

**PURCHASING DEPARTMENT
AUDIT OF PURCHASING CARD PROCESS**

THE UNIVERSITY OF NEW MEXICO

**Report 2013-10
June 14, 2013**



THE UNIVERSITY *of*
NEW MEXICO

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ABBREVIATIONS

CRLS.....	Chemical and Research Laboratory Supplies
ERM.....	Enterprise Re-Agent Manager
HSC.....	Health Sciences Center
ICID.....	Interactive Chemical Inventory Database
Internal Audit.....	University of New Mexico Internal Audit Department
IRS.....	Internal Revenue Service
P-Card.....	University of New Mexico Purchasing Card
Purchasing.....	University of New Mexico Purchasing Department
University.....	The University of New Mexico
UNM.....	The University of New Mexico
SRS.....	Department of Safety and Risk Services
EPA.....	Environmental Protection Agency

EXECUTIVE SUMMARY

Highest Purchases by Department
July 1, 2012 through January 31, 2013

Department	Transactions	Grand Total
Controller Operations	4,525	\$ 3,465,651
Athletics	6,369	3,411,285
Pediatrics	4,709	1,864,378
PPD Maintenance Planning	4,781	1,506,845
IT Networks	444	1,269,283
Cancer Research Treatment Center	3,164	1,148,151
VPRED EPSCOR	652	1,141,498
Continuing Medical Education	225	1,089,308
Biology Department	2,690	807,648
Residence Life and Student Housing	1,585	707,275
Total Top 10 Departments	29,144	\$16,411,322
Other Departments	72,054	\$24,487,495
Grand Total	101,198	\$40,898,816

Source: Banner Accounting System

P-Card Purchases by Major Expense Category
July 1, 2012 through January 31, 2013

Major Expense Category	Number of Transactions	Amount
Supplies and Non-Capital		
Equipment	52,852	\$ 15,858,235
Services and Fees	9,895	6,849,122
Travel	19,830	4,931,757
Costs of Goods Sold	5,981	3,931,695
Repairs and Maintenance	1,387	3,802,184
Other	7,211	3,073,205
Scholarships and Awards	2,435	1,964,504
Capital	1,607	488,114
Total	101,198	\$ 40,898,816

Source: Banner Accounting System

As part of the 2013 audit plan, the University of New Mexico Internal Audit Department (Internal Audit) conducted an audit of the University of New Mexico (University) Purchasing Card (P-Card) process. The audit process included reviewing and testing policies and procedures, internal controls, financial records and reconciliations. The period covered by the P-Card audit included July 1, 2012 through January 31, 2013.

Since Internal Audit's last review in FY 2007, average monthly P-Card purchases have significantly increased from approximately \$2 million per month to approximately \$5.1 million per month. This increase is primarily due to the convenience, efficiency, and cost savings of using a P-Card rather than using the traditional Purchase Order process.

For the period of July 1, 2012 through January 31, 2013, the total number of P-Card transactions was approximately 101,000, and total P-Card purchases for the period under audit were approximately \$40.1 million. As noted in the tables to the left, ten departments make up approximately \$16.4 million, or 41%, of total P-Card purchases. P-Cards are primarily used to purchase supplies and non-capital equipment (\$15.9 million), for services and fees (\$6.9 million), and for travel (\$4.9 million). These expense categories make up approximately \$27.7 million, or 69%, of total purchases. Exhibit 1 presents a detailed schedule of P-Card purchases for the top ten departments by expense category.

ISSUANCE OF PURCHASING CARDS

Online training courses are offered through the University of New Mexico's (UNM) Employee and Organizational Development web site. The online training courses are required to be completed prior to the initial issuance and subsequent reissuance of a Purchasing Card.

Upon completion of the Purchasing Card online training course, employees must complete the UNM

Online P-Card training courses, an approved application, and a signed Cardholder Agreement are required prior to P-Card issuance.

