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NEWS RELEASE

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FOR RELEASE December 22, 2005

Auditor of State David A. Vaudt today released a report on the Procurement Card Programs of the three State Universities governed by the Board of Regents for the period July 1, 2001 through June 30, 2003. The review was conducted in accordance with Chapter 11 of the *Code of Iowa* to determine whether University officials have implemented effective procedures and controls to ensure (1) the effective administration of the procurement card program, (2) University departments have implemented effective controls and procedures to ensure procurement cards are used in accordance with University procurement regulations, (3) employees used procurement cards in accordance with University procurement regulations and (4) the issuance of procurement cards and purchasing limits for University employees were commensurate with their assigned job responsibilities.

Vaudt reported that overall the procurement card programs of the Universities are functioning well. As the use of procurement cards has increased, the Universities have continued to improve procurement card procedures and enhance controls over the program.

Between July 1, 1998 and June 30, 2004, the Universities made over one million purchases totaling \$202,786,688 using procurement cards. As illustrated in the following table, the number of transactions increased 287% from fiscal year 1999 to fiscal year 2004, while the number of cardholders increased 157.4%. Approximately 7.5% of purchases made by the Universities during fiscal year 2004 were made with a procurement card.

Fiscal year ended June 30,	Annual Disbursements	Number of Transactions	Average Transaction Amount	Number of Cardholders
1999	\$ 14,588,880	88,538	\$ 165	1,513
2000	19,179,269	113,169	169	1,680
2001	23,606,550	131,803	179	2,088
2002	38,662,226	182,706	212	2,827
2003	50,283,882	231,623	217	3,523
2004	56,465,881	255,970	221	3,894
Total	\$ 202,786,688	1,003,809	\$ 202	

Making purchases using a procurement card may be more efficient and less costly, in certain circumstances, than the traditional method of procurement. However, procurement cards also increase the risk of fraud and misuse occurring and going undetected. The use of procurement cards has eliminated some controls over purchasing such as segregation of duties and prior approval of purchases. Because eliminating controls increases the risk of improper purchases, an effective review and oversight process is essential to ensure procurement card purchases are necessary, proper and at the best price.

The review found that each University has developed and implemented its own procurement card policies. As a result, several differences and inconsistencies exist between the Universities' administration of their programs. For example, SUI allows procurement cards to be used for most travel related expenses while ISU does not allow travel expenses to be charged to the cards and UNI only allows airline tickets and conference registrations to be charged. There are also differences between the Universities' policies for the use of cards by non-cardholders, training requirements, use of procurement card rebates and independent reviews of the procurement card program. Vaudt has recommended the Universities develop a uniform set of procurement card policies.

Other findings noted during the review include:

- Controls over approval of purchases, verification of billing statements, monthly reconciliation and maintenance of supporting documentation need to be improved and duties properly segregated. Only a few University departments require prior approval of purchases made with a procurement card.
- Cardholders with minimal purchasing responsibilities were identified, which unnecessarily increases the Universities' exposure to improper charges and abuse. Credit limits were also excessive when compared to actual spending. Most cardholders have a single transaction limit of \$2,000. The actual average transaction amount for all three Universities was below \$240. The limits have not been adjusted as a result of analyzing cardholder actual spending.
- Fifty-six instances in which cardholders were able to circumvent the transaction limit by splitting the purchase into multiple transactions were identified.
- For the University departments tested, 18 of 714 transactions did not have the proper supporting documentation.
- Thirty-four purchases were identified that do not comply with University policy or do not appear to meet the test of public purpose.
- Several purchases of discretionary items, including PDAs, digital cameras, CD and DVD players and televisions, were identified. The business purpose was not documented for many of these items. In addition, because the items were purchased individually, the Universities did not have the opportunity to obtain quantity discounts. In addition, it can not be determined if the best price was obtained.

Vaudt recommended several improvements in the controls and procurement card process at the Universities and the participating departments to address these findings which should enhance the Universities' on-going efforts to improve the procurement card program.

A copy of the report is available for review in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/specials/specials.htm>.

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BOARD OF REGENTS UNIVERSITIES
A REVIEW OF PROCUREMENT CARD PROGRAMS
FOR THE PERIOD JULY 1, 2001 THROUGH JUNE 30, 2003

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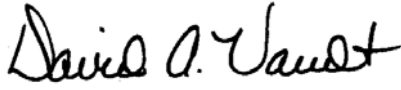
To the Board of Regents and the Presidents of the State University of Iowa,
Iowa State University and the University of Northern Iowa:

In accordance with Chapter 11 of the *Code of Iowa*, we have conducted a review of the procurement card programs at the three State Universities. We reviewed selected purchases made with procurement cards and related activity for the period July 1, 2001 through June 30, 2003. We also reviewed the Universities' monitoring of the programs and tested compliance with the Universities' procurement card policies and procedures. In conducting our review, we performed the following procedures at each University:

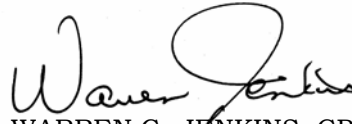
- (1) Interviewed representatives of procurement card program administration and selected departments to obtain an understanding of the procedures and internal controls over the use of procurement cards and evaluated the adequacy of those procedures and controls.
- (2) Reviewed the contract between the Universities and Élan Financial Services.
- (3) Reviewed University Internal Audit procurement card audit reports for audits of certain departments.
- (4) Reviewed and compared procurement card policies and procedures including, but not limited to, card issuance, allowable and unallowable use, monthly reconciliations and the payment process.
- (5) Reviewed and evaluated selected University departments' procedures used for processing and monitoring procurement card activity.
- (6) Obtained listings of cardholders, including monthly credit and single transaction limits, to determine the number and names of cardholders at each University and evaluated selected limits for reasonableness.
- (7) Examined supporting documentation for selected purchases made with procurement cards to determine compliance with significant aspects of each University's procurement card policies and procedures.
- (8) Examined the documentation used during reconciliations performed by selected departments to determine completeness.
- (9) Analyzed card activity and purchasing trends.
- (10) Reviewed and evaluated procurement card program advantages reported to the Board of Regents.

Based on these procedures, we have developed certain recommendations and other relevant information we believe should be considered by officials of the Board of Regents, the State University of Iowa, Iowa State University and the University of Northern Iowa.

We extend our appreciation to the management and staff of the Universities for the courtesy, cooperation and assistance provided to us during this review.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 8, 2005

Executive Summary

Procurement card programs have been implemented by the three state Universities to facilitate purchasing small dollar items and improve effectiveness and efficiency of the procurement process by eliminating the need for small dollar purchase requisitions and reimbursement vouchers. Each University has entered into an agreement with Élan Financial Services (Élan) for procurement card services. The agreements provide for rebates based on the volume of purchases made.

The Purchasing Department of each University is responsible for administering and providing oversight of their procurement card program and each University has established a separate set of policies and procedures for the program. Certain faculty and staff of departments participating in the procurement card programs are also responsible for reviewing and approving purchases made with the cards.

The agreement with Élan limits the Universities' liability due to fraudulent use of procurement cards. The Universities are liable only for fraudulent use of a procurement card that occurs before the Universities notify Élan by calling and informing Élan that the card has been lost or stolen or is being used for fraudulent purpose unless identified as fraud by Visa.

All faculty and staff of each University may obtain and use a procurement card to purchase small dollar items considered necessary for conducting University business, such as supplies and equipment. In addition, staff from the Purchasing Department of each University use their cards, or are considering using their cards, to pay for bills such as utilities, telephone and other recurring services.

When University faculty and staff use procurement cards to make purchases, the vendor is paid electronically by Élan. Élan then bills each University on a monthly basis for all charges incurred at various vendors. As a result, each University makes only one payment to Élan each month rather than paying each vendor individually.

Making purchases using procurement cards may be more efficient and less costly than the traditional method of procurement, depending on the circumstances. However, procurement cards also increase the risk of fraud and misuse occurring and going undetected. The use of procurement cards has eliminated some of the traditional controls over purchasing such as segregating duties between the requesting, approving, purchasing and receiving functions. With a procurement card, the cardholder can decide what item to purchase, make the purchase without pre-approval and receive the item. Cardholders may also make larger than necessary purchases or purchases with unnecessary features that may impact the budget available. An effective review and oversight process is essential to ensure procurement card purchases are necessary, proper and at the best price. Our review identified concerns with University guidelines and procedures, controls and procedures at selected University departments and other common problem areas with procurement card use.

The State University of Iowa (SUI) piloted its procurement card program during fiscal year 1994 and decided to expand the program campus-wide during fiscal year 1995. The University of Northern Iowa (UNI) implemented a procurement card program during fiscal year 1996. Iowa State University (ISU) started with a pilot program during fiscal year 1997 and fully implemented the program in November 1998.

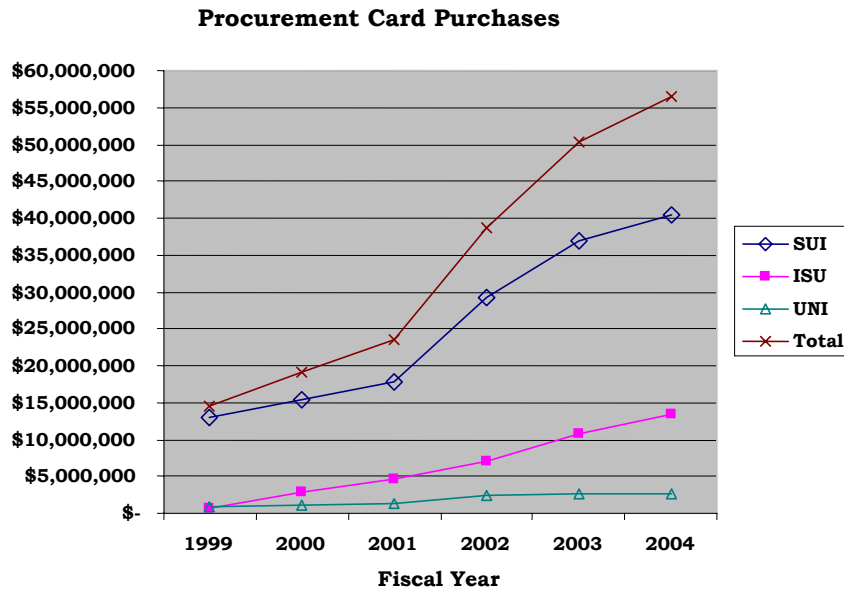
Procurement card activity increased significantly between fiscal years 1999 and 2003. Total purchases with procurement cards increased by approximately \$35.7 million from \$14.6 for the fiscal year ended June 30, 1999 to \$50.3 million for the fiscal year ended June 30, 2003, an increase of 245%. The increase from fiscal year 2003 to fiscal year 2004 was 12%. Approximately 7.5% of purchases made by the Universities during fiscal year 2004 were made with a procurement card.

Board of Regents Universities – A Review of Procurement Card Programs

ISU experienced the largest percentage increase in purchases between fiscal years 1999 and 2004, with an increase of over 1,950%. SUI made more purchases with procurement cards in fiscal year 2004 than the other two Universities with over \$40 million in purchases. The following table summarizes the amounts of purchases made with procurement cards by each University for fiscal years 1999 through 2004.

University	Procurement Card Purchases for the Fiscal Year Ended June 30,					
	1999	2000	2001	2002	2003	2004
SUI	\$12,999,623	15,300,354	17,703,377	29,196,074	36,830,491	40,539,958
ISU	650,711	2,760,476	4,557,680	6,943,159	10,741,500	13,368,832
UNI	938,546	1,118,439	1,345,493	2,522,993	2,711,891	2,557,091
Total	\$14,588,880	19,179,269	23,606,550	38,662,226	50,283,882	56,465,881

Source: November 2002 and 2003 Annual Governance Reports on Purchasing, data submitted by the Universities to the Board of Regents and University procurement card program administrators.



The average transaction amount has remained relatively low since fiscal year 1999. The average transaction size in fiscal year 2003 was \$217, an increase of 31.5% from fiscal year 1999. The average transaction size increased to \$221 in fiscal year 2004. The established credit limits for single transactions on the procurement cards are \$2,000 in most cases. Since the Universities are ultimately liable for all purchases on the procurement cards, credit limits higher than purchasing needs expose the Universities to unnecessary risk.

University	Average Transaction Amount for the Fiscal Year Ended June 30,					
	1999	2000	2001	2002	2003	2004
SUI	\$173	179	188	229	235	238
ISU	227	176	181	180	188	194
UNI	89	93	109	151	153	150
Average	\$165	169	179	212	217	221

Source: Calculated based on information obtained from the November 2002 and 2003 Annual Governance Reports on Purchasing, data submitted by the Universities to the Board of Regents and University procurement card program administrators.

Board of Regents Universities – A Review of Procurement Card Programs

The extent to which procurement cards are used varies between and within the Universities. Some departments of the Universities primarily issue cards to employees responsible for purchasing and accounts payable while most departments issue cards to many employees with minimal purchasing responsibilities. The number of procurement cards issued by the Universities has increased by over 157% since fiscal year 1999, as illustrated in the following table.

University	Number of Procurement Cards Issued Fiscal Year Ended June 30,						% Change
	1999	2000	2001	2002	2003	2004	
SUI	1,038	1,019	1,189	1,478	1,788	1,897	83%
ISU	214	383	606	1,040	1,412	1,702	695%
UNI	261	278	293	309	323	295	13%
Total	1,513	1,680	2,088	2,827	3,523	3,894	157%

Source: November 2002 and 2003 Annual Governance Reports on Purchasing, data submitted by the Universities to the Board of Regents and University procurement card program administrators.

The following table shows ISU had the largest percentage increase in the number of employees with a procurement card from fiscal year 1999 to 2004. ISU employees with a procurement card increased from 214 to 1,702, an increase of approximately 23% of the eligible employees. SUI and UNI experienced increases of approximately 6% and 2%, respectively, during the same time period.

Fiscal Year	Number of SUI Employees			Number of ISU Employees			Number of UNI Employees		
	Eligible	with a card	% with a card	Eligible	with a card	% with a card	Eligible	with a card	% with a card
1999	14,912	1,038	7.0%	6,830	214	3.1%	2,176	261	12.0%
2000	14,235	1,019	7.2%	6,780	383	5.6%	2,306	278	12.1%
2001	14,639	1,189	8.1%	6,684	606	9.1%	2,321	293	12.6%
2002	14,370	1,478	10.3%	6,488	1,040	16.0%	2,207	309	14.0%
2003	14,713	1,788	12.2%	6,669	1,412	21.2%	2,201	323	14.7%
2004	14,347	1,897	13.2%	6,522	1,702	26.1%	2,147	295	13.7%

Source: University financial report information for number of employees, except SUI fiscal year 2004 number of employees was obtained from SUI staff. Numbers of employees with a card were obtained from November 2002 and 2003 Annual Governance Reports on Purchasing, data submitted by the Universities to the Board of Regents and University procurement card program administrators.

To identify transactions for testing, we selected departments from each University by analyzing the total amount of procurement card purchases for each department, establishing a threshold, then reviewing all departments with procurement card purchases exceeding the established threshold during fiscal years 2002 and 2003. We judgmentally selected procurement card transactions from the selected departments for testing of compliance with applicable policies and procedures and evaluated reasonableness of higher monthly purchase limits for selected cardholders.

The procurement card purchases of departments, colleges or other organizations within the University departments selected for testing comprise 30% of the Universities' combined total procurement card purchases for the two fiscal years reviewed. SUI had twelve departments with more than \$500,000, ISU had six departments with more than \$300,000 and UNI had four departments with more than \$150,000 of procurement card purchases during fiscal year

Board of Regents Universities – A Review of Procurement Card Programs

2003. The procurement card activity for the departments selected for testing is summarized in the following table.

University / Department	Fiscal Year Ended June 30,		Total
	2002	2003	
<u>SUI</u>			
Biological Sciences	\$ 512,280	616,432	1,128,712
Facilities Services Group	564,942	732,041	1,296,983
IIHR Hydroscience and Engineering	*	536,577	536,577
Intercollegiate Athletics	2,863,163	3,140,856	6,004,019
Internal Medicine	2,033,063	2,137,449	4,170,512
ITS Telecom and Network Services	657,185	720,277	1,377,462
Medicine Administration	*	702,648	702,648
Ophthalmology and Visual Sciences	*	516,846	516,846
Pathology	619,348	669,105	1,288,453
Pediatrics	991,610	1,214,198	2,205,808
Physics and Astronomy	*	516,050	516,050
Radiology	*	642,850	642,850
Total	8,241,591	12,145,329	20,386,920
<u>ISU</u>			
Agronomy	359,807	408,489	768,296
Animal Science	324,548	510,127	834,675
Biomedical Sciences	*	307,366	307,366
Facilities Planning and Management	707,436	864,706	1,572,142
Veterinary Clinical Sciences	*	336,177	336,177
Veterinary Diagnostic Lab	*	435,824	435,824
Total	1,391,791	2,862,689	4,254,480
<u>UNI</u>			
Business and Community Services	190,739	*	190,739
Education	317,890	321,369	639,259
Humanities and Fine Arts	216,614	290,644	507,258
Natural Sciences	369,656	419,912	789,568
Price Lab School	156,250	151,933	308,183
Total	1,251,149	1,183,858	2,435,007
Grand Total	\$ 10,884,531	16,191,876	27,076,407

* Expenditures were less than the dollar threshold used to select departments for testing.
 Source: Procurement card expenditure downloads from University transaction tapes.

In addition to the testing done for selected departments, we attempted to scan all purchases made with procurement cards at each of the Universities. We were able to effectively perform this procedure only for purchases made by ISU. The procurement card information compiled by SUI and UNI does not allow for efficient, comprehensive analysis at a transaction and cardholder level. Because of the capabilities of the procurement card transaction database maintained by ISU, they are able to effectively and efficiently monitor all activity associated with their procurement cards. They have used this information to perform periodic reviews and have identified inappropriate uses of procurement cards which have resulted in corrective actions.

We found that for the most part the procurement card programs of the Universities are functioning well. As the use of procurement cards has increased, the Universities have continued to improve procurement card procedures and enhance controls over the program. However, we identified several findings and recommendations for enhancing the on-going efforts to improve the procurement card programs administered by the Universities. The findings identified relate to the administration of the procurement card program at the University level and the department level, card controls, card use and purchase documentation. Among the findings noted during our review were:

- Each University has developed and implemented its own procurement card policies. As a result, several differences and inconsistencies exist between the Universities' administration of their programs. For example, SUI allows procurement cards to be used for most travel related expenses while ISU does not allow travel expenses to be charged to the cards and UNI only allows airline tickets and conference registrations to be charged. There are also differences between the Universities' policies for the use of cards by non-cardholders, training requirements, use of procurement card rebates and independent reviews of the procurement card program.
- Controls over approval of purchases, verification of billing statements, monthly reconciliation and maintenance of supporting documentation need to be improved and duties properly segregated. Only a few University departments require prior approval of purchases made with a procurement card.
- Cardholders with minimal purchasing responsibilities were identified, which unnecessarily increases the Universities' exposure to improper charges and abuse. Credit limits were also excessive when compared to actual spending. The average transaction amount for all three Universities was below \$240. The limits were not adjusted as a result of analyzing cardholder actual spending.
- The Universities do not have policies addressing how procurement card rebates are to be distributed or used within the University. SUI had accumulated a balance of \$516,966 in the rebate account as of June 30, 2004.
- Each University uses a different electronic procurement card system to process and review transactions. Only the system used by ISU allows for efficient and effective monitoring of procurement card transactions.
- Fifty-six instances in which cardholders were able to circumvent the transaction limit by splitting the purchase into multiple transactions were identified.
- For the University departments tested, 18 of 714 transactions did not have the proper supporting documentation.
- Thirty-four purchases were identified that do not comply with University policy or do not appear to meet the test of public purpose. For example, some SUI purchases included flowers, an expensive meal and clothing for a graduate student. SUI policy allows the purchase of flowers unless the purchase is for an employee or their family.

Purchases also included cell phones and cell phone service, printing and computers. The unallowable purchases for computers were all by ISU cardholders because only ISU's procurement card policy prohibits the purchase of computers. While the policies at SUI and UNI did not specifically exclude computer purchases, we did identify several purchases of computers and related equipment at all three Universities. Decentralized purchasing of computers and accessories may not ensure the compatibility of the equipment with the University network systems.

- Several purchases of discretionary items, including PDAs, digital cameras, CD and DVD players and televisions, were identified. The business purpose was not documented for many of these items. In addition, because the items were purchased individually, the Universities did not have the opportunity to obtain quantity discounts. In addition, it can not be determined if the best price was obtained.

Board of Regents Universities – A Review of Procurement Card Programs

- The Universities allow the use of procurement cards for interdepartmental transactions which results in unnecessary processing fees.

Our findings are listed in the following table. More detail regarding each of the findings is included in the Findings and Recommendations section of this report.

