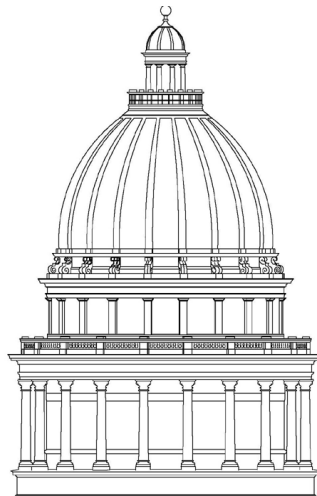REPORT TO THE

UTAH LEGISLATURE

Number ILR 2017-B

Survey of P-Card Controls In Higher Education

April 2017

Office of the
LEGISLATIVE AUDITOR GENERAL
State of Utah

April 3, 2017

TO: THE UTAH STATE LEGISLATURE

Transmitted herewith is our report, **A Survey of P-Card Controls in Higher Education** (Report #ILR 2017-B). A digest is found on the blue pages located at the front of the report. The objectives and scope of the audit are explained in the Introduction.

We will be happy to meet with appropriate legislative committees, individual legislators, and other state officials to discuss any item contained in the report in order to facilitate the implementation of the recommendations.

Sincerely,

John M. Schaff, CIA
Auditor General

JMS/lm

REPORT TO THE

UTAH LEGISLATURE

Report No. ILR 2017-B

Survey of P-Card Controls In Higher Education

April 2017

Audit Performed By:

Audit Manager   Tim Osterstock
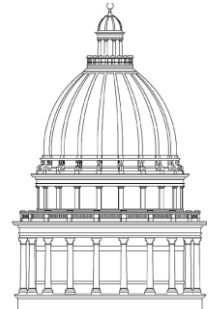
Audit Supervisor   David Gibson

Office of
LEGISLATIVE AUDITOR GENERAL
State of Utah

Report Number ILR 2017-B
April 2017

Survey of P-Card Controls In Higher Education

Purchase cards (P-Cards) are a convenient means of purchasing items below a certain cost threshold, while at the same time providing a cost-effective method of procurement. The use of P-Cards also can reduce or eliminate purchases made through less preferable methods such as petty cash, bank checks, low-value authorizations, and small-dollar purchase orders. This report is broken down into the following sections:

- P-Card policy controls are adequate
- P-Card training is essential
- P-Card transaction review is a necessary control
- P-Card best practices

This survey was initiated to determine if higher education P-Card policies and controls meet the requirements of Administrative Rule R765-571. All examined universities and colleges (institutions) have policies that address P-Card use. For this audit survey, we examined a limited sample of P-Card purchases at five higher education institutions. We found that policies and controls were acceptable. However, some institutions could benefit from the best practices identified in this report. Based on our findings, no further work is necessary.

Board of Regents Delegates Purchasing Policy to Institutions

The Board of Regents' Administrative Rule R765-571 delegates to each institution the adoption and administration of procurement

Based on our audit survey, no further work is warranted.

policies, rules, and processes that conform to Utah's procurement code. **Utah Code** 63G-6a provides general procurement provisions as well as penalties for violating procurement laws. Each institution is to establish policies, rules and procedures, all referred to as policies in this report, for purchases both above and below $50,000.

For purchases below the $50,000 threshold (most P-Card use), institutions are required to establish additional control thresholds including:

- Annual cumulative threshold – the maximum total amount that may be spent from one source.

- Individual procurement threshold – the maximum amount that an individual may spend.

- Single procurement threshold - the maximum amount that may be spent to obtain multiple items from one source at a time.

Overall, the surveyed institutions' policies address the requirements of Rule, and all have policies that address P-Card use. However, we believe some improvements are possible in different applications of P-Card policies.

Purchase Cards
Are Beneficial

Using a P-Card can help reduce both employee time spent on purchases and the expense of purchasing low-value items. The use of P-Cards benefits the institution by:

- Eliminating invoice creation, handling, and mailing

- Using electronically deposited funds for payment to save time

- Reducing the effort spent on the procurement process without eliminating necessary controls

- Requiring all purchased items to be shipped to a specific address to reduce misuse of funds

Institutions are responsible for creating and following their own P-Card polices.

