

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
Agenda Item Summary Sheet**

Name: Audit Committee

Date: April 23, 2014

Title: Review Results of the Purchasing Card Internal Control and Compliance Audit

Purpose (check one):

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|---|---|---|
| <input type="checkbox"/> Proposed
New Policy or
Amendment to
Existing Policy | <input type="checkbox"/> Approvals
Required by
Policy | <input type="checkbox"/> Other
Approvals |
| <input checked="" type="checkbox"/> Monitoring /
Compliance | <input type="checkbox"/> Information | |

Brief Description:

We reviewed internal controls and compliance over purchasing cards (Pcards) at the colleges and universities and the system office. Every MnSCU institution has a Pcard program. The numbers of cardholders vary from a few to several hundred. Each institution is responsible for its internal controls related to their local Pcard activity.

It was determined that MnSCU generally had adequate internal controls over Pcard activities. For items tested, MnSCU generally complied with finance-related legal requirements and applicable policies, procedures, and guidelines.

There are seven findings and recommendations to assist colleges, universities, and the system office in improving business processes, controls, and accountability.

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing

**BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

BOARD INFORMATION
REVIEW RESULTS OF THE PURCHASING CARD INTERNAL CONTROL AND COMPLIANCE AUDIT

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Purchasing Cards:

Internal Control and Compliance Audit

Office of Internal Auditing

April 16, 2014



Minnesota
STATE COLLEGES
& UNIVERSITIES

Reference Number 2014-02

Report Classification: Public



Minnesota
STATE COLLEGES
& UNIVERSITIES

Purchasing Card Internal Control and Compliance Audit

Office of Internal Auditing
Reference Number 2014-02

Public Release Date – April 16, 2014

Members of the MnSCU Board of Trustees
Chancellor Steven J. Rosenstone
College and University Presidents

This report presents the results of our internal control and compliance audit of purchasing cards. It contains 7 findings and recommendations to assist colleges, universities, and the system office in improving business processes, controls, and accountability.

We conducted this audit in conformance with the *International Standards for Professional Practice of Internal Auditing*.

The results of the audit were discussed with the system office and the finance advisory group on April 1, 2014.

We appreciate the excellent cooperation and assistance that we received from employees at the colleges, universities, and system office.

Beth Buse, CPA, CIA, CISA
Executive Director

Executive Summary

Background

- Every MnSCU institution has a purchasing card (Pcard) program. The numbers of cardholders vary from a few to several hundred.
- Pcards offer both benefits and risks that need to be addressed.
- Each institution is responsible for its internal controls related to their local Pcard activity.
- Institutions spent nearly \$78 million and processed about 270,000 transactions on Pcards over two years.

Conclusion

- MnSCU generally had adequate internal controls over Pcard activities.
- For items tested, MnSCU generally complied with finance-related legal requirements and applicable policies, procedures, and guidelines.

Findings

- Many institutions lacked adequate controls related to employee and supervisory reviews of cardholder purchases (Finding 1).
- Many institutions lacked robust training programs for cardholders and their supervisors (Finding 2).
- Some institutions did not adequately restrict access to the bank's online Pcard system (Finding 3).
- Some institutions did not close Pcards timely when they were no longer needed (Finding 4).
- Written guidance does not address some risky actions such as shipping to home address or making purchases from personal accounts (Finding 5).
- Some institution did not comply with MnSCU system procedure requirements related to delegation of authority for Pcards (Finding 6).
- Some institutions did not comply with MnSCU system procedure related to merchant category blocking or purchasing transaction limits (Finding 7).

Opportunities for Improvement

- The new Pcard contract negotiated by the Campus Service Cooperative and the Pcard implementation team provide new opportunities for improvement.

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The audit was performed by Carolyn Gabel, Craig Fautsch, Indra Mohabir, Kim McLaughlin, Marita Hickman, and Melissa Primus

Section I: Background

A purchasing card (Pcard) is a form of charge card, similar to a credit card that allows goods and services to be procured without the traditional purchasing process. The bank managing the Pcard program will bill the payer on a monthly basis for all charges made during the month.