Individual purchases are not to exceed \$5,000 for goods, materials and supplies, or \$2,500 per transaction for approved services without proper "Special Exception" approval.

Purchasing policies and procedures were not followed for a service contract for \$96,623.

Purchasing Card Application Form and Cardholder Agreement. Employees should not be granted a P-Card prior to completing an approved application form and signing the Cardholder Agreement.

COMPLIANCE WITH POLICIES AND PROCEDURES, LAWS, AND TAX REQUIREMENTS

The Purchasing Card is issued to UNM employees for the purpose of making purchases on behalf of the University. These purchases are not to exceed \$5,000 per transaction for goods, materials and supplies, or \$2,500 per transaction for approved services. Purchases for goods and services must be allowable, have a valid business purpose, and be in compliance with applicable UNM policies and procedures, laws, and tax requirements. Individual purchases exceeding established thresholds may be completed with appropriate approval using a "Special Exception Request" form.

The UNM Continuing Medical Education department did not follow University of New Mexico Purchasing Department (Purchasing) policies and procedures when entering into a service contract in the amount of \$96,623. A cardholder entered into the contract without obtaining an approved "Special Exception Request" and without getting the contract approved by Purchasing, as required by UNM's Purchasing policies and procedures. Although the purchase was identified by Purchasing during the cardholder's monthly review, the contracted services were already performed, and payment had already been made.

Hazardous chemicals and radioactive materials are major purchases at large research universities like UNM. UNM's Department of Safety & Risk Services (SRS) has the responsibility of tracking hazardous chemical and radioactive material purchases. However, SRS needs the assistance of all cardholders, the General

A formal process is not currently in place to record and track the purchase of hazardous chemicals and radioactive materials. SRS and Purchasing are in the process of implementing a system that will do so.

The purchase of goods should be excluded from Gross Receipts tax as required by State Statute Section 7-9-54, 1978 as amended.

The Purchasing Department performs reviews for P-Card activity on a monthly basis.

Accounting Department, and Purchasing to ensure purchases of hazardous chemicals and radioactive materials are properly recorded and accounted for. There is not currently a formal process to identify, record, and track purchases of hazardous chemicals and radioactive materials. SRS and Purchasing are currently working together to implement a system that will be used to effectively purchase, record and track hazardous chemicals and radioactive materials.

The University of New Mexico is an agency of the State of New Mexico. In accordance with State Statute, Section 7-9-54, NMSA 1978 as amended, "Deduction; gross receipts tax; governmental gross receipts tax; sales to governmental agencies," sales of tangible goods to the University are specifically exempted from gross receipts tax. The exemption of gross receipts taxes is applicable to all purchases of goods made using a UNM issued P-Card. For one of twelve purchases of applicable goods tested, the cardholder did not obtain adequate supporting documentation from the vendor to determine if gross receipts tax was charged for the purchase. Internal Audit could not determine if gross receipts tax was excluded from the purchase.

PURCHASING CARD REVIEW AND TRACKING

The Purchasing Department performs a monthly review of P-Card purchases for every cardholder. Purchasing Card reviewers determine if purchases are made in accordance with Purchasing Policies and Procedures, are allowable goods or services, and are for valid business purposes. Purchasing's monthly review of P-Card activity is the primary internal control established to prevent, identify, and deter inappropriate purchases made on P-Cards.

Employee-issued P-Cards are tracked by Purchasing using a P-Card user database. The database is updated

Cardholders are required to reallocate transactions to the appropriate index and account codes within 10 days from the date the transaction appears in Banner.

when P-Cards are initially issued, employees are terminated either voluntarily or involuntarily, and when cardholders transfer to another department.

EXPENSE REALLOCATION

Purchasing Card expense reallocation is a necessary process to ensure P-Card purchases are charged to the appropriate expense account. Cardholders are required to reallocate transactions to the appropriate index and account codes as necessary. Any reallocation must be done within 10 days from the date the transaction appears in Banner. For one of sixty P-Card purchases tested, expenses were not reallocated to the appropriate expense account. A purchase for banquet services for \$22,478 was incorrectly recorded to "Supply Costs."