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Background

Purchasing Authority and Oversight

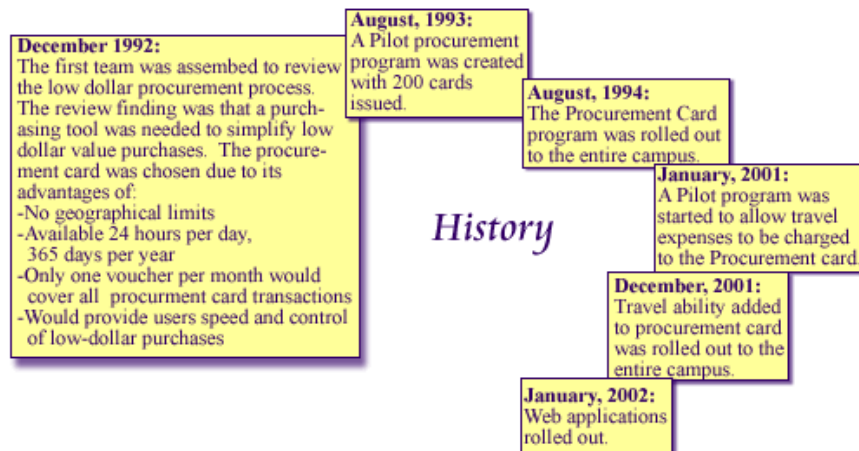
As established by Section 18.3 and Chapter 262 of the *Code of Iowa*, the Board of Regents (the Board) is authorized to contract for goods, services and capital improvements. The Board's Policy Manual delegates authority to the presidents and superintendents to approve agreements and contracts for all goods and services purchased by the institutions and specifically authorizes the three State Universities and its other institutions to use procurement cards for low dollar transactions. The purchasing policy states, in part, "Each Regent institution, through an institutional purchasing department, shall be responsible for purchasing goods and services. Institutions may delegate purchasing responsibility to departments. Low dollar procurement authority may also be delegated to institutional units through the use of credit cards or other appropriate procurement instruments, consistent with prudent, contemporary business and audit practices."

Each of the Universities chose to implement procurement card programs and have established agreements for procurement card services. The Board requires the three State Universities to report a summary of all purchasing activity at least annually to the Board, including procurement card program activity. The primary annual purchasing report submitted by the Universities is entitled, "The Annual Governance Report on Purchasing." It includes each University's purchasing efforts. A summary of the Universities' procurement card activity is included in the annual reports, when requested by the Board.

The State of Iowa procurement card program is not included in this report. The State of Iowa procurement card program is administered separately with card services provided by a different vendor than used by the Universities. A separate report covering the State of Iowa procurement card programs was issued on February 28, 2005.

Procurement Card Program Development

During the 1990's, the State University of Iowa (SUI), the University of Northern Iowa (UNI) and Iowa State University (ISU) developed and implemented procurement card programs. SUI reviewed its low dollar procurement process in December 1992 and decided a purchasing tool was needed to simplify low dollar value purchases. SUI researched and identified a procurement card program available through Élan Financial Services (Élan) to facilitate the purchasing process. Under an agreement with Élan, SUI started a pilot program for departmental purchases not exceeding \$1,000 using procurement cards during fiscal year 1994. Based on the reported success of the pilot program, SUI expanded the procurement card program campus-wide during fiscal year 1995. A summary of the history of the review and implementation of the procurement card program at SUI is shown in the following chart.



Source: SUI procurement card program website.

As a result of the SUI program, the University of Northern Iowa (UNI) and Iowa State University (ISU) also became interested in the procurement card process and implemented procurement card programs under agreements with Élan. UNI decided to implement a procurement card program during fiscal year 1996 as part of its efforts to improve efficiency and effectiveness. ISU started with a pilot program during fiscal year 1997 and fully implemented the program by making it available to all faculty and staff in November 1998.

Under the traditional purchasing process, University employees making a purchase would obtain supervisory approval, prepare a purchase order and then purchase the items from a vendor. After the purchase was made and the item was received, the vendor would bill the University for the purchase. A warrant would then be issued to the vendor after the approved purchase order and the receipt for the purchase were submitted and matched.

With a procurement card, employees make purchases from a vendor, with or without prior supervisory approval, and the vendor is paid electronically by Élan. Élan, in turn, sends each participating University department a single statement for all procurement card charges incurred at various vendors during the current billing cycle. The University makes just one payment to Élan for all departments, rather than paying each vendor individually.

Under the traditional purchasing method, controls were established to prevent improper purchases from being made. Because prior authorization is now no longer required for purchases, controls are needed to detect improper purchases prior to payment being made to Élan.

Each University has implemented standard program policies and procedures and initial single and monthly transaction limits for cardholders. Each department participating in the procurement card program is responsible for following the guidelines established by the University.

Each University has also identified a procurement card program administrator (program administrator) to oversee the procurement card program and provide technical assistance to departments and cardholders. The Universities receive a monthly report from Élan detailing the number and total amount of transactions by each department. The program administrator of each University is to review this report for any unusual activity but does not typically receive or review detailed transaction information. If inappropriate activity is suspected, it is investigated further by the program administrator.

While the Universities have overall responsibility for the administration of the program, each department electing to participate in the program is responsible for oversight of the program for their cardholders. Within the guidelines established by the University, each department determines if and how procurement cards will be used. Élan is notified of the name(s) of the designated representative(s) for the departments participating in the procurement card program.

Department administrators are expected to be familiar with all aspects of the procurement card program, including, but not limited to, policies and procedures, number and names of procurement cardholders, employment status of cardholders and status of delinquent charges. Other responsibilities include working with Élan for the issuance of new cards, collecting receipts from employees and reconciling receipts to monthly statements or ensuring the cardholder has maintained sufficient documentation for each transaction and reconciles the monthly statements. Department administrators are also responsible for notifying the University program administrator of employee terminations or transfers. The program administrator is responsible for contacting Élan to ensure cancellation of cards.

Procurement Card Use Trends

As illustrated by **Table 1**, the amount of purchases made by the Universities with procurement cards has increased significantly each fiscal year from 1999 through 2003. From fiscal year 1999 to 2003, total purchases increased approximately \$35.7 million from near \$14.6 to \$50.3 million, an increase of 245%, while the total number of transactions increased 161.6%, from 88,538 to 231,623. Total procurement cards issued has increased from 1,513 in fiscal year 1999 to 3,523 in fiscal year 2003, an increase of 132.8%. Fiscal year 2004 was not included in

Board of Regents Universities – A Review of Procurement Card Programs

the scope of our testing, but has been included in the **Table** for information purposes. Procurement card purchases increased 12% from fiscal year 2003 to 2004, with the number of cards increasing to 3,894, an increase of 10.5%. Approximately 7.5% of purchases made by the Universities in fiscal year 2004 were made with a procurement card.

The average transaction amount has remained relatively low since 1999, as illustrated by the **Table**. The average transaction amount in fiscal year 2003 was \$217, an increase of 31.5% from fiscal year 1999. The average transaction amount has increased to \$221 in fiscal year 2004. The established credit limits on the procurement cards are \$2,000 in most cases. Since the Universities are ultimately liable for all purchases on the procurement cards, limits higher than purchasing needs expose the Universities to unnecessary risk.

Table 1

University	Fiscal Year Ended June 30,					
	1999	2000	2001	2002	2003	2004
Procurement Card Purchases						
SUI	\$ 12,999,623	15,300,354	17,703,377	29,196,074	36,830,491	40,539,958
ISU	650,711	2,760,476	4,557,680	6,943,159	10,741,500	13,368,832
UNI	938,546	1,118,439	1,345,493	2,522,993	2,711,891	2,557,091
Total	\$ 14,588,880	19,179,269	23,606,550	38,662,226	50,283,882	56,465,881
Number of Transactions						
SUI	75,077	85,466	94,279	127,469	156,837	170,039
ISU	2,866	15,649	25,134	38,582	57,077	68,935
UNI	10,595	12,054	12,390	16,655	17,709	16,996
Total	88,538	113,169	131,803	182,706	231,623	255,970
Average Transaction Amount						
SUI	\$ 173	179	188	229	235	238
ISU	227	176	181	180	188	194
UNI	89	93	109	151	153	150
Average	\$ 165	169	179	211	217	221
Number of Procurement Cards Issued						
SUI	1,038	1,019	1,189	1,478	1,788	1,897
ISU	214	383	606	1,040	1,412	1,702
UNI	261	278	293	309	323	295
Total	1,513	1,680	2,088	2,827	3,523	3,894

Source: November 2002 and 2003 Annual Governance Reports on Purchasing, data submitted by the Universities to the Board of Regents and University procurement card program administrators.

The extent to which procurement cards are used varies among University departments. Some departments issue cards to employees responsible for purchasing and accounts payable only, while most departments have issued cards to many employees with minimal purchasing responsibilities. The amount of purchases made with procurement cards is likely to continue increasing as Universities continue to increase the number of employees using procurement cards and increase the types of expenditures for which procurement cards are used.

The number of employees, number of procurement cards issued and percentage of employees with a procurement card in fiscal year 2003 is presented in **Table 2** for the three Universities. SUI had the most employees and most cards issued for the Universities while ISU had the highest percentage of employees with procurement cards at 21.2%.

Table 2

Fiscal Year 2003			
University	Number of employees *	Number of cards issued	Percentage of employees with cards
SUI	** 14,713	1,788	12.2%
ISU	6,669	1,412	21.2%
UNI	2,201	323	14.7%
Total	23,583	3,523	14.9%

* Excludes student and temporary employees

** The number of employees for SUI includes 5,099 from health care units within the University Hospitals who are also eligible to apply for and use procurement cards.

Source: Financial and statistical reports located on SUI, ISU and UNI websites. Number of cards issued obtained from University information reported to the Board of Regents Office.

Procurement Card Agreements

Each University has established its own agreement with Élan for procurement card services. The current SUI agreement began March 15, 2000. It was initially for services through March 14, 2003, but has been extended by one year on an annual basis since then, as allowed by the agreement. ISU and UNI executed agreements with Élan for services beginning January 1, 2003. The contracts were initially for services through December 31, 2003, but they too have been extended by one year on an annual basis since then. UNI has renegotiated its agreement with Élan and entered into a new agreement effective July 1, 2004.

The procurement card service agreements executed between each University and Élan contain essentially the same provisions. The agreements limit the Universities' liability due to fraudulent use of procurement cards. The Universities are liable only for fraudulent use of a procurement card that occurs before the Universities notify Élan by calling and informing Élan that the card has been lost or stolen or is being used for fraudulent purpose unless identified as fraud by Visa.

Also, rebate addendums to the procurement card agreements were executed between the Universities and Élan to allow receipt of rebates based on total purchases made with procurement cards during each calendar year. While each University operates procurement card programs independently, the agreements require Élan to consider the Universities as one entity for purposes of calculating volume rebates based on total purchases made using procurement cards. Being considered one entity allows the Universities more opportunity to qualify for rebates.

The volume rebate is based on the net annual procurement card charge volume for the three Universities combined and the average transaction size for the Universities. Rebates are paid to the Universities only if the net annual charge volume for the Universities combined is equal to or greater than \$5 million and the average transaction size for the three Universities combined is equal to or greater than \$160. Élan obtains applicable percentages based on each University's activity from the Performance Volume Rebate Matrix. A copy of the matrix is included in **Appendix A**. Rebates are sent directly to and administered by procurement card program staff at each University.

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The average speed of repayment of charges made each year also impacts the rebate calculations. If the average speed of repayment of charges made during a calendar year is more than thirty-four days, as agreed to in the rebate addendum, Élan is not required to give rebates to the affected University. If a University's average speed of repayment of charges during the year is 34 days or less, Élan uses the appropriate percentage corresponding to the average file turn days shown in **Table 3** to obtain additional percentages to be added to applicable percentages already identified from the Performance Volume Rebate addendum.

Table 3

Performance Rebate Percentages			
File Turn Days	Rebate Percentage	File Turn Days	Rebate Percentage
34	0.00%	24	0.15%
33	0.02%	23	0.17%
32	0.03%	22	0.18%
31	0.05%	21	0.20%
30	0.06%	20	0.21%
29	0.08%	19	0.23%
28	0.09%	18	0.24%
27	0.11%	17	0.26%
26	0.12%	16	0.27%
25	0.14%	15	0.29%

Table 4 shows the rebates received by each University for calendar years 2000 through 2003.

Table 4

Rebates Received				
University	2000	2001	2002	2003
SUI	\$ 63,181	93,586	167,169	399,794
ISU	14,145	25,555	46,243	119,825
UNI	4,734	7,772	-*	-*
Total	\$ 82,060	126,913	213,412	519,619

* Initially, UNI did not receive any rebates during calendar year 2002 and 2003. However, UNI subsequently received a lump sum rebate of \$15,072 for 2002 and 2003 following a favorable result from a dispute with Élan.

The rebates earned by SUI started increasing when they began to allow Purchasing, Accounts Payable and certain other department cardholders, such as Athletics, to use procurement cards for higher dollar and volume items. In addition, SUI has extensively promoted use of procurement cards by departments as much as possible to pay for necessary supplies and other items.

SUI Purchasing and Accounts Payable have chosen to use procurement cards as the payment method for billings related to utility, telephone, and other similar services and items for the University. Athletics uses the cards for travel expenses. Specific individuals within Accounts Payable and Athletics have been assigned responsibility for such purchases and have higher transaction and monthly credit limits approved for their cards.

The SUI Purchasing Department used a portion of the rebate received by the University to pay a consultant to develop and implement a web-based procurement card system. Some of the rebate was also used to pay a portion of administrative costs of the procurement card program. The remainder of the costs are paid from the Purchasing Department's operating budget. Over the last few years, the SUI Purchasing Department has accumulated a balance in the rebate account. At June 30, 2003, the balance in the account was \$202,530. By June 30, 2004, the rebate account accumulated an additional \$314,437, resulting in a balance of \$516,966.

ISU uses rebates to help offset administrative expenses of the procurement card program. During fiscal years 2000 through 2003, ISU used all rebates for expenses directly relating to administration of the procurement card program. Rebates received by UNI during fiscal year 2000 and 2001 were deposited into the miscellaneous income account of the general education fund. UNI did not receive any rebate dollars during calendar year 2002 and 2003. However, UNI subsequently received a lump sum rebate of \$15,072 for 2002 and 2003 following a favorable result from a dispute with Élan.

Advantages of Using Procurement Cards According to the Universities

The Universities have identified many advantages for using procurement cards for necessary low-dollar purchases rather than traditional purchasing methods. In the November 2001 Annual Governance Report on Purchasing, the Universities reported six primary benefits of using procurement cards, as follows:

1. Provides users control of low-dollar purchases and facilitates many low-dollar acquisitions, enabling end users to achieve objectives while allowing purchasing professionals to concentrate on high-dollar, more complex acquisitions;
2. Provides a more efficient and cost-effective procedure for handling small dollar, non value-added purchases;
3. Provides complete documentation and ensures products are received in a more timely manner;
4. Eliminates requisitions, purchase orders and payment vouchers and thereby reduces administrative work with fewer invoices processed and fewer checks written;
5. Assures acceptance of cards virtually anywhere in the world; and
6. Enhances the joint rebate/revenue-sharing program, which helps offset the cost of administration.

After completing our review of procurement card policies, procedures and related activity at each University, we reviewed and analyzed each benefit reported to the Board. While we agree there are some benefits to using procurement cards, there are also additional risks associated with the cards. The advantages reported by the Universities are difficult to measure and it is not clear to what extent operational efficiencies have been realized. A more detailed summary of our analysis of the benefits is included in **Appendix B**.

Report Overview

Making purchases using a procurement card may be more efficient and less costly than the traditional method of procurement, depending on the circumstances. However, procurement cards also increase the risk of fraud and misuse occurring and going undetected. The use of procurement cards has eliminated some controls over purchasing such as segregating duties between the requesting, purchasing, validation, reallocation and receiving functions. With a procurement card, the cardholder can decide what to purchase, make the purchase without pre-approval and receive the item.

Because eliminating controls increases the risk of improper purchases, an effective review and oversight process is essential to ensure procurement card purchases are necessary, proper and at the best price. Our review identified concerns with procurement card guidelines and procedures, controls and procedures at the Universities and other common problem areas with procurement card use. The recommendations included in this report will enhance the ongoing efforts to improve the procurement card program at the Universities. The remainder of this report is organized as presented in **Table 5**.

Table 5

Report Section	Description
Objectives, Scope and Methodology	Summary of the review’s focus, scope and methodology.
Procurement Card Process	Summary of procurement card issuance, controls, limits, use, reconciliation and review and recent developments for each University: State University of Iowa Iowa State University University of Northern Iowa
Merchant Category Codes (MCCs)	Summary of the use of MCCs at each University
Comparison of the Universities’ Procurement Card Policies, Procedures and Practices	Detailed examples and comparative tables showing differences and similarities between the Universities’ procurement card policies, procedures and practices
Findings and Recommendations	Summary and detailed examples of findings and related recommendations for improvements.
Schedules	Summaries of various cardholder activities.
Appendices	Rebate matrix, analysis of procurement card advantages, comparison of card use policies and procedures and blocked merchant category codes.

During our review, we identified several purchases made with procurement cards that did not comply with the standards established by the Universities. These items included purchases of computers, food and beverages, flowers, gifts and cell phones. In addition, we identified instances where the business purpose was not documented, purchases were split to avoid transaction limits and unusual or questionable purchases were made. Additional information about these items can be found in the Findings and Recommendations section of the report.

During our review, we also attempted to scan all purchases made with procurement cards at each of the Universities. We were able to effectively perform this procedure only for purchases made by ISU. The procurement card information compiled by SUI and UNI does not allow for efficient, comprehensive analysis at a transaction and cardholder level. Because of the capabilities of the procurement card transaction database maintained by ISU, they are able to effectively and efficiently monitor all activity associated with their procurement cards. They have used this information to perform periodic reviews and have identified inappropriate uses of procurement cards which have resulted in corrective actions.

The convenience of the procurement cards makes it more likely traditional purchasing methods and policies will not consistently be followed. When purchasing is decentralized, it is more difficult to determine if the goods or services are really necessary and if the goods and services were obtained at the best price. There is additional risk the Universities will pay for items that are not needed or were not purchased at the best price when cardholders make the decision about whether to make a purchase, what vendor to use and how much to spend.

In a decentralized purchasing environment, it is also difficult to ensure University contracts are used when they are available. In addition, it is more difficult for departments to control the amount of purchasing. With the use of procurement cards, discretionary or convenience spending may increase because prior approval of purchases is not usually required. This may lead to spending more than budgeted for items such as supplies. It also allows an employee to purchase items in larger quantities than may actually be needed or with unnecessary features.

Objectives, Scope and Methodology

Objectives

Our review was conducted to determine whether the:

- Universities have appropriately and effectively administered the procurement card program, including oversight and monitoring of the program, provided necessary guidance to departments and ensured compliance with relevant policies and procedures.
- Universities' policies and procedures regarding the use of and limits for procurement cards are sufficient.
- Procurement cards were used appropriately by cardholders and complied with University policies and procedures.
- Procurement card policies and procedures were consistent among the Universities.
- Procurement cards were issued to employees in accordance with assigned job responsibilities.

Scope and Methodology

To gain an understanding of the procurement card program of each University, we:

- reviewed the procurement card agreement and rebate addendum executed between Élan Financial Services and each University,
- interviewed procurement card administrative staff from each University and selected departments within the Universities,
- reviewed relevant Board of Regents purchasing policies,
- reviewed and compared each University's procurement card policies and procedures, including, but not limited to, card issuance, card controls and limits, allowable and unallowable uses, monthly reconciliations and the payment process.
- reviewed and evaluated the adequacy of procurement card processing, use controls and monitoring procedures of University departments selected for detailed review,
- obtained the number, names, limits and job titles of cardholders at each University,
- examined supporting documentation for selected procurement card purchases,
- reviewed the reasonableness of selected cardholders' single transaction and monthly purchase limits,
- reviewed card use and analyzed purchasing trends to the extent possible, and
- reviewed and analyzed procurement card program advantages reported to the Board of Regents by the Universities.

In addition, we reviewed relevant Internal Audit reports and audits or reviews performed by University procurement card administration for areas of concern.

To analyze procurement card transactions, we obtained procurement card expenditure data downloads from the Universities' accounting systems for July 1, 2001 through June 30, 2003. This data detailed procurement card activity by date, voucher reference number, vendor name, transaction amount and other detailed accounting codes for University internal use for each expenditure. In addition, we obtained more detailed procurement card expenditure data directly from each University and the Board of Regents, as necessary.

To conduct a detailed review of card use, we examined the transaction information for selected University departments and judgmentally selected specific transactions to test. We examined supporting documentation for each selected transaction to determine compliance with the University's procurement card policies and procedures. Supporting documentation for

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transactions selected for testing were also reviewed to determine whether the transactions had clear and reasonable documentation of business purposes, transactions were split to avoid single transaction limits and monthly credit limits were exceeded.

To identify transactions for testing, we selected departments from each University by analyzing total procurement card transaction dollars for each department, establishing a dollar threshold, then reviewing all departments with procurement card purchases exceeding the established threshold during fiscal years 2002 and 2003. We judgmentally selected procurement card transactions from the selected departments for testing of compliance with applicable policies and procedures and evaluated reasonableness of higher monthly purchase limits for selected cardholders. The procurement card purchases of departments, colleges, or other organizations within the Universities (departments) selected for testing comprise 30% of the Universities' combined total purchases for the two year period. The procurement card activity for the departments selected for testing is summarized in **Table 6**.

Table 6

University / Department	Fiscal Year Ended June 30,		Total
	2002	2003	
<u>SUI</u>			
Biological Sciences	\$ 512,280	616,432	1,128,712
Facilities Services Group	564,942	732,041	1,296,983
IIHR Hydroscience and Engineering	*	536,577	536,577
Intercollegiate Athletics	2,863,163	3,140,856	6,004,019
Internal Medicine	2,033,063	2,137,449	4,170,512
ITS Telecom and Network Services	657,185	720,277	1,377,462
Medicine Administration	*	702,648	702,648
Ophthalmology and Visual Sciences	*	516,846	516,846
Pathology	619,348	669,105	1,288,453
Pediatrics	991,610	1,214,198	2,205,808
Physics and Astronomy	*	516,050	516,050
Radiology	*	642,850	642,850
Total	8,241,591	12,145,329	20,386,920
<u>ISU</u>			
Agronomy	359,807	408,489	768,296
Animal Science	324,548	510,127	834,675
Biomedical Sciences	*	307,366	307,366
Facilities Planning and Management	707,436	864,706	1,572,142
Veterinary Clinical Sciences	*	336,177	336,177
Veterinary Diagnostic Lab	*	435,824	435,824
Total	1,391,791	2,862,689	4,254,480
<u>UNI</u>			
Business and Community Services	190,739	*	190,739
Education	317,890	321,369	639,259
Humanities and Fine Arts	216,614	290,644	507,258
Natural Sciences	369,656	419,912	789,568
Price Lab School	156,250	151,933	308,183
Total	1,251,149	1,183,858	2,435,007
Grand Total	\$ 10,884,531	16,191,876	27,076,407

* Expenditures were less than the dollar threshold used to select departments for testing.
Source: Procurement card expenditure downloads from University transaction tapes.