MnSCU's system office, its 37 accredited colleges and universities, and the Northeast Higher Education District's¹ Northeast Service Unit (NESU) each have Pcard programs. These 39 entities will be referred to as "institutions" throughout the audit report. Some have relatively large programs, with hundreds of cardholders including staff and faculty, others have very limited programs with a few cardholders such as purchasing staff or the president's cabinet. Table 1 identifies the number of institutions based on range of cardholder accounts and employee head count.

Table 1
Number of Cardholders at Institutions as of the Summer of 2013

# Cardholders at Institution	FY13 Unduplicated Employee Headcount						Total Institutions
	< 100	100-300	301-500	501-700	701-1,000	> 1,000	
5 or less	1	1	1	1	1	1	6
6-15 cards	1	3		2			6
16-50 cards		3	4	3	2	1	13
51-100 cards		1	1	1	1	1	5
101-200 cards			3	1	1		5
201-300 cards					1		1
301-450 cards							0
451 + cards						3	3
Total	2	8	9	8	6	6	39

Source: Internal Auditing's survey of institutions in the summer of 2013 and ITS Management Reports

Table 2 provides information related to how much each institution spent via their Pcard program over a two-year period. In addition, it provides information related to the number of transactions processed and number of cardholders.

¹ The Northeast Higher Education District is a governance structure for five two-year colleges in Northeast Minnesota. The Northeast Service Unit provides support or shared services to the participating colleges. The five colleges are Hibbing Community College, Itasca Community College, Mesabi Range Community and Technical College, Rainy River Community College, and Vermilion Community College. Each college is accredited separately.

**Table 2: Institution's Two-Year Pcard Spend and Number of Transactions
Approximately Two Fiscal Years (2012 and 2013)**

Institution	Employee Head Count	# Card Holders	% of Employees with Pcards	2-year Pcard Spend	# Pcard Transactions
Minnesota State University, Mankato	1,885	621	33%	\$26,536,189	70,042
St. Cloud State University	1,905	700	37%	15,943,399	36,677
Minnesota State Community & Technical College	779	275	35%	3,980,984	20,218
Minnesota State University Moorhead	978	200	20%	3,736,957	23,031
Bemidji State University	645	145	22%	3,161,482	14,258
Winona State University	1,183	460	39%	2,961,092	15,988
Northland Community & Technical College	464	200	43%	2,839,581	11,896
Minneapolis Community & Technical College	929	3	0%	2,109,374	2,275
Southwest Minnesota State University	491	120	24%	1,359,214	8,870
South Central College	762	83	11%	1,286,996	6,280
Dakota County Technical College	430	31	7%	1,196,578	4,190
Northwest Technical College, Bemidji	143	38	27%	1,128,296	4,759
Central Lakes College	425	107	25%	927,089	5,583
Hennepin Technical College	1,027	51	5%	889,928	4,271
Rochester Community & Technical College	737	28	4%	827,612	2,837
Ridgewater College	557	10	2%	737,026	2,351
System Office	438	45	10%	729,808	3,310
Riverland Community College	433	92	21%	705,785	6,039
Century College	1,191	28	2%	665,986	3,021
Alexandria Technical & Community College	488	47	10%	533,373	3,657
Saint Paul College	593	52	9%	533,028	3,408
Normandale Community College	788	30	4%	532,656	2,152
Lake Superior College	539	22	4%	514,845	2,114
Anoka Ramsey Community College	652	15	2%	484,521	1,879
St. Cloud Technical & Community College	581	4	1%	374,566	1,205
Fond du Lac Tribal & Community College	271	15	6%	362,380	1,806
Pine Technical College	177	51	29%	331,394	1,874
Inver Hills Community College	606	16	3%	320,852	1,720
North Hennepin Community College	565	22	4%	293,231	1,499
Minnesota West Community & Technical College	475	23	5%	279,903	1,583
Anoka Technical College	276	6	2%	272,795	991
NESU**	24	9	38%	231,416	1,150
Minnesota State College - Southeast Technical	276	27	10%	207,904	1,197
Hibbing Community College	436	5	1%	172,193	643
Metropolitan State University	1,283	5	0%	121,441	476
Mesabi Community & Technical College	206	3	1%	111,612	366
Rainy River Community College^^	65	1	2%	53,503	n/a
Itasca Community College++	212	22	10%	n/a	n/a
Vermilion Community College++	116	6	5%	n/a	n/a
Totals				\$77,454,989	273,616

Source: Pcard vendors, ITS Data Management Reports, and Internal Auditing's summer 2013 survey of institutions

Notes: **NESU - amount only includes US Bank data; ^^Rainy River Community College - amount is for 1 year;

++Itasca Community College and Vermilion Community College - Pcard vendor was unable to provide electronic data.

