

**From the Internal Audit Director
September 2002
CREDIT CARD ALERT —**

Management Control and Oversight

Introduction

It has been over three years since the University instituted significant changes to the VISA Business card program. The University has indeed experienced many of the anticipated benefits. Those benefits include costs savings in the Purchasing Department and Controller's Office due to the decreased volume of purchase order system purchases (PO's) and the elimination of centralized monitoring and document retention for low dollar transactions. More importantly, the departments have experienced efficient ordering and faster delivery of goods and services, thus enabling them to focus on achieving their objectives in support of the University's mission.

The benefits associated with the decentralized environment have come at a price, that being increased risk of fraud and abuse. Fortunately, the incidence of fraud and abuse has been low, but it has occurred – more than once. Policies and procedures designed to protect the University were not followed.

We appreciate the efforts of all users, custodians, and supervisors who effectively discharge their responsibilities and have made the Visa Business card program a success. In our April 2000 alert we discussed defenses to combat the possibility of identity theft from someone outside the University and the role and responsibilities of the card custodian. In this alert we are emphasizing:

- Internal control concepts and the key control activities necessary to ensure that the goals of the Visa Business card program are achieved and that identified risks are appropriately mitigated
- The vital role and responsibility of the department head or supervisor in the control environment
- Best practices to ensure program success

Internal Control Concepts

The following concepts are adapted from the Internal Control Integrated Framework published by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission – 1992. Internal control is a process, effected by a college or university's governing board, administration, faculty and staff, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

Internal control is a means to an end, not an end in itself. It is not merely policy manuals and forms, but people functioning at every level of the University. All members of an organization play a role in the internal control structure. Deans, directors, department

heads, and supervisors have delegated authority and a responsibility to execute University-wide control policies and procedures.

Key Control Activities

Internal control activities exist to assist an organization to achieve its objectives and to mitigate identified risks. Often policies and procedures state the underlying objectives and control activities specifically designed to mitigate or minimize the associated risks. The objectives of the Visa Business card program can be stated as follows:

- To provide a convenient and efficient means of purchasing low-cost items incurred for University business.
- To ensure that purchases are valid, reasonable and necessary, and properly recorded by organization, fund, and account in the proper period.
- To ensure that purchases comply with applicable laws, regulations and policies.

Risk may be inherent in the business process itself and nature of the transaction, or it may be related to the people and culture of the organization. The following table outlines the risks and key control activities.

Risk Factors	Key Control Activities
Unauthorized participation	<ol style="list-style-type: none"> 1. Vice president authorization and approval of department supervisor 2. Designation of credit card custodian 3. Custodian training 4. Signed cardholder agreement 5. Monitoring by department head / supervisor
Unauthorized use including personal charges Improper payment of sales tax Improper purchase of restricted items Exceeding transaction limits	<ol style="list-style-type: none"> 1. Custodian provides training to user 2. Custodian restricts access to card 3. Custodian approves each use and properly maintains the <u>Credit Card Disbursement Log</u> 4. User signs <u>Credit Card Disbursement Log</u> certifying purchase as valid business expense 5. User provides receipts and charge slips to custodian 6. Custodian reconciles the credit card statement each month by comparing charges to receipts, charge slips and the <u>Credit Card Disbursement Log</u> and investigating any discrepancies 7. Department head / supervisor reviews the custodian's reconciliation and preparation of the <u>Credit Card Disbursement Authorization Form</u> 8. Department head / supervisor approves the expenditures
Undocumented expenses	<ol style="list-style-type: none"> 1. Custodian provides training to user 2. Custodian requires charge slips, receipts, or other documentation from the user for each purchase

	<ol style="list-style-type: none"> 3. Custodian retains documentation for use in the monthly reconciliation of the credit card statement 4. Custodian remits required receipts with <u>Credit Card Disbursement Authorization Form</u> in accordance with Controller's Office Policy APPL 13 5. Department head / supervisor reviews custodian's reconciliation and supporting documentation 6. Custodian retains documentation in the department for internal and external review purposes 7. Department head / supervisor ensures that documentation is appropriately retained
<p>Violation of laws, regulations, and policies</p>	<ol style="list-style-type: none"> 1. Custodian provides training to user 2. Custodian approves each use and properly maintains the <u>Credit Card Disbursement Log</u> 3. Custodian reconciles the credit card statement each month by comparing charges to receipts, charge slips and the <u>Credit Card Disbursement Log</u> and investigating any discrepancies 4. Violations are promptly reported to the department head / supervisor and Credit Card Program Administrator 5. Department head / supervisor monitors program administration 6. Users and custodians are provided additional training as needed 7. Department head / supervisor revokes individual cardholder privileges and/or replaces custodian
<p>Coding and classification errors (wrong account, wrong fund, wrong organization)</p> <p>Late payments to FNB</p> <p>Exceeding card limits</p> <p>Failure to fulfill responsibilities</p>	<ol style="list-style-type: none"> 1. Custodian properly maintains the <u>Credit Card Disbursement Log</u> and ensures that fund, organization and account code are correct. 2. Custodian obtains receipts and charge slips from users promptly after purchase 3. Custodian adheres to processing cutoff dates and remits <u>Credit Card Disbursement Authorization Form</u> with supporting documentation and TERs as required to Controller's Office 4. Department head / supervisor monitors program administration 5. Users and custodians are provided additional training as needed 6. Department head / supervisor revokes individual cardholder privileges and/or replaces custodian

Role and Responsibility of Department head / supervisor

A review of the table illustrates the key role of the department head / supervisor. Essentially, this person has been delegated the responsibility for the Visa Business card program administration at the department level. Specifically the department head / supervisor is to:

1. Ensure users and custodians receive adequate training.
2. Ensure that the custodian is fulfilling the responsibilities outlined in Purchasing Department Policy 6.2 Section VIII. especially the maintenance of the Credit Card Disbursement Log and retention of adequate documentation.
3. Ensure that purchases are for University business and comply with applicable laws, regulations and policies by review of the monthly reconciliation performed by the custodian.
4. Approve expenditures and ensure that the Credit Card Disbursement Authorization Form is remitted timely to the Controller's Office.
5. Revoke cardholder privileges for non-adherence to policies, lack of control, or unauthorized use.
6. Replace custodian for failure to perform duties.

Best Practices

If it isn't already obvious, the key to the success of this program is **selecting the right custodian**. The custodian must be well trained and responsible in the performance of his or her duties. Here are a few more tips to ensure program success.

1. Become informed and committed to the program by fulfilling your responsibilities.
2. Take the time to ensure that custodians and users know their responsibilities.
3. As a general rule, do not allow the custodian to be the main purchaser (it would be best if the custodian did not make any purchases). However, if the custodian is the main purchaser, increase the frequency and rigor of your review.
4. Do random spot checks of the Credit Card Disbursement Log for completeness.
5. Look at the detailed documentation and recheck amounts during review of the Credit Card Disbursement Authorization Form.
6. On a sample basis verify that the coding of the transactions is correct.
7. When reviewing Banner reports make sure that credit card purchases are reasonable and recorded in the correct account.
8. Retain documentation in the department.
9. See that errors and discrepancies are resolved timely.
10. Consult the Program Administrator as needed.