

**PURCHASING DEPARTMENT
AUDIT OF PURCHASING CARD PROCESS**

THE UNIVERSITY OF NEW MEXICO

**Report 2005-12
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ABBREVIATIONS

EPA.....	Environmental Protection Agency
SRS.....	Department of Safety and Risk Services
UBP.....	University Business Policies and Procedures Manual
University.....	The University of New Mexico
UNM.....	The University of New Mexico

EXECUTIVE SUMMARY

As part of our 2007 audit plan, the Internal Audit Department conducted an audit of the Purchasing Card process by reviewing policies and procedures, internal controls, financial records and reconciliations.

Overall, the Purchasing Department is tracking and monitoring purchases made using the Purchasing Card. However, we found non-compliance in two other areas. Chemical purchases need to be tracked and reported to the Department of Safety and Risk Services (SRS) to comply with federal reporting requirements and avoid potential fines. Computer purchases made through LoboMart should be reported to the Property Accounting Department for proper inventory control.

The following summary provides management with an overview of conditions requiring attention.

UNIVERSITY-WIDE ISSUES

The Director of SRS should ensure that their database system is operational and that all chemical purchase data is accurately entered into their system so that reports required by the Environmental Protection Agency (EPA) can be produced and submitted. The Director of SRS responded that they will begin using the Stanford University program that developed a system of tracking and bar coding chemicals. The Operations Manager at the Purchasing Department should work with the Director of SRS to develop a system to transmit to SRS the required information for chemical purchases. The Operations Manager at Purchasing responded that they will work with SRS to develop and implement a reporting system for chemical purchases.

The Operations Manager at the Purchasing Department should work with the Manager of the Property Accounting Department to include in the training materials for Purchasing Card holders the process to report computer purchases to the Property Accounting Department. The Operations Manager at the Purchasing Department and the Manager of the Property Accounting Department responded that they will implement a process that will provide the necessary computer tagging information. A web form will be developed that cardholders will be required to fill out and this will automatically be sent to the Property Accounting Department.

INTRODUCTION

BACKGROUND

The Purchasing Card is another method used to purchase goods and services for The University of New Mexico (University) and it is the responsibility of the Purchasing Department at the University to monitor purchases. The Purchasing Card may also be used to purchase chemicals, and computers through LoboMart. LoboMart is an electronic catalog which hosts UNM's awarded contract for goods.

The Purchasing Card program began in August 1997. For the time period of our review, January 1, 2006, through November 19, 2006, there were approximately 1,000 Purchasing Card holders with an average of \$2,000,000 in charges per month.

The Purchasing Card is a Visa credit card that is issued through the Bank of America. The Purchasing Card is issued in the employee's name and is to be used to make business purchases only, personal purchases are prohibited. The University is financially responsible for purchases made using the Purchasing Card. Accounts Payable receives a monthly corporate billing statement. This department is responsible for paying the Purchasing Card balance.

The Purchasing Card web site states "the Purchasing Card is a tool issued to UNM employees for the purpose of making purchases on behalf of the University not exceeding \$2500/transaction." A Purchasing Card holder can be limited to a maximum number of transactions on a daily or monthly basis, or may have a daily dollar limit. It is the responsibility of the Dean, Director, or individual with budgetary responsibility to determine the limits for each card.

Each Purchasing Card holder receives a monthly billing statement from the bank and he is responsible for reconciling the billing statement to the transaction logs, where he records his purchases when made, and to the original packing slips, paid invoices, or register receipts. The Purchasing Card holder is to forward the reconciliation package to the Purchasing Card Operations Manager within 30 days of the billing cycle so that it can be reviewed by the Purchasing Card reviewers.

PURPOSE

The purpose of the audit is to determine if there are adequate internal controls at the Purchasing Department to ensure that Purchasing Cards are properly issued, audits performed by the Purchasing Department of each University Department are complete, and that errors are detected and addressed.

SCOPE

Our audit was limited to a review of policies and procedures, internal controls and financial records for the time period January 1, 2006 through November 19, 2006. We expanded our scope to include two University-wide issues: tracking of hazardous chemicals and tracking of computer equipment purchases. The fieldwork was completed on May 1, 2007.

OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

UNIVERSITY-WIDE ISSUES

Tracking of Hazardous Chemicals

SRS has not sent the required reports to the EPA, for the last three years, because they have had problems with the database used to track chemical purchases. SRS is responsible for tracking and identifying a specific location for all chemicals purchased. Hazardous Chemical Reporting 40 CFR 370.25 states...“(a) Basic requirement. The owner or operator of a facility subject to this subpart shall submit an inventory form to the commission, the committee, and the fire department with jurisdiction over the facility.” SRS is currently working with a consultant to fix the program so that data can be re-entered and maintained. Since the University is out of compliance with EPA regulations, it is at risk of being fined \$25,000 per day in civil penalties. Hazardous Chemical Reporting 40 CFR 370.5 states...“(b) Inventory reporting. Any person other than a governmental entity who violates any requirement of Section 370.25 shall be liable for civil and administrative penalties of not more than \$25,000 for each violation.” In addition, Homeland Security may also be instituting similar fines for violations.

Recommendation 1

The Director of SRS should either ensure that the tracking database system is fixed and updated or develop another database that can be used for producing the required EPA reports.

Response from the Director of the Department of Safety and Risk Services

Replacing the software for tracking purchases will not increase reporting. SRS infrequently receives notification of the purchase of chemicals. CRLS (Chemical Research Laboratory Supplies located in the Chemistry Department) catalogs chemicals purchased through their facility. Purchasers may use the P card (with or without Lobo Mart), a purchase order or personal credit cards. Purchasing provides queries of information when that information is electronic. However, often the documentation for a chemical purchase is provided to Purchasing as a hard copy for verification of expenditures.

Participation in the Stanford University program is being negotiated. This is a consortium of 15 major universities. Stanford University was cited by the EPA and in lieu of paying a fine developed a system of tracking and bar coding chemicals. SRS will join this consortium and the software will be used for the chemicals purchased through CRLS, a central chemical purchaser located in the Chemistry Department at SRS expense and using SRS staff. (Please see Recommendation 3.) Purchasers not using CRLS will be permitted to use the system to generate proof of reporting for monitoring by the Purchasing Department.

Plan for Tracking Incoming Chemicals as Part of the UNM Chemical Inventory Program

<i>Establish Chemical Safety Group (CSG) within SRS</i>	<i>August 31, 2007</i>
<i>Agreement with CRLS</i>	<i>August 31, 2007</i>
<i>Obtain all information about and from Stanford Consortium</i>	<i>September 1, 2007</i>
<i>Agreements in place and executed with Stanford Consortium</i>	<i>October 1, 2007</i>
<i>Stanford Consortium software and hardware installed at UNM</i>	<i>October 15, 2007</i>
<i>Begin bar-coding incoming chemicals</i>	<i>November 1, 2007</i>
<i>All systems fully operational for incoming chemicals to CRLS</i>	<i>December 31, 2007</i>

Plan for Bar-Coding Chemicals Already on Campus

CSG identify and arrange with users of chemicals to begin bar-coding chemicals that have come on to campus before bar code system went into effect *November 1, 2007*

Notification of Chemical Purchases

University departments that purchase chemicals are not consistently sending the Chemical Order Label forms to SRS. In our sample of purchasing card transactions, we identified one purchase of chemicals: that purchase was not properly reported to SRS. Section 4.01 D.1.d. “Hazardous Chemicals and Radioactive Materials Purchasing” policy clearly states that Purchasing Card holders should forward copies of all packing lists to SRS along with the Chemical Order label. This process should be audited by General Accounting and Purchasing. If departments do not properly notify SRS, SRS will not be able to properly track and report chemical purchases at the University which may result in similar fines as those previously mentioned.

University departments are allowed to purchase chemicals using the Purchasing Card. The SRS’ manual addresses how to handle the purchase of chemicals when using the Purchasing Card. Section 4.01 D.1.d. “Hazardous Chemicals and Radioactive Materials Purchasing” policy, SHEA [SRS] Manual states “**Purchasing Card** – In order to use this card to purchase chemicals, each Purchasing Card holder must forward copies of all packing lists to SHEA [SRS] along with the Chemical Order label containing the required information. This process will be audited through General Accounting and Purchasing to ensure compliance. Packing lists forwarded to Purchasing must be marked ‘**Copy forwarded to SHEA**’ [SRS]. Each card holder must provide SHEA [SRS] with required information which includes chemical/product name, account number that item is being charged to, container size and quantity of containers ordered, department, bldg. # and room # or area where each chemical will be used/stored, name and phone # of person responsible for use/storage of each chemical.” In addition, the Chemical Abstract Service Number (CAS#), which is a unique identifier for every chemical, should also be provided to SRS.