Individual institutions selected their own Pcard vendor. However, the majority of the institutions elected to use U.S. Bank and the contract previously negotiated by the system office. Table 3 identifies each Pcard vendor and the number of institutions that use the vendor.

**Table 3
Pcard Vendors Used By MnSCU Institutions**

Pcard Vendors	# of Institutions
U.S. Bank	33
Wells Fargo	4
Bremer	3
Grand Rapids State Bank	2
Total	42**

Source: Internal Auditing’s summer 2013 survey of institutions

Notes: **Mesabi Range Community & Technical College, St. Cloud State University, and NESU each use two Pcard vendors

Pcards offer many benefits for institutions. They streamline the purchasing process by eliminating many steps in a traditional purchasing process. They can be used to make purchases from vendors who no longer accept written purchase orders. Also, most Pcard vendors offer rebates based on a variety of factors such as purchasing amounts and timely payments. For example, the MnSCU institutions that participated in the U.S. Bank program received approximately \$150,000 in rebates, almost one percent of their 2012 spend. The two largest institutions used Wells Fargo and Bremer and received a combined total of approximately \$175,000 in rebates based on their 2012 spend.

Pcards also introduce risks. Each institution is responsible for designing and implementing its own controls to adequately mitigate risks. Pcard vendors offer tools to help enforce good controls. Examples of key controls include:

- Limiting and periodically reviewing employee access to the Pcard vendor’s computer system.
- Processes to approve employees obtaining a Pcard and determining purchasing limits.
- Initial and periodic required training for cardholders and supervisors.
- Establishing transaction, monthly, or other dollar limits on each Pcard.
- Merchant Category Code (MCC) blocking to prevent purchases from particular types of vendors such as liquor stores, casinos, or jewelry stores.
- Supervisor review and approval of each Pcard transaction and supporting documentation.
- Reconciling Pcard activity to source documentation such as receipts.
- Processes to identify and close cards timely when an employee separates employment, changes jobs, or no longer needs a card.

Pcards have been a focus area of the Campus Service Cooperative (CSC). MnSCU’s CSC is an initiative that focuses on strategic sourcing and opportunities for shared services. It recently negotiated a new Pcard contract with U.S. Bank. Included in the contract are higher rebates and new automated tools that can improve operational efficiencies while also improving internal

controls. The CSC has convened a team with broad representation among institutions to identify best practices and opportunities for shared services as the new Pcard program is implemented. Although participation is voluntary it will be highly recommended. Section IV describes some of the new program's benefits, opportunities, and challenges.

Section II: Audit Objectives, Scope, Methodology, and Conclusion

Objectives

The objectives for this audit were to answer the following questions:

- Did institution's internal controls provide reasonable assurance that Pcard activities were appropriately authorized and for business purposes, properly recorded in the accounting records, and in compliance with applicable policies and procedures?
- For items tested, did institutions comply with applicable MnSCU policies and procedures over Pcards?
- Do opportunities exist for management to improve business processes over Pcard activities to make them more effective and efficient?

Scope and Methodology

Our audit scope included a review of institution's Pcard internal controls. The Pcard programs are managed separately at each of these locations. Each was surveyed to determine what kinds of Pcards were used and the internal controls designed and implemented to mitigate risks.

In addition to surveys, we reviewed relevant documentation including MnSCU system policies, procedures, and guidelines and considered risks of fraud and errors and potential noncompliance with finance-related legal requirements in designing our audit approach. We obtained and analyzed Pcard data to identify unusual transactions or significant changes. We also reviewed select employee access to the Pcard vendor's online computer systems to identify what actions staff could initiate, approve, or process and also whether duties were adequately separated. Finally, we selected a sample of transactions and reviewed supporting documentation to test whether the controls were effective and if the transactions complied with MnSCU system policies, procedures, and guidelines.

