Internal Audit Department

Purchasing Card Documentation

December 20, 2019
Report Number FY 19-08

Distribution:
Audit Committee, Arizona Board of Regents
Internal Audit Review Board
Rita Cheng, President
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Debra Cisneros, Assistant Director, Contracts, Purchasing and Risk Management
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Kaitlyn Jones, Program Coordinator, Contracts, Purchasing and Risk Management
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Tammy Laird, Associate Comptroller, Financial Compliance, Analysis and Reporting
Becky McGaugh, Associate Vice President, Contracts, Purchasing and Risk Management
Bradley Miner, Lead Business Analyst, Comptroller
Eric Nelson, Senior Business Analyst, OnBase Services
Daniel Okoli, Vice President, Capital Planning and Campus Operations
Michelle Parker, General Counsel
Wendy Swartz, Associate Vice President and Comptroller

This report is intended for the information and use of the Arizona Board of Regents, NAU administration, the Arizona Office of the Auditor General, and federal awarding agencies and sub-recipients.
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Summary

Audit of Purchasing Card Documentation is in the Annual Audit Plan for Fiscal Year 2019, as approved by the Audit Committee of the Arizona Board of Regents. This audit supports Northern Arizona University’s (NAU / University) strategic goal of Stewardship by ensuring propriety of purchasing card handling and processing controls including policy and consistent procedures related to documentation supporting purchasing card transactions.

Background: The Purchasing Card (PCard) is a corporate liability card available through JPMorgan Chase. The PCard¹:

- Facilitates purchases of low dollar value and contract items,
- Reduces the use of petty cash funds,
- Improves small dollar traditional purchasing processes,
- Reduces processing costs associated with small dollar purchases as compared to an invoice,
- Reduces the number of requests for travel advances and reduces the need to use personal funds for business-related travel,
- Allows the purchase of non-restricted commodities directly from merchants with or without the issuance of a purchase order, and
- Provides direct financial benefit to the University in the form of rebates issued by JP Morgan based on total PCard spend. For fiscal year 2019, NAU received $679,093 in rebates (see calculation at Exhibit A).
- The Purchasing Card Program is administered through Contracts, Purchasing and Risk Management (CPRM) by the PCard Administrator. The PCard Administrator is responsible for the management and maintenance of PCard accounts, which involves the training and oversight of PCard holders and approvers to ensure compliance with University policy.

With the completion of a PCard account application and a mandatory online training session as well as signing the Reconciler Agreement, a PCard is issued to an individual (referred to as a reconciler / cardholder) and the University is responsible for paying the bill. A cardholder must be a University employee and is the only named individual authorized to use the PCard. Figure 1² reflects the key owners of the 1,092 PCards in use at NAU (dual roles reflects the number of PCard holders who are also approvers for other PCard users).

### FIGURE 1: STATISTICS FOR PURCHASING CARD PROGRAM

<table>
<thead>
<tr>
<th>Department</th>
<th>Approvers</th>
<th>Dual Roles</th>
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<tbody>
<tr>
<td>385</td>
<td>259</td>
<td>200</td>
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</tbody>
</table>

Cardholders, 1092

¹ Per NAU Purchasing Policy 801-01-01.
² Numbers represent various PCard Program statistics and is not intended to aggregate total cardholders.
A Department Approver is designated by their department. The Department Approver is required to complete online reconciler and approver training and submit a signed Approver Agreement. Figure 2 reflects the ratio of approvers to cardholders.

Figure 3 reflects the number of employees with cumulative PCard purchases by spend range. Spend ranges include four ranges from as little as $10 up to over $500,000.

* Based on cumulative actual spend per employee. For FY19 and FY18, 23 and 26 employees made cumulative purchases under $100, respectively.

**Audit Objective:** To ensure propriety of PCard handling and processing controls, including assessment of policies and consistent procedures related to PCard purchase supporting documentation.

**Scope:** Review of all policies, procedures and practices governing the PCard program, including review of documents and system reports supporting compliance and reporting requirements during the 2018-2019 Academic Year through Spring 2019. We conducted such analysis, tests and other procedures as we deemed necessary to address the audit objective.

**Methodology:**
- Reviewed policies and procedures related to NAU’s PCard Program.
- Interviewed staff in Purchasing and Accounts Payable to understand existing PCard processes, including functionality and use of the PeopleSoft Financial system as it relates to PCard transactions and payment to JPMorgan Chase.
- Interviewed staff in the Budget Office and Comptroller’s Office as it relates to tracking and monitoring PCard transactions.
- Obtained and analyzed data from the JPMorgan PaymentNet and NAU PeopleSoft systems to identify trends related to PCard transactions.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors and accordingly, included such tests considered necessary under the circumstances.
Conclusion: A central process exists to service new and existing cardholders supported by policies and procedures designed to ensure accountability over PCard purchases, including required training prior to PCard issuance. As tracked by management, overall PCard transaction processing has improved as of June 2019 with transactions left in the staged or verified status decreasing from January 2019 to June 2019 by 244 (58% decrease) transactions and 411 (67% decrease) transactions for staged and verified, respectively.

The routine processing of PCard management as it relates to issuance, closure and credit limits is manually intensive. As such, automation, including PCard application approval routing, Notice of Violation identification and related automated follow-up and edit controls for documentation upload could improve overall PCard program compliance while reducing the labor hours involved in program oversight. Additionally, purchasing policy language could be improved to better support consistent application of procedures required for participation in the PCard Program.

