate receipts. In addition, procard files often included documentation noting the reason items were purchased and evidence the purchases were approved.

Conclusion:

Ninety-five percent of procard purchases reviewed were supported with receipts or other documentation. For purchases without receipts, campuses generally followed up with cardholders to obtain receipts or document reasons why receipts were not obtained.

Training Is Provided to Cardholders and Cardholder Agreements are Signed

Campus procard administrators and cardholders indicated training is provided prior to issuing procards. Training helps ensure cardholders are aware of campus expectations and cardholder responsibilities for appropriate card use. Training sessions generally cover campus policies and procedures for card use, what constitutes allowable and non-allowable purchases, and proper documentation for purchases. Once training is completed, cardholders sign a cardholder agreement indicating they agree to comply with all procard policies and use the card responsibly.

Conclusion:

Cardholders receive training from campus administrators on proper use of procards and sign cardholder agreements to use procards responsibly.

No Instances of Splitting Transactions Were Identified

Procard policies clearly state cardholders are not to split purchases into multiple transactions to stay within approved purchasing limits. For example, if a cardholder is authorized to spend up to \$5,000 on a single transaction, they cannot spend \$9,000 by splitting the transaction into two purchases. Audit work did not identify evidence of cardholders splitting transactions to stay within their purchasing

Chapter III – Campus Procard Controls

limits. Most cardholders generally use procards for small dollar purchases. However, approved card limits for most cardholders are generally high enough to eliminate need to split transactions to stay within established limits.

Cardholders Are Not Sharing Procards

Based on the transactions reviewed, we did not identify evidence of cardholders sharing cards with other individuals. In some cases it was not always possible to determine who made a purchase, particularly if a purchase was made on the Internet or over the phone. However, the majority of purchases we reviewed were made in person and the individual issued the card was the name on the receipt.

Conclusion

Cardholders are not splitting purchasing transactions to stay within purchasing limits and there was no evidence of cardholders sharing procards.

Chapter IV - Procard Controls Could Be Strengthened

Introduction

As discussed in the previous chapter, campuses have established procard controls and are generally following these controls. However, we identified areas where current controls could be strengthened. This chapter makes recommendations to enhance certain components of procard policies. Areas where we recommend improvements include:

- ▶ Clarifying card use for meals and other food purchases.
- ▶ Clarifying appropriate documentation for on-going purchases.
- ▶ More clearly defining consequences for inappropriate use of procards.
- ▶ Developing criteria for card limits issued to cardholders.
- ▶ Improving documentation of reviews of procard activity.

The following sections discuss each of these areas in further detail.

Clarifying Policies for Meal and Food Purchases

We identified differences between written policies for meal and food purchases and how campus officials interpreted these policies. For example, on most campuses we identified cardholders charging meals and/or food for departmental meetings to their procards. Some campus policies state “meals” may not be charged to cards and policies at other campuses indicate “food” cannot be purchased. Campus officials stated meals should generally not be charged to procards although some exceptions are made for athletic departments or university officials entertaining someone while conducting university business. Officials from those campuses charging food items for meeting refreshments indicated policy restrictions do not apply to these kinds of food purchases.

Policies regarding food and meal purchases at campuses should be clarified to specifically state what kinds of food or meal purchases are allowable and who may use procards for these purchases. State policy allows procards to be used for meal purchases and several state agencies use them for this purpose. To help reduce confusion on when food and/or meals may be purchased, the Commissioner of

Chapter IV - Procard Controls Could Be Strengthened

Higher Education may want to direct campuses to re-evaluate restrictions on meal purchases and allow cardholders to use cards to purchase meals when in overnight travel status.

Clarifying Appropriate Documentation for On-Going Procard Purchases

It is common for on-going procard purchases, such as monthly Internet fees, to be charged to procards. However, documentation did not always exist for these kinds of purchases at several campuses. For example, approximately 50 percent of procard charges we identified without receipts or other documentation on one campus were for monthly Internet charges. Campus officials stated they were unsure what level of documentation should be maintained for these kinds of purchases. Since these were on-going monthly charges approved by cardholders, campus officials did not believe there was a need to document the charge every month. However, appropriate levels of procard controls suggest documentation exist for these purchases to verify the charges are authorized by cardholders and supervisors. Documentation could include monthly billing statements from vendors attached to monthly procard statements or one-time supporting documentation indicating the monthly charge is authorized, the name of the vendor, and purpose of the charge. Procard policies and procedures for each campus should be updated to clarify how on-going monthly charges should be documented.