Overall Conclusion

Institutions generally had adequate internal controls to provide reasonable assurance that Pcard activities were adequately safeguarded, accurately recorded in the accounting records, and complied with finance-related legal requirements. For items tested, institutions generally complied with MnSCU policies, procedures, and guidelines. We did, however, identify some internal control weaknesses and noncompliance that are discussed in Section III: Audit Findings and Recommendations.

Section III – Audit Findings and Recommendations

1. Many institutions lacked adequate controls related to employee and supervisory reviews of cardholder purchases.

We saw inconsistency in supervisory review of Pcard purchases at the institutions we tested. For example, two institutions relied on the use of purchase orders as review and approval of purchases; however, the cardholder supervisor was not always involved in the purchase order process. At another college, supervisors do not review cardholder purchases; instead, reviews are performed by staff in the business office. The supervisor's review of cardholder purchases and supporting documentation is one of the most important Pcard controls. The business office can determine that a purchase seems reasonable, but only the supervisor is in the position to know if the purchase is allowable, appropriate, and needed. MnSCU System Procedure 7.3.3 Purchasing Cards requires supervisors² to review purchases, including itemized receipts and the monthly cardholder statements, to ensure each purchase is allowable, appropriate, and authorized.

We also saw inconsistency among institutions on cardholder reviews of purchases. For example, institutions that used purchase orders for each transaction considered the purchase order to be the cardholder review and approval for the transaction. Other institutions required cardholders to sign a transaction log or statement of transactions to demonstrate the cardholder's review and approval of the transactions. For some items tested, we did not see evidence the statement had been reviewed by the employee. The MnSCU system procedure requires cardholders to review monthly cardholder statements from the Pcard vendor for accuracy and ensure all transactions posted are legitimate transactions made by the cardholder. The cardholder must attach itemized receipts issued by the vendor and any other documentation, and sign the statement to certify good or services have been received.

We also tested transactions to determine if statements were submitted timely to the business office. We noted that some statements were not submitted timely to the business office. Many submissions were not dated by the supervisors; therefore, we were unable to determine if reconciliations were submitted timely. MnSCU system procedure requires submission of cardholder reconciliations to the business office in a timely manner, defined in procedure as five days.

Most supervisors learn of cardholder purchases when the cardholder submits their monthly statement and supporting documentation to the supervisor for review. Supervisors should be notified independently, such as a system-email alert or statements routed directly to them rather than by the cardholder. This ensures the supervisor is aware they have Pcard transactions to review and approval. Without it the cardholder could circumvent the control.

In addition, some institutions did not design their procedures so supervisors send the completed reconciliation package directly to the business offices. Instead, in some cases,

² MnSCU Procedure 7.3.3 Purchasing Cards requires a supervisor or authorized reviewer to review cardholder transactions. This role will be referred to as "supervisor" throughout the audit report.

cardholders were given back their reconciliation package to submit to the business office themselves. By returning the reconciliation package to the cardholder, the cardholder could add receipt documentation to the package he did not wish the supervisor to see. A supervisor may feel rushed to review the reconciliation package if a cardholder is waiting for the approval and not realize some purchase documentation is missing; if the cardholder added additional documentation, the reconciliation package will be complete for the business office, but the supervisor would not have viewed all receipts for propriety. To avoid irregularities, supervisors should submit the reconciliation packages to the business offices, rather than cardholders.

Generally, the Pcard review and approval processes are manual and relatively easy to circumvent. An automated process would be better and could ensure supervisors see every Pcard transaction and supporting documentation before approving them. Only four institutions reviewed were using an online computer system provided by the Pcard vendor to help automate the process and ensure internal controls are in place. However, one institution's system did not allow supervisors to see any of the supporting documentation, such as detailed receipts. The supervisor could only view information provided by the system such as purchase amount and vendor name as well as a transaction description entered by the cardholder.