Observations:
- The new PCard Administrator has implemented a new process of communicating with cardholders monthly and notifying their approvers for which PCard activity has not been reviewed by the reconciler or approver to improve PCard oversight.
- Several departments have changed their PCard reconciliation process to ensure that transactions are not left in the default PCard account.
- The Office of the President is developing a formal process for executive hires to ensure that expenses paid on their behalf, using either a PCard or another payment mechanism, are timely and completely reported for tax purposes. This process will be finalized in January 2020.
- As part of the University’s Organizational Growth & Effectiveness Initiative (OGEI) to help position the University for future success through the modernization of University operational practices, the University initiated two projects: the Classification Compensation Review Project and the Administrative Service Delivery Design Project. As part of the Administrative Service Delivery Design Project, Financial Service Teams, which will be overseen by the Comptroller’s Office, are being formed. Once these teams are formed, processes and procedures will be implemented to further reduce issues related to PCard management and monitoring as PCard processes will change – see solutions at Improvement Opportunity (IO) 1 to IO 6 for these changes. Final implementation for all departments is slated for January 2021.

Identified improvement opportunities relate to policy and procedure improvement and implementation, enhanced use of existing information systems, and directed use of staff resources, for which management is implementing solutions as outlined in this report.

The control standards considered, related control environment assessment and any related improvement opportunities identified are summarized in the following table.
<table>
<thead>
<tr>
<th>General Control Standard</th>
<th>Control Environment/Assessment</th>
<th>IO No.</th>
<th>Page No.</th>
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<tbody>
<tr>
<td><strong>Reliability and Integrity of Financial and Operational Information:</strong></td>
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<tr>
<td>• All PCard purchases are supported by appropriate, required documentation in OnBase (OnBase is a single enterprise information platform designed to manage documentation and processes)</td>
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<td>4</td>
<td>10</td>
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<tr>
<td>• System interfaces exist to support effective review and approval of PCard transactions</td>
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<tr>
<td>• PCard transactions are timely and consistently reconciled to the appropriate general ledger account</td>
<td></td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>• A budget is established and monitored for expenses</td>
<td></td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>• The PCard is used only for University business purposes</td>
<td></td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>• Business meals are appropriately authorized and are charged to the correct fund</td>
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<td>4</td>
<td>10</td>
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<tr>
<td><strong>Safeguarding of Assets:</strong></td>
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<td></td>
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<tr>
<td>• Credit card account numbers are protected</td>
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<td></td>
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<tr>
<td>• Only approved personnel receive PCards</td>
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<td>2</td>
<td>6</td>
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<tr>
<td><strong>Effectiveness and Efficiency of Operations:</strong></td>
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<tr>
<td>• System automation exists to import and manage PCard transactions</td>
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<tr>
<td>• Automation exists to approve, upload and manage PCard applications and ordering of corresponding purchasing cards</td>
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<td>2</td>
<td>6</td>
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<tr>
<td>• Changes in PCard holders are timely updated in the credit card and PeopleSoft systems</td>
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<tr>
<td>• Notice of Violations are consistently enforced</td>
<td></td>
<td>5</td>
<td>12</td>
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<tr>
<td>• Periodic management reports exist to communicate statistics in their department (i.e. number of PCards, administration duties, Notice of Violations, etc.)</td>
<td></td>
<td>3</td>
<td>9, 10, 12</td>
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<tr>
<td><strong>Compliance with Laws and Regulations:</strong></td>
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<tr>
<td>• Adequate policies and procedures exist to manage the PCard program and are effectively communicated</td>
<td></td>
<td>1, 6</td>
<td>5, 15</td>
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<td></td>
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<tr>
<td>Reasonably Strong Controls In Place</td>
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<td>Opportunity for Improvement</td>
<td></td>
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<td>Significant Opportunity for Improvement</td>
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We appreciate the assistance and cooperation provided by Purchasing, Budget Office and Comptroller Office personnel.

Karletta Jones, CPA, CIA  
Senior Internal Auditor  
Northern Arizona University  
(928) 523-4136  
karletta.jones@nau.edu

Robin Mosness, MS, MS  
Senior Internal Auditor  
Northern Arizona University  
(928) 523-6459  
robin.mosness@nau.edu

Mark P. Ruppert, CPA, CIA, CISA  
Chief Audit Executive  
Northern Arizona University  
(928) 523-6438  
mark.ruppert@nau.edu
Audit Results: Improvement Opportunities & Solutions

1. Current and clear policies and procedures provide a reference that sets the desired tone at the top and helps ensure consistency in maintaining effective monitoring processes, including ensuring the proper resolution of personal purchases.

Solution: As Financial Service Teams are formed resulting from the OGEI initiative, procedures will be established to promote a central location of information to allow for efficient application of policy to PCard activity.

In the meantime, pending Financial Service Team formation, and while role expectations are defined in the mandatory training for Reconcilers and Approvers, policy updates will be pursued including:

- A directive related to the reimbursement process for personal PCard charges will be addressed using Comptroller Policy 104 – Collection of Debts Owed to the University by Employees by linking Purchasing Policy 801-03 to the CMP debt collection policy.
- Additional Purchasing Policy improvements will be made as part of the migration of Purchasing Policy to the University Policy Library (a separate listing of policy update considerations was provided to Purchasing management).
- Since Internal Audit cannot be responsible for operational roles, Internal Audit will be removed from the policy statements as being “responsible” for PCard compliance.

