



# Legislative Audit Division

## Performance Audit Summary

### Assessment of Management Controls Over University Procurement Card Use

October 2005

#### 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.

#### Approximate Number of Campus Cardholders FY 2003-04

<i>Montana State University Campuses</i>	
<i>MSU-Billings and College of Technology</i>	<i>94</i>
<i>MSU-Northern</i>	<i>33</i>
<i>MSU-Great Falls College of Technology</i>	<i>24</i>
<i>MSU-Bozeman</i>	<i>447</i>
<b><i>MSU TOTAL</i></b>	<b><i>598</i></b>
<i>University of Montana Campuses</i>	
<i>UM-Missoula and College of Technology</i>	<i>610</i>
<i>UM-Tech and College of Technology</i>	<i>88</i>
<i>UM-Western</i>	<i>31</i>
<i>UM-Helena College of Technology</i>	<i>19</i>
<b><i>UM TOTAL</i></b>	<b><i>748</i></b>

#### 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.

**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**

Total purchases using procards has been increasing with little attention being given to reviewing card limits.

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

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

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.

For a complete copy of the report (05P-02) or for further information contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>.