Follow-up Audit of the University Credit Card Solutions Program

Report No. 12/13-05

October 8, 2012
Date: October 8, 2012

To: Kenneth Jessell, Chief Financial Officer and Senior Vice President
Cecilia Hamilton, Associate Vice President & Controller

From: Allen Vann, Audit Director

Subject: Follow-up Audit of Credit Card Solutions Program
Report No. 12/13-05

We have completed a follow-up audit of Procard/Credit Card Solutions Program; Better Controls & Administrative Practices Needed, Report No. 09/10-04 dated April 21, 2010. The objectives of our audit were to determine whether: (a) prior audit recommendations have been implemented; (b) established controls, policies and procedures have been effective; and (c) credit cards transactions are appropriate.

The program was initially developed in 1999 to enable faculty and staff to efficiently make small dollar purchases, but the program has intrinsic risks, which we previously reported on. During fiscal year 2011-12 expenditures processed using credit cards increased by 46% to $27 million.

Overall, our follow-up disclosed that the Controller’s Office has made a significant improvement in monitoring and establishing controls over the program. From January 2010 to June 2012 management’s concerted effort to decrease the number of credit cards transactions is continually monitored; cardholders and approvers are regularly trained; and program compliance reviews and desk audits are performed. Nevertheless, due to the decentralized nature of the program and inherent difficulties administering the program, some recurrent but relatively minor deficiencies were observed. Therefore, no new recommendations are forthcoming from this audit.

We would like to take this opportunity to express our appreciation for the cooperation and courtesies extended to us during this audit.

Attachment

C: Sukrit Agrawal, Chair, BOT Finance and Audit Committee and Committee Members
Mark B. Rosenberg, University President
Douglas Wartzok, Provost and Executive Vice President
OBJECTIVES, SCOPE AND METHODOLOGY

Pursuant to our approved annual work plan, we have completed a follow-up audit of *Procard/Credit Card Solutions Program; Better Controls & Administrative Practices Needed*, Report No. 09/10-04 dated April 21, 2010. The primary objectives of our audit were to determine whether:

- prior audit recommendations have been implemented;
- established controls, policies and procedures have been effective; and
- credit cards transactions are appropriate.

The audit was conducted in accordance with *the International Standards for the Professional Practice of Internal Auditing*, and included tests of the accounting records and such other auditing procedures as we considered necessary under the circumstances. We reviewed credit card transactions for the period July 1, 2011 through February 29, 2012. Audit fieldwork was conducted from May to July 2012.

During the audit we:

- observed and evaluated current practices and processing techniques;
- interviewed and surveyed personnel; and
- tested transactions.

Sample sizes and transactions selected for testing were determined on a judgmental basis.

BACKGROUND

The University’s credit card program was initially developed in 1999 to enable faculty and staff members to efficiently make small dollar purchases. Through the years the University has increased the scope of the program; today the program offers four types of credit cards designed to provide employees with the ability to place orders for commodities and for the processing of University authorized travel transactions. The intent of the program is to provide a more efficient means of making routine small purchases, which allows more controls at the department level, defrays travel expenses, and streamlines the procurement cycle. All transactions placed on these cards must comply with the Credit Card Solutions Program procedures and must benefit and support the University’s mission of education, research and public service.

The University ended its credit card provider contract with Bank of America and entered into a new contact with J.P. Morgan Chase (Chase) on September 30, 2011. Accordingly, all credit cards issued by Bank of America were cancelled and each cardholder was required to complete an online cardholder training course and to sign a cardholder agreement prior to the new Chase credit card being issued.
The Credit Cards Solution Program offers four types of credit cards:

- **Commodity Card**: designed to enable cardholders to purchase supplies and services, with the exception of travel, for their department and/or programs. The use of this card is restricted to the individual whose name is on the Card. The standard limit assigned to the commodity card is $1,000 for a single transaction and $5,000 monthly.

- **Departmental Travel Card**: designed to enable cardholders to purchase only travel services for students, non-employees and staff in the department and/or program. This card is restricted to only travel related transactions and the use of this card is the responsibility of the person whose name is on the card. The standard limit assigned to departmental travel cards is $5,000 for a single transaction and $10,000 monthly.

- **Dual Card**: a combination of the commodity and travel cards, the card enables cardholders to purchase supplies, services and travel for their department and/or programs. The standard limit assigned to the dual card is $5,000 for a single transaction and $10,000 monthly.

- **Travel and Entertainment (T&E) Card**: designed to enable cardholders to purchase University authorized travel and designated entertainment expenses. Unlike other cards, the charges on this card are billed to the cardholder who is responsible to make full payment to the bank. The cardholder may subsequently claim reimbursement from FIU for authorized and approved charges. The standard limit for T&E cards is $2,000 for a single transaction and $5,000 monthly.

During our prior audit, as of January 31, 2010 1,494 credit cards were outstanding but a concerted effort to reduce the number of outstanding cards succeeded in a decrease to the 865 credit cards as of June 30, 2012. Expenditures processed through the cards totaled $27 million during the 2011-12 fiscal year.