When used correctly, P-Cards provide many benefits.

- Eliminating instances of exempt Utah institutions paying Utah sales taxes

- Earning institutions rebates for using P-Cards

Figure 1 shows the rebates that universities and colleges have earned in the last three fiscal years of P-Card usage and demonstrates the positive financial impact of P-Cards.

Figure 1 P-Card Rebates Received by Five Universities and Colleges. By using P-Cards, schools earn extra funds for their institutions.

Institutions	2014	2015	2016	3 Year Percent Increase
DSU	$ 6,347	$ 7,748	$ 11,221	77%
SLCC	85,100	95,968	119,316	40
Snow	49,457	64,345	96,602	95
SUU	79,836	104,669	129,332	62
UVU	107,580	132,202	151,019	40
Total	**328,320**	**404,932**	**507,490**	**55%**

Source: All five institutions that were reviewed

The sampled universities and colleges put the rebate proceeds into their own general funds.

Audit Scope and Objectives

This survey was initiated to examine P-Card controls at five institutions by reviewing their policies, procedures, and practices as they relate to Administrative Rule R765-571. We reviewed a limited sample of P-Card purchases at Utah Valley University (UVU), Southern Utah University (SUU), Dixie State University (DSU), Snow College (SC) and Salt Lake Community College (SLCC).

Institutional P-Card Controls
Are Adequate

Institutions ensure their P-Card programs are functioning properly by utilizing systems that include well defined policies and procedures, on-going training for all involved staff, and sufficient review and monitoring of purchases.

All reviewed institutions are in compliance with Administrative Rule R765-571.

P-Card Control Systems
Are Supported by Policies

Purchasing card programs begin with management determining what they want and what they will allow. The institutions then establish policies that reinforce management control. Policies outline the entire P-Card control process. Sufficient training of all involved staff is a necessary policy element, including P-Card users, supervisors or managers responsible for reviewing their employee's P-Card transactions, and independent reviewers or auditors. Review policies are critical, as they are a control and information source for management.

All five of the reviewed institutions have polices that address these basic control elements. Each of the institutions have tailored their programs to their unique needs. Thus, while their systems are based on the same premise, their policies, procedures, level of training, and review processes vary. Discussions with some of the various institutional staff indicate that they have updated or are currently updating their P-Card policies. All the institutions reviewed follow the control process shown in Figure 2.

The P-Card process allows for review feedback to management and users.

Figure 2 A Continuous P-Card Control Environment Helps Ensure that Users of P-Cards Are Complying with Institutional Policies. Inside the circle represents the P-Card tasks that are to be done and outside the circle represents the people who carry out the P-Card tasks.
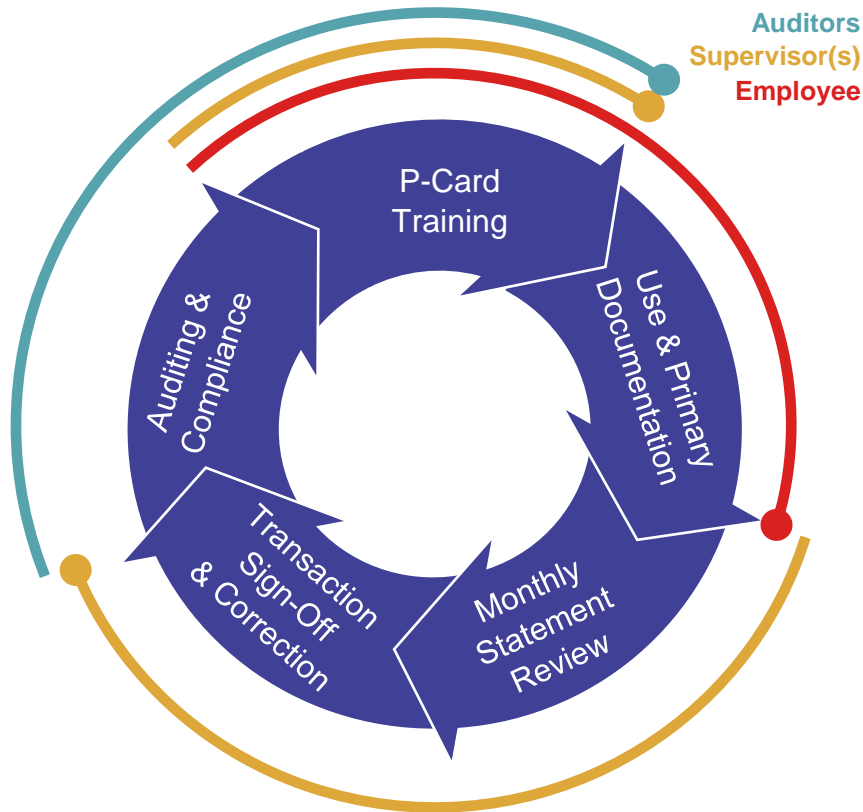
Source: Auditor Generated