Responsible Parties:
Becky McGaugh, AVP, CPRM
Debra Cisneros, Assistant Director, CPRM
Wendy Swartz, AVP and Comptroller

Implementation Date:
March 31, 2020 and March 31, 2021

DETAILS:
Condition: Purchasing and PCard specific policies lacked clarity in expectations as follows:

- The PCard policies do not clearly communicate the main / specific responsibilities of the reconciler, approver and department leadership.
- The policy references key points of contact using employees’ names instead of position titles.
- The PCard web page provides a link to the Purchasing Card Policy Manual consisting of 62 departmental policies and one section that includes several sub-sections specific to Purchasing Cards (Section 800. Purchasing Card). The user is required to review several policies related to purchasing and purchasing cards to obtain a basic understanding of the PCard program.
- Purchasing and Comptroller policies speak to personal purchases as prohibited / restricted purchases. As of June 1, 2019, a formal process was implemented by the PCard Administrator to require a copy of the deposit transmittal reflecting the employee’s corresponding payment to the University as well as the related Notice of Violation form. As of November 6, 2019, the Financial Controls Analysis and Reporting Office under the Comptroller’s Office provides a report to the PCard Administrator that reflects all Notice of Violation categories per the PeopleSoft system (see page 3 of Exhibit A for Notice of Violation categories). The report is provided monthly and is used by the PCard Administrator to inventory all Notice of Violations and enforce any consequences (i.e., revocation of PCard, etc.) –see IO 2 for further details regarding personal purchases.
- As detailed at IO 4, the purchasing policy requires all documentation be uploaded to OnBase, but also provides the option to show as evidence the proper original receipt provided either as a physical copy or uploaded in OnBase.
- As detailed at IO 5, Notice of Violations are not clearly articulated with definitions, criteria, and...
Audit Results: Improvement Opportunities & Solutions

resulting consequences.

- The policy includes Internal Audit as being responsible for PCard compliance. However, per ABOR-approved Charter, “Internal auditors have no direct responsibility or any authority over any of the activities or operations that they review.”

Criteria: Good business practices support up-to-date and clearly articulated policies and procedures to ensure consistency in the application of the key processes and internal controls used to support and maintain an effective compliance monitoring program. Compliance efforts should include adequate information and training allowing users to understand the PCard program and their role in compliance.

Per ABOR Policy 6-711, Internal Control Responsibilities, “The universities will establish and maintain a system of internal controls to promote effectiveness and efficiency of operations, reliability of financial reporting and, compliance with applicable laws and regulations. The president and senior management of each university are responsible for establishing the internal control structure and for providing relevant information regarding policies and controls to all university personnel.”

Cause: The University has adopted a central repository for policies, and while the purchasing policies are outdated, they are currently being updated.

Effect / Impact: Expectations for roles and responsibilities could be compromised resulting in the inability to support an effective compliance program. See also IO 2 through 6 in this report.

2. Additional automation could be incorporated into aspects of the PCard process to improve efficiency and compliance, ensure all personal purchases are reimbursed, and allow staff to focus efforts on other important activities.

Solution: Subject to Contracts, Purchasing and Risk Management (CPRM) and Office of Finance, Institutional Planning & Analysis (FIPA) project prioritization, the following PCard process improvements will be pursued:

- All hard copy forms used as part of the PCard management process will eventually be automated using the OnBase system. The PCard account application form will be one of the first forms to be routed in OnBase as part of the PCard Program.

Preventative controls will be implemented as part of the Financial Service Teams’ responsibilities including approving PCard transactions and coding deposits as follows:

- Approving PCard Transactions: Reported personal purchases will be approved as such and with Financial Services Team members posting such to the employees’ LOUIE accounts to allow existing University collection processes to manage personal purchase reimbursements from applicable employees. A Notice of Violation will be verified against the reported personal purchase.

- Coding Deposits: Deposits that imply a PCard personal purchase will be verified as such (i.e., verify the original expense and reimbursement are posted to the same general ledger account) and will be reported as a Notice of Violation.

Although the deposit review as outlined above should prevent accidental personal purchases from not being reported as a Notice of Violation, the detect control as part of the new Financial Service Teams will include a query run by the Comptroller’s Office that identifies “accidental” charges in the public purpose or description field. The results of the query will be shared with the Financial Service Teams for follow-up and resolution.
Audit Results: Improvement Opportunities & Solutions

In the meantime, the PCard Administrator will continue processing manual PCard applications and receive documentation supporting reimbursement of personal charges as adopted in their formal process as of June 2019. Further, as of November 6, 2019, the Financial Controls Analysis and Reporting Office under the Comptroller’s Office provides a monthly Notice of Violations report that includes the personal purchases category to the PCard Administrator for follow-up (See details under Condition at IO 1).

Responsible Parties:
Wendy Swartz, AVP and Comptroller
Bradley Miner, Lead Business Analyst, Comptroller
Eric Nelson, Senior Business Analyst, Comptroller
Heidi Conto, Senior Financial Controls Analyst, FCAR
Debra Cisneros, Assistant Director, CPRM
Kaitlyn Jones, Program Coordinator, CPRM

Implementation Date:
March 31, 2020 and March 31, 2021

DETAILS:
Condition: The Purchasing Card Account Application (see example at Exhibit A) is completed manually as is the related application review and approval processes. Authorization requires approvals from the department approver, department manager, and the Contracts, Purchasing and Risk Management Department. After all approvals are obtained and the application has been reviewed and approved by the PCard Administrator, Purchasing enrolls the applicant in the required online training course. The PCard administrator manually reviews grades and only orders PCards for those individuals that have scored 100% on their online training course.