<table>
<thead>
<tr>
<th>Type of Credit Card</th>
<th>Number of Cardholders</th>
<th>Total Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Departmental Cards*</td>
<td>775</td>
<td>$26,744,542</td>
</tr>
<tr>
<td>Travel &amp; Entertainment Card</td>
<td>90</td>
<td>323,916</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>865</strong></td>
<td><strong>$27,068,458</strong></td>
</tr>
</tbody>
</table>

* Consist of 467 commodity only, 29 travel only, and 279 dual cards

Although a Credit Card Solutions Team (the Team) from the Controller's Office oversees the program, the day to day administration of the credit card program is, by design, decentralized; transaction execution, review and approvals and documentation are handled by the individual colleges, schools and/or departments.
The Controller’s Office and the Team underwent significant changes since our prior audit. Quality Assurance Services was established to assist the Team with program compliance reviews, the Team was reorganized and new team members were hired.

The current organization structure for the Credit Card Solutions Team is as follows:
FINDINGS AND RECOMMENDATIONS

Our audit disclosed that the Controller’s Office has significantly improved the credit card program since our prior audit. The results of our examination indicated that all of our 11 recommendations were fully implemented, as depicted in the following table:

<table>
<thead>
<tr>
<th>Findings &amp; Recommendations</th>
<th>Fully Implemented</th>
<th>Partially Implemented</th>
<th>Not Implemented</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Findings: Inadequate Administrative Controls</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1-Promptly cancel: (a) unused credit cards, and (b) cards of terminated employees.</td>
<td>✓</td>
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<tr>
<td>1.2-Ensure adequate management oversight of the University credit card solutions program administration.</td>
<td>✓</td>
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<tr>
<td>1.3-Develop and maintain complete logs relating to cardholder applications, training status and credit card receipt and distribution dates.</td>
<td>✓</td>
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<tr>
<td>1.4-Periodically review and adjust credit card limits based on historical cardholder's spending data.</td>
<td>✓</td>
<td></td>
<td></td>
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<tr>
<td>1.5-Reduce the types of cards administered by the University.</td>
<td>✓</td>
<td></td>
<td></td>
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<tr>
<td>1.6-Establish and monitor cardholder approver relationships based upon a hierarchical organizational structure.</td>
<td>✓</td>
<td></td>
<td></td>
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<tr>
<td>1.7-Establish a procedures manual for the University credit card program administration.</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Findings: Cardholders &amp; Approvers Continue To Circumvent Policies &amp; Procedures</strong></td>
<td></td>
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</tr>
<tr>
<td>2.1-Expand Credit Card Solutions Administration’s efforts at monitoring the credit card program.</td>
<td>✓</td>
<td></td>
<td></td>
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<tr>
<td>2.2-Ensure that all cardholders and reviewers/approvers are periodically retrained with an emphasis on the key risks identified.</td>
<td>✓</td>
<td></td>
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</tr>
<tr>
<td><strong>Overall: the Credit Card Solutions Effectiveness</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>3.1-Re-evaluate the effectiveness of the Credit Card Solutions Program and the controls and resources dedicated to adequately carry them out and weigh the costs and benefits of each.</td>
<td>✓</td>
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<tr>
<td>3.2-Provide enhanced training to the Credit Card Solutions Team and take advantage of system tools to review transactions.</td>
<td>✓</td>
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</tbody>
</table>

During the audit, we observed that the Controller's Office actively monitors credit cards use and revises limits as needed; cardholders and approvers are informed of credit card policy violations; and the terminated employees’ credit cards are timely cancelled. Also, program compliance reviews and desk audits were being performed.

Nevertheless, due to the decentralized nature of the program and inherent difficulties administering the program, some recurrent deficiencies occur.
We surveyed 28 cardholders and found the following:

- 1 (4%) indicated that she shared her card or card information with other staff members to make purchases. One of those staff members is also her approver.
- 2 (7%) indicated that their cards are kept in an office desk or file cabinet accessible by others.
- 8 (29%) indicated that their cards are automatically linked to vendor websites to make online payments quicker.

Sharing credit card and credit card information; keeping credit cards in an office desk drawer or file cabinet; and saving credit card information on vendor websites decreases accountability and increases the likelihood of unauthorized or inappropriate purchases.

In addition, we tested 554 credit card transactions, totaling $228,879 and noted the following exceptions:

- Ten purchases, totaling $862, had no invoice or receipt to support the transaction.
- Thirty-eight purchases, totaling $28,683, were not signed and dated by the cardholder.
- Three purchases, totaling $819, made by someone other than the cardholders.
- Payment for dry cleaning of “work clothes” totaling $71. The Credit Card Solutions Administrator confirmed that this is the unallowable/personnel purchase.
- Three payments for personal cell phone charges totaling $120.
- A duplicate airline ticket costing $835 was purchased because the cardholder mistakenly processed the online purchase twice. No refund or credit was received.
- Sales taxes totaling $299 was paid on eight separate transactions.

Despite the exceptions noted above, in our opinion, the Controller’s Office has made a great improvement monitoring and establishing controls over the credit card program since our prior audit. For example, the number of cardholders is significantly reduced; credit card transactions are continually monitored; cardholders and approvers are regularly trained; and program compliance reviews and desk audits are performed. Therefore, we have no new recommendations at this time.