

DESERT RESEARCH INSTITUTE
PURCHASING CARD PROGRAM
Internal Audit Report
July 1, 2015 through June 30, 2016

GENERAL OVERVIEW

The Desert Research Institute (DRI) purchasing card program was implemented in 1996 as a way to provide an easier, more convenient method for employees to make purchases of small dollar items. The program grew rapidly in the years immediately following its introduction with more modest growth occurring in the last ten years. During the audit period, there were approximately 210 active purchasing cards at DRI and total purchasing card transactions was nearly \$2.4 million in the 2015 calendar year.

Purchasing card transactions are processed through a database provided by the card issuer. Cardholders are responsible for maintaining receipts and other relevant supporting documentation. The documentation and statement of charges are submitted for supervisory review and approval weekly. It is then forwarded to the Financial Services Office for further review and for processing and storage. There is one employee in the Financial Services Office who performs these reviews as well as other purchasing card related functions.

SCOPE OF AUDIT

The Internal Audit Department has completed a review of the Purchasing Card Program at DRI for the period of July 1, 2015 through June 30, 2016.

Our review was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included tests of the accounting records and other auditing procedures, as we considered necessary. The tests included, but were not necessarily limited to, these areas.

1. Reviewing purchasing card policies and procedures for completeness and proper internal controls.
2. Testing cardholder account and agreement forms for proper completion and approval.
3. Testing purchasing card transactions for reasonableness, proper supporting documentation and approval, and adherence to established policies.
4. Reviewing the physical security and design of purchasing cards.
5. Reviewing the rebate program for compliance with the provisions stated in the purchasing card agreement.

In our opinion, we can be reasonably assured that the DRI purchasing card program is functioning in a satisfactory manner and that no major control weaknesses exist. However, implementation of the following recommendations would further improve the program.

TRANSACTION TESTING

We tested a sample of 60 purchasing card transactions that occurred during the audit period. The transactions were reviewed to determine whether adequate supporting documentation was present, purchases were reasonable, and that established procedures for submitting, reviewing, and approving transactions were performed. The following exceptions were noted.

1. On one occasion, an employee approved his own hosting expenditure on the purchasing card Statement of Account. We also noted the attendee information documented for the event was incomplete. A Host Expense Documentation and Approval form was not completed. DRI policy does not require the completion of a host form as long as required information about the event, including the name and business relationship of those in attendance are documented on the receipt.

We recommend greater care be taken to ensure hosting expenditures are properly documented and approved. We also recommend consideration be given for requiring host forms to be completed for all hosting expenditures to help ensure these transactions are properly documented and approved.

Institution Response

We agree with this recommendation in regards to proper documentation and approvals. Completion of the Host Expense Authorization form will continue to be optional. The DRI Host policy provides a list of the required documentation and approvals that must accompany the Host expense receipt.

What will be done to avoid the identified problems and issues in the future:

Notices will be sent to the cardholder and Division P-card staff reminding of the host documentation and approval requirements. The P-card Statement of Account will continue to be reviewed for compliance with policy.

How compliance and good management and practice will be measured, monitored and assured:

The P-card Statement of Account will continue to be reviewed weekly and if non-compliance findings with the Host policy are identified, an infraction notice will be sent to the cardholder and the Division Business Manager. All infraction notices will be logged in and the resolutions noted. P-card policy reminders will continue to be sent to the cardholders and Division P-card staff through-out the fiscal year.

Who will be responsible and may be held accountable in the future if repeat or similar problems arise:

The Division Business Managers and the Assistant Controller.

When the measures will be taken and on what schedule compliance and good practice will be secured:

Communications will begin immediately with the cardholder and Division P-card staff.

How compliance and performance will be documented for future audit, management and performance review:

The Financial Services Office (FSO) P-card staff will continue to perform weekly reviews of the P-card Statement of Account noting any compliance issues and sending infraction notices to the cardholders. The Division Business Managers will be copied on the notices. All infraction notices will be logged in and the resolutions noted.

2. On three occasions, transactions that occurred on the same day and with the same vendor were split into two or more transactions. The combined total of the transactions exceeded the \$5,000 limit at which purchase orders are required to be completed. It should be noted that one of these transactions was identified by the DRI Financial Services Office during their review of transactions and the cardholder was notified of the infraction.

We recommend the cardholders be reminded of established purchasing procedures which require purchase orders to be completed for transactions of \$5,000 and above.

Institution Response

We agree with this recommendation.

What will be done to avoid the identified problems and issues in the future:

Notices will be sent to the cardholders and Division P-card staff reminding them that the splitting of P-card transactions for \$5000 or greater is not allowed and circumvents purchasing policies. The P-card Statement of Account will continue to be reviewed for compliance with the Purchasing Card policies.

