UNIVERSITY OF THE VIRGIN ISLANDS

AUDIT REPORT

PROCUREMENT CARD TRANSACTIONS

REPORT NO. OIA-11-03

JUNE 2011
June 26, 2011

Dr. David Hall
President
University of the Virgin Islands
2 John Brewers Bay
St. Thomas, Virgin Islands 00802

Subject: Audit Report on University Procurement Card Transactions

Dear Dr. Hall:

This report presents the results of my review of procurement card (PCard) transactions. The objective of the review, which was included in the FY 2011 Internal Audit workplan, was to determine whether PCard transactions were conducted and recorded in accordance with University policy, and the policy contained sufficient internal control measures to adequately protect the University.

BACKGROUND

In February 2006, the University entered into a Commercial Card Classic Agreement (Agreement) with JPMorgan Chase Bank (Bank) to provide PCards to select University employees. The Agreement was for an initial term of 3 years commencing on February 1, 2006 and was eligible for successive renewals for three one-year terms, which will expire on January 31, 2012.

The PCard is a credit card issued to authorized University personnel to make efficient and controllable small dollar University-related purchases. A PCard can only be used by the individual named on the card. The PCard program supplements, rather than replaces, other University purchasing methodologies by significantly reducing the time between requesting, ordering, and receiving goods and services. In addition, the PCard program greatly reduces the volume of accounts payable transactions and the associated administrative costs to process such accounts payable by eliminating supplier invoices and consolidating multiple supplier payments into one monthly electronic payment to the Bank. The University’s Purchasing Specialist serves as the PCard program administrator.

University PCard transactions can take place with any authorized merchant that accepts a MasterCard credit card. Each PCard has a designated single transaction limit of $999.99 and a monthly spending limit of $5,000. The purchase of certain goods and services is prohibited by restricting certain Merchant Category Codes (MCC). The MCC is a four-digit code assigned to a merchant based on the type of
business that it conducts. In addition to blocked merchant codes, the University’s PCard Policy contains a list of 25 types of purchases that are prohibited using a PCard. The implementation of blocked merchant codes and a delineated list of unauthorized purchases provide controls not available with a traditional credit card.

As of December 31, 2010, there were 60 University PCard holders, of which 54 PCard holders made 2,030 PCard purchases, totaling about $624,000, during calendar year 2010; 6 PCard holders did not conduct any PCard transactions during the calendar year. Each employee who was issued a PCard attended a mandatory training class and signed a PCard Program Cardholder Agreement.

SCOPE OF REVIEW

The scope of the review included PCard transactions conducted during the period January through December 2010 and electronic bank payments for the period February 2010 through January 2011. To test the accuracy of PCard transactions, to ensure that PCard transactions were made in accordance with the PCard Policy, and to ensure that PCards were not used for unauthorized purposes, I selected a judgmental sample of 150 PCard transactions, made by 41 PCard holders, and totaling about $100,000, for detailed testing. In addition, I validated the monthly amount drawn by the Bank from the University’s operating account based on the previous month’s PCard transaction expenditure total.

To accomplish the review objective, I reviewed the PCard Policy, Commercial Card Classic Agreement between the Bank and the University, monthly bank statements by individual cardholder for calendar year 2010, Cost Allocation Detail Reports by individual cardholder as maintained by the Bank for calendar year 2010, receipts and other supporting documentation as provided by PCard holders for transactions judgmentally selected for detailed testing, and amounts transferred from the University operating account to the Bank for the previous month’s PCard transaction expenditure total. In addition, I conducted interviews with the Vice President of Administration and Finance, Controller, Purchasing Supervisor, and Purchasing Specialist III. I conducted the review during the period February 7 to April 15, 2011.

I conducted the review in accordance with the “Government Auditing Standards,” issued by the Comptroller General of the United States. Accordingly, I included such tests of records and other auditing procedures that were considered necessary under the circumstances. The “Standards” requires that I obtain sufficient, competent, and relevant evidence to afford a reasonable basis for my observations and suggestions.

