Florida Gulf Coast University Board of Trustees
April 20, 2010

SUBJECT: Purchasing Card Internal Audit Report

PROPOSED BOARD ACTION

Accept the routine internal audit report of the Purchasing Card Program provided to President Wilson Bradshaw, Vice President for Administrative Services and Finance Joe Shepard, and Assistant Vice President and Controller Linda Bacheler on February 16, 2010.

BACKGROUND INFORMATION

This is the first internal audit completed during the current 2009 – 2010 fiscal year. The date on the front page of the Purchasing Card Audit report was the last day of fieldwork, while the date on the respective transmittal memo was the date the report, including Management’s Response to the report’s observations and recommendations, was issued to President Bradshaw.

The audit was part of the 2009 – 2010 internal audit plan approved by the Board of Trustees at its June16, 2009 meeting.


Prepared by: Internal Audit Director Carol Slade

Legal Review by: General Counsel Vee Leonard (March 29, 2010)

Submitted by: President Wilson Bradshaw
INTEROFFICE MEMORANDUM

To: Dr. Wilson Bradshaw, President
    Dr. Joseph Shepard, Vice President of Administration and Finance
    Linda Bacheler, Assistant Vice-President of Administration and Finance, Controller

Cc: Maryan Evans, Director of Procurement Services
    Susan Evans, Chief of Staff

From: Carol Slade, Director of Internal Audit

Date: February 16, 2010

Re: Purchasing Card Audit

Please see the attached Purchasing Card Audit Report. This audit was the first review by Internal Audit of purchasing card procedures and practices. It contains four recommendations for strengthening practices and procedures. Management’s response to our recommendations appears at the end of the report.

We appreciated the assistance and cooperation of Procurement Services personnel, especially Assistant Director Jennifer Crabill, during this audit.
Florida Gulf Coast University

Purchasing Card Audit

Internal Audit

Report Date: November 18, 2009
PURCHASING CARD AUDIT

EXECUTIVE SUMMARY

This report represents a limited scope audit of Purchasing cards (P-cards) issued to faculty and staff in the University colleges as of June 30, 2009. Procurement Services has an established P-card program with a full time P-card administrator. There is a complete Purchasing Card Program manual for both P-card holders and reconcilers. All purchase card applicants must go through documented P-card training before they receive their cards. All card holders must have an assigned P-card reconciler, who also receives documented training. Specific recommendations for management consideration are listed on pages four and five of this report.

OBJECTIVE

The audit objective was to ensure only allowable University purchases were made and P-cards were used according to written University policies and procedures. The objective included a review of P-card policies and procedures for possible strengthening of internal controls.

*This audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors. The audit procedures provided a reasonable basis for our opinion and the following reportable findings and recommendations.*

BACKGROUND

The number of P-cards issued and the dollar volume from P-card usage continues to grow as the University grows. At December 31, 2009, the University had issued 243 currently active P-cards. For the six months from July 2009 through December 2009, University dollars spent by P-card exceeded $1,373,000.

P-card usage is tested during every Auditor General operational audit. FGCU is scheduled to receive an operational audit for fiscal year 2009 - 2010. Although we have never had P-card findings in an Auditor General audit, most other state universities have had findings on a recurring basis.
In addition, with the economy in recession P-card abuse may be expected to increase. Some reasons abuse increases in a recession are 1) employees’ fears about their jobs terminating; 2) loss of employment by other family members or even loss of second job employment by employees; and 3) dissatisfaction with a lack of raises or possibilities for promotion. Segregation of duties may also be lost when faculty or staff members leave and are not replaced or only replaced after a considerable period of time. In general, P-card fraud and abuse have increased nationally based upon anecdotal evidence from other university and college internal auditors as well as articles in higher education, business, and audit periodicals.

During the period the audit was performed, from June 2009 through November 2009, the P-card administrator position was mostly vacant. The P-card administrator whose work was audited left the University as of July 11, 2009. A new P-card administrator was hired in January 2010, before the issuance of this report.