Total PCard spend was $38,018,064 and $29,075,003 for FY19 and FY18, respectively, as initiated by approximately 1,100 PCard users. Purchases specifically identified as personal purchases requiring reimbursement totaled $5,111 for FY2019. While the dollar value of the personal purchases may be immaterial related to overall PCard procurement, processes ensuring proper stewardship of public funds should be maintained to the extent practical and reasonable. In this regard,

- Currently, approvers are responsible for collecting the personal purchase reimbursement from the employee and depositing with Student and Departmental Account Services. The deposits are made on the University’s transmittal form and coded to the account specified by the department, for which accounts coded varied. The following table shows activity related to reported personal purchases for FY19 and FY18 (a portion of the FY19 transactions were tested to ensure reimbursement to the University was made):

- The $5,111 relates to those purchases specifically identified for which a Notice of Violation was issued. Audit testing, based on a select sample, confirmed that $2,391 of this total have been reimbursed by applicable employees.
Audit Results: Improvement Opportunities & Solutions

per review of deposit transmittals. Reported personal purchases were obtained from the PCard Administrator and validated against a report of personal purchases in the Comptroller’s Office. The deposits coded to expense accounts were obtained from the Comptroller’s Office to identify the deposit date and journal ID number to determine which monthly deposit packet contained the reimbursement.

- However, the $5,111 total excludes purchases that may have been personal but were not specifically identified. Determining the extent of these purchases was not readily possible due to the lack of reporting of “accidental personal purchases” with a Notice of Violation. For every reported Notice of Violation related to a personal purchase, a formal process exists to ensure reimbursement to the University; however, not all personal purchases are reported as a Notice of Violation if they are deemed “accidental” by the approver. A review of PCard transactions revealed 631 and 270 instances of the word “personal” referenced in the description and public purpose field for FY19 and FY18, respectively. While not all instances were deemed personal purchases, we selected a small sample of five transactions noted as “accidental personal charge” and verified all five transactions ($138) were not reported as a Notice of Violation. We also verified that the PCard Administrator had no record of these accidental purchases being reported as a Notice of Violation or evidence supporting reimbursement to the University. Because there is no efficient method to determine how many of the 631 and 270 instances above were personal purchases without a Notice of Violation, we were not able to readily verify how many of these instances were personal purchases without a corresponding Notice of Violation.

- As of November 6, 2019, the Financial Controls Analysis and Reporting Office under the Comptroller’s Office provides a monthly Notice of Violation report to the PCard Administrator that includes the personal purchases category. The PCard Administrator uses this report to inventory all Notice of Violations and enforce applicable consequences (i.e., revocation of PCard, etc.).

Criteria: Automating the routine processing of high-volume transactions helps to minimize errors and frees up staff time for other priorities. Sound business practices should include processes that ensure that all University expenses are for valid business purposes.

NAU Purchasing Policy 801-01-02 – Requirements states: “A Reconciler shall be a University Employee. Only the named Reconciler is authorized to use the Purchasing Card. The Purchasing Card shall be for University business purposes only and shall not be used for any personal transactions. Purchasing Card transactions shall serve the public interest and further the goals of the University. Purchasing Card and general Purchasing policies and procedures shall be strictly adhered to, and failure to comply may result in the suspension of Purchasing Card privileges and / or disciplinary action, up to and including termination. A Reconciler who makes an unauthorized purchase or carelessly uses the Purchasing Card may be liable to the University for the total dollar amount of the unauthorized purchase plus any administrative or legal fees in connection with the misuse.”

Cause: Purchasing has made several requests for automation of all hard copy PCard forms, beginning September 6, 2018, but competing NAU information systems priorities have prevented implementation.

Effect / Impact: The long-term impact of automating routine, high-volume transactions includes improved efficiency and reduction of processing costs over time.

The opportunity exists for a personal purchase not to be reported as a Notice of Violation resulting in a lack of accountability and thereby no assurance that all personal PCard purchases are timely and completely reimbursed to the University. Also, inadvertently allowing personal purchases could influence a culture that is less focused on doing what is right for the University.
Audit Results: Improvement Opportunities & Solutions

3. Providing guidance and required training on proper PCard transaction coding to departments could help improve accounting for PCard activity.

Solution: To help improve department coding of PCard transactions and as Financial Service Teams are formed:

- Procedures will be established for the Financial Service Teams designated as PCard approvers to properly code PCard charges to appropriate expense accounts with consideration of in-person classroom / one-to-one training for those not moving their expenses out of the default PCard account with the exception of fraudulent charges. Fraudulent charges remain in the default account until the bank resolves the issue and processes a refund, which is coded to the default PCard account.

In the interim, CPRM will continue to issue Notice of Violations on a monthly basis for cardholders with a significant number of transactions left in the “Staged” status. Consequences for not properly coding charges to appropriate expense accounts will be handled by each department based on information provided by CPRM to departmental fiscal operations managers.

Responsible Parties:
Becky McGaugh, AVP, CPRM
Debra Cisneros, Assistant Director, CPRM
Wendy Swartz, AVP and Comptroller
Anton Ciochetti, Associate Comptroller, FAS
Tammy Laird, Associate Comptroller, FCAR

Implementation Date:
March 31, 2020 and March 31, 2021

DETAILS:

Condition: The Comptroller’s Office communicates to PeopleSoft Financial users via a monthly listserv email to properly code their expenses, PCard training is required before a PCard is issued to a cardholder or approver, and CPRM provides training upon request and as part of their annual PCard Conference. However, not all PCard transactions are timely and consistently reconciled to the appropriate general ledger accounts as departments continue to leave PCard transactions unresolved in the default PCard account (account #730150). Unresolved balances for the years ended June 30, 2019 and June 30, 2018 totaled $689,643 (across 8 NAU Cabinets) and $908,861 (across 11 NAU Cabinets), respectively.