As part of the review process, I evaluated the system of internal controls governing PCard transactions and associated PCard Policy to the extent considered necessary to accomplish the review objective. Opportunities for improvement were identified in the areas of: PCard user training to appropriately allocate PCard transactions, a continuous PCard Agreement between the Bank and the University, and a formal supervisor/manager review process. These matters are discussed in the Results of Review section of this report. The suggestions, if implemented, should improve internal controls over the PCard process at the University.
PRIOR AUDIT COVERAGE

The University’s Office of Internal Audit commenced operations in November 2010. No prior reviews of PCard transactions have been conducted.

RESULTS OF REVIEW

University PCard holders generally used the PCard in an ethical and responsible manner. In this regard, PCard holders primarily used the PCard for authorized purposes, refrained from using the card for personal purposes, and timely allocated charges as detailed in the PCard Policy. In addition, I found that JPMorgan Chase Bank requested and electronically received from the University’s operating account, a monthly amount based on the prior month’s usage of the card by University PCard holders, without exception. However, I found that PCard holders often charged equipment-related purchases to materials and supplies and did not separately account for the cost of freight and handling for off-island purchases. I also found that the PCard was provided to a limited number of employees, which precluded the University from achieving a rebate status with the Bank. Finally, I found that the PCard Policy did not contain a provision for a supervisor/manager review of a cardholder’s transactions on a monthly basis.

Analysis of PCard Transactions

As discussed in the Results of Review section, PCard holders generally made purchases in compliance with the PCard policy; however, I found a number of immaterial compliance issues as follows:

- 17 transactions, totaling about $16,700, were made for unauthorized purchases as contained in the PCard Policy. The Policy contains a list of 25 categories of expenditures that are not allowed with the PCard; in addition, the Bank, in collaboration with the University, has the ability to block certain merchant codes. The unauthorized expenditures were for purchases such as computers, entertainment, items purchased under a contract, items purchased from the University Bookstore, or purchases when the vendor requires a deposit, all of which are contained in the unauthorized purchases list. Although the items purchased were prohibited under the PCard Policy, each of the items represented a valid University-related purchase that should have been conducted through the requisition, purchase order, invoice process, rather than through the PCard process.

- 34 transactions, totaling $16,200, were charged to Materials and Supplies (Pool Account 729) but should have been charged to Minor Equipment/Furniture Expense (Pool Account 733). The purchases were for items such as chairs, desks, printers, hard drives, refrigerators, microwave ovens, cameras, and televisions that are more appropriately classified as minor equipment and furniture. Materials and supplies are general purpose consumable items which commonly have a shorter life span in use than equipment and machines, and which are stocked for recurring use. Materials and supplies typically include items such as pens, paper, notebooks, Post-It Notes, scissors, staplers, computer diskettes and thumb drives, binders, file folders, tape, basic reference materials, envelopes, and toner cartridges. In contrast, minor equipment and furniture are property items that the University purchases, costing less than $2,500, which is the University’s capitalization threshold. Minor equipment and furniture typically include items such as chairs, desks, filing cabinets, computer equipment, copier, fax machine, telephone
equipment, awnings, bookcases, and lighting and plumbing equipment, with a dollar value less than $2,500.¹

- 42 transactions for purchases made through an off-island vendor included vendor charges for freight and handling. In all 42 instances, rather than separate the cost of the item from the freight and handling charges, the PCard holder included the cost of the freight and handling in the cost of the item purchased. This condition resulted in overstating the cost of the item purchased and understating the account for Freight and Handling charges (Account Code 70520). The shipping costs associated with these 42 transactions totaled about $4,500. To appropriately account for each PCard transaction, cardholders should adopt the practice of separately accounting for the cost of an item and the cost for freight and handling.

- For 9 transactions, totaling about $4,100, the cardholder did not have the receipt available for review. The Procurement Card Policy requires cardholders to maintain receipts for a period of at least 5 years and to obtain a replacement receipt if the original receipt has been misplaced. Although the cardholder did not have the receipt available for my review, I obtained assurance that items were purchased for University-related purposes by physically validating the items purchased, as applicable.