Defining Consequences for Inappropriate Use of Procards

According to the Institute of Internal Auditors, purchases should “never be approved without detailed supporting documentation that delineates the entire amount charged.” The Institute also suggests policies have meaningful, well-defined consequences for misuse of cards. This includes consequences for not obtaining itemized receipts, making personal purchases (accidental or otherwise), or deliberate acts of fraud.

Neither policy nor cardholder agreements for campuses clearly define what constitutes card misuse nor the consequences for misuse. These documents generally indicate failure to comply with policies and procedures may result in termination of procard privileges or other disciplinary action. However, the documents do not

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specifically define what “failure to comply” means or exactly what will happen if cardholders do not comply with policies. For example, does failure to submit one itemized receipt or one personal use of a procard constitute card misuse? Some campus officials indicated lack of a clearly defined policy has hindered their ability to take disciplinary action because employees challenge them to specifically point out where policies describe what should be done. To help make consequences of inappropriate procard use more significant and enforceable, campuses should better define what constitutes inappropriate use and the specific actions to be taken if procards are not used appropriately. Some campuses, such as The University of Montana (UM), stated they have already started to make these changes.

Developing Criteria for Establishing Card Limits

Spending limits are placed on procards to help control purchasing activity. Campuses are generally using default card limits automatically assigned to cards when employees are approved. For example, during our audit period, UM campuses had default card limits of \$5,000 per transaction and \$20,000 per month (billing cycle). Montana State University campuses had card limits of \$5,000 per transaction and \$50,000 per month. Employees can be approved for higher or lower limits if deemed necessary.

According to the Institute of Internal Auditors, employees should not be issued “blanket limits” (i.e. default limits) for cards because higher card limits increase the risk of procard abuse by providing more purchasing capabilities. Instead, card limits should be commensurate with purchasing needs and should slightly exceed the highest actual purchase by a cardholder in the preceding year. Based on our sample, 78 percent (204 of 260 sampled cardholders) of cardholders reviewed in our sample had monthly card limits from \$20,000 to more than \$50,000. Some cardholders had monthly card limits over \$100,000. Even though most cardholders are issued campus default limits, these limits may still be higher than necessary. Procard limits should be commensurate with an employee’s job duties and purchasing needs.

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We found no evidence cardholders were abusing or attempting to abuse high card limits. However, card limits higher than what employees need increases the risk abuse could occur. Furthermore, interviews with campus officials indicated there are risks associated from sources outside the campus. Specifically, officials from several campuses indicated there have been instances where card numbers were stolen over the Internet and attempts made to make purchases. Higher than necessary card limits increase the risk to outside fraud.

Campus policies generally place responsibility for setting card limits with employee supervisors, department heads, and campus procard administrators. However, policies do not outline clear criteria to determine what card limits should be assigned to employees or that these reasons be documented. Developing this criteria and documenting the reasons card limits are assigned to employees could improve procard controls.

Documenting Monthly Procard Manager Reviews

Most campus procard managers followed similar procedures when reviewing monthly statements. However, differences existed in how or if follow-up to potential problems were documented. For example, in several cases where receipts were missing, we found file documentation indicating procard managers contacted the cardholder. This information provided an explanation on why the problems occurred and how they were resolved. However, we also noted cases where there was no evidence procard managers followed up on problems. Subsequent interviews with procard managers indicated they conducted follow-up with cardholders, but did not know they should be documenting this effort.

We identified similar issues with reviews of monthly procard statements. In many cases, reviewers were signing the monthly statement and dating the review. Therefore, there was evidence of timely procard reviews by appropriate personnel. However, we identified several examples on campuses where individuals conducting reviews and dates of reviews were not documented. In these instances, it was not possible to determine if someone other than the cardholder conducted monthly reviews or if reviews were

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done in a timely manner. Follow-up interviews with procard managers determined they conducted the reviews, but did not know they should document their reviews by signing and dating the monthly statement.

According to campus procard managers, procard policies and procedures only require procard activity be reviewed. Policies and procedures do not discuss how follow-up with cardholders or monthly reviews of procard activity should be documented. Campus policies and procedures should be revised to require individuals reviewing monthly statements to sign and date the statements at review completion. In addition, policies should require all follow-up with cardholders be documented. These changes would help improve internal controls at each campus and provide assurance appropriate levels of managerial oversight exist.