In addition to the testing done for selected departments, we attempted to scan all purchases made with procurement cards at each of the Universities. We were able to effectively perform this procedure only for purchases made by ISU. The procurement card information compiled by SUI and UNI does not allow for efficient, comprehensive analysis at a transaction level. Because of the capabilities of the procurement card transaction database maintained by ISU, they are able to effectively and efficiently monitor all activity associated with their procurement cards. They have used this information to perform periodic reviews and have identified inappropriate uses of procurement cards which have resulted in corrective actions.

ISU's procurement card transaction database contains all relevant and essential information for each cardholder and is in a format that facilitates scanning, sorting and analysis. The database can be sorted by department name, cardholder name, vendor, dollar amount, date and transaction description, including business purpose. The transaction information available from SUI and UNI lacked flexibility for completing sorts, subtotals and further analysis of data associated with each cardholder during our review period. Therefore, we were able to do more when scanning and analyzing ISU procurement card transactions than we were able to with SUI and UNI's transactions. Having flexibility of data for review and analysis is an important aspect of monitoring such transactions. All relevant procurement card transaction information was available from other records at UNI and from the web based procurement card transaction system at SUI, but it was not available in a format that facilitated effective monitoring, sorting and analytical techniques.

Procurement Card Process

The administrative functions of the Universities’ procurement card programs are structured somewhat differently and the extent of administrative staffing varies. While some procurement card policies and procedures are similar between the Universities, there are also many differences. For example, the Universities are not consistent in the identification of allowable and unallowable uses of the procurement cards. We have compared the Universities’ policies and summarized the results at the end of this section of our report and in **Finding 1. Appendices E and F** also contain detailed comparative matrices illustrating the differences between the Universities’ allowable and unallowable uses.

We have summarized the procurement card program administrative structure, procedures, controls and activity for each University in this section of the report.

State University of Iowa

The amount of SUI purchases made with a procurement card, number of transactions, average transaction amount and number of procurement cards issued during fiscal years 1999 through 2004 are presented in **Table 7**.

Table 7

	Fiscal Year Ended June 30,					
	1999	2000	2001	2002	2003	2004
Procurement Card Purchases	\$ 12,999,623	15,300,354	17,703,377	29,196,074	36,830,491	40,539,958
Number of Transactions	75,077	85,466	94,279	127,469	156,837	170,039
Average Transaction Amount	\$ 173	179	188	229	235	238
Number of Procurement Cards Issued	1,038	1,019	1,189	1,478	1,788	1,897

Source: November 2002 and 2003 Annual Governance Reports on Purchasing, data submitted by the Universities to the Board of Regents and University procurement card program administrator.

SUI has assigned overall administrative responsibility for the procurement card program to a procurement card program administrator (program administrator) within the Purchasing Department. The program administrator is assisted by other assigned staff from Accounts Payable and Travel within the Purchasing Department (program staff). SUI has established a Procurement Card Procedures Manual in addition to other web-based guidance and tutorials for cardholders and administrators.

Card Issuance

- SUI faculty and staff who wish to obtain a procurement card must complete and sign a procurement card agreement form which must be approved by the department administrator and submitted to program staff.
- Cardholder application agreement forms are submitted by program staff to Élan for processing.
- After procurement cards are received by the program administrator from Élan, the cardholders are notified to attend an upcoming training class conducted by program staff. The training classes are mandatory for all cardholders. Cards are released to the cardholder upon completion of training. However, SUI has allowed individuals other than the cardholder to attend training and pick up the card on behalf of the cardholder. Additional training classes are available from program staff for all cardholders and other individuals with procurement card responsibilities within departments.

SUI does not limit the number of employees who may be issued procurement cards. Guidance or criteria for who should be allowed to have procurement cards is not included in SUI policy. Currently, the issuance of cards is not necessarily related to job responsibilities and the employee's need to make purchases. Discretion is left to administrators within individual SUI departments to determine if an employee is issued a procurement card. SUI does not have a process in place to analyze employee purchasing patterns to determine who should receive a card or whether established limits are appropriate.

In addition, we identified instances where cardholders at SUI were also department administrators responsible for monitoring and approving procurement card transactions.

Card Controls and Limits

- SUI holds each cardholder accountable for his or her card. The cardholders and their respective department administrators are responsible for ensuring every transaction meets SUI policy and is properly supported. SUI allows cardholders to authorize another employee to use their card.
- SUI has implemented several controls and procedures to reduce the risk of unallowable purchases and limit SUI's liability in cases of card misuse. The controls include single transaction and monthly credit limits, use of specific Merchant Category Codes (MCC) and required supporting documentation.

The initial monthly credit limit for procurement cards issued to SUI staff is \$10,000. The single transaction limit is \$2,000, with the exception of cards issued to staff from University Hospitals who have an initial purchase limit of \$1,000 per transaction. The monthly and single transaction credit limits are not based on cardholder duties or expected purchases. SUI does not have a process in place to adjust the limits as a result of an analysis of spending patterns of cardholders.

- SUI program administration has chosen to allow up to \$100 for extra costs, such as shipping, handling or express freight, in addition to the credit limit of \$2,000 currently included in policy. Therefore, SUI's practice is to usually establish single transaction limits of \$2,100 in the Élan procurement card system for cardholders.
- The standard \$2,000 single transaction limit does not apply to conference registration fees, travel, reprints, subscriptions and renewals or advertising costs. When these costs exceed \$2,000, the transaction limit must be raised with the approval of the department administrator and program administrator or the costs are declined by Élan.
- Card limits may be increased or decreased depending on the circumstances and the department administrator's recommendation.
- Requests for increased limits must be written, approved by the cardholder's department administrator and submitted to procurement card administrators for approval.

Table 8 summarizes a series of monthly credit limit ranges and the number of cardholders with limits in each range as of March 2004. As illustrated by the **Table**, 1,623 of the 1,864 cardholders (87%) still had the initial limit of \$10,000 on their procurement cards. The cardholder with the \$550,000 limit works in the Purchasing Department. Their limit was increased to allow payment of large transactions such as utility and telephone bills.

While the monthly credit limits ranged from \$1,000 to \$550,000 for SUI, actual single transaction limits ranged from \$250 to \$40,000. **Schedule 1** includes a listing of the highest monthly credit limits and associated single transaction limits for SUI cardholders.

Table 8

Number of Cardholders	Monthly Credit Limits
47	\$1,000 to \$2,000
8	\$2,500 to \$5,000
1,623	\$10,000
120	\$14,000 to \$20,000
44	\$25,000 to \$35,000
14	\$40,000 to \$50,000
7	\$65,000 to \$120,000
1	\$550,000
<u>1,864</u>	

Source: Procurement card authorization limits list as of March 2004 from the SUI procurement card program administrator.

We tested compliance with monthly and single transaction credit limits and evaluated reasonableness of the limits established for 10 cardholders. None of the 10 cardholders tested had an average actual monthly purchase amount near their monthly credit limit. The average actual monthly purchase amounts for each of the 10 cardholders was less than 40% of their monthly credit limit. Of the cardholders tested, the highest average monthly purchase amount was \$178,967 for a cardholder with a \$550,000 monthly credit limit. The lowest average monthly purchase amount was \$468 for a cardholder with a \$10,000 limit.

Actual average transaction amounts were significantly lower than established transaction limits for many cardholders. Seven of ten SUI cardholders tested had average actual single transaction amounts less than 11% of their single transaction limit.

We also identified instances in which cardholders were able to circumvent their card’s transaction limit by having the vendor split the purchase into multiple transactions. Orders intentionally split to circumvent the \$2,000 transaction limit violate SUI policy. Also, the SUI transaction review process either did not identify split transactions were being made or allowed it to occur.

Card Use

- Procurement cards may be used to make purchases from vendors as allowed by and listed in the SUI Procurement Card Procedure Manual, including purchases from some University departments accepting procurement cards. Examples of allowable uses of procurement cards for necessary official SUI business expenses included in the Procurement Card Procedure Manual are summarized in **Table 9**.

Table 9

Allowable uses of SUI procurement cards		
<ul style="list-style-type: none"> • Airline tickets ¹ • Business meals and food ² • Car rental • Conference registrations • Copying charges incurred while traveling • Express freight • Fax and telephone charges • Foreign transactions • Ground transportation, such as taxi or shuttle service 	<ul style="list-style-type: none"> • Hotel deposits • Interdepartmental expenses where procurement cards are accepted ³ • Laboratory supplies • Lodging • Maintenance contracts • Maintenance expenses • Memberships for non-hospital staff 	<ul style="list-style-type: none"> • Monthly service fees, such as cell phones and pagers • Office equipment if low dollar and non-capital • Office supplies • Operating supplies • Repairs, if non-automotive • Phone orders • Subscriptions

¹ Cardholders are supposed to use preferred travel agencies and airlines to save time and ensure negotiated discounts are received.

² Procurement cards may be used for the purchase of food in certain instances with appropriate written justification and approval of a vice president, hospital CEO or appointed designee. The general rule is food may be purchased if the primary purpose of the event is for the benefit of the University, rather than for the benefit of the individuals in attendance. Food may not be purchased if the primary benefit is for the individuals and individual travel meals.

³ Departments accepting procurement cards include: General Stores, Video Center, Biochemistry Stores, Laundry Services, Memorial Union, Rental Pool and University Book Store.

University departments accepting procurement cards from other departments within SUI are listed on the SUI procurement card website. The departments accepting cards for payment must pay processing fees to Élan. **Table 10** summarizes some examples of the cost per transaction, total processing costs, benefits to departments accepting cards and benefits to departments using procurement cards for interdepartmental purchases, according to SUI department staff.

Table 10

Department	Processing Cost per transaction	Total Processing Costs	Benefits to department accepting cards	Benefits to departments using procurement cards for interdepartmental purchases
General Stores	\$3.25	\$2,765 for fiscal year 2003 and 2004	None, except for customer satisfaction	Convenience for cardholders
Biochemistry Stores	\$0.27 plus 1.9% of total	\$1,048 for fiscal year 2003 and \$2,113 for fiscal year 2004	None	Convenience for cardholders
Laundry Services	* No transactions occurred	None	None	None, since no transactions occurred.
Memorial Union	2.7 to 3%	Not available	No significant benefit	Convenience to cardholders includes being able to reserve rooms immediately.

* Laundry Services is listed on the SUI procurement card website as a department accepting procurement cards. However, according to Laundry Services staff, no interdepartmental transactions have been made using procurement cards.

Table 10 illustrates there is no significant benefit realized by departments accepting procurement cards for payment. The primary benefit identified for using procurement cards for interdepartmental purchases was convenience. While more convenient for the purchasing department, using a procurement card for interdepartmental purchases creates an additional expense to be paid by the department providing goods or services.

- **Table 11** includes items listed in the SUI Procurement Card Procedure Manual as unallowable uses of the card.

Table 11

Unallowable use of SUI procurement cards		
<ul style="list-style-type: none"> • Airline executive club memberships • Alcohol • Animals • Automotive repairs • Business cards • Capital equipment ¹ • Cash advances • Copying 	<ul style="list-style-type: none"> • Cylinder gases & liquid nitrogen • Gasoline ² • Gifts for staff • Lease, rentals of equipment ³ • Leases, including storage leases • Meals for individual travel ⁴ 	<ul style="list-style-type: none"> • Personal expenses at hotel, such as movie charges, personal phone calls and spa charges • Personal items • Printing • Radioactive materials • Telephones, related equipment ⁵ • Weapons, ammunition

¹ Limited to less than \$2,000 per transaction. Pertains to purchases involving trade-in of tagged University property.

² Pertains to personal vehicles or vehicles owned by Motor Pool. Vehicles obtained through Motor Pool must use the Motor Pool gas card. However, the purchase of gasoline to fill rental trucks to move SUI property is allowed. Gas can be purchased on the procurement card when traveling and using a rental vehicle.

³ Long-term leases and rentals of equipment for 6 months or longer.

⁴ Examples of when food purchases are not allowed on the procurement card include SUI employee meals while in travel status, retirement parties/receptions and alcohol is never allowed on the procurement card and food may not be purchased if the primary benefit is for the individual(s).

⁵ If needs cannot be met through SUI Telecommunications, then necessary items may be purchased from another provider.

- SUI cardholders may authorize other SUI employees to use their card. An authorization memo or form must accompany the authorized staff member so vendors will accept their signature for the charges. Only cardholders may use the procurement card issued in their name while in travel status.
- All purchases made with University procurement cards are tax exempt. Cardholders have the responsibility to inform the vendors SUI is tax exempt from State sales tax at the point of sale. If sales tax is charged in error, the cardholder must contact the vendor to credit the sales tax back to the procurement card.
- If cardholders use procurement cards to purchase unallowable items, they violate their cardholder agreement and SUI policy which may result in disciplinary action taken by administrators. Disciplinary action may also be taken for other policy violations, including unallowable documentation, late submission of procurement card voucher and documentation, unresolved item disputes and splitting charges to avoid the transaction limits.

Using the procurement card for personal purchases can be punished by cardholder termination and restitution for misuse. If the card is inadvertently used for personal expenses, the cardholders must reimburse SUI.

Reconciliation and Review Process

Department administrators are responsible for establishing and implementing controls over procurement cards in their respective departments. SUI policy requires the following procedures for the proper review of procurement card purchases.

- An original receipt from the vendor must support each purchase or credit transaction for returned items or incorrect charges. Vendor invoices are to be sent directly from the vendor to the cardholder's department.
- Receipts must include descriptive documentation from the vendor sufficient to support each transaction, including vendor name, date of transaction, what was purchased, the quantity and price. According to SUI policy, allowable receipts may be an invoice, catalog page, packing receipt, register receipt or web page printout. If the register receipt only includes the total purchase amount, the items purchased must be added.
- Monthly billing statements are received by department administrators from Élan. Cardholders verify accuracy of the transactions and reconcile supporting receipts to billing statements. After the reconciliation is completed, payment vouchers are prepared. The vouchers include a listing of all transactions for each cardholder and are submitted by the departments to Accounts Payable. Each purchase must be allocated to appropriate accounts and be supported by appropriate documentation.
- Department administrators, college deans or directors of other organizations within SUI are required to review and approve all procurement card transactions prior to sending the documents to Accounts Payable.
- Payment vouchers for procurement cards must include the cardholder's signature and the approval of an authorized department staff member. This signature cannot be delegated and a signature stamp cannot be used. For travel costs charged to procurement cards, the second signature must be the cardholder's direct supervisor or someone of higher authority in the department or college.
- Accounts Payable procurement card program staff review every payment voucher, billing statement, supporting receipts and any other support prior to processing the charges for payment. Transactions are reviewed to determine if they are allowable, appropriate and in compliance with procurement card policies and procedures.
- According to program staff, SUI has a process in place that reinforces with the cardholders that splitting transactions to avoid the transaction limit is not allowable. Queries are run against the transactional data and letters issued to the cardholder violating the policy. These letters require justification for the transaction. Cards can be revoked and cardholders can be required to attend additional training. However, split transactions are allowed when cardholders purchase from a competitively bid and awarded contract.
- Purchasing images all procurement card documentation into the SUI web-based procurement card system. Access to the web-based procurement card system is restricted to SUI administrative personnel, department administrators, cardholders and auditors who have requested and received approved user names and passwords.
- The total reconciled and approved SUI procurement card charges are paid monthly to Élan via electronic funds transfer.
- In addition, while not specifically mentioned in the SUI procurement card policies, the SUI Internal Audit department periodically reviews and audits procurement card procedures and transactions of departments and colleges.

The procurement card transaction information available from SUI lacked flexibility for completing sorts, subtotals and further analysis associated with each cardholder during our review period. While relevant procurement card transaction information was available from the web based system at SUI, it was not available during our review in a format that facilitated comprehensive review and analysis of transactions, especially as related to transaction descriptions and business purposes. Having flexibility of data for review and analysis is an important aspect of monitoring such transactions.

SUI procurement card policies have allowed cardholders to make purchasing decisions, make the purchase, receive the purchased items, maintain and validate supporting documentation and reallocate the purchases. Usually, there was no involvement in the procurement card process by an independent party within cardholder's department until documentation was submitted by cardholders to department administrators for approval and submission to SUI program administration for payment processing.

Recent Developments

The SUI procurement card system has recently been upgraded to allow users to review procurement card activity at either an organizational or departmental level. Department administrators now have access within the procurement card web application to summaries, listings and reports of procurement card transactions and related information for transactions, vouchers, receipts and card information.

The Internal Audit Department of SUI completed an audit of travel expenses charged to procurement cards, including a review of policies and procedures. The audit report was issued on September 27, 2004 and findings were summarized as follows:

“Our review indicated that the Accounts Payable/Travel Department is generally doing a good job of central administration of the travel on Pcard program. However, problems were found with the expense review and approval processes within the individual cardholder departments. Incomplete review of transaction documentation has allowed prohibited expenses to be authorized for payment by the University. Providing training for individuals serving as reconcilers and voucher approvers coupled with disincentives for inadequate expense review should help avoid future problems of this type.”

SUI is developing and improving its procurement card system for travel expenses charged to procurement cards while considering results of the Internal Audit report. The new web-based travel reimbursement system was released online at the SUI procurement card website on October 28, 2004. SUI is expanding the web-based travel reimbursement system to include all travel processes and to facilitate administrative review of those expenses. Travel expenses may be reviewed individually or collectively by trip, individual, department and/or University-wide. Some of the objectives of the on-line travel system development include:

- Replace manual travel processes and paper forms, including trip approval, cash advance and travel reimbursement/travel voucher;
- Reduce time for preparing vouchers by automating the process;
- Utilize workflow routing for approvals;
- Provide one tool for reconciling procurement card transactions and out of pocket travel expenses; and
- Provide one source for administrative data collection and reporting.

Iowa State University

The amount of ISU purchases made with a procurement card, number of transactions, average transaction amount and number of procurement cards issued during fiscal years 1999 through 2004 are presented in **Table 12**.

Table 12

	Fiscal Year Ended June 30,					
	1999	2000	2001	2002	2003	2004
Procurement Card Purchases	\$ 650,711	2,760,476	4,557,680	6,943,159	10,741,500	13,368,832
Number of Transactions	2,866	15,649	25,134	38,582	57,077	68,935
Average Transaction Amount	\$ 227	176	181	180	188	194
Number of Procurement Cards Issued	214	383	606	1,040	1,412	1,702

Source: November 2002 and 2003 Annual Governance Reports on Purchasing, data submitted by the Universities to the Board of Regents and University procurement card program administrator.

Primary responsibility for administration of the ISU procurement card program is assigned to the procurement card administrator (program administrator) and the procurement card team along with other individuals within the Purchasing Department (program staff) who assist as needed.

ISU established procurement card policies and procedures to provide guidance to cardholders and administrators for obtaining and using procurement cards and related activity. Procurement card policies and procedures are contained in the “Cardholder Guide for Iowa State University Purchasing Card Program” and the “User Guide for Iowa State University Purchasing Card Program.” The user guide includes one section with the same information as the cardholder guide and an additional section that includes detailed guidance for users of the electronic procurement card system. Also, ISU has other web-based procurement card information and tutorials for cardholders and administrators.

Card issuance

- All ISU faculty and staff may obtain a procurement card with approvals from their respective department chair or director and dean, vice president or provost and by completing, signing and accepting the terms and conditions of ISU’s cardholder agreement. Documentation showing receipt of the card must also be completed.
- Cardholder application agreement forms are submitted by program staff to Élan for processing.
- Élan sends the approved cards directly to the program administrator. Procurement cards include the name of the approved individual along with ISU’s name.
- Procurement cards are not released to faculty and staff applicants until they attend required training conducted by program administration. Cardholders must pick up the procurement card in person from the Purchasing Department. At that time, they must sign the back of the procurement card and receive instructions on its use, including cardholder responsibilities.

Individuals responsible for procurement card transaction reconciliation and approval processes are also required to attend a brief orientation session.

ISU does not limit the number of employees who may be issued procurement cards. Guidance or criteria related to the number or job responsibilities of faculty and staff who should be allowed to have procurement cards is not included in ISU policy. Currently, the issuance of cards is not necessarily based on job responsibilities and the employee’s need to make purchases. Discretion is left to administrators within individual ISU departments to determine if an employee is issued a procurement card. ISU does not have a process in place to analyze employee purchasing patterns to determine who should receive a card or whether the established limits are appropriate.

Card Controls and Limits

- ISU holds each individual cardholder accountable for his or her card. The cardholders and their respective department administrators are responsible for ensuring every transaction meets ISU policy and is properly supported.
- ISU has implemented several controls and procedures to reduce the risk of unallowable purchases and limit ISU’s liability in cases of card misuse. The controls include single transaction and monthly credit limits, use of merchant Category Codes (MCC) and required supporting documentation.
- The initial monthly limit for procurement cards issued to ISU staff is \$10,000 with a single transaction limit of \$2,000. ISU does not have a process in place to adjust the limits as a result of an analysis of spending patterns of cardholders.
- Limits may be increased or decreased as determined and requested by department administration. Requests for increased limits must be written, approved by the cardholder's department administrator and submitted to program administration for approval.
- Requests for increased limits must be based on the department administrator’s recommendation and receive special approval from the Associate Director of ISU Purchasing.