As a best practice, institutions' P-Card control environments should be monitored continually as shown in Figure 2. Training should be provided for all employees who

- Use the P-Card
- Are responsible for verifying or auditing purchases
- Are responsible for verifying or auditing compliance

In addition, it is imperative that P-Card policies and procedures reflect any changes that may occur in the institution's purchasing policies.

Policy Adequately
Defines P-Card use

For a P-Card program to be successful, sound policies and procedures need to exist and be enforced. All five of the sampled institutions generally place their P-Card program under their purchasing director and have governing policies and procedures. Each of the institutions' P-Card policies have been updated in the last four years. The policies cover all areas of the P-Card processes which include:

- Cardholder P-Card responsibilities
- Supervisor P-Card responsibilities
- P-Card controls
- P-Card violations

As with any policy, it is vital that P-Card policies be kept up to date, particularly in relation to other institution purchasing polices that may affect P-Card usage, such as travel, meals, and gifts. If these policy areas are changed, the user of the P-Card may become out of compliance.

There are some preventive policies that should always be adopted. One important example is P-Card Merchant Category Classification (MCC) code blocks. These codes can be set to prevent purchases from inappropriate vendors or types of businesses. Institutions also stressed policies that the P-Cards are to be for school purposes only and that P-Cards are not to be shared.

Institutions' P-Card Policies Are Compliant with Administrative Rule. All five sampled institutions are in compliance with Administrative Rule R571-6 which requires institutions to establish procedures that govern card issuance, conduct card-holder training, and audit P-Card transactions. All five institutions' policies or procedure document and other forms were easily obtained.

Institutions' P-Card policies also cover policy violations. Two institutions use point systems (as a measure of violations) that set a maximum allowable point total an employee can receive before their P-Card could be deactivated. Employees at both institutions can attend one training per fiscal year to reduce their violation point total by half and keep their P-Cards. These point systems appear to be most

useful when they are shared with P-Card users so the severity of the violation is known up-front.

A frequent P-Card user violation found during this review is paying Utah sales tax on transactions. Each institution's P-Card policy states that Utah sales tax should not be charged. One institution stated that they do not try to get inappropriately paid sales tax reimbursed. Another institution requires the P-Card user to get the inappropriately paid sales tax removed. This user responsibility requirement significantly reduces tax violations.

To ensure that P-Card programs are successful, institutional management needs to correct policy clarity issues and find a balance between under and over restrictive P-Card policies. Excessive controls can restrict reasonable card usage, and be time-consuming and costly. Institutions may want to revisit the controls they have in place to ensure they are getting the results they desire. Management should conduct this review with internal auditors, who regularly review P-Card usage.

Staff Training is Essential

For P-Card programs to be successful, employees who use P-Cards, supervisors who review the transactions, and auditors who provide the final review should all receive training. Training employees in all P-Cards areas is the first line of defense in operating a successful P-Card program. We found that the sampled institutions all require some level of P-Card training for all involved employees.

Training is key in operating a successful P-Card program.