Summary: Campuses Have Procard Controls in Place and Policy Enhancements Could Improve Controls

The number of procards issued to campus employees and the number of purchases made on procards is increasing and expectations are for these trends to continue. Campuses have established procard controls, including policies and procedures, receipts documenting purchases, and on-going reviews of procard activity. In most cases, campuses are following established controls and cardholders are generally using cards responsibly. Additionally, our review did not identify any instances of fraud related to procard purchases.

While basic controls are in place, we identified areas where procard controls could be enhanced. In general, these enhancements relate to policy clarifications to help ensure campuses have stronger controls as more procards are issued to employees and procard purchases continue to increase. Improving existing controls will also help minimize potential losses due to card misuse.

Chapter IV - Procard Controls Could Be Strengthened

Recommendation #1

We recommend the Office of Commissioner of Higher Education direct campuses to clarify procard policies and procedures to:

- A. Clarify meal and food purchases and assess the potential for allowing procards to be used for meals when employees are in overnight travel status.**
- B. Clarify what constitutes appropriate documentation for on-going monthly purchases.**
- C. Better define consequences for inappropriate use of procards or not complying with campus procard policies.**
- D. Develop criteria for establishing card limits and document why employees are issued the card limits they are provided.**
- E. Assure more consistency in documenting monthly reviews of procard activities such as signing and dating monthly reviews and documenting follow-up with cardholders.**

Appendix A - Audit Approach

Audit Methodology

Preliminary audit work was conducted to gain an understanding of campus procard systems and controls. We interviewed the State Procard Program Manager at the Department of Administration and the Director of Budgeting and Accounting at the Office of Commissioner of Higher Education. We also reviewed Montana purchasing laws and rules and examined the Montana Operations Manual related to the state's procard program.

We interviewed officials from the internal audit units at Montana State University- Bozeman (MSU) and The University of Montana-Missoula (UM) regarding internal audits completed on procards and procard controls. We also interviewed procard administrators and procard managers within academic departments on individual campuses. We conducted preliminary file reviews at campuses to determine the types of documentation maintained for procard purchases. We obtained procard policies and procedures for all campuses.

We examined performance audit reports previously issued by the Legislative Audit Division related to procards. Reports reviewed included Purchasing Card Program (01P-03) and Management of State Government Airfare Purchases (03P-07). We examined the findings from the Special Panel that reviewed the UM Athletic Department deficit and UM's Internal Audit report of the Athletic Department's use of procards. We also reviewed audit reports issued by other states related to procards.

Audit Sample

After completing preliminary audit work, we determined fieldwork should focus on file reviews at each campus. To assist in establishing our population and statistical sample, we requested procard transaction information for fiscal year 2003-04 from MSU and UM internal auditors. Once data was received it was sorted by campus and index (accounting) codes. This allowed us to obtain the total number of transactions and total level of activity for each campus.

Appendix A - Audit Approach

We developed a stratified sample of index codes based on the amount of procard activity within each code. Our sample was divided into three groups to assess controls for different levels of procard activity. We used stop and go sampling and a 5 percent error rate and a 90 percent confidence rate for our procard review. A total of 2,453 procard purchases made by 260 different cardholders were reviewed.

File Review

Data obtained from each campus was used to assist audit staff in reviewing and documenting campus procard activity. Follow-up interviews were conducted with campus officials to discuss questions identified during file reviews or to clarify questions we had regarding procard policies and procedures.

Criteria

We obtained criteria for this audit from several different sources. Criteria used to evaluate campus procard controls included:

- ▶ State purchasing laws.
- ▶ Campus procard policies and procedures.
- ▶ Contracts between GE Capital and Department of Administration.
- ▶ Policies and procedures at universities in other states.
- ▶ Banking industry information.
- ▶ Information from the Institute of Internal Auditors.

Agency Response



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OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION

LEGISLATIVE AUDIT DIV.

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October 21, 2005

Mr. Jim Pellegrini
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena, MT 59620-1705

Dear Mr. Pellegrini:

I would like to thank the Legislative Audit Committee for authorizing this performance audit of management controls over procurement card use in the Montana University System. The Legislative Audit staff conducted their work with professionalism and courtesy. We concur with the audit recommendation to clarify certain procard policies and procedures.

The Office of the Commissioner of Higher Education will be meeting with the Montana University System Controllers in December 2005 to begin the implementation of the audit recommendation.

Thank you again for your assistance.

Sincerely,

A handwritten signature in cursive script that reads "Sheila".

Dr. Sheila Stearns
Commissioner of Higher Education