Table 13 summarizes a series of monthly credit limit ranges and the number of ISU cardholders with limits in each range as on March 2004. As illustrated by the **Table**, 1,544 of the 1,681 cardholders (92%) still had the initial monthly credit limit of \$10,000 on their procurement cards. The \$75,000 limit was established for a cardholder in Facilities Planning and Management. The \$100,000 limit was established for two cardholders within the Purchasing Department. Their limits were increased to allow payment of large transactions such as utility and telephone bills.

While the monthly credit limits ranged from \$500 to \$100,000 for ISU, actual single transaction limits ranged from \$200 to \$15,000. **Schedule 1** includes a listing of the higher monthly credit limits and associated single transaction limits for ISU cardholders.

Number of Cardholders	Monthly Credit Limits
25	\$500 to \$1,000
56	\$2,000 to \$5,000
1,544	\$10,000
28	\$14,000 to \$20,000
20	\$25,000 to \$35,000
5	\$40,000 to \$50,000
1	\$75,000
2	\$100,000
<hr/> 1,681 <hr/>	

Source: Procurement card authorization limits list as of March 2004 from the ISU procurement card program administrator.

We tested compliance with limit policy and evaluated reasonableness of limits established for 11 cardholders. None of the 11 cardholders tested had an average actual monthly purchase amount near their monthly credit limit. Also, the average actual monthly purchase amounts for each of the 11 cardholders was less than 50% of their monthly credit limit. Of the cardholders tested, the highest average monthly purchase amount was \$32,530 for a cardholder with a \$75,000 monthly credit limit. The lowest average monthly purchase amount was \$1,204 for a cardholder with a \$20,000 limit.

Actual average transaction amounts were significantly lower than established transaction limits for many cardholders. Of the 11 cardholders tested, five had average actual single transaction amounts under 11% of their single transaction limit.

We also identified instances in which cardholders were able to circumvent their card's transaction limit by having the vendor split the purchase into multiple transactions. Orders intentionally split to circumvent the \$2,000 transaction limit violate ISU policy. Also, the ISU transaction review process at the department level either did not identify the split transactions were being made or allowed it to occur.

Card Use

- Procurement cards are to be used only by the named cardholder and are not to be loaned to anyone else, including faculty, staff or students. It is the duty of each cardholder to ensure responsible use of their procurement card. As agreed to under the cardholder agreement, the cardholder has full liability for any charges resulting from allowing others to use the card.
- All purchases made with procurement cards must be for the use and benefit of ISU, as stated in ISU policy and cardholder agreement. Examples of allowable use of cards include conference registration fees and dues or memberships. Office supplies and equipment may also be purchased after first determining whether the items are available from University stores or documenting substantial savings would be achieved through purchasing from another vendor.
- ISU allows faculty and staff to use procurement cards for meetings, events and hospitality expenses. Cardholders must complete a hospitality attachment to the agreement which must be approved by department chairs and deans or directors. Allowable use of cards with a hospitality attachment include items such as:
 - Staff retreats,
 - Events consistent with the mission of the University, which are not strictly departmental in nature,
 - Events for student recruitment and retention,
 - Meals and hospitality for position interviewees and candidates, visiting speakers, other visitors and meeting attendees,
 - Educational development seminars and conference expenses hosted by ISU,
 - Lodging for non-employees visiting ISU, and
 - Meeting room expenses.
- Cardholders are not allowed to use the card for travel expenses.
- **Table 14** includes items listed in the ISU procurement card policy manual as unallowable uses of the card.

Table 14

Unallowable uses of ISU procurement cards		
<p align="center"><u>Equipment</u></p> <ul style="list-style-type: none"> • Items valued at over \$5000, with a useful life of +1 year & tagable for inventory • Computers (except PDAs) • Purchases involving trade of ISU property • Telephones, cordless telephones, IP phones, cell phones & related equipment • Data networking equipment, switches, routers & wireless access points • Any device that plugs into a data network 	<p align="center"><u>Services</u></p> <ul style="list-style-type: none"> • Construction services • Repair & technical services (without written authorization from Purchasing) • Professional services • Moving services (employee relocation) • Rental services • Telecommunications services 	<p align="center"><u>Items restricted due to standards/reporting issues</u></p> <ul style="list-style-type: none"> • Alcoholic beverages ¹ • Controlled substances • Firearms, weapons & ammunition • Furniture, furnishings & artwork • Items from conflict of interest vendors ² • Items from on-line auctions • Laboratory animals, livestock, animal cages & aquariums • Leases & rentals • Pharmaceuticals & drugs • Radioactive materials & hazardous materials
<p align="center"><u>Travel expenses</u></p> <ul style="list-style-type: none"> • Hotel rooms (including reservation of hotel rooms) • Meals • Car rentals • Parking fees • Gasoline & fuel 	<p align="center"><u>Personal items & gifts</u></p> <ul style="list-style-type: none"> • Items for personal use • Gifts benefiting an individual employee • Donations 	<p align="center"><u>Items available through ISU stores ³ & services</u></p> <ul style="list-style-type: none"> • Printing & photocopying • Business cards & letterhead • Postal & parcel services • Photocopier supplies • Cylinder gases & liquid nitrogen
<p align="center"><u>Additional restrictions for cardholders without hospitality rights</u></p> <ul style="list-style-type: none"> • Hospitality expenses • Meals & food for consumption • Entertainment expenses • Interview expenses • Hotel rooms for visitors to the University 		

¹ Procurement cards may be used for alcohol purchases under certain circumstances allowed under ISU policy. For example, procurement cards may be used to purchase alcohol for appropriate use in culinary arts program and as approved for certain special events serving alcohol at the ISU President's events.

² Includes purchases from ISU employees, their spouses, minor children, associated businesses in which they have a 5% or greater ownership interest and any sole proprietorship or partnership in which they have an interest.

³ Cardholders are expected to purchase in-stock items at University stores unless substantial savings can be realized through alternative sources. External vendors cannot be used for printing or photocopying without consent of Printing Services in accordance with Board of Regents policy.

- Cardholders may use procurement cards to purchase items from other departments or stores within the University accepting procurement cards, such as University Bookstore. Departments and stores accepting cards for payment must pay processing fees to Élan.
- All purchases made with University procurement cards are tax exempt. Cardholders have the responsibility to inform the vendors ISU is tax exempt from State sales taxes at the point of sale. If sales tax is charged in error, the cardholder must contact the vendor to credit the sales tax back to the procurement card.
- Violating any procurement card policies, including the cardholder agreement, may result in immediate termination of the privilege to use the procurement card. Restitution is sought by ISU for any misuse of procurement cards.

Reconciliation and Review Process

Department administrators are responsible for establishing and implementing controls over procurement cards in their respective departments. ISU policy requires the following procedures for the proper review of procurement card purchases.

- An original receipt from the vendor must support each purchase or credit transaction. Supporting documentation might include the following:
 - Copy of an order form or application when available.
 - Packing slip (for goods received).
 - Cashier receipt or vendor/supplier invoice, showing the charges have been paid by using the card.
 - Line item detail, unit and extended total cost supplied by the cardholder, whenever such detail is not represented on the charge card receipt or vendor/supplier's invoice.
 - Copy of registration form. A statement must be included on the travel expense voucher that registration fee was paid via procurement card.
- Vendor invoices must be sent directly to the cardholder's department.
- ISU policy recommends cardholders complete procurement card transaction logs for all procurement card transactions so it is available for future reference. A procurement card log form is available from the ISU procurement card program website.
- The billing statement, credit card receipts, packing slips and on-line order forms received by the cardholder are the only hard copy documents associated with the ISU procurement card program. All other documentation is electronic. Departments are considered the holder of permanent records for the procurement card program and are required to maintain the records for five years.
- Cardholders must provide and maintain documentation regarding the business purpose of all hospitality transactions, including purpose, beginning and ending dates, location, event type, and names of participants, as required for compliance with federal Internal Revenue Service regulations and ISU policy.
- Cardholders are responsible for resolving any discrepancy with a vendor within ten days of purchase. If resolution is not possible, cardholders must e-mail the program administrator with supporting information within thirty days after statement receipt.
- The electronic reconciliation system receives daily electronic transmissions from Élan showing posted card transactions by cardholder. When monthly billing statements are received by department administrators, cardholder transactions are processed and approved through the reconciliation system by assigned department staff.
- During the reconciliation process, the departments are required to verify actual amounts charged for purchases are correct and match the billing statement charges. Procurement card system users include cardholders, validators (verify transactions), re-allocators and approvers that have unique and essential functions within the reconciliation process. The system is setup to notify each system user, as appropriate, via e-mail for every step of their involvement in the reconciliation process.

Validators verify whether card transactions are authentic, amounts are correct and materials have been received. During our review period, cardholders were allowed to be the validator of their own transactions. Once validated, the transactions are routed

electronically to someone who can re-allocate the correct fund number and class code splits, then forwarded electronically to a person designated to serve as the approver.

Re-allocators may reallocate the charges to one or more fund/account numbers. During our audit period, cardholders were allowed to reallocate their own transactions with approval from department administrators.

We found instances where cardholders were allowed to validate and reallocate their own transactions. Because of audit concerns also identified by ISU program staff, the validation and re-allocation process has been changed. Effective March 2004, cardholders are no longer allowed to validate and re-allocate their own procurement card transactions.

Approvers determine if transactions are appropriate and acceptable. They also approve the specific fund and account number assigned to each transaction. Cardholders are not allowed to approve their own card's transactions. Once transactions are approved, they are moved into the accounting system and appear in the Financial Management system. The system has been designed so each system user receives reminders by e-mail if transactions have not been processed. If a transaction has not been reconciled, users receive e-mail messages regarding the transaction status.

- The procurement card system allows access to transaction databases by users authorized by department administrators and program administration. Authorized users may obtain information from the system by department names, cardholder names, vendor names, document numbers, accounting codes, transaction dates, amounts and descriptions.
- The total reconciled and approved ISU procurement card charges are paid monthly to Élan via electronic funds transfer. Invoices received from vendors/suppliers are maintained at the departments by cardholders.

ISU program administration reviews all transactions prior to processing for payment and plans to audit every department participating in the procurement card program on a rotating basis over the next few years. Internal Audit was involved in development of the procurement card program and reviews some procurement card transactions during audits of selected departments.

After our audit period, ISU implemented a new policy regarding split transactions. Effective December 3, 2003, if ISU procurement card administrators identify any evidence of cardholders using any means to avoid single transaction limits, their procurement card privileges will be revoked. However, ISU allows employees to split transactions when purchases are made using a competitively bid and awarded contract with leveraged pricing or government volume pricing agreements.

Because of the capabilities of the procurement card transaction database maintained by ISU, procurement card administrative staff are able to effectively and efficiently monitor all activity associated with the procurement cards. They have used this information to perform periodic reviews and have identified inappropriate uses of procurement cards which have resulted in corrective actions.

ISU procurement card policies have allowed cardholders to make purchasing decisions, purchase the item, receive the purchased items, maintain and validate supporting documentation and reallocate the purchases. Usually, there is no involvement in the procurement card process by someone other than the cardholder until documentation is submitted to department administrators for approval and submission to ISU program administration for payment processing.

We identified two departments within ISU that have chosen to implement more stringent control over purchases made with procurement cards by requiring purchase requisitions to be submitted and approved by a department administrator prior to making purchases. The departments with more controls in place have designated a cardholder or a few cardholders to make purchases as requested by faculty or staff within the departments. Faculty and staff within those departments complete and submit purchase requisitions to designated and approved cardholders and the cardholders then purchase the items.

The Biomedical Sciences Department uses purchase requisitions for items purchased with procurement cards. The purchase requisitions, which are completed prior to the proposed purchase, include an authorized signature. In addition, the Veterinary Diagnostics Laboratory uses a request for supplies form that documents the description, cost and the supervisor's approval.

Recent Developments

A major change has been made to ISU's procurement card transaction system validation and reallocation process effective March 19, 2004. As stated previously, ISU program staff identified some concerns regarding cardholders' validation and reallocation of their own purchases. The procurement card system was changed to no longer allow cardholders to do the validation and reallocation of their own transactions. Now this function must be performed by another person in each department. Prior to this change, many departments already had other validators responsible for verification of transactions and re-allocators available.

According to ISU program staff, no new people had to be added or trained, but invoices or receipts must be given to another person in each department to validate or reallocate transactions. Program staff plans to work with smaller departments needing guidance for implementing this change and training needs.

Transactions for on-line auctions, such as E-bay and other similar vendors, are no longer allowed on ISU procurement cards. Such transactions may involve private individuals and require ISU to track information for tax purposes or potential conflicts of interest. Future transactions for E-bay or other on-line auction services may result in the loss of procurement card privileges.

ISU policy regarding use of procurement cards for purchasing computers and laptops has changed. Earlier versions of the purchase limitations and restrictions listed in the procurement card policy included CPUs exceeding \$500. This limitation now extends to all laptop and desktop computers. PDA's are still exempt from this policy.

ISU program administration has recognized there has been a significant lack of documentation in the past to determine business purpose and has implemented system enhancements to facilitate such documentation. All ISU procurement card transactions must now have an associated purpose documented in the system in addition to the description of each transaction.

Additional Development

During our review of University procurement cards, we were notified by ISU administration they had identified instances of personal use of a procurement card.

ISU Purchasing discovered the inappropriate activity and took immediate action to investigate and resolve it. Unusual activity was initially identified by procurement card administrators during a routine review of open transactions not yet processed for payment. Upon

identification of the unusual activity, Purchasing reviewed all of the employee's procurement card transactions between March 2003 and May 2004 to identify potential fraud. After Purchasing reviewed all transactions they could access, assistance from the ISU Department of Public Safety (DPS) was requested to gain access to the remainder of the former employee's procurement card transactions.

DPS obtained access to the remainder of transactions not available to Purchasing and reviewed available documentation of questionable transactions previously identified by Purchasing. In addition, the employee's activity prior to March 2003 was reviewed by Purchasing and DPS for appropriateness. We reviewed the work completed by ISU Purchasing and discussed with representatives of DPS the procedures they used and the related results.

In a released statement, police stated records obtained from ISU's Purchasing Department indicate the former employee made many personal charges on the procurement card and then created false receipts and records to obscure the purchases. Examples of items believed to have been purchased with the procurement card and seized by the police include vacuum and steam cleaners, CDs, DVDs, video games, stereo systems, a telephone, a smoker grill, school photographs, a helmet and vinyl signs. Police officers also seized computers, records and receipts.

In July 2004, an employee of the Department of Management within the College of Business at ISU was arrested and charged with forgery and related fraudulent acts for inappropriate use of a procurement card. Approximately \$16,000 of inappropriate purchases were made by the employee with a procurement card between March 2003 and May 2004. The employee was terminated from ISU employment.

The ISU procurement card fraud resulted from a lack of control over procurement card purchases and a lack of segregation of duties for purchasing, receiving, reviewing and processing procurement card transactions. Specifically, the inappropriate purchases occurred because sufficient controls were not in place for the validation, re-allocation and approval process of purchases made with a procurement card. The Department of Management within the College of Business at ISU did not require pre-approval of purchases made with procurement cards.

As of July 2004, ISU has implemented procedures to address control weaknesses in the procurement card validation, re-allocation and approval process by requiring involvement of at least two employees in the process and requiring someone other than the cardholder to review all transactions for appropriateness, acceptability, funding source and business purpose. ISU is also considering requiring pre-authorization for all procurement card transactions.

University of Northern Iowa

The amount of UNI purchases made with a procurement card, number of transactions, average transaction amount and number of procurement cards issued during fiscal years 1999 through 2004 are presented in **Table 15**.

Table 15

	Fiscal Year Ended June 30,					
	1999	2000	2001	2002	2003	2004
Procurement Card Purchases	\$ 938,546	1,118,439	1,345,493	2,522,993	2,711,891	2,557,091
Number of Transactions	10,595	12,054	12,390	16,655	17,709	16,996
Average Transaction Amount	\$ 89	93	109	151	153	150
Number of Procurement Cards Issued	261	278	293	309	323	295

Source: November 2002 and 2003 Annual Governance Reports on Purchasing, data submitted by the Universities to the Board of Regents and University procurement card program administrator.

Primary responsibility for administration of the procurement card program has been assigned to a procurement card program administrator (program administrator) within the Purchasing Department of the Office of Business Operations. The program administrator is assisted by other staff within the Purchasing Department (program staff).

UNI does not have comprehensive detailed procurement card policies and procedures available for cardholders and administrators. While UNI has some procurement card guidance available in writing, it does not have a complete set of policies and procedures addressing the entire procurement card process and responsibilities of cardholders and administrators. According to UNI procurement card administrative staff, UNI is developing comprehensive guidance for cardholders and department administrators. In July 2004, UNI completed revisions of its cardholder agreement form and Procurement Card Processing guide (Processing guide) and is still developing a comprehensive procurement card policies and procedures manual.

Card issuance

- All UNI faculty and staff may obtain a procurement card with approval from their respective department administrator and the program administrator and by completing procurement card application and agreement forms.
- Cardholder application agreement forms are submitted by program staff to Élan for processing.
- Élan sends the procurement cards directly to the program administrator.
- Cardholders must pick up the card in person from program staff and at the same time sign the back of the procurement card and receive instructions on its use.

UNI does not limit the number of employees who may be issued procurement cards. Guidance or criteria related to the number or job responsibilities of faculty and staff who should be allowed to have procurement cards is not included in UNI policy. Currently, the issuance of cards is not necessarily based on job responsibilities and the employee's need to make purchases. Discretion is left to administrators within individual UNI departments to determine if an employee is issued a procurement card. UNI does not have a process in place to analyze employee purchasing patterns to determine who should receive a card or determine whether established limits are appropriate.

Card Controls and Limits

- Each cardholder is responsible for all charges made to their card. The cardholders and their departments are responsible for ensuring every transaction meets UNI policy and is properly supported.
- UNI has implemented several controls and procedures to reduce the risk of unallowable purchases and UNI’s liability in cases of card misuse. The controls include single transaction and monthly credit limits and required supporting documentation.
- The initial monthly credit limit for procurement cards issued to UNI staff is usually \$5,000 or less. Monthly credit limits for cardholders are determined by departments and program staff. UNI’s written procurement card policy indicates procurement cards are to be used for purchases under \$500. According to program staff, enforcement of the \$500 single transaction limit was somewhat lenient.

Single transaction limits were not established for cardholders having monthly credit limits of \$2,000 or less. However, single transaction limits ranging from \$2,000 to \$25,000 were established for cardholders with monthly credit limits over \$2,000. Most UNI cardholders listed with single transaction limits in the October 2003 cardholder list had limits of \$2,000 or \$2,500. The monthly and single transaction limits are not usually based on cardholder duties or expected purchases. UNI does not have a process in place to adjust the limits as a result of an analysis of spending patterns of cardholders.

Under the agreement with Élan effective July 1, 2004, UNI changed its policy to establish a standard single transaction limit of \$1,000 for cardholders unless otherwise approved.

- Limits may be increased or decreased as determined and requested by department administration. Requests for increased limits must be written, approved by the cardholder's department administrator and submitted to program administration for approval.
- Requests for increased limits must be based on the department administrator’s recommendation and receive approval from the Director of Business Operations and the Controller’s Office.

Table 16 summarizes a series of monthly credit limit ranges and the number of UNI cardholders with limits in each range as of October 2003. As illustrated by the **Table**, only 57 cardholders still had an initial limit of \$5,000 on their procurement cards. Over half of UNI’s cards had monthly limits less than \$5,000. The \$50,000 limit was established for a cardholder within Athletics Administration. **Schedule 1** includes a listing of the highest monthly credit limits and associated single transaction limits for UNI cardholders.

Number of Cardholders	Monthly Credit Limits
26	\$200 to \$800
50	\$1,000 to \$1,500
109	\$2,000 to \$4,500
57	\$5,000
23	\$5,500 to \$9,000
26	\$10,000
5	\$15,000 to \$25,000
1	\$50,000
<hr/> 297 <hr/>	

Source: Procurement card authorization limits list as of October 2003 from the UNI procurement card program administrator.

We tested compliance with the limit policy and evaluated reasonableness of limits established for five cardholders. Of those tested, four did not have an average actual monthly purchase amount near their monthly credit limit. Also, the average actual monthly purchase amounts for the four cardholders were under 25% of their monthly credit limit. For the cardholders tested, the highest average monthly purchase amount was \$4,984 for a cardholder with a \$25,000 monthly credit limit. The lowest average monthly purchase amount was \$750 for a cardholder with a \$25,000 limit.

Actual average transaction amounts were significantly lower than established transaction limits for many cardholders. Of the five cardholders tested, all five had average actual single transaction amounts less than 7% of their single transaction limit.

Card Use

- Allowable uses of procurement cards include purchase of items necessary for conduct of official UNI business, except for items listed as unallowable in UNI policy and the cardholder agreements. Procurement cards may also be used to pay for all air travel reservations and conference registration fees.
- Only cardholders may use their procurement card. No one else may use the card without express approval from the cardholder. We identified instances where other individuals were allowed to use a cardholder’s card without documented approval.
- UNI does not have any interdepartmental purchases made using procurement cards.

The UNI procurement card use policy contained in the Procurement Card Application & Agreement forms (cardholder agreement) and Processing guide had several inconsistencies between items listed as unallowable for uses of the procurement card. The Processing guide included items such as automotive repairs, controlled substances, food and entertainment, gasoline and hospitality which are not listed as unallowable on the cardholder agreement. Therefore, to obtain a complete list of unallowable uses for UNI, we have combined the items from the cardholder agreement and Processing guide and summarized these in **Table 17**.