CONCLUSION

Overall, the Purchasing Department has adequate internal controls in place to ensure P-Card purchases are allowable, have valid business purposes, are recorded to the appropriate expense account, and are in compliance with UNM Purchasing policies and procedures, laws, and tax requirements. In addition, Purchasing has internal controls for issuance and tracking of P-Cards. However, Internal Audit noted instances of non-compliance with Purchasing and Administrative policies and procedures, gross receipts tax exemptions, and expense reallocation. The following is a summary of recommendations made in the report.

Cardholders should not be allowed to make purchases that exceed established single transaction limits prior to obtaining proper approvals from Purchasing as required.

A system should be implemented that will effectively record the purchase of hazardous materials and radioactive materials, and provides all relevant information to SRS for tracking.

P-Card reviewers should ensure that supporting documentation from vendors verify that gross receipts taxes have been excluded from the purchase of all goods.

Recommendations

- Internal controls should be strengthened at the Continuing Medical Education department to ensure Purchasing policies and procedures are followed at all times. Cardholders should not be allowed to make purchases that exceed established single transaction limits prior to obtaining proper approvals from Purchasing as required. This will ensure that all P-Card purchases are in accordance with UNM's Purchasing policies and procedures.
- SRS should work with the Purchasing department to implement a system that effectively records the purchase of hazardous materials and radioactive materials, and provides all relevant information to SRS for tracking. The system may provide the ability to make purchases of hazardous chemicals and radioactive materials directly through the system, and also record the purchased items in a database when the order is complete. In addition, the system could provide an SRS approval process for the purchase of sensitive chemicals and radioactive materials. Such chemicals and radioactive materials requiring approval should be determined by SRS.
- Purchasing should enforce policies and procedures to ensure that gross receipts tax is excluded from the purchase of all tangible goods. Reviewers of P-Card activity should ensure that adequate supporting documentation has been received from the vendor to determine that gross receipt taxes have been excluded from the purchase of all goods.

Expense reallocations should be carefully reviewed during the review process to ensure all expenses are charged to an appropriate expense account based on the nature of the purchase.

- P-Card expense reallocations should be carefully reviewed during the P-Card review process to ensure all expenses have been reallocated to an appropriate account based on the nature of the purchase. If cardholders have not reallocated P-Card purchases to an appropriate expense account, Purchasing should subsequently notify department personnel that expenses need to be reallocated to an appropriate account using a journal voucher. This will ensure P-Card purchases are accurately reported by expense classification.

INTRODUCTION

BACKGROUND

The Purchasing Card program is a process that has been implemented throughout the University of New Mexico. The P-Card is a tool issued to individuals for the purpose of making purchases on behalf of the University. The P-Card program is intended to simplify the procurement and payment process and reduce total acquisition cost. Additionally, it provides users with greater purchasing flexibility. However, as with any procurement process, there is a risk factor.

The Purchasing Card program began in August 1997. For the time period of our review, July 1, 2012, through January 31, 2013, there were approximately 1,200 P-Card holders with an average of \$5.1 million in charges per month. P-Card activity has steadily increased over the last few years due to efficiency and cost savings in using the P-Card process. The average cycle time to process a transaction has been reduced by 70% - from 12.1 days using a traditional Purchase Order, to 3.6 days using a P-Card. In addition, the average cost per transaction is \$90.77 when using the purchase order compared to \$17.24 using a P-Card. This results in transaction cost savings of 81%.

The P-Card is a Visa credit card that is issued through Bank of America. The P-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 P-Card. 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 P-Card holder receives a monthly billing statement from the bank and is responsible for reconciling the billing statement to the transaction logs, where the recording of purchases is made, and to the original packing slips, paid invoices, or register receipts. The cardholder is to forward the reconciliation package to the Purchasing 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 to ensure that:

- P-Cards are properly issued and tracked;
- Purchases are for valid business purposes;
- Purchases are in compliance with UNM policies and procedures, procurement laws, and tax requirements;
- There is an adequate reconciliation and review process for purchases; and
- Purchases are reallocated to the appropriate expense account.