SCOPE OF AUDIT

The scope of this audit was limited to P-cards issued to faculty and staff in FGCU’s colleges. In general, faculty and other employees in the colleges use their cards for more purposes and with greater variety than employees in Administrative Services and Student Affairs. Athletic employees with P-cards are routinely more heavily audited by Procurement Services than faculty and other employees with P-cards because coaches and other athletic staff travel more extensively and have to pay for the needs of their athletes. Athletic purchases can also be similar to personal items so more intensive review is required.

There were twenty-seven cards issued to faculty and staff of the colleges as of June 30, 2009. We chose to audit twelve of the twenty-seven cards or approximately 44% of the population. The sampled twelve were ten that had been open the longest without having been audited, and two that had been audited once since they were opened but not more recently than January 2008.

The audits covered periods ranging from twenty months to thirty-nine months, from November 2007 through June 2009 to March 2007 through June 2009.

Eight P-cards were held by College of Arts & Sciences (CAS) faculty members, and one by a CAS staff member; one was held by a College of Business faculty member; one by a director in the College of Health Professions; and one by a coordinator of a grant-sponsored program in the College of Education.
OBSERVATIONS

Procurement Services has a mature P-card program with good controls overall. Its procedures are extensively documented, although updating is recommended below. The department trains all users and reconcilers before cards are issued and documents same. There is a P-card Administrator whose job revolves exclusively around the University’s P-card activity.

In general, the audited card holders and reconcilers were responsive to requests for information and documentation. Most reconcilers seemed to be well informed about University P-card procedures or how they could obtain the information needed. This was particularly true of those who had had initial reviews or previous audits.

The need for routine audits cannot be emphasized enough. P-card purchasing has high inherent risk despite the good mitigating controls the University has in place. In addition, most of the reconcilers in the colleges are in positions subordinate to those of the card holders. There is a reasonable tendency for the reconciler to defer to the card holder as to a purchase’s allowability, as long as it meets the general requirements in the Purchasing Card Program manual. Procurement Services, when it audits, has a certain amount of administrative independence to question more deeply the University purpose for certain purchases.

RECOMMENDATIONS

1. Requirements for Invoices

Some P-card users provided invoices that did not include a shipping address or a receiving report. This is a control weakness because items purchased with University monies can be shipped to a home or another business without being detected. To improve the possibility that items are being used only for University purposes, goods should be received at the University.

Every college should have a documented procedure for approving the use of University purchases off-campus; for instance, at a faculty’s home or any other off-site location. At a minimum, the person who purchased the items should have his/her supervisor’s approval on file with the P-card approver and with the P-card Administrator in Procurement Services. The Dean of each College may wish to specify an alternative or additional member of College Administration to approve the use of University property off-campus.

When individuals use their P-cards in person at local stores to purchase items for University use, the receipt provided to the P-card reconciler should indicate the University purpose for which the purchase was made.

The Purchasing Cardholder Manual should be updated to provide this information in writing to card users and reconcilers.
2. **Conversion Rates for Purchases Made in Other than U.S. Dollars**

Faculty members sometimes travel outside the United States. Billing is made in the local currency. When the charge reaches Bank of America, the bank charges the University’s bank account at the conversion rate on the date of charge. The P-card holder who receives the bank statement or P-card approver who reconciles the bank statement to the P-card transaction log should document a test of the conversion rate for reasonableness.

Procurement Services should add to the P-card manual a website address that will allow such conversion at any time. The P-card manual might in addition or alternatively provide the name of a Procurement Services staff member to call for assistance whenever such a converted charge is received.

3. **Updating the FGCU Purchasing Card Program Manual**

As discussed above, Procurement Services has created a manual that thoroughly covers P-card purchase requirements as well as the responsibilities of P-card holders and P-card reconcilers. It was last revised in February 2008. During the audit several P-card reconcilers disclosed they had received P-card Reconciler Training from the P-card Administrator that differed in minor ways from what appears in the most current P-card manual. Procurement Services should review the manual for any necessary updates.

4. **Creating Written Reporting from P-Card Administrator to Supervisor(s)**

Procurement Services has an informal internal procedure for the P-card Administrator to audit P-cards annually and to review the activity of new card holders after the first three months of issuance. The three month review is to ensure that the card holder and reconciler understood and are following their training. The annual audit ensures that, not only that documentation is maintained satisfactorily, but only allowable purchases are made. The timeliness of the audit is very important. We recommend that the P-card administrator submit a written report at least annually to the Director or Assistant Director of Procurement Services notifying her (them) of cards issued, new card reviews, and annual audits. Reports should also include those cards that were unable to be audited within the annual timetable. This will strengthen the control Procurement Services management has over the operation of the P-card program.