- 6 transactions, each totaling more than $1,000, were split in order to allow the transaction to process through the system. In only 1 of the 6 instances was the item purchased valued at more than $1,000. In the other 5 instances, the total invoice was more than $1,000, but no one item purchased cost more than $1,000. The Procurement Card Policy states that the University has a maximum approved transaction amount of $999.99 for each transaction and that cardholders are expressly prohibited from splitting orders in order to circumvent the $999.99 limitation.

- 12 transactions, each totaling more than $1,000, were authorized for approval by either the Purchasing Supervisor or the Program Administrator, even though the PCard had a per transaction limit of $999.99. This condition primarily occurred because vendors did not accept a Purchase Order from the University and the PCard purchase method was the most expedient means by which to purchase the University-related item.

- 1 transaction for the purchase of 2 digital recorders, totaling $448, was shipped to a non-University address, because the vendor only shipped within the Continental United States; the item was then successfully mailed to the University. The Procurement Card Policy states that “All orders placed using the procurement card must be delivered to the University.”

**Commercial Card Classic Agreement**

**Agreement.** The Agreement for the Bank to provide the Commercial Card Classic Program to the University commenced on February 1, 2006 with an initial term of three years, and was thereafter eligible for three successive one-year renewal terms. Accordingly, based on the language contained in the executed Agreement between the Bank and the University, the Agreement will expire on January 31, 2012. The Agreement, as written, contains no provision to extend the PCard Program beyond January 31, 2012. Accordingly, if the University wishes to continue its relationship with the Bank, then Administration and Finance personnel should ensure that additional extensions will be granted or that an updated Agreement is executed prior to January 31, 2012.

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¹ The definitions for materials and supplies and minor equipment and furniture are based on information contained at the businessdictionary.com website.
Funds Transfer. The Agreement authorizes JPMorgan Chase Bank to electronically withdraw funds from the University’s operating account maintained at First Bank, at an amount equivalent to the University’s previous month’s PCard transaction expenditure total. I found that JPMorgan Chase Bank appropriately requested and electronically received from the University’s operating account, the prior month’s PCard transaction expenditure total, without exception, as follows:

<table>
<thead>
<tr>
<th>Month</th>
<th>UVI PCard Expenditures</th>
<th>Drawdown by Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2010</td>
<td>53,357</td>
<td>53,357</td>
</tr>
<tr>
<td>February 2010</td>
<td>66,002</td>
<td>66,002</td>
</tr>
<tr>
<td>March 2010</td>
<td>58,215</td>
<td>62,506</td>
</tr>
<tr>
<td>April 2010</td>
<td>62,506</td>
<td>58,215</td>
</tr>
<tr>
<td>May 2010</td>
<td>78,358</td>
<td>78,358</td>
</tr>
<tr>
<td>June 2010</td>
<td>72,377</td>
<td>62,506</td>
</tr>
<tr>
<td>July 2010</td>
<td>47,205</td>
<td>72377</td>
</tr>
<tr>
<td>August 2010</td>
<td>34,193</td>
<td>47205</td>
</tr>
<tr>
<td>September 2010</td>
<td>23,290</td>
<td>34193</td>
</tr>
<tr>
<td>October 2010</td>
<td>51,295</td>
<td>23290</td>
</tr>
<tr>
<td>November 2010</td>
<td>41,866</td>
<td>51295</td>
</tr>
<tr>
<td>December 2010</td>
<td>35,072</td>
<td>41,868</td>
</tr>
</tbody>
</table>

Rebate. The Agreement contains a provision that the Bank will pay the Client (the University) a rebate based on an annual Charge Volume in excess of $1 million, according to the following schedule:

<table>
<thead>
<tr>
<th>Annual Charge Volume</th>
<th>Rebate Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,000,000</td>
<td>0.33%</td>
</tr>
<tr>
<td>$2,000,000</td>
<td>0.38%</td>
</tr>
<tr>
<td>$3,000,000</td>
<td>0.43%</td>
</tr>
<tr>
<td>$4,000,000</td>
<td>0.48%</td>
</tr>
<tr>
<td>$5,000,000</td>
<td>0.53%</td>
</tr>
<tr>
<td>$6,000,000</td>
<td>0.58%</td>
</tr>
<tr>
<td>$7,000,000</td>
<td>0.63%</td>
</tr>
<tr>
<td>$8,000,000</td>
<td>0.69%</td>
</tr>
</tbody>
</table>

The Bank provided the University with a monthly credit limit of $300,000; accordingly, the University could have applied as much as $3.6 million in charges to the card on an annual basis. However, during calendar year 2010, the University only applied about $624,000 in charges to the card, or about $52,000 per month. Based on the University’s limited usage of the card, it did not meet the eligibility threshold established by the Bank to receive a rebate. If the University increases its annual usage of the PCard to a level between $1 million and $3 million, it would be eligible for a rebate between $3,300 and $12,900 on an annual basis.

University’s PCard Policy

I found that the University’s PCard Policy provided cardholders with sufficient information regarding the PCard Program, purchase thresholds, authorized and unauthorized usage of the card, significance of timely allocating purchases in the Bank’s system, maintenance of supporting documentation such as
receipts, disciplinary action for misusing the card, and a list of unauthorized purchases. However, the PCard Policy contained no provision for a monthly supervisor/manager review of a cardholder’s transactions. The lack of a defined supervisor/manager review process may have contributed to the compliance issues discussed in the Analysis of PCard Transactions section of this report.

In order to maintain proper and effective internal controls over PCard expenditures and to provide assurance to cardholders that transactions which are conducted without the benefit of a requisition, purchase order, and invoice are appropriately and timely reviewed by a supervisor/manager, I believe that the PCard program would be further enhanced with the implementation of a supervisor/manager review process. Accordingly, the Vice President of Administration and Finance and the Controller should consider adding such a provision to the PCard Policy.

Specifically, the PCard Policy should require a supervisor/manager to review PCard transactions made by cardholders under his/her purview on a monthly basis. This review process would best be accomplished by requiring the PCard holder to print out a summary of monthly transactions as contained in the Bank’s system and providing the summary and associated receipts to the PCard holder’s supervisor/manager. The PCard holder should print from the JPMorgan Chase System an Expense Report for each billing cycle and provide the report and associated receipts to the PCard holder’s supervisor/manager, who would then review and approve each expenditure by ensuring that each expenditure was made for a University-related matter and that the PCard holder appropriately allocated the purchase to the correct Account Code.

Other Matters

Upon the implementation of an effective supervisor/manager review process and continued assurance that PCard holders are provided timely and appropriate training, the University should consider expanding the PCard program to faculty, who are currently prohibited by PCard Policy from obtaining a card. In addition, the University should consider increasing the per transaction threshold limit from $999.99 to $2,499.99 in order to increase usage of the card. Based on the results of my review, PCard holders often purchased multiple items during the conduct of a single transaction, with no one item costing more than $999.99 but with the total transaction amount exceeding $999.99. On an annual basis, the University budgets about $2.8 million for Materials and Supplies (Account 729) and Minor Equipment and Furniture (Account 733). My cursory review of these accounts indicated that the majority of the expenditures were for items costing less than $1,000. During Fiscal Year 2010 (October 1, 2009 to September 30, 2010), the University incurred about $2.5 million in expenditures for materials and supplies and minor equipment and furniture. Had more of these expenditures been incurred through the PCard, rather than through the requisition/purchase order/invoice process, then the University could have reached a level of PCard expenditure that would have made it eligible for a rebate from the Bank. The process of using the PCard for small dollar purchases of materials and supplies and minor equipment and furniture significantly reduces the time between requesting, ordering, and receiving the goods and it greatly reduces the volume of accounts payable transactions and associated administrative costs. Accordingly, using the PCard is a more effective and efficient way for the University to purchase small dollar goods and services and it makes the University eligible to receive a rebate from the Bank.
Suggestions

I suggest that the President require:

1. The Vice President of Administration and Finance to ensure that PCard holders receive appropriate training to properly allocate materials and supplies and minor equipment and furniture to the appropriate accounts and to separately account for the cost of freight and handling charges from the cost of the goods purchased.