SCOPE

Our audit included reviewing and testing of compliance with policies and procedures, internal controls, and P-Card transactions for the time period July 1, 2012 through January 31, 2013. Internal Audit procedures include:

- Reviewing and testing internal controls over the issuance and tracking of P-Cards;
- Testing P-Card transactions for compliance with Purchasing policies and procedures, laws and tax requirements;
- Reviewing the P-Card monthly reconciliation and review process performed by the Purchasing department;
- Testing to determine if P-Card purchases are reallocated to an appropriate expense account; and
- Perform follow-up on recommendation from the prior Internal Audit for the Purchasing Card process, Report 2005-12.

OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

ISSUANCE OF PURCHASING CARDS

Purchasing Card Online Training Program

The P-Card training course is offered online through UNM's Employee and Organizational Development web site. The P-Card online training course covers policies and procedures for proper use of the P-Card and must be completed in order to be eligible to obtain a P-Card.

Upon completion of the P-Card online training course, employees must complete the UNM Purchasing Card Application Form and Cardholder Agreement form. The Purchasing Card Application must be approved by the Dean or Department Head, the employee's supervisor, and Purchasing.

The Purchasing Card Administrator orders the P-Card from the bank and sets up all internal files. The cardholder then picks up the P-Card from the Purchasing Card Administrator and signs the Cardholder Agreement, in which the employee acknowledges all terms and conditions of obtaining and using a P-Card. Employees should not be granted a P-Card prior to approval of the application form and Cardholder Agreement by the appropriate personnel.

The initial P-Card is valid for a three-year period and subsequently reissued cards are valid for a period of two years. Upon expiration of a P-Card, the cardholder must take the online refresher course prior to obtaining a new card.

Travel-related P-Card purchases may only be made following the completion of the "P-Card for Travel" training module and exam offered through UNM's Employee and Organizational Development web site. The online P-Card for Travel training refresher course is also required prior to a cardholder receiving a reissued P-Card.

COMPLIANCE WITH POLICIES AND PROCEDURES, LAWS AND TAX REQUIREMENTS

The Purchasing Card Program is intended to simplify the procurement and payment process and to reduce total acquisition cost. Additionally, it provides users with greater flexibility. The P-Card is issued to UNM employees for the purpose of making purchases on behalf of the University. The purchases are not to exceed \$5,000 per transaction for goods, materials and supplies, or \$2,500 per transaction for approved services. Purchases for goods and services must be allowable and for a valid business purpose.

Purchases exceeding established limits and any purchases for food and beverages must first be approved by Purchasing using a "Special Exception Request" form. The cardholder is required to include a copy of the P-Card "Special Exception Request" form with the monthly P-Card transaction log before submitting the reconciled packet to Purchasing for review. Service contracts exceeding \$2,500 must also be approved by Purchasing. Incremental purchasing, splitting of purchases, and personal purchases are strictly prohibited. Such purchases can result in cancellation of cardholder privileges.

UNM Continuing Medical Education did not follow Purchasing policies and procedures for the purchase of a service contract during the period under audit. A cardholder within the Continuing Medical Education department purchased a service contract in the amount of \$96,623 without an approved "Special Exception Request" or obtaining an approval from Purchasing. Purchasing identified the purchase during the cardholder's monthly review. However, the contracted vendor had already performed the services and received payment.

Recommendation #1:

Internal controls should be strengthened at the Continuing Medical Education department to ensure Purchasing policies and procedures are followed at all times. Cardholders should not be allowed to make purchases that exceed established single transaction limits prior to obtaining proper approvals from Purchasing as required. This will ensure that all P-Card purchases are in accordance with UNM's Purchasing policies and procedures.