Recommendations

- *Institutions should consider obtaining and requiring more effective oversight tools, such as automated on-line systems, to ensure all Pcard transactions and supporting documentation are submitted, reviewed, and approved by the appropriate staff in a timely manner.*
- *Without automated systems to help enforce good controls, institutions should design manual procedures that ensure:*
 - *cardholder supervisors are notified of cardholder activity directly, rather than by the cardholder,*
 - *cardholders submit supporting documentation to supervisors timely,*
 - *cardholder supervisors review and approve transactions and supporting documentation, and*
 - *cardholder's supervisors submit documentation directly to the business office, rather than sending back to the cardholder.*
- *Institutions should periodically reiterate to supervisors their responsibilities related to reviewing Pcard purchases to ensure items purchased are allowable, authorized, and needed.*

2. Many institutions lacked robust training programs for cardholders and their supervisors.

Many institutions did not provide Pcard training to cardholders or their supervisors before issuing Pcards. Also, many institutions did not require periodic or refresher training.

- 22 of the 57 cardholders tested (at 7 institutions) did not receive Pcard training prior to receiving their cards. 7 additional institutions surveyed indicated that training was limited to sending copies of the Pcard procedures or other documents to employees before they received their cards.
- 4 of the 16 institutions tested offered periodic refresher training to cardholders and cardholder supervisors. 11 additional institutions surveyed indicated they periodically offered refresher training.

A few institutions surveyed indicated they hold college-wide refresher training, such as an employee in-service session. Some institutions require employees to complete a new cardholder agreement annually or when an expired card is replaced – agreeing to abide by the Pcard policies and procedures. One university requires cardholders to annually review a refresher course and pass a quiz in MnSCU’s learning management system, Desire2Learn (D2L), to retain their Pcard. D2L allows the university to track and confirm employees complete the training.

A robust training program would include training before and after, perhaps annually, an employee receives a Pcard. Cardholder supervisors should also be required to obtain training. Training provides an opportunity to stress the Pcard rules and cardholder and supervisor responsibilities. It is also an opportunity to discuss the consequences of not complying with those rules. Finally, training provides an opportunity to address questions cardholders or supervisors may have.

Recommendations

- *Institutions should ensure employees receive adequate training prior to receiving a Pcard or supervising an employee given a Pcard. Additional training should occur periodically thereafter.*
- *The system office should consider collaborating with colleges and universities to develop a shared training program.*

3. Some institutions did not adequately restrict access to their bank’s online Pcard system.

Some employee that left employment or no longer need access continued to have powerful access to their bank’s online Pcard system. The larger Pcard vendors have online computer systems to help organizations manage Pcard programs. Institutions can provide employees with powerful access that allow them to create new login IDs, request new or replacement Pcards, close cards, and change card security features, including merchant category code blocking or transaction limits. We reviewed online Pcard system access and employees given powerful access and identified the following:

- 16 employees at 9 institutions had access without an ongoing business need.

- 20 previous employees at 12 institutions continued to have access after they were no longer employed. One account belonged to an employee who retired nearly six years ago.

Without adequately limiting powerful access, unauthorized changes to cardholder accounts may occur.

Recommendations

- *Institutions should:*
 - *remove powerful access for those who no longer have a business need for such access,*
 - *implement procedures to ensure access is removed timely when an employee leaves employment or no longer needs access, and*
 - *annually review and recertify employee's access to their bank's online Pcard system.*

4. Some institutions did not close Pcards timely when they were no longer needed.

We performed data analysis to determine how frequently individual Pcards were used and identified many that should likely be closed. For example, 55 cards were opened prior to January 2013 and had never been used. 115 additional cards had not been used in more than 360 days. Inactive and unneeded Pcards should be closed to reduce the risk they are used inappropriately.

Recommendations

- *Institutions should:*
 - *close Pcards for those who no longer have a business need to hold a Pcard,*
 - *implement procedures to ensure Pcards are closed timely when an employee leaves employment or no longer needs a card, and*
 - *annually review cardholder activity and recertify cardholders.*

5. Written guidance does not address some risky actions such as shipping to home address or making purchases online using personal accounts.

MnSCU System Procedure 7.3.3 Purchasing Cards and some institutions' own written guidance was silent related to transactions that may be riskier in nature such as shipping items to home addresses or making online purchases using personal accounts. Shipping purchased items to an institution's address provides more control than having them sent to an employee's home address. In addition, using personal online accounts like PayPal or Amazon may create more risk for the institution. Personal accounts often allow individuals to save credit card information which may result in someone accidentally making a personal purchase

using the institution Pcard. Also, returns made to personal accounts may not be properly credited back to the institution.