Figure 3 shows a timeline activity illustration used by one institution for staff P-Card training. This is a great reminder of employee responsibilities and the follow-up review work that will subsequently be performed.
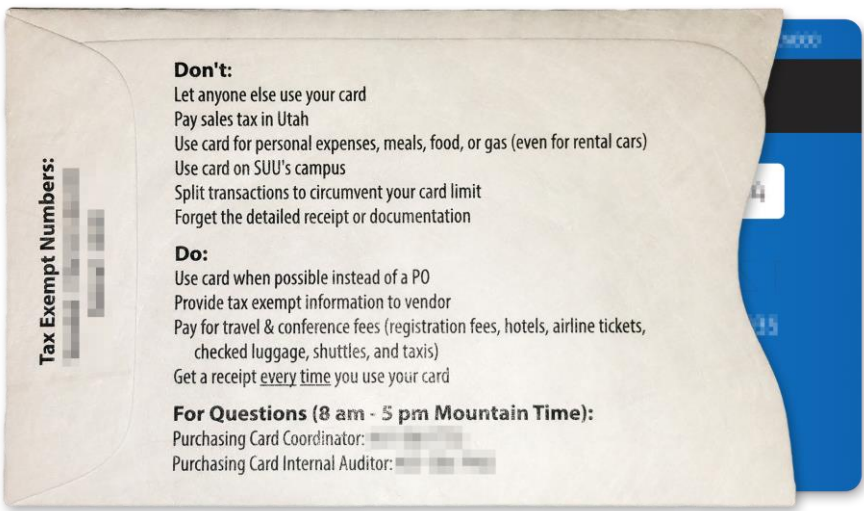
Figure 3 UVU Uses This Graphic to Remind P-Card Users of Their Documentation Responsibilities. This outlines the process from the beginning to the end of the P-Card user's document lifecycle.

DAILY	MONTHLY		YEARLY	7 YEARS
Save all transaction receipts and approvals	Cardholder reconciles bank statement then initials	Supervisor reviews bank statement then initials	Submit all documentation to the P-Card Office for audit	Store securely

Source: Utah Valley University

Two other institutions proactively reinforce their P-Card polices by using printed credit card sleeves that list critical controls, reminders, and P-Card resources. Figure 4 shows the sleeve used by one of these institutions.

Figure 4 A P-Card Sleeve Is Used to Remind Users that the P-Card is for School Purchases only. This helps to remind users of the purpose of the card, as wells as some dos and don'ts.

Don't:
Let anyone else use your card
Pay sales tax in Utah
Use card for personal expenses, meals, food, or gas (even for rental cars)
Use card on SUU's campus
Split transactions to circumvent your card limit
Forget the detailed receipt or documentation

Do:
Use card when possible instead of a PO
Provide tax exempt information to vendor
Pay for travel & conference fees (registration fees, hotels, airline tickets, checked luggage, shuttles, and taxis)
Get a receipt every time you use your card

For Questions (8 am - 5 pm Mountain Time):
Purchasing Card Coordinator: ▮▮▮
Purchasing Card Internal Auditor: ▮▮▮

Tax Exempt Numbers:

Source: Southern Utah University

Using this sleeve places the most important user information with the card and the cardholder. The institutions mentioned that employees who use this P-Card card sleeve have commented on it as a useful and present reminder.

P-Card Training
Is Critical

Most institutions' policies require P-Card training of all employees who either use P-Cards or have responsibilities to review P-Cards. Training policies should include the responsibilities for:

- P-Card users
- Supervisors
- Auditors

Although each of the three groups have different P-Card responsibilities, it can be beneficial for all three to be trained together so each group can learn the others' P-Card responsibilities. This can help reinforce P-Card policy so employees know exactly what will be reviewed by supervisors and auditors. Employees can then be more proactive in complying with P-Card policy by having the required documentation when it is time for their purchases to be reviewed.