Recommendation 2

The Operations Manager at the Purchasing Department should instruct the Purchasing Card reviewers to identify chemical purchases. They should require that a copy of the Chemical Order Label form be included with the Purchasing Card packet documents so that it can be determined that departments are properly notifying SRS.

Response from the Director of Purchasing

This was merely one isolated incident due to human error, not a continuous ongoing problem. Our Purchasing Card reviewers are highly trained at identifying and reporting chemical purchases. In the one finding noted, our P-Card reviewer did correctly identify the chemical purchase. Unfortunately, the reviewer misinterpreted a cardholder note to believe that the chemical purchase had already been reported to SRS. The Operations Manager has already reviewed training materials with reviewers and reinforced these procedures.

Recommendation 3

The Purchasing Department should work with SRS so that a system can be developed to transmit to SRS the required information for chemical purchases.

Response from the Director of Purchasing

The Purchasing Department agrees with this recommendation. We will work with SRS to develop and implement a reporting system for chemical purchases. Depending ultimately on project complexity, we would like to have something developed by October 31, 2007.

Response from the Director of the Department of Safety and Risk Services

SRS will use the Stanford System described in Recommendation 1 to offer an online form to purchasers that can be provided to SRS and to the Purchasing Department for verification of notice of purchase by the purchaser.

This issue has become critical with the promulgation of the Homeland Security Rule monitoring chemicals of interest on Campus as well as the existing EPA regulations. Not only cataloguing but an inventory of chemicals by location will be required. To meet this requirement, SRS has requested a Chemical Safety Manager position that will be filled from vacancy savings and the Director will reassign three staff to this manager that currently work in the chemical area and report to other managers. The team – Chemical Safety Group - will work with CRLS to bar code and inventory the chemicals sold using the Stanford system and assist Principal Investigators and others purchasing outside CRLS with cataloguing and inventory using the bar code tracking method.

Tagging Equipment

When departments purchase computers on LoboMart, they are not always notifying the Property Accounting Department so that the Property Accounting Department can properly track and tag the computers. One way to alert departments of their notification responsibilities is to include this information in the mandatory employee training in Purchasing Cards, Purchasing, and Accounts Payable. If departments do not properly notify Property Accounting, the Property Accounting Department cannot maintain an adequate inventory of existing equipment and inventory might be understated.

For property to be controlled at the University, the Property Accounting Department must receive the necessary information from the Purchasing Department and other University Departments regarding purchases of property. Section 4. “Property Management and Control” Policy 7710, University Business Policies and Procedures Manual (UBP) states:

The Property Accounting Department is responsible for overseeing the control of property assigned to University departments with a cost over \$5,000 or certain computer equipment such as laptops, desktop workstations, and tablets. The Property Accounting Department maintains inventory records, mails property tags to departments and provides reports and information from equipment inventory records. They also maintain financial records on property. Departments must ensure property tags are on *all* inventoried property.

Recommendation 4

The Operations Manager at the Purchasing Department should work with the Manager of the Property Accounting Department to develop training on how to report computer purchases to Property Accounting. This training should be included in training materials for Purchasing Card, Purchasing, and Accounts Payable.

Response from the Director of Purchasing and the Associate Controller for Reporting and Operations

The Operations Manager at the Purchasing Department and the Manager of the Property Accounting Department have agreed to implement a process that will provide the necessary computer tagging information to Property Accounting. Under this process, the Purchasing Department will develop a web form that cardholders will be required to fill out when purchasing a computer. The completed web form will automatically send an email to Property Accounting with the necessary specifications for each computer purchased. Cardholders will also be required to submit a copy of the form to Purchasing with their P-Card statements so that

they can be verified by P-Card reviewers. We expect to have this process fully implemented by September 30, 2007.

PURCHASING CARD ADMINISTRATION

The Purchasing Card function within the Purchasing Department is responsible for auditing all purchases made using the Purchasing Card and tracking any limitation or restrictions set on the Purchasing Cards. The Purchasing Card reviewers are responsible for detecting any unusual activity and non-compliance with the Purchasing Card policies and procedures.