Recommendation

- *The system office should consider revising procedure 7.3.3 Purchasing Cards or developing a new guideline to address riskier transactions such as shipping to home addresses and purchasing items online using personal accounts.*

6. Some institutions did not comply with MnSCU system procedure requirements related to delegation of authority for Pcards.

MnSCU System Procedure 7.3.3 Purchasing Cards requires each cardholder be specifically delegated the authority to obligate the institution up to a specified dollar limit on the Pcard; the delegation must be in writing and in accordance with MnSCU System Procedure 1A.2.2 Delegation of Authority.

We tested 57 cardholders at 16 institutions and found 23 cardholders from 10 institutions did not have Delegations of Authority forms completed for the cardholders. When surveyed, an additional 10 institutions indicated they did not complete Delegations of Authority for their cardholders. Finally, for those we tested that completed Delegations of Authority, we noted 4 cardholders' Delegations did not agree with the purchasing limits set on their card as required. One of the cards had a higher limit on Delegation of Authority than purchasing limit set on the card; however, the other three cards' Delegations did not specify an amount for the employee's authorization.

Managing Delegations of Authority is a very manual, paper-based process, and is cumbersome for institutions. Delegations are completed for a variety of reasons such as executing contracts, purchasing responsibilities, personnel and payroll responsibilities, and authorizing certain activities such as travel or special expenses. Forms are completed and routed for signatures from the employee and the President or President's designee. Typically, one Delegation of Authority form is completed for each person; therefore, it is difficult for institutions to quickly know which employees have delegations for specific tasks, such as executing specific contracts, or which employees are authorized for specific dollar thresholds. New Delegations of Authority must be done when an employee's authority changes or leaves employment. In addition, a new Delegation must be completed when there is a change with an institution's President. For the two largest institutions, a change in President would require 600-700 new Delegations for just Pcard users.

Recommendations

- *Institutions should ensure Delegations of Authority forms are completed for each cardholder. In addition, they should ensure the cardholder dollar limits set on the card are the same amount or lower than what is approved on the Delegation of Authority form.*

- *The system office should consider collaborating with colleges and universities to evaluate developing a system to more effectively and efficiently manage Delegations of Authority. A new ISRS module or other automated system could be used to initiate or change delegations, route them for approvals, periodically review and recertify delegation, and provide other reporting capabilities.*

7. Some institutions did not comply with MnSCU system procedure requirements related to merchant category code (MCC) blocking or purchasing transaction limits.

15 institutions did not have MCC blocking set up on 67 Pcards. 1 institution did not have purchasing limits set up on a pilot Pcard program (199 cards) it established to facilitate internal payments to their foodservice vendor. MnSCU System Procedure 7.3.3 Purchasing Cards requires purchasing limits to be placed on Pcards. It also requires MCC blocking. MCC blocking prevents the cards from being used at vendors where items are likely unallowable such as liquor stores, casinos, or jewelry stores, or may be more risky such as antique stores, or pawn shops.

Recommendations

- *Institutions should ensure all cardholders have MCC blocking and purchase transaction limits on their Pcards.*
- *Institutions should periodically review and recertify MCC blocking and purchase transaction limits on Pcards.*

Section IV – Opportunities for Improvement

The new Pcard contract negotiated by the Campus Service Cooperative (CSC) and the Pcard implementation team provide new opportunities for improvement.

A new Pcard program is being developed as part of the CSC Program Portfolio. The project started with assembling a team that included broad participation from campus leaders, staff, private sector companies (through the Itasca Project), and others. The team is developing best practices and a common Pcard procedure. Institutions will be strongly encouraged to adopt the CSC procedure and implement best practices. Also, a new contract was negotiated with U.S. Bank. Although not required, most institutions have indicated they are planning to switch to the new program. The new Pcard program and increased usage of Pcards offers new benefits or opportunities as well as challenges.