Response from the Associate Dean of Continuing Medical Education Department:

Action Items
<i>Targeted Completion Date: A process has been fully implemented effective June 1, 2013 and will remain in place for all future conference activities.</i>
<i>Assigned to: Continuing Medical Education Purchaser, Fiscal Services Technician, Event Coordinator, Program Manager</i>
<i>Corrective Action Planned: We concur. A Purchasing/P-Card person in our office is now responsible for all special exception submissions and P-Card charges for the department. This will allow for three "check and balances" to occur for each conference activity. (1) All hotel contracts are completed by the event planner who outlines the costs for food, room rental, etc. This is provided to the department purchaser to complete the special exception for the expense. (2) The purchaser will then provide it to the Fiscal Service Technician for review to ensure it is complete. (3) Thirty days prior to the activity, the Event Coordinator and Program Manager will review all expenses for the conference activity to ensure completion.</i>

Purchase of Hazardous Chemicals and Radioactive Materials

Hazardous chemicals and radioactive materials are major purchases at large research universities like UNM. In order to use the P-Card to purchase chemicals and radioactive materials, each cardholder currently must enter the purchase in the Interactive Chemical Inventory Database (ICID). The cardholder will secure and retain appropriate documentation to support each purchase charged to the P-Card. SRS must be notified of all purchases of hazardous chemicals and radioactive materials.

SRS has the responsibility of tracking hazardous chemical and radioactive material purchases. However, SRS needs the assistance of all cardholders, the General Accounting Department, and Purchasing to ensure purchases of hazardous chemicals and radioactive materials are properly recorded and accounted for. SRS must be notified of all purchases of hazardous chemicals and radioactive materials as defined above. There is not currently a formal system in place to effectively identify and record the purchase of hazardous chemical and radioactive materials, and to transmit relevant information to SRS for tracking. SRS and Purchasing are currently working together to implement a system that will be used to effectively purchase, record and track hazardous chemicals and radioactive materials.

Recommendation #2:

SRS should work with the Purchasing department to implement a system that effectively records the purchase of hazardous materials and radioactive materials, and provides all relevant information to SRS for tracking. The system may provide the ability to make purchases of hazardous chemicals and radioactive materials directly through the system, and also record the purchased items in a database when the order is complete. In addition, the system could provide an SRS approval process for the purchase of sensitive chemicals and radioactive materials. Such chemicals and radioactive materials requiring approval should be determined by SRS.

Response from the Director of Safety and Risk Services:

Action Items
<i>Targeted Completion Date: July 1, 2015</i>
<i>Assigned to: Director, SRS and University Safety Officer, SRS</i>
<i>Corrective Action Planned: We concur. SRS purchased the Enterprise Re-Agent Manager (ERM) software and is implementing this software in five UNM Departments effective August 2013. This ERM software will replace ICID. ERM is a SciQuest Product that communicates with Banner. Purchasing and SRS are working as a team to populate the ERM software with data from Chemical and Research Laboratory Supplies (CRLS). SRS established a main campus Chemical and Laboratory Safety Committee and is working with the committee to attempt to implement ERM campus-wide. SRS needs the support of UNM management to promulgate policies to require the use of ERM software and the inventory of chemical and radioactive materials.</i>

UNM Gross Receipts Tax Exemption

The University of New Mexico is an agency of the State of New Mexico. In accordance with State Statute Section 7-9-54, 1978 as amended "Deduction; gross receipts tax; governmental gross receipts tax; sales to governmental agencies," sales of tangible goods to the University of New Mexico are specifically exempted from gross receipts tax. The exemption of gross receipts taxes is applicable to all purchases of goods made using a UNM issued Purchasing Card. Cardholders should advise the vendor that the purchase is tax exempt and should not proceed with the purchase until they are certain that the tax will not be assessed. If tax is assessed, cardholders are required to either obtain a credit from the vendor or may be personally liable for the tax assessed. The cardholder should ensure vendors provide documentation verifying that tax is not charged for tax exempt goods. This exemption does not apply to the purchase of services, lease of property, or items purchased for a construction project for which a gross receipts tax amount is identified on a University's purchase order.