Table 17

Unallowable uses of UNI procurement cards		
<ul style="list-style-type: none"> • Alcoholic beverages • Animals • Automotive repairs • Business cards • Capital equipment • Car rentals • Cash advances • Controlled substances • Gasoline • Hospitality, food and entertainment • Hotels 	<ul style="list-style-type: none"> • Items available from Campus Supply, unless significant savings realized • Items for personal use • Items on UNI or Regents contracts • Long-term leases/rentals • Letterhead & envelopes • Meals • Printing/copying unless needed while traveling. • Purchase or trade of University property 	<ul style="list-style-type: none"> • Radioactive materials/ hazardous chemicals or materials • Stationary • Telephones & related equipment • Technical services/ professional services • Travel or travel related expenses except for airline tickets and conference registration fees • Weapons or ammunition

- All purchases made with University procurement cards are tax exempt. Cardholders have the responsibility to inform the vendors that UNI is tax exempt from State sales taxes at the point of sale. If sales tax is charged in error, the vendor must be contacted to credit the sales tax back to the procurement card.

- If cardholders make unauthorized purchases with the procurement card, use the procurement card in an inappropriate manner or otherwise violate the procurement card program guidelines and cardholder agreement, they are subject to disciplinary action, which may include dismissal from employment. If procurement cards are used improperly, UNI may deduct the total of any improper purchases from the cardholder paycheck or from any other amounts payable to the cardholder. UNI may collect any amounts owed even if the cardholder is no longer employed by UNI.

Reconciliation and Review Process

Department administrators are responsible for establishing and implementing controls over procurement cards in their respective departments. UNI policy requires the following procedures for the proper review of procurement card purchases.

- An original receipt from the vendor must support each purchase or credit transaction. Vendor invoices must be sent directly to the cardholder's department. Supporting documentation may include an invoice, detailed cash or sales receipt, packing slips with dollar amount, billing statements, conference registration forms or internet confirmations. All receipts must include supplier name, amount, date and itemized description of items purchased. Failure to supply receipts or meet the deadline for processing may result in suspension of procurement card privileges or cancellation.
- Departments must review and approve all procurement card transactions prior to sending the documents to Accounts Payable.
- Cardholders and cardholder's departments, upon receiving monthly billing statements, must reconcile receipts to amounts shown on the billing statements.
- Discrepancies are the responsibility of the department to resolve. If there are charges the department wishes to dispute, it is the responsibility of the department to first contact the supplier to seek resolution. If efforts to resolve the problem directly with the supplier fail, the item in dispute is charged to the department and the cardholder should contact Accounts Payable for procedures to initiate the dispute with Élan.
- Cardholders must validate, distribute charges to the appropriate fund/account combination, sign and date, obtain approval from the department administrator and forward the monthly statement with supporting detail to Accounts Payable within the Office of Business Operations.
- UNI Business Operations maintains originals of all procurement card documents in a central location filed by month.
- UNI issues one check each month to Élan for the total reconciled and approved procurement card charges.
- The Office of Business Operations monitors procurement card program activity. Accounts Payable staff reviews all procurement card transactions prior to processing for payment.
- In addition, while not specifically mentioned in the UNI procurement card policies, the UNI Internal Audit Department may periodically review and audit procurement card procedures and transactions of departments and colleges. The Internal Audit Department reviews some procurement card transactions during audits of selected departments.

The procurement card transaction information available from UNI was not in a format that facilitated effective monitoring, scanning or analyzing. Having flexibility of data for review and analysis is an important aspect of monitoring such transactions.

UNI procurement card policies have allowed cardholders to make purchasing decisions, purchase the item, receive the purchased items, maintain and validate supporting documentation and reallocate the purchases. Usually, there is no involvement in the procurement card process by someone other than the cardholder until documentation is submitted to department administrators for approval and submission to UNI program administration for payment processing.

Recent Developments

The UNI Procurement Card Application & Agreement form and Procurement Card Processing guide were recently revised. In addition, UNI is reviewing and evaluating its overall procurement card policies, procedures and practices. Additional procurement card use guidance has been made available on the Office of Business Operations website and a comprehensive procurement card user and administrative manual is being developed and will be available on the UNI website.

Merchant Category Codes (MCCs)

A control that is available on procurement cards at all three Universities to help reduce the instances of unallowable purchases is the use of blocked merchant category codes (MCCs). The Universities are able to electronically block procurement cards from being used at certain categories of merchants or for certain transaction types. MCCs are a system used throughout the credit card industry to categorize vendors by the type of products or services they provide. **Appendices C and D** are lists of the MCCs initially blocked on cards issued by SUI and ISU, respectively. UNI did not have the capability to block MCCs until July 2004, when UNI entered into a new procurement card agreement with Élan. According to UNI program staff, the procurement card plan in place during the time period audited was a business plan and did not have MCC blocking functionality.

It is possible to open blocked MCCs or to block additional codes, as deemed necessary. The policies at the three Universities do not currently address the circumstances when this may occur or the process for changing MCCs.

Five SUI staff members have the ability to open blocked MCCs or block additional codes. Requests for changes in blocked MCCs are usually done via email and are for one transaction only. The vendor is then unblocked on that card for two days to allow time for completion of the transaction. Changes to MCCs at SUI have not been made very often.

ISU's policy does not allow for changes to MCCs. The blocked MCCs are developed to be in compliance with the University's allowable uses for procurement cards. Procurement cards issued by ISU are established with one of three configurations. Most cards are issued with a standard configuration for MCCs. This configuration is the most restrictive in terms of the number of blocked MCCs. In addition to standard configuration, cards may be issued with specified configurations of MCCs for study abroad and hospitality. These configurations may be applied to certain cards with department and program administration approval. Certain blocked MCCs are lifted for cards established with these configurations. For example, a procurement card with a hospitality configuration is not blocked from restaurants, hotels and lodging, taxis and limousines and entertainment merchants. Procurement cards with a study abroad configuration are not blocked from car rentals, manual cash disbursements and cash disbursements from automatic teller machines.

There are potential problems with the MCC system because codes may not exist for every combination of vendor codes or the code may include such a wide variety of vendor types that the effectiveness is limited. For example, alcoholic beverages are not allowable purchases with a University procurement card. The University can then block codes for liquor stores. However, most supermarkets and large retail stores, such as Target and Wal-Mart, also carry liquor. Large retail stores are convenient and carry many of the items cardholders need to purchase. Therefore, it is not realistic to block the MCC for these types of vendors.

Comparison of the Universities' Procurement Card Policies, Procedures and Practices

While there are some similarities in the Universities' procurement card policies, procedures and practices, we identified several inconsistencies and have included some examples of the differences in the following paragraphs and tables. We specifically reviewed and compared the Universities' policies for allowable and unallowable uses of procurement cards.

SUI and ISU have comprehensive detailed procurement card policies and procedures available for cardholders and administrators while UNI does not. The SUI and ISU procurement card

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policies and procedures include guidance for the entire procurement card process and responsibilities of cardholders and administrators. While UNI has some procurement card guidance available in writing, it does not have comprehensive policies and procedures covering all aspects of the program. According to UNI procurement card administrative staff, UNI is developing comprehensive guidance for cardholders and department administrators. In July 2004, UNI completed revisions of its cardholder agreement form and Procurement Card Processing guide and is still developing a comprehensive procurement card policies and procedures manual.

Allowable Use Policies - A complete comparison of the allowable procurement card use policies for the Universities is presented in **Appendix E**. Several examples of differences between the allowable procurement card use policies of the Universities are summarized in **Table 18**. The most significant difference is in the area of travel. SUI allows procurement cards to be used for several types of travel expenses while ISU does not allow travel expenses to be charged to the cards and UNI only allows airline tickets and conference registrations to be charged.

Table 18

Comparison of allowable procurement card use policies of the Universities				
Allowable use description	SUI	ISU	UNI	Remarks about policy differences
Airline tickets	X	-	X	SUI and UNI are supposed to use preferred travel agencies to save time and ensure negotiated discounts are received.
Car rental and gasoline when travel related	X	-	-	SUI travelers should use the preferred vendor link for National Car Rental on the travel web page to take advantage of the discount. Not allowed in ISU and UNI policy.
Copying charges while traveling	X	-	X	Not specified in ISU policy.
Fax and telephone calls	X	-	-	Only those that are SUI business related and incurred while traveling. Not specified in ISU and UNI policy.
Foreign transactions	X	-	-	The \$20 foreign draft fee charged by the bank is eliminated. Not specified in ISU and UNI policy.
Ground transportation	X	-	-	SUI travel related (i.e. taxi, shuttle service). Not specified by ISU and UNI policy.
Hotel deposits	X	-	-	Not allowed in ISU policy. Not specified in UNI policy.
Lodging - room, room tax, telephone access charges	X	-	-	Not allowed in ISU and UNI policy.
Maintenance contracts	X	-	-	Not specified in ISU and UNI policy.
Monthly service fees such as cell phones and pagers	X	-	-	ISU and UNI have allowed purchases of certain monthly service fees but cell phones and pagers are not specified.
Operating supplies	X	-	-	Not specified in ISU and UNI policy.
Personal Digital Assistant (PDA)	-	X	-	SUI and UNI have also allowed procurement card purchases of PDAs but their policies do not include PDAs as an example of allowable use of procurement cards.
Phone orders	X	-	-	Not specified in ISU and UNI policy.
Subscriptions	X	X	-	Not specified in UNI policy.

X = Allowable use of procurement cards according to University policy.

Source: Procurement card program policies for each University.

Unallowable Use Policies - A complete comparison of the unallowable procurement card use policies for the Universities is presented in **Appendix F**. Several examples of differences between the unallowable procurement card use policies of the Universities are summarized in **Table 19**.

Table 19

Comparison of unallowable procurement card use policies of the Universities				
Unallowable use description	SUI	ISU	UNI	Remarks about policy differences
Airline executive club memberships	X	-	-	Not specified in ISU and UNI policy.
Cash advances	X	-	X	ISU allows cash advances for Study Abroad.
Computers or laptops for \$500 or more, PDA's exempt.	-	X	-	ISU changed its policy in March 2004. Purchases of any computers and laptops are no longer allowed. PDAs are still allowed. Not specified in SUI and UNI policy.
Construction services	-	X	-	Not specified in SUI and UNI policy.
Controlled substances	-	X	X	Allowed for University of Iowa Hospital.
Cylinder gases and liquid nitrogen	X	X	-	Not specified in UNI policy.
Data networking equipment	-	X	-	ISU policy also specifies switches, routers, hubs, wireless access points and any device that plugs into a data network. Not specified in SUI and UNI policy.
Furniture, furnishings and artwork	-	X	-	Not specified in SUI and UNI policy.
Gifts for staff	X	X	-	Not specified in UNI policy.
Golf or similar memberships	-	X	-	Not specified in SUI and UNI policy.
Items from conflict of interest vendors	-	X	-	Not specified in SUI and UNI policy.
Items on University or Regents contracts	-	-	X	Not specified in SUI and ISU policy.
Letterhead		X	X	Not specified in SUI policy.
Moving expenses	-	X	-	Not specified in SUI and UNI policy.
Online auction services such as Ebay.com	-	X	-	Not specified in SUI and UNI policy.
Pharmaceuticals and drugs	-	X	-	Not specified in SUI and UNI policy.
Photocopier supplies	-	X	-	Not allowed if available through ISU Stores. Not specified in SUI and UNI policy.
Postal and parcel services	-	X	-	Not allowed if available from ISU Postal & Parcel Services. Not specified in SUI and UNI policy.
Technical services and professional services	-	X	X	ISU policy also does not allow repair and technical services without written authorization from Purchasing.
Travel expenses, such as hotel rooms, meals, car rentals and parking fees	-	X	X	SUI does not allow meals for individual travel to be charged to procurement cards. ISU allows travel expenses for the Study Abroad program.

X = Not an allowable use of procurement cards.

Source: Procurement card program policies for each University.

The Universities' cardholder agreements also include lists of purchases considered unallowable.

ISU and SUI have some procurement card policies and procedures that are quite cumbersome and confusing to follow, including the listings and descriptions of exceptions to allowable and unallowable uses of the procurement cards. For example, SUI and ISU's procurement card program policies and procedure manuals list several exceptions for purchases that are usually unallowable, such as alcoholic beverages, cash advances, copying and printing, food, hospitality, pharmaceuticals or drugs, repairs, telephones and travel. The guidance is not clear regarding when the exceptions are applicable.

Other Policy Inconsistencies - The UNI Procurement Card Processing guide includes the following unallowable items that are not included in the cardholder agreement list of unallowable items.

- Automotive repairs
- Controlled substances
- Food and entertainment
- Gasoline
- Hospitality
- Purchase or trade of University property
- Stationery
- Weapons or ammunition

In addition, the unallowable items identified on the cardholder agreement include technical services/professional services and printing/copying unless significant savings is realized or while traveling, but these items are not listed in the Procurement Card Processing guide. The inconsistencies increase the risk of unallowable purchases being made. Also, the policy inconsistencies may be confusing for department personnel responsible for reviewing and approving procurement card transactions.

Because each University has developed its own policies and procedures for their procurement card program, there is limited uniformity among the types of allowable disbursements. There is no reason the three Universities can not establish and use uniform and consistent procurement card policies and procedures. Specific procedures should be added as necessary to address circumstances unique to each University.

One set of policies and procedures would help to ensure an effective and efficient administration of the program across the three Universities and aid the Board of Regents in effective and efficient oversight of the program at the Universities. By establishing one uniform set of allowable uses of the procurement cards, the potential for misuse of the cards would also be reduced.

Findings and Recommendations

The purpose of our review of the University Procurement Card Programs was to identify areas of risk and exposure to ensure concerns are properly addressed as the use of procurement cards continues to increase. As a result of our review, we identified the following findings and recommendations that should be considered by the Board of Regents and the Presidents of the State University of Iowa, Iowa State University and the University of Northern Iowa.

While some of our findings result from testing at specific University departments, we believe the Board of Regents and all departments within the three State Universities using procurement cards should consider these findings when developing and implementing controls over purchases made with procurement cards. We encourage consideration and implementation of the recommendations to help improve the programs of each University to decrease risk and avoid possible significant problems in the future.

Each of our findings and recommendations are followed by responses from each University and, if appropriate, the Board of Regents' Office. In several responses, the Universities did not acknowledge the risk and exposure that increases with expanded use of procurement cards. Our review, training and research support the necessity to improve controls, especially at the departmental level, to ensure only appropriate and necessary items are purchased.

Our conclusions follow the responses from the Board Office and the Universities. In most instances, we have concluded on the responses of the Board Office and each University individually. However, in some instances, our conclusions apply collectively to the responses of the Board Office and all three Universities. It is important the Board Office and each University consider the additional information included in the conclusions as an opportunity for further improvement of the procurement card program.

FINDING 1 - Procurement Card Policies and Procedures - We identified several differences and inconsistencies in the Universities' procurement card policies, procedures and practices. A complete comparison of the Universities allowable and unallowable procurement card use policies is presented in **Appendix E** and **Appendix F**.

- SUI and ISU have comprehensive detailed procurement card policies and procedures available for cardholders and administrators while UNI does not. UNI is in the process of developing comprehensive guidance for cardholders and department administrators. UNI has completed revisions of its cardholder agreement form and Procurement Card Processing guide (Processing guide) and is still developing a comprehensive procurement card policies and procedures manual.
- The most significant difference in allowable use of procurement cards is with travel expenses. SUI allows procurement cards to be used for several types of travel expenses while ISU does not allow travel expenses to be charged to the cards and UNI only allows airline tickets and conference registrations to be charged.
- ISU and SUI have some procurement card policies and procedures that are quite cumbersome and confusing, especially for listings and descriptions of exceptions to allowable and unallowable use policies. For example, ISU and SUI list several exceptions in the procurement card program policy and procedure manuals associated with several types of purchases that are usually unallowable, such as alcoholic beverages, cash advances, copying and printing, food, hospitality, pharmaceuticals or drugs, repairs, telephones and travel, depending on the University.

- UNI policy has several inconsistencies between listings of unallowable procurement card transactions in the Processing guide and cardholder agreement. The UNI Processing guide includes several unallowable items not included in the cardholder agreement list of unallowable items. In addition, the UNI cardholder agreement lists technical services/professional services and printing/copying unless significant savings is realized or while traveling as unallowable items, but those items are not listed in the Processing guide. To obtain a complete listing of unallowable items, the cardholder must refer to both documents.

Recommendation – The Board of Regents and the Universities should:

- Develop a uniform set of procurement card use policies for all Universities. Specific policies and procedures should be added as necessary to address circumstances unique to each University.
- Ensure procurement card policies, procedures and agreements are consistent between various policy documents and cardholder application forms and agreements within each University.
- Consider implementing an exception approval process that must be consistently followed and documented for obtaining approval of transactions otherwise unallowable under the policies. Also, the exception process should include clear definitions of appropriate and relevant circumstances that must be met to be considered an allowable exception. An allowable exception review and approval process would help ensure consistency in how and what procurement card transactions are approved and processed and would help reduce the number of unallowable or inappropriate purchases made due to policy misunderstandings or misuse.

Board Office Response – The Board of Regents Policy Manual §7.05.B.3 states “Each Regent institution, through an institutional purchasing department, shall be responsible for purchasing goods and services. Institutions may delegate purchasing responsibility to departments. Low dollar procurement authority may also be delegated to institutional units through the use of credit cards or other appropriate procurement instruments, consistent with prudent, contemporary business and audit practices.”

The Regent Policy Manual §7.02 contains a detailed **Code of Business and Fiduciary Conduct** that sets forth the fundamental expectations relating to all business and fiduciary conduct. This Code is the Board of Regents’ statement of the underlying principles by which it expects those with business and fiduciary responsibilities to carry out their duties.

The Board focuses on broad-based policies to allow institutions the flexibility to implement best practices and incorporate the rapid changes in technology without policies being overly prescriptive. It is the responsibility of the university presidents to implement specific policies and procedures.

In mitigating this issue, the Board Office will facilitate enterprise-wide guidance in aligning university policies where feasible. The Regent Internal Audit Director will provide follow-up to the Audit and Compliance Committee of the Board.

SUI Response – SUI was the first Regents Institution to implement a procurement card program in 1993, and at that time, SUI had already established procurement card policies and procedures which have been updated from time to time. As each institution’s needs and systems changed over time, so have the individual institution’s policies and procedures. However, the Regents Institutions frequently compare policies and procedures and share in a joint procurement card contract with US Bank. The procurement card program was

established to save on lower cost transactions; which has occurred dramatically over the last ten years.

The ProTrav system installed at SUI is designed with business rules within the application as well as direct links to the procurement card policy and SUI operations manual. This enables SUI to maintain consistent policy and procedure documentation and reduces the time required to update paper manuals.

As with all purchasing tools, it is impossible to cover all potential exceptions to policies within our documentation. Thus SUI consistently requires additional approvals and justification for exceptions to policies. Exceptions that are more common are documented in our policies and cardholders are provided the list of exceptions during training.

ISU Response – The overarching contract with USBank/Elan for our procurement card program is a collaborative contract, with each university establishing its own distinct operational contract directly with USBank/Elan. The individual operational contracts and procurement card programs are developed to meet the unique structure, financial systems, service mission and needs of each institution, consistent with its delegated procurement authority. Developing a uniform set of policies would not add substantial value to the procurement card program.

UNI Response – UNI acknowledges there was some inconsistency in its documentation during the period under review; this occurred with the creation of a manual intended to demonstrate how to prepare procurement card documentation with the implementation of a new accounting system and was not intended as policy documentation. Policies and procedures have been rewritten since the period under review and there are no longer any inconsistencies. The website for the Office of Business Operations at UNI has comprehensive procurement card information.

A formal procurement card manual is under development at UNI.

The three universities use their procurement cards differently therefore UNI believes a uniform policy would not be necessary or appropriate.

Conclusions:

Board Office – We reviewed the Board Office policies as part of our audit procedures. While there are differences between the Universities there are important areas where procurement card policy should be similar, such as:

- Transaction controls and approvals,
- Extent of review and analysis of transactions and supporting documentation,
- Types of purchases allowed or not allowed to be made by authorized cardholders and
- Why, when, where, what and how to obtain discounts by purchasing items under contract.

Also, we agree it would be beneficial for the Board Office to facilitate enterprise-wide guidance in aligning the Universities' procurement card policies where feasible and have the Regent Internal Audit Director provide follow-up to the Audit and Compliance Committee of the Board.

As the procurement card activity continues to increase, we anticipate potential problem areas or risks may arise. Therefore, it is important to establish a base of consistent and clear policies relevant for each University to help ensure efficient and effective administration of the procurement card program.

SUI – We did not recommend the Universities attempt to cover all possible exceptions to procurement card policy by addressing each specific instance. Rather, we recommended establishing an exception process that should be followed to address circumstances as they arise. Also, documentation of dramatically reduced costs for low dollar transactions resulting from use of procurement cards was not provided when requested. It is recognized the number of purchase requisitions and purchase orders processed was reduced, but it is not clear to what extent the University-wide administrative costs for such purchases has changed. There are costs associated with staff and oversight required at the departmental level in addition to overall program administration that was not quantified when requested.

ISU – We reviewed the procurement card contracts during our fieldwork. It is not clear why the contracts are mentioned in the response to the recommendation. The contracts do not specify the operational policies discussed in this finding and recommendation. Also, evidence of why a uniform set of policies would not add value to the procurement card program was not provided.

UNI - We believe a uniform set of procurement card use policies would be helpful to ensure more consistency within the program, allow better coordination of purchases made, as well as ensure more effective monitoring and review of the program. Specific policies and procedures should be added as necessary to address circumstances unique to each University in addition to establishing an exception process.