The Purchasing Card Policies and Procedures Manual state “The Purchasing Card Administrator will review all monthly files. This review is intended to ensure the following:

- Proper completion of the Transaction Log, including necessary signature that support each transaction
- The existence and retention of original supporting documentation
- Reconciliation of the Purchasing Card Bank Statement to the Transaction Log and supporting receipts
- Appropriate allocation (index/account code)
- Business purpose and approval of purchases
- Sales tax was not assessed and paid
- Purchases are appropriate and within the University’s Policies
- Unusual activity
- Incremental/split purchases
- Services with unapproved vendors”

Transaction Logs Alternative

In many instances, the transaction logs are not completed by the Purchasing Card holders until they receive the Visa, Bank of America statement so that the order of transactions on the log and the transactions on the statements agree for ease of reconciliation. The Purchasing Card holders are required to submit a transaction log to the Purchasing Department as part of their monthly reconciliation. The log includes the following information: purchase date, vendor, item description, business purpose, amount, requestor, date received, highermarket/travel #, and acct.#/sub code. The original purpose of the transaction log is to record and track transactions as they occur. If Purchasing Card holders are not recording transactions on the log as they occur, then it defeats the purpose of the log. Some Purchasing Card holders use other methods to track their transactions such as Quicken or tracking transactions in Banner. Therefore, by entering transactions on the log they are duplicating their work. Others find the logs a useful method to track their transactions.

Recommendation 5

The Operations Manager for the Purchasing Card should consider alternatives to recording transactions on the log such as placing a stamp on each document, which would require certain information be noted on the document itself. This is the same type of information that is currently recorded on the transaction log.

Response from the Director of Purchasing

This is an excellent recommendation. Over the next few months, we will explore all options to determine if a change in process could increase the efficiency and effectiveness of the P-Card Program.

Database Information

The database which contains the information for each Purchasing Card holder is not always current and information is missing and inaccurate. For example:

- the credit limits on the Purchasing Cards do not always agree between the database, credit card statement, and the application/modification forms, and
- the training dates are not always maintained in the database.

The information maintained in the database for each Purchasing Card holder should be consistent with the application forms and any modifications, and training received.

Recommendation 6

The Operations Manager for the Purchasing Card should ensure that, when modifications to the Purchasing Card agreements are made and the Purchasing Card holder receives training, this information is entered timely into the database for the Purchasing Card holder so that the information maintained on the database is consistent and accurate.

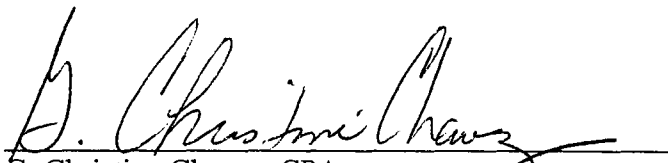
Response from the Director of Purchasing

The Purchasing Card database is not the official system of record for tracking Purchasing Card training or changes to Purchasing Card agreements. Instead, the official records of both these functions are maintained in separate systems. Nevertheless, we do agree that our shadow system should reflect the systems of record for these two functions. We have already begun correcting the database and expect it to be completed by September 30, 2007.

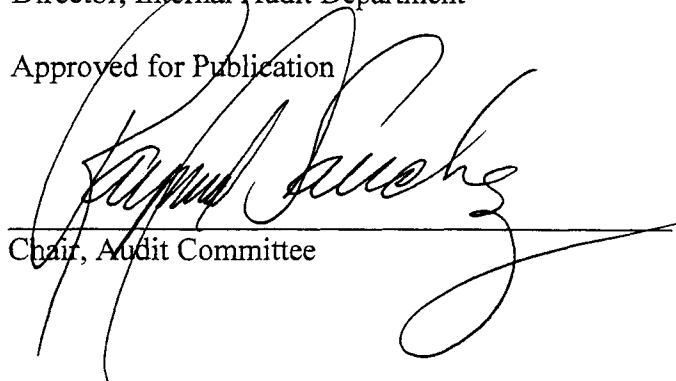
CONCLUSION

The Purchasing Card process is adequately monitoring purchases. However, some issues with compliance were identified. SRS should maintain all the necessary information regarding chemical purchases so that the chemical purchases are properly tracked and reports are provided to the EPA. The Purchasing Department and SRS should work together to develop a mechanism to report chemical purchases to SRS. Training on how to report computer purchases when using LoboMart should be included in the mandatory employee training for Purchasing Card, Purchasing, and Accounts Payable. The Purchasing Card Operations Manager should ensure that information maintained in the database is current.

APPROVALS


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Approved for Publication


Chair, Audit Committee