For one of twelve purchases of goods tested, the purchase of goods was not in accordance with State Statute Section 7-9-54, 1978 as amended. The cardholder did not obtain adequate supporting documentation from the vendor to determine if exempted gross receipts tax was charged for the purchase. Internal Audit could not determine if gross receipts tax was excluded as required.

Recommendation #3:

Purchasing should enforce policies and procedures to ensure that gross receipts tax is excluded from the purchase of goods. Reviewers of P-Card activity should ensure that adequate supporting documentation has been received to determine that gross receipt taxes have been excluded from the purchase of all goods. This will ensure all P-Card purchases for tangible goods are in accordance with UNM's gross receipts tax exemption provisions.

Response from the Purchasing Chief Procurement Officer:

Action Items
<i>Targeted Completion Date: Completed</i>
<i>Assigned to: Peggy Sedillo, Purchasing Manager</i>
<p>Corrective Action Planned: We concur. <i>It is important to note, however, that the transaction in question was for an even dollar amount (\$108.00). Therefore, our P-Card reviewer could reasonably assume that gross receipts tax was NOT paid on this transaction. Nevertheless, we unfortunately lack the documentation to confirm that the gross receipt tax was not paid for this purchase. It is entirely possible, yet highly unlikely based on the even dollar amount, that approximately \$7.00 of gross receipts tax was charged to UNM for this purchase. In reality, however, it would have cost much more than \$7.00 in University resources to track down additional documentation for this purchase to prove whether or not tax was charged.</i></p> <p><i>This was one isolated incident of human oversight, not a systemic issue in our department. Consequently, our corrective action will be limited to re-emphasizing Gross Receipts tax documentation requirements with our P-Card reviewer staff.</i></p>

In accordance with IRS Publication 15, Section B, fringe benefits provided to employees are taxable income and must be included in the recipient's pay unless the law specifically excludes it. Taxable fringe benefits that may be purchased by a P-Card include gift certificates, vacations, tickets to theater or sporting events, stocks, bonds, and other securities. Taxable income should be reported at the Fair Market Value of the fringe benefit. IRS Publication 15, Section B-2 excludes de minimus (minimal) benefits, which is a benefit that has so little value that accounting for it would be unreasonable or administratively impracticable. UNM has established its de minimus level at \$75.

PURCHASING CARD REVIEW AND TRACKING

Purchasing performs a monthly audit of P-Card activity for every cardholder. Purchasing Card auditors review every purchase to determine if purchases are made in accordance with Purchasing Policies and Procedures, are allowable goods or services, and are for valid business purposes. The Purchasing Card auditors will note any unusual activity for a cardholder and will send written notification to the cardholder and the cardholder's supervisor and/or manager. The review process is intended to ensure the following:

- Proper completion of the Transaction Log, including necessary signatures 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 nor paid;
- Purchases are appropriate and within the University's Policies;
- There was no unusual activity;
- There were no incremental/split purchases; and
- No services were performed with unapproved vendors.

The Purchasing department's monthly review of P-Card activity is the primary internal control established to prevent, identify, and deter inappropriate purchases made on P-Cards.

Tracking of Issued P-Cards

Purchasing tracks employee-issued P-Cards with a P-Card User Database. They update the database when P-Cards are initially issued and reissued, employees are terminated either voluntarily or involuntarily, and when cardholders transfer to another department.

Departments must revoke Employee-issued P-Cards in the event that the employee voluntarily or involuntarily terminates employment or transfers to another department. Employees who terminate employment, either voluntarily or through retirement, must notify Purchasing at least 10 working days prior to leaving the University. Purchasing will cancel P-Cards for terminating employees upon notification of termination.