FINDING 2 - Segregation of Duties - During our testing at the Universities, we reviewed the procedures for using procurement cards, performing monthly reconciliations and processing payments to Élan. An important aspect of internal control is to establish procedures providing accountability for assets susceptible to loss from error and irregularities. These procedures provide that the actions of one individual will act as a check of those of another and provide a level of assurance that errors or irregularities will be noted within a reasonable time during the course of normal operations.

Procurement card policies of the Universities have allowed cardholders to make purchasing decisions, transact the purchase, receive the purchased items, maintain and validate supporting documentation and reallocate the purchases. Usually, there is no involvement in the procurement card process by someone else within the cardholder's department of each University until documentation is submitted by cardholders to department administrators for approval and submission to University program administration for payment processing.

A few departments within each University have chosen to implement more stringent control over purchases made with procurement cards by requiring purchase requisitions to be submitted and approved by a department administrator prior to making purchases. Some of the departments with more controls in place have designated a cardholder or a few cardholders to make purchases as requested by faculty or staff within the departments. Faculty and staff within those departments complete and submit purchase requisitions to designated and approved cardholders and the cardholders then make purchases. However, most departments within the three Universities allow cardholders control over most of the purchasing process.

ISU program staff identified some inappropriate use of procurement cards resulting from lack of segregation of duties. As a result, ISU revised the procurement card policy and reconciliation system to no longer allow cardholders to complete the verification and reallocation of their own transactions. SUI and UNI have allowed cardholders to verify or validate and reconcile their own transactions. Also, some department administrators have procurement cards and may perform purchasing, validation, reallocation and monthly reconciliations of procurement card transactions.

While the Universities' monitoring systems identified and resolved some inappropriate and unallowable purchases during fiscal years 2002 and 2003, there are still significant weaknesses within the systems. We found instances where departments allowed cardholders to verify and re-allocate their own procurement card transactions with little or no subsequent review by department administrators. In addition, University policy and most departments allowed cardholders to receive billing statements and complete requests for payment or procurement card vouchers. ISU no longer allows cardholders to receive billing statements and to verify and reallocate their own transactions.

Recommendation – The duties of purchasing, verification of billing statements, reallocation, monthly reconciliation and maintenance of supporting documentation for procurement card purchases should be properly segregated to ensure procurement card purchases are proper and supported. Also, department administrators should not have a procurement card assigned to them if they have any of these duties, especially if they reconcile and approve procurement card transactions.

SUI Response – As acknowledged by the Auditor of State at SUI's exit conference, there were no significant findings for SUI.

The implementation of the ProTrav system in November 2004 has provided SUI with the assurances needed for separation of duties and daily review of transactions. Department administrators can not approve their own procurement card transactions given the design of the workflow approval process. The University Procurement Card is a tool for low dollar purchases and in many ways better than other procurement tools because of the level of detailed review University Administrators provide over these transactions.

The ProTrav system provides a daily import of the individual card holder transactions. SUI administrators can view the transactions of all cards belonging to that department or organization. This administrative system view also allows administrators to see new cards issued, vouchers that have become delinquent; payroll deductions; as well as a report of spend by vendor for their cardholders, departments or organizations. The guidelines for all purchases apply and departments are to have separation of duties.

ProTrav's workflow approval process requires another level of approval in addition to the cardholder's approval for the procurement card transactions. The 2nd signature is obtained at a "supervisor" level. The majority of departments have multiple approvals in addition to the cardholder and supervisor. Thus, while a cardholder can reconcile their own transactions, approval of their reconciliation requires at least one additional approver.

Reports available in ProTrav allow administration and campus users to monitor and report procurement card spend at a cardholder, department or vendor spend level. This review can be done based on time frames that range from billing cycle, fiscal year, or calendar year.

ISU Response – ISU has adopted policies and developed its electronic reconciliation system to ensure effective segregation of duties. Cardholders are not allowed to approve their own transactions. ISU also requires approvers to review supporting documentation before approving transactions. This ensures at least two separate individuals are involved in every transaction.

UNI Response – UNI requires approval and review of all purchases on the Procurement card by the respective department head, or their dean/director if they are the cardholder, to ensure all purchases are proper and supported. UNI acknowledges there may be some risk in having the cardholder prepare the summary of transactions for review; as a compensating control, all procurement card transactions are reviewed in detail by Accounts Payable (AP) staff in the Office of Business Operations to ensure they are proper and in accordance with University policy.

Conclusion – While this finding did not warrant an extended discussion at any of the Universities’ exit conferences, it is important for each University to maintain an adequate segregation of duties. This helps minimize the risk of procurement card misuse.

Also, we did not have an opportunity to extensively review the controls provided by SUI’s ProTrav system or its operations since it was developed and enhanced subsequent to our audit period.

FINDING 3 – Approval of Procurement Card Purchases - The procurement card program policies and procedures of the Universities do not require prior approval of purchases made with procurement cards. Purchases made using traditional purchasing processes require the use of purchase requisitions, purchase orders and receiving reports that must be approved by a supervising individual. With procurement cards, cardholders can purchase and receive items without supervisory review.

Also, the Universities have not consistently provided guidance to assist departments in establishing preventative controls to have in place prior to purchases. While we identified some instances of University departments requiring pre-approval of purchases using purchase requisitions, most University departments allowed purchases to be made without requiring prior approval of purchases and relied on after-the-fact review and approval of transactions. The risk of unallowable transactions occurring and going unnoticed greatly increases without prior approval of purchases. Also, since pre-approval is not required, there is no opportunity for effective supervisory review of the budget impact of the purchases.

We also examined the after-the-fact review and approval process of purchases made with procurement cards for selected departments at each University and identified some control weaknesses. For example, after-the-fact reviews of procurement card purchases were not always completed by University department individuals having sufficient supervisory and budgetary control responsibilities. Also, supporting documentation for procurement card purchases was not always reviewed for original receipts and other proof of purchase documents.

During our testing at the Universities, we identified 10 procurement card transactions at UNI that did not have approval of the purchases documented.

Recommendation - The Universities should develop and implement procedures to ensure procurement card transactions are properly reviewed and approved by department administrators prior to payment. The process should include procedures to:

- Verify purchases made on procurement cards are proper, in accordance with University policies and are for University business.
- Ensure supporting documentation is obtained, retained and in proper order.
- Verify procurement card activity has been reconciled to the monthly billing statement.
- Document the review and approval.

In addition, the Universities should require prior approval of purchases exceeding an established dollar amount. The prior approval of procurement card purchases should be conducted by a supervisor or designee with sufficient responsibility over the departmental budget to help ensure only appropriate and necessary items are purchased within budget constraints. Also, supervisors should be alert to and pursue opportunities for purchase volume discounts through existing contracts and by coordinating similar purchases with other departments.

This recommendation does not necessarily mean Universities should require purchase requisitions and purchase orders for all small-dollar purchases, as was done in the past. However, it is important for the process to include enough information to allow opportunity for making an informed decision about possible purchases. Approval of purchases over established limits should be documented and maintained.

SUI Response – As acknowledged by the Auditor of State at SUI’s exit conference, there were no significant findings for SUI.

The procurement card as a purchasing tool provides value while allowing low dollar purchases to be made without prior approval. Daily transaction reconciliation is available. Procurement card transactions are reconciled on a daily and monthly basis. A monthly voucher reconciling the charges requires approval of the cardholder and his/her supervisor. SUI requires receipts for all procurement card transactions. In addition, department budget officers and others are responsible for reconciling the monthly transactions to their departmental statement of accounts.

The ProTrav system, implemented by SUI after the transaction testing, has automated the review of procurement card transactions and ensures that proper approvals are required for all procurement card transactions. SUI currently has procedures in place to ensure transactions are properly reviewed and approved by departments.

SUI’s Strategic Sourcing Initiative over the past two years has demonstrated savings through established contracts for computers, travel, office supplies and other products. SUI has obtained several contracts, such as Staples and Office Depot, for procurement card purchases by reviewing the volume of transactions on all cards. Card holders are informed of these contracts by a procurement card listserv as well as by a direct link to the contract information within the ProTrav system.

SUI has a policy in place that requires prior approval of purchases exceeding the dollar threshold of \$2,000. Purchases over \$2,000 are required to be processed with a requisition. In certain circumstances, procurement card transaction limits are increased, with approval from the department and Purchasing Department, when the circumstances make sense to do so.

ISU Response – ISU has developed and implemented procedures to ensure procurement card transactions are properly reviewed and approved. Our electronic reconciliation system provides for appropriate review and approval by predetermined, authorized, system-recognized department administrators.

The university disagrees that prior approval on procurement to ensure procurement card transactions should be required. With ISU’s average procurement card transaction size being less than \$200, requiring additional pre-transaction administrative review is not the best use of limited resources. The university does require prior funding and administrative approval on all purchases above the procurement card transaction limit through our web-based requisitioning system.

The Central Purchasing Office handles the strategic sourcing program; reviewing and analyzing spend through purchase orders, contracts and procurement cards. Involving departmental supervisors in this effort would be inefficient and unnecessary.

UNI Response – Department Heads or Deans/Directors are responsible for reviewing all transactions, including supporting detail, for procurement card purchases made by their staff, and acknowledging their approval by signing the procurement card summary entry. As an additional control, AP staff review all procurement card documentation for proper signatures, receipts and business purpose before departmental accounts are charged; this is

a change in procedure implemented since the time period under audit. The items identified during the audit are considered isolated incidences by UNI and would not occur with current procedures.

The use of the Procurement card at UNI is for small dollar purchases, i.e. items typically not in excess of \$1,000.

Conclusions:

SUI – While there is value in using procurement cards to make low dollar purchases, this is only true if adequate controls exist at the department level in addition to University administrative controls that ensure only appropriate and necessary items are purchased for official University business purposes.

ISU – We did not recommend requiring prior approval of all procurement card transactions. The emphasis of the recommendation is on department level prior approval of all procurement card transactions exceeding an established dollar level. Requiring prior approval of purchases over an established dollar level would reduce risks associated with procurement card use.

Also, the recommendations are intended to emphasize the importance of transaction approval being completed by department supervisors with budget responsibilities. The review and approval process should include sufficient scrutiny to ensure only necessary and appropriate items are purchased.

UNI – Response accepted.

FINDING 4 - Use of Procurement Cards for Travel – SUI uses procurement cards for travel expenses, such as conference and workshop registration, airline purchases, hotel deposits, lodging, airport shuttles, rental car and direct payment of expenses for SUI guests. SUI internally promotes advantages of using procurement cards for travel related expenses and allows card use for travel expenses much more extensively than UNI and ISU.

According to SUI program staff, several processes have been eliminated and simplified and several advantages for travelers and departments have been realized by using procurement cards to pay for travel expenses. SUI reports convenience of payment, less paperwork and faster registrations as advantages for travelers.

ISU does not allow payment for travel related expenses with procurement cards, with some exceptions, such as the Study Abroad Program or other expenses coded to travel as authorized by the ISU procurement card policy and hospitality attachment. Travel expenses are not an allowable use of ISU procurement cards and continue to be the responsibility of the University employee, requiring a travel expense voucher for reimbursement and assessment of taxable meals.

UNI does not allow travel expenses to be charged to procurement cards, with the exception of airline tickets and conference registrations. Other travel expenses continue to be the responsibility of the employee and require submission of a travel expense voucher to request reimbursement, similar to ISU.

Use of procurement cards to pay for all travel expenses increases the risk travel will occur without pre-approval and may result in inappropriate and excessive expenses. It is important that supervisors have an opportunity for review and approval of travel related expenses prior to payment to help control costs and ensure planned travel is reasonable and appropriate.

Recommendation – The use of procurement cards for travel expenses may increase the risk of inappropriate or excessive travel expenses being incurred. Best practices should be identified and discussed among the Universities and Board of Regents, focusing on methods to best ensure the propriety and allowability of costs incurred. This would help the Universities to identify the types of travel that could be charged to procurement cards and the most appropriate method for processing each type of travel expense.

The policy should also address circumstances in which travel expenses may be an appropriate use of the procurement card, such as registration fees, air fare and athletic team travel. Controls must also be developed to ensure compliance with all University policies if procurement cards are used for other travel expenses.

SUI Response – As indicated in the findings, the Auditor of State did not find any travel transactions that were inappropriate or excessive. Implementation of travel on the procurement card since 2001 has not resulted in inappropriate or excessive travel costs.

Best practices of a one card solution by the National Association of Procurement Card Professionals (NAPCP) support of the use of travel on procurement cards. Seven of the Big Ten Higher Educational Institutions and University of Chicago allow travel expenses on the procurement card.

The ProTrav system, implemented by SUI after the transaction testing, has business rules built into the travel reimbursement and reconciliation process that allows approvers and auditors to review all transactions for appropriateness and excessiveness. In the event that a transaction appears to be above normal and allowable expense, the system will flag the transaction and require a statement of justification. The statement of justification as well as the flag is routed with the transaction for approval. Should the approver or Accounts Payable auditor disallow the transaction, this amount can be payroll deducted or have their reimbursement amount reduced. ProTrav also requires pre trip approval for any travel related expenses.

A benefit of travel on the procurement card is the collection of detailed information about travel spending. This information will provide SUI with the necessary data on negotiate pricing agreements.

Travel reports available in ProTrav allow department and department administrators the opportunity to monitor all incurred travel expense as well as anticipated expenses based on trips established for future dates. This type of reporting has never been available to campus. The data allows the departments as well as the University to report on travel spending with greater details including spending based on business purpose, traveler, department, organization, as well as the University of Iowa as a whole.

ISU Response – Our research on procurement card utilization for travel in higher education does not support the opinion that procurement card use for travel expenses may increase the risk of inappropriate or excessive travel expenses being incurred. Only a limited number of procurement cards at ISU are currently authorized for travel. All travel related expenses are reviewed and approved at the department level in the same manner as other P-card transactions.

UNI Response – UNI does not use the procurement card for travel expenses with the exception of airfare charges and conference registration fees; no lodging or meals are allowed on the procurement card. Travel is paid on a reimbursement basis.

Conclusion - We did not recommend that procurement cards should not be used for travel expenses. Rather, we encouraged consistent, appropriate and sufficiently controlled use of procurement cards based on best practices identified and discussed among the Universities and Board of Regents. The best practices should focus on methods to best ensure the propriety and allowability of costs incurred.

Based on our research and training attended by our staff, travel is a high risk area of fraud, abuse and misuse of procurement cards. For example, Appendix B of the revised Circular A-123 of the Office of Management and Budget (OMB) of the Executive Office of the President, dated August 5, 2005, specifically establishes standard requirements and practices for improving the management of government charge card programs. Because travel is recognized as an area of risk, OMB Circular A-123 includes guidance for best practices, such as “deactivate travel cards during periods of non-travel status” to eliminate use of the card for other purposes when not traveling.

Also, control weaknesses over several federal agency procurement card programs have led to millions of dollars wasted on unused airline tickets, meals and other purchases. A March 2004 United States General Accounting Office (GAO) review identified a total of 57,946 airline tickets with a value of more than \$21 million that remained unused and un-refunded. In addition, several cardholders used procurement cards to purchase meals, food, bottled water and other items while not in travel status.

Risk may be reduced if the Universities have strong and effective internal controls over travel expenses.

FINDING 5 - Use of Procurement Cards by Non-cardholders - SUI policy allows cardholders to authorize other individuals to use their procurement cards by completing and signing a secondary user authorization form. SUI policy requires completion of an authorization form, including staff member name and signature, for those authorized to use the cardholder’s procurement card and signature of and date signed by the applicable cardholder. We identified several instances where we were told by department staff that other SUI individuals were authorized to use cardholders’ cards to make purchases and authorization forms were completed. However, the user authorization forms were not always available for review. Of the 361 transactions tested at SUI, there were 52 instances where someone other than the cardholder used the card, but the secondary user authorization forms either were not completed or not retained.

UNI policy also allows individuals other than the cardholder to use the card if expressly approved by the cardholder. We identified instances where individuals other than cardholders were allowed to use a procurement card. For example, a UNI Price Lab School cardholder checks the card out to others in the department if they need to make a purchase.

ISU policy does not allow other individuals to use cardholders’ procurement cards. All purchase transactions processed against the procurement card must be made by the individual to whom the card is issued. The card is not to be used by support staff or students on behalf of the cardholder. Some ISU departments allow certain cardholders to make purchases of requested items on behalf of other faculty and staff, but the cardholders do not have authority to let others use their card.

Recommendation – The Universities should not allow procurement cards to be used by anyone other than the cardholder. The authorized cardholder can make purchases for other employees, but should not “loan” their card to anyone.

SUI Response – As indicated in the findings, the Auditor of State did not find any transactions that were not allowed by the cardholder when allowing others to utilize their card, only that the form was not completed or available.

With the exception of recognized student organizations, where students are responsible for their budgets, the use of the card by other than the card holder will be strictly limited. Due to the nature of the student organization, their activities require students to be responsible for their program purchases. SUI believes that there is a lower risk in allowing students to check out a procurement card, than to issue a card directly to a student, due to the high turn over rate in these organizations. Ending this procedure would increase the number of cards issued. SUI understands the risk associated with this practice and will continue to limit this practice to the greatest extent possible.

ISU Response – ISU’s procurement card policy prohibits use of procurement cards by non-cardholders. Violation of this policy can cause suspension of procurement card privileges.

UNI Response – UNI has permitted cardholders to allow others to use their card, with the express approval of the cardholder; the cardholder remains responsible for all receipts and documentation. This was intended to minimize the proliferation of individual cards. As part of the agreement a cardholder signs, they accept responsibility for all purchases made to their card. UNI will review its policy and evaluate if risk can be minimized without a significant increase in individual cards.

Conclusions:

SUI and UNI – We do not agree with the process of allowing someone other than authorized cardholders to make purchases with procurement cards. While the purchases tested were not improper, we tested only a small number of transactions in which an employee allowed someone else to use their card for purchases. As a result, there could be problems that were not identified.

In addition, it is not appropriate for students to check out and use procurement cards under any circumstances. Employees that are program sponsors should make purchases for students as appropriate and necessary. Use of procurement cards by individuals other than the authorized cardholders increases risk of misuse.

ISU – Response accepted.

FINDING 6 - Training Requirements - The training required prior to obtaining a procurement card is different between the Universities, as follows:

- SUI policy states, in part, “On receipt of the card, Purchasing will contact the cardholder to attend an upcoming training class. These classes are mandatory for all cardholders.” However, in some instances SUI has allowed individuals other than the cardholders to pick up procurement cards and attend training on behalf of cardholders.
- UNI policy requires individuals to attend procurement card training prior to obtaining a procurement card.
- ISU policy requires the cardholder to attend a training session prior to obtaining the procurement card. ISU policy includes an additional specific statement about not allowing others to attend the procurement card training in place of cardholders.

In addition, procurement card training requirements for individuals responsible for validating, reconciling and approving transactions varies between the Universities, as follows:

- SUI does not require the individuals responsible for reconciling and approving procurement card transactions to attend formal training. However, training and guidance is available from procurement card administrators and SUI's website.
- ISU requires all individuals responsible for validating, reconciling and approving procurement card transactions to attend training.
- UNI does not require the individuals responsible for reconciling and approving procurement card transactions to attend formal training. However, training and guidance is available from procurement card administrators and UNI's website.

Recommendation – SUI should require individuals to attend procurement card training prior to obtaining a procurement card. Other SUI staff should not be allowed to obtain cards or attend training on behalf of other employees. Also, SUI and UNI should require specific procurement card training for individuals responsible for reconciling and approving procurement card transactions.

SUI Response – 100% of SUI cardholders have received training prior to receiving a procurement card. SUI's program has been in place for over 12 years. One of the benefits of a program of this duration is our "train the trainer" program. This program allows a successful card holder to provide training to an individual within their department, not only teaching them the University's policies and procedures, but also teaching them their own departmental policies related to the use of the procurement card. These trainers are required to certify to Purchasing that the cardholder has been trained by signing a statement that the training has been completed. This statement is forwarded to Purchasing and kept with the cardholder agreement. If the cardholder violates the procurement card agreement, depending on the type of violation, the cardholder is required to attend training or the card is cancelled.

Training is offered for individuals responsible for reconciling and approving transactions. SUI is in the process of developing an interactive, on line training for campus through the ProTrav system. Recently the statement listed below was added to the ProTrav system to which every approver must attest. "As a designated departmental Approver" of expenses incurred in the name of the University of Iowa via this form, I understand that I am accepting a fiduciary responsibility to comply with all applicable institutional policies. It is my responsibility to examine all purchases and requests for payment along with required supporting documentation to determine if the charge is: for a valid business purpose and for the university's benefit." Accounts Payable monitors inappropriate use of the procurement card on a monthly basis. Cards are placed on hold if repeated violations occur. Both the cardholder and approver would be required to attend training in order to continue using the procurement card.

ISU Response – This recommendation does not affect ISU's current practices, which include the recommended training.

UNI Response – UNI has general training available for employees responsible for reconciling accounts; the procedures for reconciling procurement card transactions are similar and therefore additional training has not been deemed necessary. A number of materials are available electronically to assist account reviewers with the reconciliation process. UNI will consider developing a reconciliation training program specifically for procurement card reconcilers.

Conclusions:

SUI – During our review of the procurement card program, staff did not provide any indication there was a “train the trainer” program in place, nor were we informed the purpose of having individuals other than the cardholders attend training was to train the trainer. We were told by staff of some departments that individuals were occasionally allowed to attend training on behalf of cardholders. Also, it is not clear how risk associated with procurement card use could be limited in this manner. The cardholders should attend the training.

ISU and UNI – Responses accepted.

FINDING 7 - Extent and Method of Procurement Card Audits – The Universities do not all require some type of independent, periodic review or “audit” of procurement card transactions by procurement card administration or Internal Audit.

- Accounts Payable procurement card program staff review every payment voucher, billing statement, supporting receipts and any other support prior to processing the charges for payment. However, the review does not ensure the business purpose was appropriate or sufficiently documented. Departments participating in the procurement card program are responsible for determining whether purchases are appropriate and necessary.