Employee P-Card Duties are Well Addressed. Employees who are assigned to P-Cards are trained pertaining to their responsibilities as well as to P-Card compliance. This training includes:

- Items that cannot be purchased
- Required transaction log information
- Required itemized receipts
- Use of pre-authorization forms
- The requirements to avoid splitting invoices
- Spending thresholds
- The requirement to avoid paying Utah sales tax

The items listed above are in each sampled institution's policy and training provided to their P-Card users. The sampled institutions all require employee P-Card training when they first receive a card. Two of the institutions also require training if the employee loses a card or if a card is reissued. One institution requires employees to take P-Card training every three years.

The use of the P-Card transaction log differs significantly between institutions. The purpose of the log at all institutions is to provide a detailed account of P-Card transactions. The institutions do not require the same type of information or use similar formats. From an auditor's perspective, one institution's required use of an electronic

Each institution requires employees be trained before receiving a P-Card.

spreadsheet transaction log was the easiest to review. This belief is because the electronic version requires the user to complete the required information in a legible manner.

P-Card Review of Transactions
Is the Final Control

The final phase of the P-Card control process is a transaction review conducted directly by supervisors and ultimately by management (audit). All reviewed institutions have supervisory transaction reviews. In addition, the auditors at all reviewed institutions review P-Card transactions monthly, quarterly or on a yearly basis. This double review process is important as it provides for both real-time correction and feedback to card users while also providing management program operational information.

All reviewed institutions have P-Card user violation policies that are identified and enforced by their auditors. These institutional auditors are the control system's final step to ensure P-Card transactions have the necessary documentation, and that P-Card purchases comply with the institution's policies.

The auditor review also tests the sufficiency of the supervisory review and, in doing so, tests the effectiveness of the institution's P-Card training. Figure 5 shows a diagram that demonstrates UVU's P-Card training program to show card users their audit process.

Segregation of duties is occurring at the institutions for P-Card reviews.

A Survey of P-Card Controls in Higher Education (April 2017)

Figure 5 Audit Process at Utah Valley University. The audit process is outlined in detail in UVU's P-Card policies to make understanding easier for the P-Card user.

1 P-Card Office Requests Audit Documentation

2 Cardholder Delivers All Requested Documentation By Due Date

3 Auditor Sends Cardholder A Preliminary Audit Report

4 Cardholder Reviews Report & Submits Any Corrections By Due Date

5 Auditor Applies Corrections & Finishes Audit

6 Cardholder Takes Any Required Action For P-Card Compliance

Source: Utah Valley University

At UVU, once the audit of an employee's P-Card use is completed, an e-mail of the audit's results is sent to the card holder. If there are no errors, then the audit is over. If errors are found, violation points are accessed and the employee needs to respond and make the proper correction.

Auditing of P-Cards is essential to determine if employees are compliant with policies.

Not all audit reviews follow the same procedures. We found that auditors at two of the institutions review their transactions monthly. One institution reviews them on a quarterly basis and another institution on a yearly basis. The fifth institution did not have formal P-Card policies until January 2016, and is now auditing their previous years' P-Card transactions. All the institutions we reviewed have violation policies and, in most cases, use a points system that assigns points to certain infractions found in P-Card reviews. Figure 6 is an example one institution's violation scale.

Figure 6 Some Institutions Use a Point System when P-Card Violations Occur. When a user earns 150 points or more during a fiscal year, the P-Card is suspended until training is completed.

Violation Types	Point Value
Personal Purchase	150
Splitting of Transaction	150
Purchase of a Restricted Item	50
Unauthorized Purchase made by someone other than Cardholder	50
Itemized Receipt/Support Documentation missing (1st violation)	40
Itemized Receipt/Support Documentation missing (2nd violation)	50
Itemized Receipt/Support Documentation missing (3rd violation)	60
3rd Use of Missing Receipt Form	40
4th Use of Missing Receipt Form	50
5th Use of Missing Receipt Form	60
Over Per Diem Rates (see current College Travel Policy Rates) Points assessed per transaction NOT per statement.	30

Source: Snow College

As shown in Figure 6, points can be assigned for a number of different infractions. As was mentioned earlier, two institutions list policy violations and their associated points to show users what the violations are, and their severity. A third institution uses an internal point system that is not shared with P-Card users. The institutions that use a point system for violations allow employees to attend one additional training per year to reduce their points.

