



Michigan Technological University
Internal Audit Department

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Audit Report
Purchasing Cards
Fiscal Year 2002

Report Date: February 25, 2004

Audit Objectives

The objectives of this audit were to determine if departments were in compliance with Michigan Tech purchasing card policies and procedures, as well as to evaluate the level of understanding of purchasing card policies among purchasing card holders.

Overall Conclusion

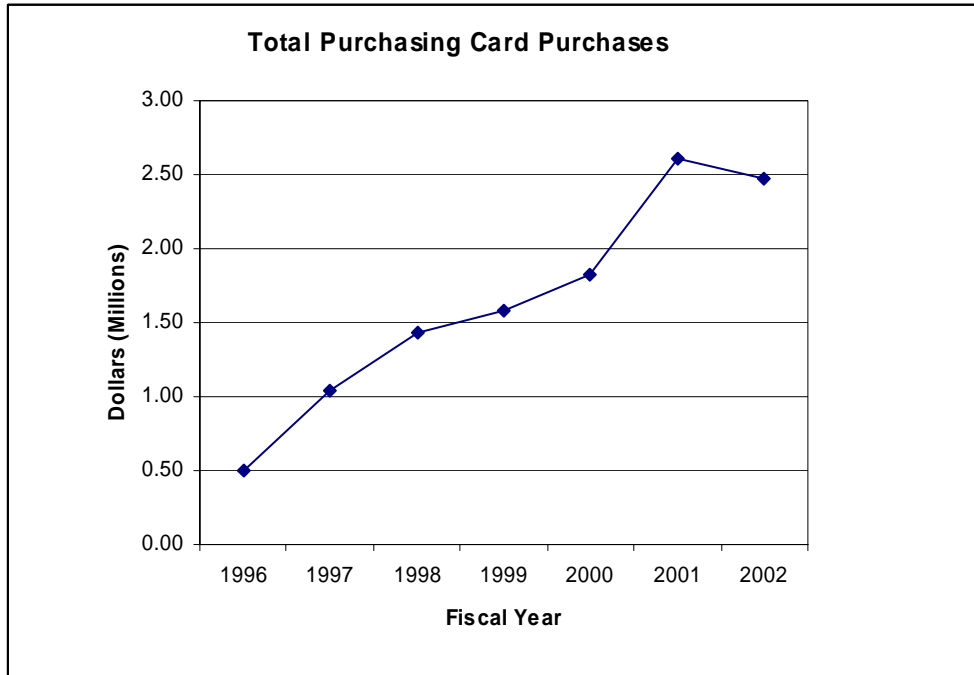
Our testing showed that overall compliance with purchasing card policies has improved. However, problems found in previous audits of purchasing cards still persisted: some cardholders did not have receipts for purchases, did not have receipts which were itemized, paid Michigan sales tax, and purchased items considered prohibited by purchasing card policies. When we found occurrences of non-compliance, we informed the cardholder of applicable policies and procedures. We also summarized our findings for each cardholder in a memorandum to the cardholder and to the manager of Purchasing. In cases of significant non-compliance, the cardholder's direct supervisor was also informed.

Among the twenty-nine tested cardholders, the following results were found: 8 missing statements, 194 missing receipts, 19 non-itemized receipts, 108 instances of the purchaser paying sales tax, 15 prohibited purchases, and 2 items which exceeded the purchasing card item limit. Two of the twenty-nine cardholders each had over 50 missing receipts and two had paid sales tax on over 30 occasions. Only eight of the twenty-nine cardholders were in full compliance with policy.

Michigan Tech purchasing card procedures state that, "Non-adherence to any of the ... procedures may result in suspension or revocation of individual cardholder privileges and any other action that may be deemed appropriate." In our opinion, there were several cardholders whose level of non-compliance warranted either suspension or revocation of cardholder privileges, and we encourage the Purchasing department to consider such action.

One cardholder who had resigned from the University in December 2001, still held an open account with Élan Financial Services, as of May 2003. The open account was discovered and closed during our audit. There had been no activity on the account since the resignation of the employee.

We also found that card usage had decreased slightly since the previous audit of purchasing cards. The amount spent using purchasing cards for fiscal year 2002 was \$2,476,144.



Our report has two observations.

1. Purchasing card policies and procedures should be amended

We found that current policies and procedures do not address the situation of record retention once a cardholder leaves a department. Michigan Tech purchasing card policies state that, "BOTH the receipts (...) and the monthly billing statement should be kept together in a file for three (3) years. For grants and contracts, these records must be kept for seven years after the close of the account." They also state that, "Should a cardholder terminate employment with the University or transfer between departments, the user Department has the specific obligation to reclaim the credit card and return it to the Purchasing Department prior to the employee's termination date." However, there is no specification as to who is responsible for the retention of records once an employee leaves a department. For departments who have not addressed record retention, employees stated that most likely records were simply "tossed" once an employee left the department.

We recommend an update of purchasing card policies and procedures to address the question of who is responsible for retaining purchasing card records for employees leaving the University or transferring between University departments.

Another area of concern was purchasing card delegation. When cardholders delegated their card to someone else to make a purchase, that person was often unaware of policies and procedures, resulting in non-compliance.

We recommend that purchasing card policies clearly address delegation of purchasing cards, including the fact that the cardholder is responsible for all card usage.

Problems were also found with the use of purchasing cards to make purchases over the Internet. We found that many cardholders did not obtain or retain receipts for purchases made using the Internet.

We recommend that procurement card policies describe possible ways to obtain an itemized receipt when making a purchase over the Internet. This could include printing the summary page before submitting the order, printing the confirmation e-mail showing the itemized purchase, as well as e-mailing the company to request a receipt.

Response from the Manager of Purchasing:

I concur with the recommendation. I will seek volunteers to serve on a committee whose charge will be to review policies and procedures associated with the recommendations. It's my goal to revise the policies and procedures by fiscal year end.

2. Cardholders should be made more aware of purchasing card policies and procedures

Cardholders receive instruction on the proper use of their purchasing card only when receiving their new card and when issues of non-compliance are found. During the audit, one cardholder mentioned that they felt it would be helpful if reminders about proper record retention and other policies and procedures were periodically sent out to cardholders. The suggestion was to send out reminders via e-mail in an attempt to raise awareness of policies and procedures. This type of reminder could be easily implemented, as the Purchasing department has a listing of all cardholders' e-mail addresses.

We recommend the creation of a purchasing card list-serve. This could serve the function of providing cardholders with updates of policies and procedures, as well as regular brief reminders about important policies, such as record retention.

Response from the Manager of Purchasing:

I concur with the recommendation. List-serve *procard-l* has been established to communicate via email. Communiqués will be sent to the list serve quarterly or more frequently if a need arises.