Criteria: Comptroller Policy 125 states: “This policy establishes the expectation that accounting transactions are coded properly when initially recorded, supported by proper documentation and public purpose, and approved in a timely manner. Reconciling the monthly revenue and expense detail report is a critical fiscal management control to ensure that revenue and expenditure transactions are correct, allowable and applied to the appropriate speedchart and account.”

Cause: There are no notable consequences to departments, requesters or approvers for failing to address these PCard transactions.

Effect / Impact: Because actual expenses are not coded to the appropriate accounts, budget to actual comparisons could be compromised resulting in negative impact to expense analysis, related decision-making and proper allocation of resources.
Audit Results: Improvement Opportunities & Solutions

4. The purchasing policy should be clarified, require proper support for all PCard transactions and consequences should be identified and consistently enforced for lack of related compliance.

Solution: As Financial Service Teams are formed, procedures will be established for the Financial Service Teams designated as PCard approvers to ensure documentation is uploaded to OnBase to support each PCard transaction as outlined in Comptroller Policy CMP 125. In the meantime:

- The Purchasing policy will be cross referenced to the Comptroller policy (CMP 125) (see details under Solution and Condition at IO 1).
- While the Comptroller’s Office monitors transactions that lack documentation and communicates trends to the departments, processes will be updated to elevate reconcilers’ failure to provide appropriate documentation interdepartmentally. Supervisors and approvers will be notified to ensure steps are taken to maintain their operational responsibilities while working with the applicable requester to correct / improve performance.

Responsible Parties:
Becky McGaugh, AVP, CPRM
Debra Cisneros, Assistant Director, CPRM
Wendy Swartz, AVP and Comptroller

Implementation Date:
March 31, 2020 and March 31, 2021

DETAILS:

Condition: Where personal purchases occur “accidentally” the employee already received the benefit and the merchant has already been paid. As such, PCard program success from a control perspective is reliant on a process that ensures accountability to the business purpose of each transaction. NAU’s processes do not provide assurance that all PCard transactions, and thereby related expenses, occurred for business purposes as evidenced by supporting documentation. In some cases, PCard transactions are processed without evidence supporting the business purpose for the transaction. Specifically:

- Documentation is not consistently uploaded to OnBase to support PCard transactions. Of 434 transactions tested for FY19 and FY18, we noted that 25 transactions did not have supporting documentation.
- Of 74 food transactions tested, 26 transactions did not include the required Business Food / Meal Purchase Authorization Form and / or approved memorandum.
- Three (3) transactions were business-travel meal purchases for an individual not permitted per PCard Policy 801-03-02 – Restricted Purchases.
- Eight (8) food transactions were charged to state funds identified as business meals: two of which did not include a public purpose and two included inappropriate business lunches for job candidates.

The purchasing policy (see Criteria below) appears to provide conflicting documentation expectations in that it states a requirement that all documentation must be uploaded to OnBase, while also providing the option to present physical receipts to a supervisor or upload scanned receipt copies into OnBase. As such, documentation could be lacking because a supervisor may have been shown the documentation but not uploaded to evidence its existence. Further, there is no cross reference from Purchasing policy to Comptroller policy regarding expectations of documentation supporting transactions (see details under Solution and Condition at IO 1).
Audit Results: Improvement Opportunities & Solutions

Criteria: NAU Purchasing Policy 801-05-06: Record Keeping / Documentation states:
“As a State Agency, the University shall be accountable and fiscally responsible. Record keeping and retention is crucial for audit substantiation. All Purchasing Card documentation shall be retained in accordance with the State of Arizona Record Retention and Disposition Schedule (5 years), or as required by sponsoring agencies (for any hard copies). All documentation shall be uploaded within PeopleSoft Financials via OnBase.
The Reconciler shall document each transaction made during a billing cycle in PeopleSoft Financials to include a proper public purpose for every transaction. The Reconciler shall also provide an original sales receipt or invoice for every transaction made.
The Department Approver shall reconcile all Reconciler Transactions from the previous billing cycle to ensure that University policies and procedures were adhered to. Department Approver checks shall include the following:
- Review Reconciler transactions in PeopleSoft Financials.
- Proper public purpose stated.
- Description of purchased item stated.
- Adherence to University policies and procedures.
- Proper original receipt provided either as a physical copy or uploaded in OnBase.
The Department Approver shall approve transactions after completing the reconciliation. Reconciler violations to policies and procedures shall be reported to Contracting and Purchasing Services on a Notice of Violation form.”

Comptroller Policy 125 – Monthly Financial Review and Verification – Financial Transaction Accounting – 2. Documentation, states: “Transactions are to be adequately supported by documentation. Documentation consists of supporting receipts, papers or other items that help a disinterested third party understand the details of the transaction without additional assistance. Documentation must be uploaded to OnBase wherever that functionality is available. A complete public purpose explains how the expenditure of university funds meets the needs of the university and may offer additional detail to explain the nature of the transaction.”

Comptroller Policy 420-04 – Business Meals, states: “Expenditure for business meals, food, and related expenses must be paid from the following sources:
1. Unrestricted gift departments,
2. Conference, seminar, and workshop departments,
3. Other local departments when the business meals, food, and related expenses / expenditures are consistent with the purpose of the departments.