Published points system are a useful tool in controlling P-Card violations.

As a precaution, institutions need to ensure that their violation policies match with their P-Card use policies. For example, some of the institutions do not list getting charged Utah sales tax as an infraction, even though their P-Card policies clearly state it should not happen.

Improvements Should Be Made
Through Best Practices

Institutions can follow best practices to help employee compliance with P-Card policies to improve some areas. During the review of P-Card transactions, we found similar errors at all five institutions. Further instructing supervisors in areas where employees most often violate policies can reduce errors. Following these best practices can help identify employees who may be at a higher risk for improper transactions, further ensuring high risk employees are compliant with policy.

Errors Can Be
Further Reduced

Our P-Card statement sample identified some common violations associated with employees not following P-Card policies. The most common violation was employees not stating a business purpose. Figure 7 shows the sampled P-Card statements from each institution and the number of transactions that were reviewed, compared against their policies.

Figure 7 We Examined Transactions from October 2016 to Identify Whether Errors Exist. Similar errors were found at all institutions when reviewing P-Card transactions against institutions' P-Card policies.

Institution	Sample Size	Trans-actions	Errors	Business Purpose Not Stated*	Total Errors
DSU	25	114	12	N/A**	12
SLCC	50	304	19	100	119
Snow	25	159	4	-	4
SUU	50	353	54	187	242
UVU	49	292	15	56	71

Source: Auditor review of five institutions
* These errors consist of users NOT providing a business purpose as required by policy
** DSU does not have a policy requiring statement of a business purpose.

The most common P-cards violation errors include: business purpose not stated, inappropriately paying state sales tax, missing authorization forms, items purchased outside of policy, and lack of itemized receipts. In this review we found that one institution was missing five receipts, the institution has since found and provided the receipts. All institutions except Dixie State University require a stated business

Best practice can be used to further improve policies and practices.

purpose for all transactions. Southern Utah University's count is particularly high because many of their users did not include this with their documentation.

Utah's institutions are tax exempt and have policies directing users not to pay Utah State sales tax. When sales tax is inappropriately charged, the institution must decide between losing funding to sales tax or instructing its auditors to request a reimbursement from the Utah State Tax Commission. It is more efficient for the cardholder to follow policy by not having the tax charged. For comparison, the University of Utah calls for its employees to check with vendor customer service offices before making a purchase and document those instances when state sales tax cannot be avoided. If sales tax is inappropriately paid, the University of Utah user is assigned a ten point penalty for a sales tax violation.

The transaction and procedural errors identified in our testing were found in all five institutions. We believe that all could have been caught and corrected by the supervisory review. At a minimum, the supervisory review should identify that:

- Each transaction was authorized
- Each transaction has a legitimate business purpose
- Each transaction has an itemized receipt
- Pre-authorization form is present when required
- P-Card statement is signed by the employee
- Each transaction is within policy
- Transaction log is filled out correctly
- Utah sales tax has not been charged

A supervisor review of transactions first should reduce any errors found later by auditors. The supervisor review is also beneficial as it allows the supervisor to train the P-Card user regarding the mistakes found during the review process.

Any lack of P-Card policy knowledge by the supervisor limits early identification and correction of problems. All five sampled institutions' P-Card policies require at least monthly supervisor/manager review of P-Card purchases. Four of the five institutions require supervisor P-Card training even if they do not have a P-Card. It is a best practice that all supervisors who have the responsibility to review P-Cards, regardless of whether or not they have a P-Card, should be required to

<div style="margin-left:0;">
Supervisor review of P-Cards is an important step in ensuring that P-Cards are used correctly by employees.
</div>

go through the training. Similarly, auditors who provide the final review of P-Card transactions, and enforce institution's P-Card policy, should also be required to go through P-Card user and review training.