*Audit Performed by Carol Slade*  
*Audit Reviewed by Deborah McEwan*
Management Response to Internal Audit

1. Requirements for Invoices

Problem:
P-Card users are providing invoices that do not include a shipping address

Proposed Solution:

1) The following has been added to Section 3.3 Documentation of the Cardholder Manual:

The following information must be included on each receipt itself:

1. Vendor name  
2. Date of purchase  
3. List of goods purchased  
4. Prices of said goods  
5. Total  
6. Shipping address (if goods were not purchased in person)

2) The following statement has been added to Section 3.7 Shipping of the Cardholder Manual:

*All goods purchased with a P-Card must be shipped to the University and never to a residential address, unless the cardholder’s primary location is an official off campus location or supervisor approval is obtained.*

3) The following items have been added to the audit checklist:

*Receipt Incomplete, Missing One or More Required Components (Date, Vendor, Items Purchased & Prices, Total, Shipping Address), RCF to be Completed*

*Item(s) Shipped to Off-Campus Address without supervisor approval*
Problem:
P-Card users do not always indicate the University purpose for which the purchase was made

Proposed Solution:

If any questionable purchases are found during an annual audit, the cardholder will be asked to provide justification. Appropriate action will be taken if the purchase is found to be unallowable.

Conversion Rates for Purchases Made in Other than U.S. Dollars

Problem:
Cardholders and reconcilers are not conducting/documenting tests of conversion rate reasonableness

Proposed Solution:

The following section has been added to the Cardholder and Reconciler Manuals:

International Travel and Conversion Rates
Faculty and staff members sometimes travel outside the United States, thereby necessitating currency conversions. Billing is made in the local currency, but when the charge reaches Bank of America, the bank charges the University’s bank account at the conversion rate on the date of charge. The P-Card holder who receives the bank statement should conduct a test of the conversion rate, checking for reasonableness and documenting the findings in the P-Card Activity Binder. Please utilize the following website for currency conversions: http://www.xe.com/

3. Updating the FGCU Purchasing Card Program Manual
A new P-Card Administrator has been hired and is in the process of revising both the Cardholder Manual and Reconciler Manual. As part of the revision process, the audit checklist used by Procurement will become an addendum to both the Cardholder Manual and Reconciler Manual in order to further promote compliance with P-Card procedures and policies.

4. Creating Written Reporting from P-Card Administrator to Procurement Services Supervisors.
An annual report for the P-Card Program was implemented in FY 08-09, see next page. In order to strengthen the control Procurement Services management has over
the P-Card Program even further, the following requested information will be added to the report beginning FY 09-10: new cards that received a 90 day audit, annual audits that were completed as scheduled, and annual audits that were scheduled to be completed but were not completed. Report will be submitted by the P-Card Administrator to the Assistant Director and Director of Procurement Services, as well as the Associate VP for Finance & Accounting.

Procurement Card Program
2008-2009 Annual Report

Program Highlights:
During fiscal year 2008-2009 the Procurement Card program underwent a few changes.

The P-Card Audit procedures and guidelines were restructured to ensure that all cards are audited in an efficient and consistent manner. All cards were audited using the new guidelines during fiscal year 08-09. A new audit calendar will be created in FY 09-10 to ensure that all cards in the program are audited annually.

A declining balance card program was piloted with the Athletic Department in an effort to decrease the amount of cash Coaches carry when traveling with their teams. The pilot program was a success. The Athletic Department will be using the Group Travel cards in conjunction with the Cash Advance process when traveling. The Group Travel card will also be used for other Group Travel Purposes, i.e.; Academic Class Trips.

Fiscal Year 2008-2009 Program Statistics:
- 228 Total Card Holders
- 52 New Card Holders
- 176 Total Cards Audited
- 2008 Annual Calendar year spend of $2.7 Million
• $9,082.50 rebate received
• 18% Growth over prior year

Fiscal Year 2009-2010 Goals:
• Increase Program Spend by 10% with the Group Travel Card Program.