In the event of an involuntary termination, the cardholder, Dean, Director, or Department Head must immediately notify the Purchasing Card Administrator and take possession of the P-Card. Cardholders must turn in all paperwork, including receipts/logs, or must make arrangements with their supervisor who will be assuming responsibility for submitting required documentation.

In the event that a cardholder transfers to another department within UNM, the cardholder must notify the Purchasing Card Administrator 10 days prior to the date of the transfer. Cardholders who do not notify Purchasing of a transfer 10 days in advance are not eligible to obtain a new P-Card for the new department for 30-60 days. The P-Card is specific to a department and that department's accounts and cannot be transferred to another department. A department that has a transferring employee who was a cardholder in their previous department can request that the employee be issued a new card. However, that employee must submit a new application.

Ultimately, the cardholder and department are responsible for notifying Purchasing of a transfer or separation. The Purchasing Card Administrator generates a monthly query to ensure that cards are canceled as needed for terminated employees.

EXPENSE REALLOCATION

P-Card expense reallocation is a necessary process to ensure P-Card purchases are charged to an appropriate expense account. Cardholders are required to reallocate transactions to an appropriate index and account codes as necessary. Any reallocation must be done within 10 days from the date the transaction appears in Banner. If a transaction is not reallocated within the 10 day period, a journal voucher must be processed to move the charges.

In one of sixty P-Card purchases tested, the cardholder did not reallocate transactions to an appropriate expense account. A purchase for banquet services in the amount of \$22,478 was inappropriately recorded to "Supply Costs."

Recommendation #4:

P-Card expense reallocations should be carefully reviewed during the P-Card review process to ensure expenses have been reallocated to an appropriate account based on the nature of the purchase. If cardholders have not reallocated P-Card purchases to an appropriate expense account, Purchasing should subsequently notify department personnel that expenses need to be reallocated to an appropriate account using a journal voucher. This will ensure P-Card purchases are accurately reported by expense classification.

Response from the Purchasing Chief Procurement Officer:

Action Items
<i>Targeted Completion Date: Completed</i>
<i>Assigned to: Peggy Sedillo, Purchasing Manager</i>
<p><i>Corrective Action Planned: We Concur. Our P-Card reviewers are already meeting all the listed requirements of Internal Audit's recommendation above, and have been doing so for many years. Our staff continues to carefully review expense reallocations and notify user departments when reallocation by journal voucher is necessary. What prompted this Internal Audit recommendation was unfortunately an isolated case of human error, not a larger systemic, on-going issue. Our staff reviews a staggering 150,000+ P-Card transactions per year. While we acknowledge that even one error is one too many, the sheer volume implies that it would be unrealistic to assume that our staff wouldn't be subject to an occasional error from time-to-time.</i></p> <p><i>As this was a case of human error, our corrective action will be limited to re-emphasizing the need to carefully review P-Card Logs/documentation and notify user departments to submit journal vouchers.</i></p>

FOLLOW-UP ON THE 2005 AUDIT OF THE PURCHASING DEPARTMENT PURCHASING CARD PROCESS, REPORT 2005-12

Prior Recommendation 1: The Director of SRS should either ensure that the database system used to track hazardous chemicals is fixed and updated, or develop another database that can be used for producing required Environmental Protection Agency (EPA) reports.

Current Status: Resolved – Required EPA reports were prepared by SRS and submitted for 2011 and 2012. The database used to develop required EPA reports has been fixed.

Prior 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.

Current Status: Unresolved – There is not currently a formal process for Purchasing Card reviewers to identify chemical purchases. The Purchasing Department and SRS are currently in the process of implementing a system that will automatically record and track the purchase of hazardous chemicals and radioactive materials. See Recommendation #2.

Prior Recommendation 3: The Purchasing Department should work with SRS so that a system can be developed to transmit required information to SRS for chemical purchases.

Current Status: Unresolved – There is not currently a formal system in place. The Purchasing department and SRS are currently working together to implement a new system that will transmit chemicals and radioactive materials, as well as all other relevant information, to SRS. See Recommendation #2.

Prior 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.