How compliance and good management and practice will be measured, monitored and assured:

The P-card Statement of Account will continue to be reviewed weekly and if splits are identified, an infraction notice will be sent to the cardholder and the Division Business Manager. All infraction notices will be logged in and the resolutions noted. P-card policy reminders will continue to be sent to the cardholders and Division P-card staff through-out the fiscal year. It should be noted that the FSO P-card staff has developed a new report format that provides a better mechanism for monitoring and locating split purchases.

Who will be responsible and may be held accountable in the future if repeat or similar problems arise:

The Division Business Managers and the Assistant Controller.

When the measures will be taken and on what schedule compliance and good practice will be secured:

Communications will begin immediately with the cardholder and Division P-card staff.

How compliance and performance will be documented for future audit, management and performance review:

The FSO P-card staff will continue to perform weekly reviews of the P-card Statement of Account noting any compliance issues and sending infraction notices to the cardholders. The Division Business Managers will be copied on the notices. All infraction notices will be logged in and the resolutions noted.

3. One transaction involved payment for services provided by an independent contractor. According to the DRI Purchasing Card User Manual, independent contractor expenses are not allowed to be processed with purchasing cards. They should be processed on an Independent Contractor Agreement form so that tax reporting and other information is obtained from the service provider. It should be noted that this transaction was identified by the DRI Financial Services Office during their review of transactions and the cardholder was notified of the infraction. We recommend transactions with independent contractors be processed on an Independent Contractor Agreement form as required. If such transactions are noted by the Financial Services Office during the review process, we recommend the cardholder be requested to prepare the Independent Contractor Agreement form.

Institution Response

We agree with this recommendation.

What will be done to avoid the identified problems and issues in the future:

Notices will be sent to the cardholders and Division P-card staff reminding them that Independent Contractor services cannot be made with a P-card and must be processed with an Independent Contractor Agreement. The P-card Statement of Account will continue to be reviewed for compliance with the Purchasing Card policies.

How compliance and good management and practice will be measured, monitored and assured:

The P-card Statement of Account will continue to be reviewed weekly, and if an independent contractor service has been purchases with a P-card, an infraction notice will be sent to the cardholder and Division Business Manager. Also, the cardholder will be required to complete the Independent Contractor Agreement after the fact.

P-card policy reminders will continue to be sent to the cardholders and Division P-card staff through-out the fiscal year.

Who will be responsible and may be held accountable in the future if repeat or similar problems arise:

The Division Business Managers and the Assistant Controller.

When the measures will be taken and on what schedule compliance and good practice will be secured:

Communications will begin immediately with the cardholder and Division P-card staff.

How compliance and performance will be documented for future audit, management and performance review:

The FSO P-card staff will continue to review the P-card Statement of Account and if any compliance issues are noted, send an infraction notices to the cardholders. The Division Business Managers will be copied on the notices. All infraction notices will be logged in and the resolutions noted.

4. On two occasions, sales tax was charged on purchases. The Nevada System of Higher Education (NSHE) is exempt from the payment of sales tax assessed by the State of Nevada and a number of other states.

We recommend the cardholders be reminded of NSHE's tax-exempt status. If the payment of sales tax cannot be avoided at the time a purchase is made or is not noticed until later; we recommend cardholders be instructed to request a credit from the vendor.

Institution Response

We agree with this recommendation that sales tax should not be incurred on P-card transactions. And, on those occasions when sales tax is charged, we'll seek reimbursement for the tax unless the cost to do so is greater than the cost of the tax.

What will be done to avoid the identified problems and issues in the future:

Notices will be sent to the cardholders and Division P-card staff regarding DRI's tax-exempt status. The P-card Statement of Account will continue to be reviewed for compliance with the P-card policy.

How compliance and good management and practice will be measured, monitored and assured:

The P-card Statement of Account will continue to be reviewed weekly and if sales tax has been charges, a notice will be sent to the cardholder requesting s/he seek reimbursement from the merchant or reimburse DRI from his/her personal funds. It should be noted that DRI will not seek reimbursement of the sales tax if the cost to do so would be greater than the cost of the sales tax. The Division Business Manager will be copied on the notice. All infraction notices will be logged in and the resolutions noted. P-card policy reminders will continue to be sent to the cardholders and Division P-card staff through-out the fiscal year. It should be noted that the FSO P-card staff has developed a report format that provides a better mechanism for monitoring and locating sales tax charges.

Who will be responsible and may be held accountable in the future if repeat or similar problems arise:

The Division Business Managers and the Assistant Controller.