2. The Vice President of Administration and Finance to ensure that the Commercial Card Classic Program Agreement between JPMorgan Chase Bank and the University is updated prior to January 31, 2012, in order to ensure continuous operation of the Program.

3. The Vice President of Administration and Finance to add a provision to the PCard Policy which requires a monthly review of PCard holder transactions by a PCard holder’s supervisor/manager. Specifically, at the conclusion of each billing cycle, the PCard holder should print out an Expense Report from the JPMorgan Chase system and provide the report and associated receipts for each transaction contained in the report to the PCard holder’s supervisor/manager for review and approval.

The President’s June 3, 2011, response to the draft report (Appendix 1) concurred with the report’s suggestions and indicated that corrective actions would be taken to address the internal control matters identified in this report. Based on the President’s response, I consider the suggestions to be resolved, but not implemented. Accordingly, to ensure that the suggestions are timely and appropriately implemented, I will place the suggestions into the Office of Internal Audit Tracking System in order to follow up and monitor the status of the suggestions.

I would like to express my appreciation to the Vice President of Administration and Finance, Controller, Purchasing Supervisor, and Purchasing Specialist III for the assistance provided me during the conduct of the review. In addition, I would like to thank the PCard holders whose transactions were selected for detailed testing for timely providing receipts and other supporting documentation during the conduct of the review.

If you have any questions regarding this report, please contact me on extension 1218.

Sincerely,

Stacey P. Chados
Internal Auditor

Distribution
Mr. Edward E. Thomas, Chairperson of the Audit Committee
Mr. Vincent J. Samuel, Vice President for Administration and Finance
Ms. Muriel Smith, Controller
Mr. Eric Christian, Purchasing Supervisor
Ms. Valderie Abramsen, Purchasing Specialist III
June 3, 2011

Ms. Stacy Chados
Internal Auditor
University of the Virgin Islands
No. 2 John Brewers Bay
St. Thomas, U.S. Virgin Islands 00802

Ref.: Procurement Card Transactions Audit Report

Dear Ms. Chados:

I have reviewed your draft report of the PCard Transactions of the University of the Virgin Islands, and appreciated the thoughtful and thorough work that was performed.

I concur with all of the following suggestions that were contained in the report. Therefore I will direct:

1. The Vice President of Administration and Finance to ensure that PCard holders receive appropriate training to properly allocate materials and supplies and minor equipment and furniture to the appropriate accounts and to separately account for the cost of freight and handling charges from the cost of the goods purchased.

2. The Vice President of Administration and Finance to ensure that the Commercial Card Classic Program Agreement between JPMorgan Chase Bank and the University is updated prior to January 31, 2012, in order to ensure continuous operation of the Program.

3. The Vice President of Administration and Finance to add a provision to the PCard Policy which requires a monthly review of PCard holder transactions by a PCard holder’s supervisor/manager. Specifically, at the conclusion of each billing cycle, the PCard holder should print out an Expense Report from the JPMorgan Chase system and provide the report and associated receipts for each transaction contained in the report to the PCard holder’s supervisor/manager for review and approval.

In addition, I plan to place your report on the agenda for our next Cabinet meeting so that all Cabinet members are aware of the analysis and the suggestions. We will also use this opportunity to discuss the “other matters” section of your report. I will inform you of the outcome of that discussion and how we plan to engage a larger segment of the University in a discussion about the possible expanded use of the PCard.

Thanks again for this report and for the time and effort which produced it.

Sincerely,

David Hall
President