State funds cannot be used to pay for business meals, food, and related expenses, regardless of the purpose. Standard business practice dictates, and the University’s internal and external auditors require, certain specified documentation for business meals, food, and related expenditures. For this reason, the Food Purchase form, as indicated by policy, must be completed for every food expenditure, regardless of the dollar amount. It is important that the public purpose being served is adequately documented on the form since public funds are being used. A list of attendees also must be documented on the form. If, however, a large group is present at the event and an attendee list is not available, it is acceptable to state the approximate number in attendance and, if known, the related NAU departments or affiliation if non-NAU related. The Business Food / Meal Purchase Authorization form must be submitted with a signature by the “Dean, Director, or Chair of the department with the following information:
- List of individuals in attendance
- Detailed business purpose of the meal, restaurant name and address if not supplied
- Certify that no alcoholic beverages were included in total
- Original itemized receipt and copy of the credit card charge slip.”

Cause: Edit controls do not exist in OnBase or PeopleSoft Financials to prevent transactions from being reconciled and approved without proper supporting documentation or correct fund code. Expectations regarding documentation upload are not clear, lack of documentation is not clearly listed as a Notice of Violation and consequences regarding lack of documentation are not consistently enforced.
Audit Results: Improvement Opportunities & Solutions

Effect / Impact: Without documentation to support the public purpose of PCard transactions, there is no assurance that public monies are being spent as intended.

5. Clearly defining all aspects of improper PCard use that will result in “Notices of Violation” and communicating such with an expectation of required correction would help ensure consistent application of policy-required violation identification and related consequences.

Solution: As part of the formation of Financial Service Teams, PCard verification and approval will be centralized. Accordingly, procedures will be developed to initiate Notice of Violations, where applicable. The procedures will include more specific violation definitions to ensure the correct category is selected. The Financial Service Teams will also consider revocation of cards for other violations beyond personal use. The Financial Services Teams will engage in discussion to obtain input from CPRM regarding revocation of cards.

Additionally, subject to CPRM and FIPA project prioritization, the following PCard process automation effort will be pursued:

- All hard copy forms used as part of the PCard management process will eventually be routed in OnBase including the Notice of Violation form.

In the meantime, the following will be implemented as the Financial Service Teams are being formed:

- As noted for IO 1, PCard policies will be updated as part of the migration to the University Policy Library. Updates will be communicated to all PCard reconcilers and approvers and a special communication will be issued to approvers making them aware of their responsibility for identifying and reporting violations, and their accountability when such is not the case.

- As of November 6, 2019, the Financial Controls Analysis and Reporting Office under the Comptroller’s Office provides a monthly Notice of Violation report that includes personal purchases to the PCard Administrator for follow-up. This report will be used to ensure reimbursements are made to the University for all personal purchases and justifications are provided for not only all reported Notice of Violations, but those not reported as a Notice of Violation.

Responsible Parties:
Bradley Miner, Lead Business Analyst, Comptroller
Eric Nelson, Senior Business Analyst, Comptroller
Heidi Conto, Senior Financial Controls Analyst, FCAR
Debra Cisneros, Assistant Director, CPRM
Kaitlyn Jones, Program Coordinator, CPRM

Implementation Date:
March 31, 2020 and March 31, 2021

DETAILS:
Condition: The PCard Administrator approves transactions on behalf of departments that have not yet reviewed and / or approved their transactions to allow the transactions to be timely processed. Because these transactions were not properly processed by the PCard requestors and / or approvers as required by policy, they should be identified as Notice of Violations in the categories of ‘Not Verified by Deadline’ or ‘Not Approved by Deadline’ to improve PCard user accountability. However, there is no efficient way to capture each as a Notice of Violation resulting in the need for this mass approval process.
Audit Results: Improvement Opportunities & Solutions

To be reported as a Notice of Violation, the appropriate violation must be selected in PeopleSoft Financials and a Notice of Violation form (see Exhibit A) must be completed manually for each transaction and submitted to Purchasing. However, after the PCard Administrator approves these transactions in mass quantity, the transaction closes resulting in the Notice of Violation box not being available in Peoplesoft Financials and the related lack of compliance not being identified to ensure accountability on the part of the applicable requesters and approvers. Even if the transactions could be flagged as violations automatically in the system, the routing and approval of the hard copy Notice of Violation form must still be filled out and submitted to Purchasing. No efficient method exists to capture the violation form for acknowledgement and approval.

The following table reflects activity mass approved by CPRM during FY19 and FY18:

<table>
<thead>
<tr>
<th>Staged Status</th>
<th>Dollar Amount FY19</th>
<th>Dollar Amount FY18</th>
<th>Number of Employees FY19</th>
<th>Number of Employees FY18</th>
<th>Number of Departments FY19</th>
<th>Number of Departments FY18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Verified Status</td>
<td>$1,234,031</td>
<td>$340,120</td>
<td>264</td>
<td>155</td>
<td>155</td>
<td>96</td>
</tr>
<tr>
<td></td>
<td>150,040</td>
<td>32,354</td>
<td>37</td>
<td>16</td>
<td>29</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>$1,392,071</td>
<td>$372,574</td>
<td>301</td>
<td>175</td>
<td>184</td>
<td>112</td>
</tr>
</tbody>
</table>

Total spend was $38,018,064 and $29,075,003 for FY19 and FY18, respectively.

The Purchasing Policy:
- does not clearly list and define the types of Notice of Violations
- does not clearly state that approvers are also subject to Notice of Violations
- does not indicate that the PCard Administrator may issue Notice of Violations for both reconcilers and approvers for not following PCard policy; however, this expectation is outlined in the Reconciler Agreement and Approver Agreement.