When the measures will be taken and on what schedule compliance and good practice will be secured:

Communications will begin immediately with the cardholder and Division P-card staff.

How compliance and performance will be documented for future audit, management and performance review:

The FSO P-card staff will continue to review the P-card Statement of Account and if any compliance issues are noted, send an infraction notices to the cardholders. The Division Business Managers will be copied on the notices. All infraction notices will be logged in and the resolutions noted.

5. For one transaction, the business purpose was not written on the receipt as required by the DRI Purchasing Card User Manual.

We recommend cardholders be reminded to provide the business purpose.

Institution Response

We agree with this recommendation.

What will be done to avoid the identified problems and issues in the future:

Notices will be sent to the cardholders and Division P-card staff reminding them that the business purpose must be recorded on the receipt or written on the Statement of Account. The P-card Statement of Account will continue to be reviewed for compliance with the Purchasing Card policies.

How compliance and good management and practice will be measured, monitored and assured:

The P-card Statement of Account will continue to be reviewed weekly, non-compliance findings identified and infraction notices sent to the cardholder and the Division Business Manager. P-card policy reminders will continue to be sent to the cardholders and Division P-card staff through-out the fiscal year.

Who will be responsible and may be held accountable in the future if repeat or similar problems arise:

The Division Business Managers and the Assistant Controller.

When the measures will be taken and on what schedule compliance and good practice will be secured:

Communications will begin immediately with the cardholder and Division P-card staff.

How compliance and performance will be documented for future audit, management and performance review:

The FSO P-card staff will continue to review the P-card Statement of Account and if any compliance issues are noted, send infraction notices to the cardholders. The Division Business Managers will be copied on the notices. All infraction notices will be logged in and the resolutions noted.

6. On one occasion, a Statement of Account form was not signed by the cardholder and approved by a Supervisor/Manager. The reason noted on the form was that the original Statement of Account was lost in transit when it was sent from the DRI campus in Las Vegas, to the Financial Services Office in Reno.

We recommend the Statement of Account that is maintained and on file be signed as required.

Institution Response

We agree with this recommendation.

What will be done to avoid the identified problems and issues in the future:

Notices will be sent to the cardholders and Division P-card staff reminding them that the Statement of Account needs to be signed by the cardholder's Division Business Manager and either the receipts or the Statement of Account needs to be signed by the cardholder. The P-card Statement of Account will continue to be reviewed for compliance with the Purchasing Card policies.

How compliance and good management and practice will be measured, monitored and assured:

The P-card Statement of Account will continue to be reviewed weekly, non-compliance findings identified and an infraction notice sent to the cardholder and Division P-card staff. P-card policy reminders will continue to be sent to the cardholders and Division P-card staff through-out the fiscal year.

Who will be responsible and may be held accountable in the future if repeat or similar problems arise:

The Division Business Managers and the Assistant Controller.

When the measures will be taken and on what schedule compliance and good practice will be secured:

Communications will begin immediately with the cardholder and Division P-card staff.

How compliance and performance will be documented for future audit, management and performance review:

The FSO P-card staff will continue to review the P-card Statement of Account and if any compliance issues are noted, send an infraction notices to the cardholders. The Division Business Managers will be copied on the notices. All infraction notices will be logged in and the resolutions noted.

MERCHANT CATEGORY CODES

DRI purchasing cards have been established such that there are certain vendors with which cardholders may and may not conduct business. These vendors are identified through the use of merchant category codes (MCCs) that businesses are assigned within the credit card industry. Five MCC groups are used at DRI, each of which contains different MCC authorizations. Most of the cardholders are included in the same MCC group which means they have access to the same vendors. We reviewed the lists of authorized MCCs within each of these groups for appropriateness. The following exceptions were noted.

1. A number of vendors are authorized for use within three MCC groups that appear inappropriate or unnecessary. Some of the vendors include religious organizations, child care services, lotteries, horse and dog racing, and chiropractors.

We recommend the list of authorized MCCs for these groups be reviewed and adjusted accordingly.

Institution Response

We agree with this recommendation.

What will be done to avoid the identified problems and issues in the future:

The codes of these MCC Groups will be reviewed and inappropriate MCCs identified. The credit card company will be contacted and a request submitted to eliminate the inappropriate codes.

How compliance and good management and practice will be measured, monitored and assured:

Annually, the MCCs will be reviewed to determine if additional codes should be removed from the MCC Group.

Who will be responsible and may be held accountable in the future if repeat or similar problems arise:

Assistant Vice President/Controller and the Assistant Controller.

When the measures will be taken and on what schedule compliance and good practice will be secured:

The MCC Group was revised immediately with the removal of the inappropriate codes.