Benefits and Opportunities

- **Improved Internal Controls and Operational Efficiencies.** The new program includes tools to help gain operational efficiencies while also improving internal controls by automating what have traditionally been manual processes and controls that could be more easily circumvented. Each Pcard and associated cardholder will be assigned a supervisor. Notifications and reminders can be sent automatically to supervisors alerting them that purchases have been made that need review and approval. The cardholder can provide a written explanation and business justification for each purchase and also upload receipts or other supporting documentation for the supervisor to review.
- **New Monitoring Capabilities.** One new tool provides the opportunity to more closely monitor Pcard transactions to identify potentially fraudulent or noncompliant transactions. For example, the tool can be configured to send an automated notice or alert immediately to a supervisor or someone else if an employee's Pcard is used during unusual or non-business hours or if an employee is splitting a purchase into multiple purchases to avoid the transaction limit on the card.
- **Reduced Risk to be Liable for Fraudulent Charges.** The new contract includes provisions that limit campus liability for fraudulent charges. The coverage is per card and with proper institution action may eliminate the liability entirely.
- **Improved Data Quality.** A single source of enterprise-wide Pcard data will be available for data analysis and other purposes for institutions that adopt the new program.
- **Financial Incentives.** It will offer greater financial incentives in the form of increased rebates of almost two percent of total Pcard spend. By identifying and transitioning large non-Pcard spend categories to Pcards, institutions could maximize rebates. Increased spending through Pcards also allows institutions to receive trade discounts and vendor discounts already available within current purchasing contracts but not received due to slower payment methods.

- **Automated Cost Allocation to ISRS.** One tool will provide the opportunity for all institutions to allocate Pcard-related costs to ISRS via an automated process. Currently some institutions do use such an automated process while others use ISRS purchase orders or enter the allocations manually.
- **Shared Services.** Shared services become a more viable option when institutions are using common tools and business processes. For example, each institution has at least one employee who performs certain administrative tasks like requesting or closing cards, establishing MCC blocking or other limits. These may be tasks that could be performed as a shared service, reducing risk and increasing compliance and control.
- **Training.** As new tools, guidance, and business processes are adopted training is a critical component to ensure employees understand them. The CSC and implementation team is developing a single training system that can be shared by all institutions.
- **Simplified Procedure Updating and Compliance.** As system procedure, training, or compliance requirements change in the future, the use of a standardized training system and a common Pcard procedure document allows each institution to maintain compliance without the need to develop an internal program which may expose the institution to new risks. By maintaining and updating a single document, institutions would be able to implement changes more quickly and effectively.

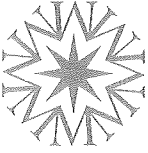
Challenges

- **Requirements and Guidance.** Existing requirements and guidance should be reviewed to determine whether changes are needed. For example, they may need to more clearly define what are “original itemized receipts” needed to support purchases. Also, record retention expectations may need to be clarified to determine what must be retained and for how long since receipts or other paper documentation may be converted into electronic images for automated workflow.
- **Supervisor’s Roles and Responsibility.** While technical controls such as purchase limits and MCC blocking exist and business process workflow can be automated, a supervisor’s thorough review of transactions remains one of the most important internal controls. The supervisor is often the only person who is in a position to verify the business justification of a purchase. As the number of employees with Pcards increase, the supervisor’s task becomes more difficult and time consuming. Institutions need to regularly reiterate the expectations placed on a supervisor and work with those supervisors that have higher numbers of transactions to ensure they can fulfill their responsibilities.
- **Encumbrances.** MnSCU procedure requires institutions to encumber funds for its Pcard program; however, it does not stipulate how an institution must encumber the funds. Institutions have different practices to encumber funds for Pcards. 15 institutions require a purchase order for each Pcard transaction; 21 institutions encumber funds via a blanket purchase order or encumbrance at either the cost center level or at the institution level. 3

institutions do not encumber funds for their Pcard program. Institutions that encumber via purchase orders for each transaction may have decided this practice allows better control over budgets; however, this practice loses the efficiencies and streamlining Pcards can bring to the traditional purchasing process. Instead of utilizing purchase orders for each transaction, institutions may utilize other tools, such as frequent automated allocation of expenses to ISRS and setting velocity limits on Pcards so a cardholder is limited to a maximum dollar limit for the fiscal year.