CPRM efforts to reduce mass approval of PCard transactions has resulted in some improvement. The following tables, which illustrate an improving trend regarding the number and dollars for violations, show the violation types available for reporting in PeopleSoft Financials:

<table>
<thead>
<tr>
<th>FY2019</th>
<th>Violation Type</th>
<th>Dollar Amount</th>
<th># of Departments</th>
<th># of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Not Verified by Deadline</td>
<td>$33,093</td>
<td>27</td>
<td>32</td>
</tr>
<tr>
<td></td>
<td>Multiple / Split Transaction(s)</td>
<td>10,989</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Personal Purchase</td>
<td>5,111</td>
<td>21</td>
<td>23</td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td>2,224</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Improper Card Use by Others</td>
<td>1,458</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Restricted Commodity</td>
<td>1,243</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>Not Approved by Deadline</td>
<td>139</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>$54,257</strong></td>
<td><strong>68</strong></td>
<td><strong>74</strong></td>
</tr>
</tbody>
</table>
Audit Results: Improvement Opportunities & Solutions

### FY2018

<table>
<thead>
<tr>
<th>Violation Type</th>
<th>Amount</th>
<th>Departments</th>
<th># of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Verified by Deadline</td>
<td>$136,099</td>
<td>44</td>
<td>43</td>
</tr>
<tr>
<td>Multiple / Split Transaction(s)</td>
<td>6,769</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Other</td>
<td>6,056</td>
<td>12</td>
<td>14</td>
</tr>
<tr>
<td>Improper Card Use by Others</td>
<td>4,139</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Personal Purchase</td>
<td>1,783</td>
<td>26</td>
<td>27</td>
</tr>
<tr>
<td>Restricted Commodity</td>
<td>933</td>
<td>8</td>
<td>8</td>
</tr>
</tbody>
</table>

**Total:** $155,779 98  99

As outlined in Figure 1, the PCard Program includes 385 departments and 1,092 cardholders.

Additionally, as of November 6, 2019, the Financial Controls Analysis and Reporting Office under the Comptroller’s Office provides a monthly report to the PCard Administrator that reflects all Notice of Violation categories. The report is used by the PCard Administrator to inventory all Notice of Violations and enforce any consequences (i.e. revocation of PCard, etc.). This will assist CPRM with ensuring notice of violations are complete.

**Criteria:** Purchasing Policy 801-05-06: Record Keeping / Documentation states: “As a State Agency, the University shall be accountable and fiscally responsible. Record keeping and retention is crucial for audit substantiation. All Purchasing Card documentation shall be retained in accordance with the State of Arizona Record Retention and Disposition Schedule (5 years), or as required by sponsoring agencies (for any hard copies).” All documentation shall be uploaded within PeopleSoft Financials via OnBase.

The Reconciler shall document each transaction made during a billing cycle in PeopleSoft Financials to include a proper public purpose for every transaction. The Reconciler shall also provide an original sales receipt or invoice for every transaction made.

The Department Approver shall reconcile all Reconciler Transactions from the previous billing cycle to ensure that University policies and procedures were adhered to. Department Approver checks shall include the following:

- Review Reconciler transactions in PeopleSoft Financials.
- Proper public purpose stated.
- Description of purchased item stated.
- Adherence to University policies and procedures.
- Proper original receipt provided either as a physical copy or uploaded in OnBase.

The Department Approver shall approve transactions after completing the reconciliation. Reconciler violations to policies and procedures shall be reported to Contracting and Purchasing Services on a Notice of Violation form.

**Cause:** There is no efficient way to report a Notice of Violation for transactions that CPRM mass approves. Violations and related consequences are not clearly stated in the purchasing policy.

**Effect / Impact:** Transactions continue to not be reviewed and / or approved timely resulting in inaccurate accounting of financial transactions.
Audit Results: Improvement Opportunities & Solutions

6. Implementing a more formal policy and process for ensuring PCard approvers are only approving expenses of those subordinate to them will help eliminate the potential for management override and thereby avoid the payment of inappropriate expenses.

Solution: As the Financial Service Teams are established, approvers on the service team will be set up such that supervisor transactions are not approved by subordinates. Further, the process will include using the ‘Reports to’ Report to verify approvers are set up in the PeopleSoft system such that they are not approving their supervisor’s PCard transactions.

In the interim, the PCard Administrator will review the set-up of new approvers to ensure that they are not approving their supervisor’s transactions.

Responsible Parties:
Becky McGaugh, AVP, CPRM
Debra Cisneros, Assistant Director, CPRM
Wendy Swartz, AVP and Comptroller

Implementation Date:
March 31, 2020 and March 31, 2021

DETAILS:

Condition: Currently, there is no verification process or edit control established in the PeopleSoft system to prevent the set-up of approvers who can approve their supervisor’s PCard transactions. We tested a sample of PCard approval transactions and identified two instances where the PCard approver is the subordinate of a cardholder.

Criteria: Good business practices and duty segregation controls suggest that individuals should not approve the expense of those to whom they report.

We also queried other universities and noted best practice policy indicating that PCard approvers should not be subordinates of cardholders.

Cause: Validation of approver to supervisory role is not currently a component of the PCard set up process.

Effect / Impact: Segregation of duties as it relates to approval activities is not adequate and may be questionable.
The table above was recreated using information from JPMorgan’s 2019 Rebate Calculation report.