Best Practices Can Assist Auditors' P-Card Reviews

Auditors need to ensure that the transactions they are reviewing not only have necessary documentation, but also are within their institutions polices. These can be daunting reviews due to large numbers of users and the variety of card uses. To address this workload, two institutions use checklists to guide auditors through the review process. A form is generated for each card holder that defines the card holder's approved uses and past errors, thus allowing the auditor to focus on critical elements of the review. This checklist system delineates elements in need of review and aids in performing consistent reviews.

Another method used to help review P-Card transactions is dividing users into differing risk levels. The institution who uses this method requires review for all transactions, but highlights three sub-groups for additional review.

- Users who have had the P-Card for less than six months
- Half of the high spenders for the month
- A random sample of 5 percent of remaining employees

In making these divisions, the director forces greater observation of users with high spending and newer users more inclined to make errors. In targeting new employees, the director also gains knowledge as to the effectiveness of their user training program.

Targeting high risk employees can help reduce future P-Card violations.

Recommendations

1. We recommend that Utah universities and colleges require that all supervisors and managers who review P-Card transactions attend P-Card training.

2. We recommend that Utah universities and colleges determine areas of their policies that are not being followed, and ensure that these items are addressed in follow-up training with supervisors, managers, and employees.

3. We recommend that Utah universities and colleges reinforce supervisor review responsibilities as delineated in this audit.

4. We recommend that Utah universities and colleges review their P-Card violation policies to ensure they match their P-Card policy.

5. We recommend that Utah universities and colleges use a method to target high risk users for additional review when auditing P-Card transactions.

Agency Response

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March 28, 2017

Mr. John Schaff
Legislative Auditor General
W315 Utah State Capitol Complex
Salt Lake City, UT 84114-5315

Dear Mr. Schaff:

On behalf of the Utah System of Higher Education (USHE), I wish to thank you for the opportunity to respond to the *Survey of P-Card Controls in Higher Education*. We acknowledge and appreciate the work of your office.

We appreciate the recognition stated in the report that "institutional p-card controls are adequate" and "all reviewed institutions are in compliance with Administrative Rule R765-571." These audit findings are the results of continued proactive efforts from USHE and its institutions to maintain systems of internal control to prevent misuse of institution resources.

While institutions maintain adequate p-card controls, we also appreciate the five recommendations for further improvement. We look forward to implementing each of these recommendations to further strengthen strong existing control environments at our institutions. Our responses to each of the five recommendations are attached.

Sincerely,

David L. Buhler, Ph.D.
Commissioner of Higher Education

Response to *A Survey of P-Card Controls in Higher Education*

Recommendation 1: *We recommend that Utah universities and colleges require that all supervisors and managers who review P-Card transitions attend P-Card training.*

Response: We concur. USHE will follow up with all institutions to ensure supervisors and managers receive adequate p-card training.

Recommendation 2: *We recommend that Utah universities and colleges determine areas of their policies that are not being followed, and ensure that these items are addressed in follow-up training with supervisors, managers, and employees.*

Response: We concur. Internal auditors at each of the institutions will audit p-card practices with policies in 2017 and recommend improvements to further compliance, as needed. Additional training will be provided, as needed, based on the results of these internal audits.

Recommendation 3: *We recommend that Utah universities and colleges reinforce supervisor review responsibilities as delineated in this audit.*

Response: We concur. Supervisory responsibilities will be reinforced through regular supervisor and manager training sessions recommended in Recommendation 1.

Recommendation 4: *We recommend that Utah universities and colleges review their P-Card violation policies to ensure they match their P-Card policy.*

Response: We concur. Institution auditors will continue to evaluate compliance with policies in their annual p-card audits, while also reviewing the potential need to align p-card violation policies with p-card policies, as needed.

Recommendation 5: *We recommend that Utah universities and colleges use a method to target high risk users for additional review when auditing P-Card transactions.*

Response: We concur. As mentioned on page 11 of the report, "all the institutions we reviewed have violation policies and in most cases, use a points system that assigns points to certain infractions found in P-Card review." This information, in addition to information gained through internal audits, supervisory reviews, and other compliance reviews will help institutions to continue to identify high risk p-card users.