SUI Internal Audit periodically performs reviews of procurement card use and controls for departments participating in the procurement card program. The Internal Audit Department issued a report, dated September 27, 2004, on the use of the procurement card for travel expenses.

- As part of its oversight responsibilities of the procurement card program, ISU Purchasing has conducted some departmental audits of procurement card policies, procedures and use, with plans to eventually audit all departments.

ISU Internal Audit was involved in development of the procurement card program and reviews some procurement card transactions during audits of selected departments.

- UNI Accounts Payable staff reviews every transaction prior to processing for payment. The review includes verifying the accuracy of the receipts, whether the accounting codes are correct and an evaluation of the allowability of items purchased.

UNI Internal Audit reviews some procurement card transactions during audits of selected departments.

Recommendation – As the volume of procurement card transactions continues to increase, the Board of Regents and the Universities should consider periodic and coordinated independent audits that focus exclusively on procurement card transactions to ensure compliance with policies and procedures and the proper use of the card. The independent reviews could be performed by Purchasing, Accounts Payable or Internal Audit. In addition, Internal Audit should periodically review the procurement card purchases of cards held by procurement card program administrative staff and other staff in Purchasing and Accounts Payable.

Board Office Response – Regent Policy Manual §7.09 defines the purpose of Regent internal auditing as “a managerial control which functions by measuring and evaluating the effectiveness of other financial and managerial controls.” Internal audit policies further identify that the annual internal audit plan be based on evaluation of internal controls and risk assessment. High-risk areas are to be routinely included in the internal audit cycle.

SUI Response – Accounts Payable audits 100% of the procurement card transactions. Transactions are audited to determine if they are allowable, appropriate and in compliance with procurement card policies and procedures. The procurement card reconciliation system has an audit function that records various types of errors by cardholder. An email is issued to the cardholder based on the type of error and the voucher is held until the error is resolved. Comments related to the transaction are recorded by the Accounts Payable staff. These records would be available upon request. Departments/cardholders that show repeated errors will be provided additional training or the card is revoked. The procurement card area has several supervisory level individuals that can field policy interpretation questions that the audit staff may have. In addition, high level administrative reviews can occur daily by budget officers and department heads.

SUI Purchasing and Accounts Payable have instituted a more frequent audit of the transaction file, reviewing various transactions that are considered higher risk. Accounts Payable has also created a new unit to analyze data within a macro context.

SUI Internal Audit was consulted in the development of the procurement card program and also performed a procurement card audit in 2000.

ISU Response – At ISU, Internal Audit and Purchasing Audit staffs perform periodic reviews. The Purchasing Department devotes approximately 0.8 FTE to auditing and performing transaction reviews for compliance with policy.

UNI Response – Purchasing Services staff performs a monthly post audit of procurement card activity including multiple transactions with the same suppliers, non-use of contracts in place, and office supply purchases from suppliers other than Campus Supply. This is in addition to the detail audit performed by AP staff.

Internal audit staff includes reviews of procurement card transactions as part of their normal audit work on departmental audits. UNI will request an annual review of all procurement card transactions made by staff in the Office or Business Operations, including AP and Purchasing Services.

Conclusions:

Board Office – Response accepted.

SUI – At the exit conference, SUI Purchasing staff stated that compliance with procurement card policy is ensured by program administration staff. However, they do not question procurement card purchases for reasonableness, necessity and public purpose.

ISU and UNI – Responses accepted.

FINDING 8 – Cardholders and Credit Limits – The Universities do not limit the number of faculty and staff that may be issued procurement cards. Procurement card policies of each University allow all faculty and staff opportunity to use a procurement card if approved by their department administrator. In addition, the Universities have not developed guidance or criteria to help departments determine which employees should have cards. Procurement card issuance is usually not based on job responsibilities and the employee’s need to make purchases. As a result, discretion is left to individual department administrators to determine whether faculty and staff in their department are issued a procurement card. Limiting the number of procurement cards is an important factor in effectively managing the risk associated with the procurement card program and minimizing the financial exposure of the University. Cardholders without purchasing responsibilities unnecessarily increase the Universities’ exposure to improper charges and abuse.

Board of Regents Universities – A Review of Procurement Card Programs

The average transaction amounts of procurement card purchases for fiscal years 2003 and 2004 are summarized in the following table for each of the Universities. Less than 5% of purchases made with a procurement card at SUI and ISU exceeded \$1,000. Less than 2% of UNI’s purchases exceeded \$1,000. The number of small purchases may indicate purchases are not well-planned or coordinated with others with similar purchasing needs.

University	Fiscal Year 2003	Fiscal Year 2004
SUI	\$ 235	238
ISU	188	194
UNI	153	150

While there may be some benefits to employees being able to make immediate purchases with a procurement card, there are also added risks and possible inefficiencies with many employees being able to make purchases. Universities may forgo quantity discounts and, as a result, not receive the best value.

In addition, none of the Universities have a formal process in place to periodically review the appropriateness of single transaction and monthly credit limits established for cardholders and to ensure all cardholders actually need the cards issued to them.

The procurement card policies for monthly purchase and single transaction limits are different between the Universities. A summary of the credit limit policies and ranges of actual limits established for cardholders at each University during fiscal year 2003 is presented in the following table.

University	Monthly Credit Limit		Single Transaction Credit Limit	
	Per Policy	Actual Limit Range	Per Policy	Actual Limit Range
SUI	\$ 10,000	1,000 to 550,000	2,000	250 to 40,000
ISU	10,000	500 to 100,000	2,000	200 to 15,000
UNI	-	200 to 50,000	500	2,000 to 25,000

Also, **Schedule 1** presents a summary of the 10 highest monthly purchase limits and corresponding single transaction limits established for cardholders at each University. The following paragraphs further discuss card limit policy differences between the Universities.

SUI - Procurement card policy allows SUI cardholders to have a monthly purchase limit of \$10,000, unless otherwise approved by departments and Purchasing. The single transaction limit policy includes, in part, the following:

“Single transactions may not exceed \$2,000. Single transaction is defined as one or more items bought at the same time from the same vendor on the same day. Orders intentionally split to circumvent the \$2,000 transaction limit violate University Policy. Single transaction limits do not apply to conference registration fees, travel, reprints, subscriptions and renewals or advertising costs. However, when these costs exceed \$2,000, the transaction limit will have to be raised or they will be declined by the bank.”

However, SUI actual practice is to establish limits of \$2,100. SUI program administration has chosen to allow up to \$100 for extra costs such as shipping, handling or express freight, in addition to the not to exceed limit of \$2,000 currently included in policy.

ISU – ISU’s card limit policy is clear and consistently applied by the departments we reviewed.

UNI - Procurement card limits established by UNI program staff were not consistent with credit limits contained in written policy. According to UNI's purchasing policy, procurement cards are intended to be used for purchases under \$500. Therefore, the standard single transaction limit was generally established at \$500. However, the \$500 limit was not strictly enforced by UNI procurement card program and department administrators.

Single transaction limits were not established in the Élan system for cardholders with monthly credit limits of \$2,000 or less. In those instances, the Élan procurement card system defaults to the monthly credit limit when purchases are processed. Also, UNI did not have a standard monthly credit limit in its procurement card policies during the time period included in our review. Monthly purchase limits were established at various dollar levels for cardholders, as deemed appropriate and approved by department and program administrators, ranging from \$200 in Broadcasting Services to \$50,000 in Athletics. UNI's Procurement Card Application and Agreement, effective July 2004, includes a \$1,000 single transaction limit.

We reviewed actual average spending amounts of ten SUI, eleven ISU and five UNI cardholders. Monthly and single transaction credit limits for the selected cardholders were compared to actual average monthly and transaction amounts to evaluate their limits. For the cardholders tested, we identified a number of cards issued to employees with minimal purchasing responsibilities and with actual average monthly and single transaction purchases that were significantly less than their credit limits.

Specifically, ten of ten SUI, ten of eleven ISU and four of five UNI cardholders had monthly credit limits established at higher dollar levels than necessary, as summarized in **Schedule 2**. As illustrated by the **Schedule**, one cardholder at SUI with a monthly transaction limit of \$120,000 averaged only \$31,448 of purchases per month, while another cardholder had a monthly limit of \$100,000 and average monthly purchases of \$10,127. Four ISU cardholders with monthly credit limits of \$30,000 had average monthly purchases ranging from \$1,598 to \$14,334. The two UNI cardholders with monthly credit limits of \$25,000 had average monthly purchases of \$750 and \$4,984.

In addition, three of ten SUI, five of eleven ISU and five of five UNI cardholders tested had excessive single transaction limits during fiscal year 2003, as summarized in **Schedule 2**. As illustrated by the **Schedule**, one cardholder at SUI with a single transaction credit limit of \$30,000 averaged only \$340 per purchase, with a highest single purchase of \$8,407. A cardholder at ISU had a single transaction credit limit of \$15,000, but only averaged \$1,475 per purchase, with a highest purchase of \$3,733. Two UNI cardholders, each with \$10,000 single transaction credit limits, had average purchases of \$83 and \$147 and their highest purchases were \$400 and \$6,717, respectively.

We also identified 24 instances at SUI where either the established monthly or single transaction limit was exceeded. Since the transaction was able to be processed by the vendor, the established limits were either temporarily or permanently increased. SUI policy requires requests for higher spending limits to be made in writing and approved by the cardholder's department administrator. The requests can be by e-mail or memo. Documentation of the request and approval was not available for review.

The Universities have more cardholders than necessary and have established single transaction and monthly credit limits at higher levels than necessary. Unnecessarily high credit limits and having more cardholders than necessary increase exposure to improper charges and abuse. In addition, the number of small purchases may indicate purchases are not well planned or coordinated with others having similar purchasing needs. When cards are issued to employees with limited purchasing responsibilities, and, in most cases, when purchases are made without pre-approval, it becomes very difficult to effectively control and manage the use of cards. Card issuance should be based on having responsibility for making purchases for a department.

Recommendation – Procurement cards should be held only by University employees with appropriate job duties and purchasing responsibilities. Cards should not be issued only because it is more convenient for the employees. It may not be appropriate and necessary for an employee who makes limited purchases to have a procurement card.

In addition, credit limits should be based on previous activity levels or anticipated needs appropriate for the cardholder. If necessary, credit limits should be increased only temporarily for specific situations. The approval and necessity of all credit limit increases should be adequately documented. Also, SUI should comply with the established \$2,000 single transaction limit policy rather than allowing an additional \$100 for freight and ancillary costs. In addition, SUI should revise the single transaction limit policy to be applicable for all types of purchase made with procurement cards without exceptions. Cardholders using procurement cards for conference registration fees, travel, reprints, subscriptions and renewals and advertising costs can request and obtain approval for increased single transaction credit limits as necessary and appropriate.

University officials should periodically review the number of issued cards and to whom they were issued to ensure all cardholders actually need the cards issued to them and the credit limits have been established appropriately.

SUI Response – SUI agrees that procurement cards should be held by University employees with appropriate job duties and purchasing responsibilities as our current policy states. SUI departments are responsible for determining the individuals who should be approved for a procurement card and reviewing the monthly credit limits. SUI provides departmental administration the ability to review their cardholders, the daily transactions and credit limits within the functionality of the ProTrav system. Review of inactive cardholders and card limits is part of Purchasing's annual review of the procurement card system. Cards that are not being used are cancelled. SUI has also implemented a review of the transaction and monthly limits and will be working with departments to reduce the limits to a more appropriate amount.

Several of the limits listed on Schedule 2 were temporary increases to accommodate specific transactions (Accounts Payable Clerk III, Business Administration Program Associate II, and Athletics Director of Administrative Services). The credit limits were then immediately lowered following these transactions. This information is documented in the ProTrav system by cardholder. The credit limits for the AP Clerk IIIs have been lowered to \$100,000, \$10,000 and \$10,000 respectively. The Accounts Payable staff listed utilizes the procurement card only to process payments on behalf of other departments once an approved voucher is received from a department. Accounts Payable procurement card vouchers are reviewed by multiple supervisory staff for approval. Both the Director of Purchasing and the Senior Associate Director review these transactions daily. Transactions above \$5,000 transaction limit require approval to process on the procurement card. One Accounts Payable card has a credit limit of \$100,000 to pay for various large transactions such as utility bills, hotel rooms for conference and institutes, etc. All Accounts Payable procurement cards are stored in the department's safe which has highly restricted access. This accounts payable process is also a best practice in utilizing procurement cards to their fullest advantage. This process has saved the department FTE resources and postage costs by eliminating the need to enter new vendors, duplicate data entry of voucher information and the creation of checks. Since the implementation of the e-voucher application, the use of procurement card by Accounts Payable staff has decreased dramatically. The use of procurement cards by Accounts Payable staff have returned \$159,424 in rebate dollars over the last 4 years and saved thousands of dollars in postage, data entry, and check processing costs.

Credit limits are initially set up at a transaction limit of \$2,000 and a monthly transaction of \$10,000. SUI has a policy and procedures that address requests for permanent and temporary increases to the single and monthly transaction limits. Departments can request a

permanent increase in the transaction limit by providing a justification in writing to Purchasing. Approvals of such requests are based on the current spending activity and future needs of the cardholder. All increases are documented and maintained on file in Purchasing and now within the ProTrav system. SUI did not receive a request to review such documentation during the state audit or the documentation would have been provided.

As stated in the SUI exit conference, SUI sets an internal transaction limit of \$2,100 as recommended by our procurement card vendor. In doing so, the administration of the transaction limits has sufficiently decreased as staffs do not have to adjust transaction limits due to shipping costs that were not considered by the cardholder when processing a transaction. All cardholders must request a one time increase in their single transaction limit in order to purchase any item over the transaction limit. There are no exceptions.

Only two Big Ten Universities have a lower transaction limit than SUI. Four of the Big Ten Universities have transaction limits of \$5,000. SUI is currently considering increasing the single transaction limit to match the capital threshold limit of \$5,000.

SUI's transaction size of \$238 is in line with the National average of \$240. This spend pattern supports the definition of a low dollar purchasing tool. As stated in SUI's response to Finding 2, cardholders are directed to SUI contracts and encourage utilizing their procurement card to make purchases from contracts. The procurement card tool is less costly to process than an electronic requisition.

The National average of cards per number of employees is 11% for programs where the procurement card program does not include travel. At SUI where travel is included, only 13% of the faculty and staff have cards. The card to employee ratio at SUI is considered below average according to best practices.

Only 2 of the 24 transactions reported above are truly unapproved split transactions and over the transaction limit. The other 22 transactions were pre-approved and the documentation of the approval is on file in Purchasing. Documentation of these approvals was provided to the Auditor of State.

ISU Response – Constant monitoring to raise and lower credit limits on procurement cards is an inefficient use of resources. ISU has established a standard monthly credit limit for cards. The monthly limit on any card can be established at a lower level, if determined appropriate by the department administrator. The limit can also be increased, if there is a substantiated reason. Such delegated-authority limits are determined by university administration based upon need and review by the Purchasing Office. ISU Purchasing Agents have higher transaction limits on their cards in the event a vendor will not accept a purchase order.

Procurement cards are not declining balance cards. It is not clear why unused credit limits are considered to be an issue that places the university at risk. The contract with USBank/Elan ensure the university has no liability if a card number is compromised and used fraudulently.

ISU department administrators determine which of their employees need a purchasing card based on their job duties. There is no history to suggest cards are being issued for convenience.

UNI Response – UNI has changed its procedures since the time under review and now regularly reviews individual cardholder activity to credit limits and adjusts credit limits as necessary. The card program that UNI participated in during the years under review did not have the reporting capability to facilitate such a review.

Additionally, UNI has maintained a procedure of primarily authorizing the issuance of cards to individuals with purchasing responsibility.

Conclusions:

SUI – During our review we did not identify cards that were cancelled because they were not used. Also, during our review SUI did not provide documentation of quantified savings when requested.

As stated in our finding, the single transaction limit established by SUI's procurement card policy is \$2,000. However, SUI typically allows up to \$2,100 per transaction, unless a higher limit is approved. It does not seem appropriate or necessary to increase single transaction limits to \$5,000 for all cardholders while the average transaction size is only \$238.

If SUI increases the standard single transaction limit to \$5,000 some control over purchases may be lost. SUI would be assuming more risk of inappropriate and unnecessary purchases being made. In addition, the initial single transaction limit for SUI cardholders should be established at \$2,000 in accordance with the procurement card policy and should not be internally set at \$2,100 to allow for shipping costs.

Pre-approval documentation was provided by SUI after our exit conference for 22 of the 24 transactions identified as exceeding the cardholders' limits. However, the documentation was not provided when requested multiple times from the relevant departments during our review. Also, the departments did not indicate documentation of the pre-approved transactions was available from program administration.

ISU – We agree constant monitoring to increase or decrease credit limits for procurement cards is not an efficient use of resources and we did not recommend doing so. However, we do recommend usage be periodically reviewed and credit limits adjusted accordingly.

Our recommendation focused on the possible misuse of cards by University employees rather than the theft of the cards. When more employees have cards, there is increased risk of misuse due to an increase in purchase volume which may result in less oversight.

Also, ISU responded there is no history to suggest cards are being used for convenience. We disagree. In fact, one of the benefits promoted by the Universities to the departments was the convenience of making purchases with procurement cards. Also, cardholders of some University departments stated how convenient it was to use the procurement cards to purchase items such as office supplies.

UNI – Response accepted.

FINDING 9 – Procurement Card Rebates – The Universities do not have policies addressing how procurement card rebates are to be distributed or used within the University. Currently, the Universities have used the rebates as follows:

- Program administration at SUI indicated rebates received were used for the benefit and improvement of the procurement card system. Rebates received have primarily been used by procurement card program administration to pay a consultant for development and implementation of a web-based procurement card transaction system and to pay for a portion of program administrative costs. SUI accumulated a balance in the rebate account of \$202,530 as of June 30, 2003. By June 30, 2004, the balance in the rebate account had increased to \$516,966.

SUI Purchasing and Accounts Payable used some of the rebate money for purposes we consider to be unallowable, such as \$80 for eight meals at the Olive Garden to celebrate work progress related to developing and enhancing the procurement card system. Employee rewards and gifts typically are not an allowable use of governmental funds even though such expenses are allowed under the reward and recognition program of the University, if properly approved and documented.

- ISU uses all of its rebate money to help offset procurement card program administrative costs.
- Initially, UNI did not receive any rebate dollars during fiscal years 2002 and 2003. However, UNI subsequently received a lump sum rebate of \$15,072 for 2002 and 2003 following a favorable result from a dispute with Élan. Rebates were also received during fiscal years 2000 and 2001 and were deposited into the miscellaneous income account of the general education fund.

Recommendation – The Board of Regents and Universities should develop written policies and procedures for the distribution and use of procurement card rebates. When developing the rebate policy, consideration should be given to the budget implications for the department(s) generating the rebates, as well as whether the rebates may be accumulated and carried forward for future use.

Board Office Response – The Regent Policy Manual §7.02 contains a detailed **Code of Business and Fiduciary Conduct** that sets forth the fundamental expectations relating to all business and fiduciary conduct. This Code is the Board of Regents’ statement of the underlying principles by which it expects those with business and fiduciary responsibilities to carry out their duties.

The board focuses on broad-based policies to allow institutions the flexibility to implement best practices and incorporate the rapid changes in technology without policies being overly prescriptive. It is the responsibility of the university presidents to implement specific policies and procedures.

In mitigating this issue, the Board Office will facilitate enterprise-wide guidance in aligning university policies where feasible. The Regent Internal Audit Director will provide follow-up to the Audit and Compliance committee of the Board.

SUI Response – SUI has a formal budget for the procurement card rebate dollars. Due to SUI’s negotiations with US Bank, SUI was able to increase the percentage of rebate received by all institutions during 2004. The rebate is used to offset the procurement card program administrative costs as well as the ProTrav system design, development and implementation.

Expenses purchased through SUI’s reward and recognition program are an allowable use of funds at SUI.

ISU Response – ISU utilizes any rebate to cover the cost of administering the program. This is consistent with federal requirements and is a common practice for procurement card programs.

UNI Response – UNI VP for Administration and Finance determines rebate use and directs it to the benefit of university administrative processes. Since the three universities use their procurement cards differently UNI believes a uniform policy would not be necessary or appropriate.

Conclusions:

Board Office - We agree it would be beneficial for the Board Office to facilitate enterprise-wide guidance in aligning the Universities' procurement card policies for procurement card rebates and to have the Regent Internal Audit Director provide follow-up to the Audit and Compliance Committee of the Board.

When developing the rebate policy, consideration should be given to the budget implications for the department(s) generating the rebates, as well as whether the rebates may be accumulated and carried forward for future use.

SUI – While we concur that using rebate dollars to make purchases for the reward and recognition program is allowable under SUI policy, we do not agree it is an appropriate use of taxpayers' money.

SUI has used only a portion of the rebate dollars to offset program administrative costs and has accumulated a substantial balance of funds in the rebate account. The \$516,966 balance as of June 30, 2004 was not specifically addressed by SUI's response.

ISU and UNI – Responses accepted.

FINDING 10 – Merchant Category Codes - Merchant Category Codes are used throughout the credit card industry to categorize vendors by the type of products or services provided. SUI and ISU have identified MCC restrictions to be placed on all procurement cards issued by blocking certain MCCs. The blocked MCCs include vendors associated with the type of items considered unallowable for purchase with procurement cards. UNI did not have the capability to block MCCs until July 2004. The procurement card plan that UNI participated in during the period under audit was a business plan and did not have MCC blocking functionality.

SUI has not blocked several MCCs for procurement cards that are blocked by ISU. The MCCs blocked by SUI and ISU are listed in **Appendix C** and **Appendix D**, respectively. The following table shows examples of MCCs blocked by ISU, but not by SUI.