- **Prompt Vendor Payments.** The available rebate under the new contract can be maximized by institutions paying the vendor more promptly than in the past. The CSC will want to review system procedure and work with institutions to determine best practices. Some institutions have found they can maximize their rebates by automatically paying the Pcard vendor the current balance on a weekly or bi-weekly schedule. Other institutions do not automatically pay the Pcard vendor and instead feel it is important to review the statements and documentation first.
- **Human Resources.** Adequate resources are needed for all aspects of the project including converting institutions to the new program, training employees, and potentially staffing a Pcard team who takes on certain administrative roles.
- **Communication.** Like all major changes, communication is a critical aspect in ensuring goals and objectives of the program are achieved.

Purchasing Card Internal Control and Compliance Audit



April 11, 2014

Minnesota
STATE COLLEGES
& UNIVERSITIES

Board of Trustees
Chancellor Steven Rosenstone
Minnesota State Colleges and Universities

The Office of the Internal Auditing has completed an internal control and compliance audit of Pcards (purchasing cards) for the two year period ending June 30, 2013.

It is the auditor's opinion that the colleges and universities and system office "generally had adequate internal controls over Pcard activities and complied with finance related legal requirements and applicable policies, procedures and guidelines." The auditors noted no matters involving Minnesota State Colleges & Universities' internal control over compliance and its operation that would be considered a material weakness. However, in the course of the audit, some instances of internal control deficiencies and opportunities for improved practices were identified.

The college and university financial management community is committed to administration of Pcards in a manner which limits risk and optimizes business process efficiency and economic advantage. The advent of the systemwide contract for administration of a single Pcard program holds great promise for accomplishing these objectives. A high priority effort in the Campus Service Cooperative's program portfolio is the Purchasing Card & Workflow project, which is being led by the CSC executive sponsors, Presidents M. Sue Collins, and Richard Davenport. The CSC is looking forward to providing the Board with an update on the progress of CSC initiatives at its June, 2014 meeting.

The administration will work with campus leaders to respond to the auditor's recommendations in coordination with the launch of the systemwide contract. Attached to this letter please find a detailed response to the findings and recommendations of the audit report.

The auditor's over all conclusion of confidence in the control environment serves as assurance to the Board of Trustees, Chancellor Rosenstone and the public that care and stewardship are exercised by employees across the state.

Regards,

A handwritten signature in black ink, appearing to read "LMK".

Laura M. King
Vice Chancellor – Chief Financial Officer

Attachment

Attachment

Findings

- 1. Many institutions lacked adequate controls related to employee and supervisory reviews of cardholder purchases.**

The audit report offered several recommendations for means and methods of improving the oversight of purchasing card transactions. The system office will work with the campus finance leadership to incorporate additional review and oversight of transactions into the approval process. The Pcard implementation team associated with the new statewide contract will also offer some tools for improving this stage of the process.

- 2. Many institutions lacked robust training programs for cardholders and their supervisors.**

The campus services cooperative and system office will work with the campuses to establish and deploy training tools for Pcard use.

- 3. Some institutions did not adequately restrict access to their bank's online Pcard system.**

System procedure will be reviewed and modified if necessary in order to make clear the expectation of regular review and proper establishment of Pcard rights for employees.

- 4. Some institutions did not close Pcards timely when they were no longer needed.**

System procedure will be reviewed and modified if necessary in order to make clear the expectation of regular review and certification/decertification of Pcard rights for employees.

- 5. Written guidance does not address some risky actions such as shipping to home address or making purchases online using personal accounts.**

System procedure will be reviewed and modified if necessary in order to make clear the risk issues and necessitated controls for certain Pcard transactions by employees.

- 6. Some institutions did not comply with MnSCU system procedure requirements related to delegation of authority for Pcards.**

The system office recognizes that the delegation of authority process is paper intensive and very difficult to administer efficiently and effectively. The campus finance community will be solicited for suggestions to improve and streamline the process and changes will be made for 2015 forward, where possible.

- 7. Some institutions did not comply with MnSCU system procedure requirements related to merchant category code (MCC) blocking or purchasing transaction limits.**

Institutions will be reminded to verify blocking is in place when card authorization is established.