How compliance and performance will be documented for future audit, management and performance review:

Reviews and revisions to the MCC Group will be recorded and the documentation maintained with the Purchasing Card files.

2. One MCC group, which has just one purchasing card assigned to it, only has four MCCs that are unauthorized for use.

We recommend this group be reviewed to determine whether it could be eliminated and the cardholder assigned to another MCC group. Alternatively, we recommend the list of authorized vendors assigned to the group be further restricted.

Institution Response

We agree with the alternative recommendation.

What will be done to avoid the identified problems and issues in the future:

The MCCs will be reviewed and inappropriate codes identified. The credit card company will be contacted and a request submitted to eliminate the inappropriate codes.

How compliance and good management and practice will be measured, monitored and assured:

Annually, the MCCs will be reviewed to determine if additional codes should be removed from the MCC Group.

Who will be responsible and may be held accountable in the future if repeat or similar problems arise:

Assistant Vice President/Controller and the Assistant Controller.

When the measures will be taken and on what schedule compliance and good practice will be secured:

The MCC Group was revised immediately with the removal of the inappropriate codes.

How compliance and performance will be documented for future audit, management and performance review:

Reviews and revisions to the MCC Group will be recorded and the documentation maintained with the Purchasing Card files.

CARDHOLDER ACCOUNT AND AGREEMENT FORMS

Employees that would like to obtain a purchasing card are required to complete the Purchasing Card Cardholder Account Form and the Purchasing Card Program Cardholder Agreement form. The account form is required to be signed by the cardholder and must be approved by a division business manager or administrative department manager, and the purchasing card administrator. As indicated, the forms include an agreement in which the cardholder acknowledges all terms and conditions for purchasing card use are understood. The agreement is required to be signed and dated again when the cardholder receives their card from the Financial Services Office. We reviewed a sample of 40 individual and one department account and agreement forms for proper completion. During this review, we noted four

cardholder account forms in which the MCC group assigned to the card and/or identification of individuals who should have access to the card issuer's database was not recorded on the forms.

For improved recordkeeping, we recommend the Purchasing Card Cardholder Account Form be completed in its entirety.

Institution Response

We agree with this recommendation.

What will be done to avoid the identified problems and issues in the future:

The procedure for completing the Purchasing Cardholder Account Form updates will be modified requiring the form be completed in its entirety.

How compliance and good management and practice will be measured, monitored and assured:

The Division P-card staff will be notified of the change in procedure. Also, the FSO P-card staff will be advised to review the Purchasing Cardholder Account form for completeness.

Who will be responsible and may be held accountable in the future if repeat or similar problems arise:

Assistant Vice President/Controller and the Assistant Controller.

When the measures will be taken and on what schedule compliance and good practice will be secured:

Communications will begin immediately with the cardholder and Division P-card staff.

How compliance and performance will be documented for future audit, management and performance review:

The Financial Services Office P-card staff will continue to review the Purchasing Cardholder Account form for completeness and the Assistant Controller will perform a final review before approving the application.

PURCHASING CARD USER MANUAL

DRI's purchasing card policies and procedures are documented in the DRI Purchasing Card User Manual. The manual was reviewed for completeness and accuracy. During the review, we noted that the manual states cardholders must approve charges by signing their name

on the detailed receipt. The manual does not state whether cardholders are required to sign the Statement of Account. According to Financial Services Office personnel, cardholders have the option of signing the receipts or the Statement of Account to indicate approval of charges.

We recommend the purchasing card user manual be updated to reflect this information.

Institution Response

We agree with this recommendation.

What will be done to avoid the identified problems and issues in the future:

The Purchasing Card Manual will be updated to include the option for the cardholders to approve their P-card transactions by signing the Statement of Account.

How compliance and good management and practice will be measured, monitored and assured:

As policies and procedures are revised, the Purchasing Card Manual will be revised by the FSO P-card staff and reviewed/approved by the Assistant Controller and the Assistant Vice President/Controller.

Who will be responsible and may be held accountable in the future if repeat or similar problems arise:

Assistant Vice President/Controller and the Assistant Controller.

When the measures will be taken and on what schedule compliance and good practice will be secured:

The Purchasing Card Manual was revised immediately.

How compliance and performance will be documented for future audit, management and performance review:

The Assistant Vice President/Controller's reviewed and approval of the revision was documented.

PRIOR AUDIT

A prior audit of the DRI Purchasing Card Program was conducted for the period of July 1, 2005 through September 30, 2006. All recommendations from the prior audit have been implemented, are no longer applicable, or have been addressed in this audit.

The Internal Audit Department appreciates the cooperation and assistance received from
DRI Financial Services Office personnel during this review.

Reno, Nevada
September 22, 2016

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