Current Status: Resolved – A process has been implemented to report computer purchases to Property Accounting. An Inventory Control Computer/Server Purchase form is used to allow departments to electronically report computer purchases.

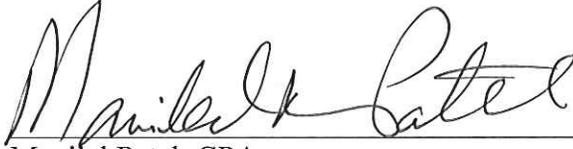
Prior Recommendation 5: The Operations Manager for the Purchasing Card should consider alternatives to recording transactions on the log such as placing a stamp on each document, which would require certain information be noted on the document itself. This is the same type of information that is currently recorded on the transaction log.

Current Status: Resolved – The Purchasing department has determined that the transaction log meets the needs to record and report P-Card transactions. During testing of P-Card transactions, Internal Audit determined that the current method of using the transaction log is sufficient for reporting P-Card purchases.

Prior Recommendation 6: The Operations Manager for the Purchasing Card should ensure that, when modifications to the Purchasing Card agreements are made and the cardholder receives training, this information is entered timely into the database for the cardholder so that the information maintained on the database is consistent and accurate.

Current Status: Resolved – The Purchasing department is entering cardholders' information into the P-Card database in a timely manner, and all information is consistent and accurate.

APPROVALS



Manilal Patel, CPA
Director, Internal Audit Department

Approved for Publication



Chair, Audit Committee

Audit of the Purchasing Card Process
 Highest P-Card Purchases by Department and Major Expense Category
 July 1, 2012 – January 31, 2013

Department	Transactions	Capital	Other	Scholarships and Awards	Services and Fees	Supplies and Non-Capital Equipment	Travel	Cost of Goods Sold	Repairs and Maintenance	Grand Total
Controller Operations	4,525	\$ -	\$ 1,044,977	\$ -	127,009	\$ 195,749	\$ 22,712	\$ -	\$ 2,075,204	\$ 3,465,651
Athletics	6,369	45,153	162,176	13,464	351,371	978,437	1,740,365	-	120,320	3,411,285
Pediatrics	4,709	-	344,206	64,508	359,004	910,213	155,378	-	31,070	1,864,378
PPD Maintenance Planning	4,781	-	1,121	-	5,996	67,170	1,644	1,404,743	26,171	1,506,845
IT Networks	444	-	151	-	6,767	49,045	3,692	1,204,889	4,739	1,269,283
Cancer Research Treatment Center	3,164	-	71,178	18,490	229,050	737,655	71,527	-	20,251	1,148,151
VPRED EPSCOR	652	-	0	848,093	14,753	64,793	207,042	-	6,816	1,141,498
Continuing Medical Education	225	-	39,860	-	121,578	478,100	312,638	-	137,132	1,089,308
Biology Department	2,690	-	3,718	27,966	75,122	601,526	72,569	-	26,747	807,648
Residence Life and Student Housing	1,585	-	6,119	247	184,916	358,894	34,732	-	122,367	707,275
Total Top 10 Departments	29,144	\$ 45,153	\$ 1,673,504	\$ 972,768	\$ 1,475,565	\$ 4,441,582	\$ 2,622,299	\$ 2,609,633	\$ 2,570,817	\$16,411,322
Other Departments	72,054	\$ 442,961	\$ 1,399,701	\$ 991,736	\$ 5,373,557	\$ 11,416,653	\$ 2,309,458	\$ 1,322,062	\$ 1,231,367	\$24,487,495
Grand Total	101,198	\$ 488,114	\$ 3,073,205	\$ 1,964,504	\$ 6,849,122	\$ 15,858,235	\$ 4,931,757	\$ 3,931,695	\$ 3,802,184	\$40,898,816
% of total		1.19%	7.51%	4.80%	16.75%	38.77%	12.06%	9.61%	9.30%	

Source: Banner Accounting System

Exhibit 1