Large Ticket Items are any transactions that meet the parameters the merchant has selected with their acquiring bank in-line with association requirements in order to incur a lower interchange fee. MasterCard (SUA) and Visa (Purchase) are the associations that NAU uses. The associations developed the Large Ticket transaction program to help encourage merchants to accept card payments for larger purchases, which previously at the standard interchange rate would be too large a fee to absorb in exchange for additional line item detail.
# Exhibit A – Background Information (Page 2 of 3)

**NORTHERN ARIZONA UNIVERSITY**  
Contracts, Purchasing, and Risk Management  
PURCHASING CARD ACCOUNT APPLICATION  
928-523-4557

<table>
<thead>
<tr>
<th>Reconciler (Cardholder) Information</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Name:</td>
<td>Employee ID:</td>
</tr>
<tr>
<td>University Box or Statewide Address:</td>
<td>NAU Phone Number:</td>
</tr>
<tr>
<td>City:</td>
<td>State:</td>
</tr>
<tr>
<td>E-mail Address:</td>
<td>Zip:</td>
</tr>
<tr>
<td>Default Speedchart (Attach a separate page for additional speedcharts.):</td>
<td>Program:</td>
</tr>
<tr>
<td>Home address:</td>
<td></td>
</tr>
<tr>
<td>City:</td>
<td>State:</td>
</tr>
<tr>
<td>Date of Birth (mm/dd/yyyy):</td>
<td>Country of Citizenship:</td>
</tr>
</tbody>
</table>

**Maximum Limits:** Designate appropriate limits for this cardholder up to maximum allowable, taking into consideration multiple Speedcharts associated with one card.

**Transaction Limits**

<table>
<thead>
<tr>
<th>Daily number of Transactions:</th>
<th>Monthly Number of Transactions:</th>
</tr>
</thead>
<tbody>
<tr>
<td>(max 25)</td>
<td>(max 150)</td>
</tr>
</tbody>
</table>

**Spending Limits**

<table>
<thead>
<tr>
<th>Single Purchase Limit:</th>
<th>Daily Limit:</th>
<th>Monthly Limit:</th>
</tr>
</thead>
<tbody>
<tr>
<td>(max $5,000)</td>
<td>(max $50,000)</td>
<td>(max $250,000)</td>
</tr>
</tbody>
</table>

**Authorization**

**Purchasing Card Applicant:**

Name:  
User ID: (Not EmpID)  
Signature:  
Date: 

**Department Approver:**

Name:  
User ID: (Not EmpID)  
Signature:  
Date: 

**Department Manager:**

Name:  
Signature:  
Date: 

**Contracts, Purchasing, and Risk Management Approval**

Name:  
Signature:  
Date: 

### Contracts, Purchasing, and Risk Management Internal Use Only

<table>
<thead>
<tr>
<th>PCard Account Number:</th>
<th>Expiration Date:</th>
</tr>
</thead>
<tbody>
<tr>
<td>FERPA:</td>
<td>BB Enroll:</td>
</tr>
<tr>
<td>PS Log In:</td>
<td>BB Pass:</td>
</tr>
<tr>
<td></td>
<td>Card Ordered:</td>
</tr>
<tr>
<td></td>
<td>E-mailed:</td>
</tr>
</tbody>
</table>
Northern Arizona University
Purchasing Card Documentation
Internal Audit Report
December 20, 2019

Exhibit A – Background Information
(Page 3 of 3)

<table>
<thead>
<tr>
<th>Reconciler Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name:</td>
</tr>
<tr>
<td>Approver:</td>
</tr>
<tr>
<td>Date:</td>
</tr>
<tr>
<td>Default Speedchart:</td>
</tr>
</tbody>
</table>

**Violation**

The following violation(s) were noted on your Purchasing Card activity contrary to the Purchasing Card User Training Manual and its referenced policies and procedures. Remember, your respective Vice-President, Dean, Chair, or Director, Dept./Approver, and you, the Reconciler, have the responsibility for ensuring all Purchasing Card transactions are conducted in accordance with the Purchasing Card Program policies and procedures, serve the public purpose, further the goals of the University and shall withstand public scrutiny.

- [ ] Improper Card Use by Others
- [ ] Multiple/Split Transactions
- [ ] Not Approved by Deadline
- [ ] Not Verified by Deadline
- [ ] Personal Purchase
- [ ] Restricted Commodity
- [ ] Other:

It shall be the responsibility of the Reconciler and designated Approver to ensure the above referenced violations are corrected. Corrective action shall take the form of a letter of explanation/justification. The letter of explanation/justification shall describe, in detail, the purchase transaction, actions initiated to correct the violation and measures implemented to prevent the violation from occurring again. If the charge was personal, a copy of the Bursar deposit receipt shall accompany the documentation.

Multiple violations will initiate a review of your p-card authority and may result in any or all of the following: revocation of your card privileges, a complete audit of your account, or a report of all violations to your department head for further action. Two (2) “accidental” personal purchases over a two (2) year period shall result in loss of p-card privileges.

**Details of Violation:**

<table>
<thead>
<tr>
<th>Signature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reconciler</td>
</tr>
<tr>
<td>Print Name:</td>
</tr>
<tr>
<td>Date:</td>
</tr>
<tr>
<td>Signature:</td>
</tr>
<tr>
<td>Approver</td>
</tr>
<tr>
<td>Print Name:</td>
</tr>
<tr>
<td>Date:</td>
</tr>
<tr>
<td>Signature:</td>
</tr>
<tr>
<td>Contracts, Purchasing, and Risk Management</td>
</tr>
<tr>
<td>Print Name:</td>
</tr>
<tr>
<td>Date:</td>
</tr>
<tr>
<td>Signature:</td>
</tr>
</tbody>
</table>

Submit to this office, within ten (10) days of notification, a signed and dated Notification of Violation form, letter of explanation/justification, and any/all supporting documentation.