Examples of MCCs blocked by ISU but not by SUI	
<ul style="list-style-type: none">◆ Bars/taverns◆ Dating and escort services◆ Massage parlors◆ Cruise lines◆ Motion picture theatres◆ Video amusement game supply◆ Sports camps◆ Court costs	<ul style="list-style-type: none">◆ Child care and babysitting services◆ Boat rentals◆ Bands and entertainers◆ Casino/betting/lottery◆ Funeral services◆ Fines◆ Bail and bond payments

While there are potential problems with the MCC system because codes may not exist for every combination of vendor types or a code may include such a wide variety of vendor types that effectiveness is limited, it still is a control mechanism that helps prevent abuse of the card.

Recommendation – The Board of Regents and the Universities should develop a standard list of MCCs to be blocked on all procurement cards. Each University could add MCCs to the standard set of blocked MCCs, as necessary and appropriate for their unique programs and organizations. Also, the Universities should implement a policy for periodically reviewing blocked MCCs and consider whether other MCCs should be blocked, as appropriate, for cardholders to facilitate better control over purchases.

The procurement card procedures at each University should include the process for individual cardholder exceptions to the standard list, if exceptions are permitted. The procedures should include when an exception is allowable, the process for requesting an exception and the process for obtaining approval of the change.

Board Office Response – The Board focuses on broad-based policies to allow institutions the flexibility to implement best practices and incorporate the rapid changes in technology without policies being overly prescriptive. It is the responsibility of the university presidents to implement specific policies and procedures.

In mitigating this issue, the Board Office will facilitate enterprise-wide guidance in aligning university policies where feasible. The Regent Internal Audit Director will provide follow-up to the Audit and Compliance Committee of the Board.

SUI Response – The Merchant Category Codes (MCCs) listed in the finding have now been blocked by SUI. SUI does have a policy and procedure in place for handling exceptions to the MCC. This policy was provided to the Auditor of State. In addition, a report on MCC charges has been developed and a pre-audit of charges to MCC's that are defined as "at risk" transactions is being developed within ProTrav.

As noted in SUI's exit conference, travel on procurement cards makes the use of MCCs as a method of restricting purchases not practical. Generally, blocking MCCs is not seen as a best practice of the industry. MCCs are assigned to vendors by the bank. The codes are not regulated or mandated by any oversight organization. Vendors can override the MCC blocks when processing a transaction. Recently SUI had US Bank conduct an MCC analysis of our card program. US Bank highly recommended against the use of MCCs as a method of controlling procurement card spend.

SUI has never had any charges appear on the MCCs of Massage Parlors & Bails/Bonds MCCs. Charges have been made on the MCC for Dating & Escort Services & Casino/Betting. However, they were found to be fraudulent transactions initiated by a non-university employee and thus, SUI was not financially responsible for these charges.

Purchases have been made on the other MCCs, but the purchase was in compliance with University of Iowa Purchasing Guidelines. This demonstrates that the MCCs should not be used to regulate and control a procurement card program and that a standard can not be adopted at the Regents level.

ISU Response – ISU has identified three configurations of MCC codes based upon the actual needs of cardholders and existing university policies. ISU does not allow exceptions to the MCC codes. If a vendor has incorrectly identified its business, we recommend the vendor contact their bank and change their MCC code. We do not open MCC codes for exceptions. A standard list of MCC's would add little value to our program.

UNI Response – For the years under review, the card program UNI participated in did not include the capability of limiting purchases by Merchant Category codes. Since converting cards in early FY 2005, UNI has used the standard MCC defaults which are reviewed periodically and amended as needed.

Conclusion - We disagree with SUI's assessment of the importance of blocking certain MCC categories. Blocking certain MCCs is an important part of an effective internal control system that limits the types of purchases that may be made at the source. While our report acknowledges the limitations of using blocked MCCs as a control, we believe blocking certain MCCs is important for helping limit inappropriate use of procurement cards. Blocking the MCCs listed in the table included in this finding is beneficial for improving overall control of purchases made using procurement cards.

According to the United States General Accounting Office Audit Guide entitled, “Auditing and Investigating the Internal Control of Government Purchase Card Programs”,

“Questionable vendors can be identified by using MCCs—standard codes that the credit card industry maintains to categorize merchants—assigned to vendors that may sell personal or prohibited goods or services. Purchase card transactions carrying the identified codes can then be extracted from the population database. Sorting and summarizing the extracted transactions by vendor may further enhance the selection processes.

Organizations have the ability to block purchases from vendors with selected MCCs at the bank service provider. Ideally, any attempt to charge a purchase from a vendor with a blocked MCC should be automatically rejected at the point of purchase. However, auditors should be aware that (1) vendors may circumvent this control by providing false or misleading information and obtaining MCCs intended to disguise the types of goods or services they provide, and (2) bank service providers do not always reject purchase card transactions with blocked vendor MCCs.

All transactions associated with the identified vendor names and MCCs should initially be considered potentially fraudulent, improper, and abusive and extracted into a questionable vendor transactions database for further selection and follow-up.”

We believe it would be beneficial to have a standard list from which to initiate blocking of MCCs as part of the procurement card program internal control system. Additional MCCs could be blocked as determined necessary and appropriate by University program administrators.

FINDING 11 - Procurement Card Transaction Systems – Each University should have a process in place to allow for the periodic scanning and review of purchases made with procurement cards. Each of the three Universities uses a different electronic system to process and review procurement card transactions. The capabilities of each of the systems are briefly described in the following paragraphs.

- The procurement card system used by SUI contains information and documentation to support procurement card transactions. However, the system did not facilitate monitoring of transactions by department administrators to allow efficient, comprehensive identification of transactions that should be reviewed further to ensure appropriateness. Transaction descriptions and business purpose were not available in a summarized comprehensive format in the SUI procurement card system, so it was not easy to quickly identify additional questionable or unallowable purchases.

SUI representatives recently stated procedures are now in place to periodically scan transaction data to ensure transactions are appropriate. The system now allows administrative access so departments may monitor daily transactions of any cardholders.

Documentation for the purchases made with procurement cards during our audit period could be reviewed by authorized individuals using a procurement card web-based system and entering appropriate codes and navigating to imaged supporting documentation. While images of the supporting documentation were available, it was very time consuming to review transactions in detail sufficient to ensure appropriate monitoring.

- The procurement card system used by ISU includes a database containing all procurement card transactions for each cardholder by fiscal year. The database allows for efficient and effective monitoring of procurement card transactions because it allows transactions to be

easily sorted in a number of ways, including by department, cardholder, vendor and transaction description.

The versatility of ISU's database is very important for efficient and effective application of analytical techniques necessary for a strong monitoring system. Using the database, ISU program administration staff periodically scan transaction data to ensure transactions are appropriate. Through their periodic review, ISU Purchasing discovered inappropriate activity and took immediate action to investigate it. The investigation identified approximately \$16,000 of inappropriate purchases and resulted in an employee being arrested and charged with forgery and related fraudulent acts for inappropriate use of a procurement card. The employee was subsequently terminated from employment.

- The procurement card system used by UNI for documenting transactions does not facilitate sorting transaction data in a manner that allows for efficient and effective periodic review. The system does not allow data to easily be reviewed for trend analysis or other overall monitoring methods. While UNI was able to create a set of transaction data for us to review, it was not comprehensive enough to facilitate sorting, analyzing and scanning by cardholder.

UNI does not have procedures in place to periodically scan transaction data to ensure transactions are appropriate

A database that allows for proper monitoring helps ensure procurement cards are not misused. Because it was not possible to efficiently and effectively scan the purchases made with procurement cards at SUI and UNI, it was difficult to analyze the transactions or identify unusual purchases needing further review. For that reason, unallowable purchases may have been made with procurement cards that are not readily identifiable.

Using ISU's database, we were able to efficiently and effectively review purchases made with procurement cards to identify unusual transactions. ISU also uses the database to identify unusual transactions and has followed up on transactions to ensure appropriate resolution. As stated previously, ISU administration identified instances of personal use of a procurement card that resulted in the arrest of a former employee and the filing of criminal charges for forgery and related fraudulent acts for inappropriate use of a procurement card. The unusual activity was discovered by procurement card administrators during a routine review of open transactions not yet processed for payment.

Recommendation – Each University should maintain a system that allows efficient, effective monitoring of purchases made with procurement cards. The system should ensure all transactions are included and have features that allow an independent party to identify purchases that are unusual in nature. The data should include, but not be limited to, department name, cardholder name, vendor name, amount of purchase, date, description and business purpose.

Also, the program administrators of each University should periodically scan transactions and review any purchases that appear to be unusual, unallowable and/or violate procurement card policy. The periodic monitoring should also include determining whether single transaction and monthly credit limits were complied with and identification of unusual vendors and trends.

SUI Response – The Auditor of State review of procurement card transactions appears to have been conducted differently at the Regents Institutions. ISU provided the auditors with their entire data base of transactions. At SUI, the Auditor of State selected a sample of transactions and audited them for compliance. Accounts Payable was never asked to provide the auditors with an entire file of transactions. Detail transaction files from 2000 are available.

Since this audit, SUI has implemented the ProTrav system for the reconciliation of procurement card transactions and the reimbursement of travel related expenses. This system is built on Oracle table and allows a greater level of detail to be recorded at the time of transaction, including travel related information, business purpose and various other information as determined by the business rules within the system. This system allows for efficient, effective monitoring of purchases made with the procurement cards. Review of transactions occurs on a daily basis by cardholders, department administrators and budget officers as well as by staff within Purchasing and Accounts Payable.

ProTrav's primary function is to provide departments with their procurement card data on a daily basis in a fashion that can be reviewed by cardholder, vendor, amount, or accounting allocation. The system also has the following features that aid in the review: reports by cardholder/department/organization, delinquent voucher notification, audit error recording and reporting, upper level administrative review security, business rules with flags for exceptions to policy, electronic approvals and a central location for the user to review all of this information on individuals start page.

In addition to utilization the ProTrav system, SUI also receives reports produced by US Bank to monitor card compliance and issuance. SUI has also developed additional pre/post audit reports: MCC Exceptions, Inactive Cards, Declined Authorizations, Weekend/Holiday Spend, High Dollar Purchases, High Transaction Spend, Velocity Spend and Higher Credit Limit Review.

ISU Response – ISU continually works to improve its electronic reconciliation system. We have used it to monitor usage and proactively enhance our ability to provide effective oversight. We also utilize our database to identify strategic sourcing opportunities for the campus.

UNI Response – The process used at UNI for reviewing procurement card transactions currently includes a detailed review of all transactions. As financial resources become available, UNI would consider converting its manual process to a more efficient, electronic method.

The need to scan transactions for appropriateness is currently considered unnecessary given our process of reviewing all transactions.

Conclusions:

SUI – We do not agree with the response. The same requests were made at each University and the same audit methodology and procedures were used to conduct the review at each University. Also, we requested but did not receive transaction downloads. Therefore, we obtained downloads of all of the procurement card transactions through our Information Technology staff and used transaction identifiers to obtain relevant information for selected transactions from the SUI procurement card system.

ISU and UNI – Responses accepted.

FINDING 12 - Split Purchases – Each procurement card has single transaction and monthly credit limits established upon issuance. The limits are established to provide control over the amount of purchases any one cardholder may make. The single transaction limit restricts the amount the cardholder can purchase from a vendor for any given transaction. While the monthly credit limit cannot be circumvented by the cardholder, the single transaction limit can be circumvented by splitting purchases into multiple transactions.

Splitting transactions to bypass the procurement card transaction limit is a violation of the Universities' procurement card policies and cardholder agreements. We identified 56

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purchases in which the cardholder circumvented the single transaction limit by splitting the purchase into multiple transactions. The 56 transactions are listed in **Schedule 3** and are summarized in the following table.

Fiscal Year University	Number of transactions tested	Number of split transactions	Amount
<u>2002</u>			
SUI	192	3	\$ 9,061.22
ISU	60	2	5,132.66
UNI	73	-	-
<u>2003</u>			
SUI	169	6	26,415.92
ISU	162	45*	145,434.96
UNI	58	-	-
Total	714	56	\$ 186,044.76

* Because the ISU database allowed more comprehensive data analyses such as sorting and scanning transactions by department by cardholder by vendor by date, we were able to more effectively and quickly identify split transactions.

The following are examples of the split transactions identified.

- Two purchases were made for SUI’s Facilities Services Department on June 26, 2001 and SUI paid the vendor on August 29, 2001. The purchases were for \$2,000 and \$1,916, respectively. The supporting documentation for the purchases included a hand written note on the receipt that stated, “order has to be broken up - \$2,000 maximum per charge”.
- Four purchases were made for ISU’s Facilities Planning & Management Department on July 19, 2002. Each purchase totaled \$1,436.50 and was for five gallons of chemicals.
- On November 27, 2002, a procurement card issued to a faculty or staff member from the Agronomy Department was used to pay for expenses incurred at the Highlander Hotel for an agriculture chemical dealer meeting in Iowa City. The total bill of \$2,757.89 was split into two purchases of \$1,378.94 and \$1,378.95.

During 2003, procurement card administrators at ISU noticed frequent splitting of procurement card transactions. As a result, effective December 3, 2003, ISU implemented a new policy to help control splitting transactions. Currently, if ISU procurement card administrators identify any evidence of cardholders using any means to avoid single transaction limits, except as described below, the cardholder’s procurement card privileges will be revoked. The policy was implemented subsequent to the period of our review.

While the Universities emphasize to cardholders that splitting transactions to circumvent the procurement card policy is not allowable, SUI and ISU have processes in place to allow employees to split transactions when purchases are made using a competitively bid and awarded contract with leveraged pricing or government volume pricing agreements. Split transactions of this nature, however, have been included in the table above.

The Universities’ procurement card programs were implemented to facilitate purchasing small dollar items and improve effectiveness and efficiency of the procurement process by eliminating the need for small dollar purchase requisitions and reimbursement vouchers. The programs were not implemented to facilitate higher dollar purchases by department cardholders. If higher dollar items are necessary and appropriate, the purchasing

department should coordinate and transact such purchases. In addition, if special circumstances warrant, credit limits could be temporarily increased to allow the cardholder to make larger purchases.

Recommendation – The Universities should reinforce with cardholders it is not allowable to split transactions. Also, the Universities should not allow splitting of transactions for purchases from vendors under contract or for any other reason. If cardholders frequently make necessary and appropriate higher dollar purchases from vendors under contract, consideration should be given to increasing the cardholders’ single transaction limits or requesting someone from the purchasing department to make the higher dollar purchase. Typically, purchasing department staff has higher limits.

In addition, the Universities should develop procedures as part of their monthly review of procurement card statements to identify when cardholders circumvent limits established on the cards. Violations should be subject to administrative review and the Universities should consider if it is appropriate to revoke the cardholder’s privileges.

SUI Response – SUI has had a procedure in place since 1999 for monitoring and approving split transactions. All transactions over the transaction limit are required to have prior approval from Purchasing. A monthly report is reviewed by Purchasing for split transactions. Cardholders that did not receive prior approval are asked to submit justification for the transaction. If a cardholder violates this policy repeatedly, they are subject to review and possible revocation of their card.

ISU Response – The Table indicates out of 162 transactions tested in 2003, 45 had split transactions. This could lead one to the erroneous assumption that 28% of all transactions were violating our policy. The auditors have misinterpreted the data. Many of the transactions that may ‘appear’ to be split are actually releases made against competitively bid contracts or multiple transactions held by the vendor over a period of time and processed on the same day. We experience minimal split transactions for the purpose of bypassing the transaction limit. Since 2004 we have run a weekly query designed to identify any cardholder violating this policy, and have issued written warnings to the cardholder, or terminated their card privileges if split transactions reoccurred.

UNI Response – UNI did not have any split transactions reported. Our current procedures identify split purchases and when necessary appropriate action is taken.

Conclusions:

SUI and ISU – We accept the SUI response, except we do not agree with allowing split transactions for purchases from vendors under contract or for any other reason. Also, we did not misinterpret ISU’s data. We believe the transactions identified in our finding are split transactions. The United States General Accounting Office Audit Guide entitled “Auditing and Investigating the Internal Control of Government Purchase Card Programs” defines split transactions, in part, as follows:

“Split transactions are two or more transactions that would have normally been a single-purchase transaction, but were split to circumvent the micropurchase threshold or other legal or internal control single-purchase limits. For purposes of identifying sets of potential split transactions, all purchase card transactions in the audit period that meet the following criteria can be extracted into a potential split transactions database for further analysis:

- *the transactions are with the same vendor, and*

- *the transaction dates are on the same day, and*
- *the transactions total in excess of [threshold], and*
- *the transactions are by the same cardholder, or the transactions are by the same activity/department. (Broadening the selection criteria to the same activity/department considers the potential for collusion among cardholders to circumvent single-purchase limits.)”*

We agree with the United States GAO definition and criteria for split transactions. If transactions are split because of a contract or any other reason, the control provided by the single transaction limit is lost. We do not believe the practice of allowing split transactions should continue at any of the Universities.

If cardholders frequently make necessary and appropriate higher dollar purchases from vendors under contract, consideration should be given to increasing the cardholders’ single transaction limits or requesting someone from the purchasing department make the higher dollar purchase.

UNI – Response accepted.

FINDING 13 – Unsupported Transactions – The procurement card policies of each University require that purchases made with procurement cards be supported by appropriate documentation. Documentation should be receipts, invoices or other appropriate support that includes a description of each item purchased, the vendor’s name, quantity purchased, cost of the items and date of transaction.

For the University departments tested, we identified 18 transactions that were not supported by appropriate documentation. In most instances some documentation was available but the content did not include the necessary detail to determine if the purchase was appropriate. Payment was made for these purchases without proper documentation verifying the purchase was appropriate for University business. The following table summarizes the lack of sufficient support for University transactions.

Fiscal Year University	Number of transactions tested	Lack of sufficient support for transaction	Amount
<u>2002</u>			
SUI	192	6	\$ 12,070.51
ISU	60	-	-
UNI	73	6	759.64
<u>2003</u>			
SUI	169	1	2,000.00
ISU	162	5	6,355.79
UNI	58	-	-
Total	714	18	\$ 21,185.94

ISU policy recommends completion and maintenance of transaction logs, but does not require cardholders to use the logs. The ISU procurement card program website has a transaction log template available for download and use by cardholders. SUI and UNI do not require completion of procurement card transaction logs. Completion and maintenance of

transaction logs are important for listing and maintaining sufficient detail for each item purchased since receipts often do not contain enough detailed information about each purchase. Also, transaction logs are helpful to the cardholder/reconciler during the monthly reconciliation process and would assist an independent reviewer during the payment approval process.

Recommendation – All procurement card purchases should be supported by a detailed receipt or other appropriate documentation. Purchases should not be approved for payment until proper documentation is received from the cardholder. The business purpose of each transaction should be documented and maintained. The Universities should consider requiring a monthly transaction log to be maintained by each cardholder. In addition, the Universities should ensure all relevant documentation is maintained in accordance the University’s record retention policy.

SUI Response – SUI’s policy does require a detailed receipt or other appropriate documentation. In each of these instances listed, the cardholder provided the documentation in accordance with SUI policy. SUI’s policy does not require a statement of business purpose for all types of transactions. Given the repetitive nature of these transactions, AP does not need to require a business purpose for each purchase. The department upon approving the transaction has attested to the business purpose. AP will only pursue those that appear to be questionable. For unique purchases, AP would pursue a business purpose or justification if the department failed to provide one.

All relevant documentation is requested and retained by Accounts Payable until the voucher has been audited. Once the voucher is audited, the receipts are then scanned and available through the ProTrav system.

With the implementation of the ProTrav system, cardholders and reconcilers are able and encouraged to reconcile procurement card transactions daily. The system allows transactions to be correctly distributed to the appropriate accounts. The type of expense is determined by the MCC assigned to the transaction. The reconciler can enter notes on each transaction as well as assign travel expenditures to their specific trip information.

ISU Response – The ISU Procurement Card program requires departments to have appropriate receipt documentation and maintain those records for a minimum of five years. Requiring a monthly log would result in a duplicative administrative task without sufficient resources to address the requirement.

UNI Response – UNI acknowledges the occurrence of a limited number of unsupported transactions that were identified under audit and considers them isolated incidences. Procedures implemented since the period under review would prevent any unsupported transactions from being charged to a University account and could result in the loss of procurement card privileges to the cardholder.

Conclusions:

SUI – The descriptions of the purchases included in this finding do not indicate repetitiveness. Also, two of the six items identified in fiscal year 2002 did not include a receipt to support the transaction. The remaining four transactions from fiscal year 2002 and the one transaction identified for fiscal year 2003 were supported with some documentation, but we did not consider the content of the documentation to be sufficient.

ISU – We did not recommend a monthly transaction log be required, but suggested it as an option to help ensure all essential elements for supporting transactions are documented and

therefore available for subsequent review. For example, transactions were not always supported with receipt documentation so the transaction details were not available, including vendor name, dollar amount, item(s) description, quantity and date. To ensure purchases are appropriate, sufficient details regarding the transactions must be documented.

UNI – Response accepted.

FINDING 14 – Non-compliance with Policies or Questionable Transactions – The procurement card policies at each University include items not to be purchased with a procurement card. The following table summarizes purchases we identified during our testing at each University that do not comply with procurement card policy or were questionable purchases. We also identified purchases of other items that were not allowed by the Universities’ procurement card policies. In such instances, however, University staff had already identified the purchase and requested reimbursement from the cardholder.

University	Number of Transactions Tested	Number of Non-compliant or Questionable Purchases	Amount
SUI	361	11	\$ 2,065.37
ISU	222	14	11,132.61
UNI	131	9	668.71
Total	714	34	\$ 13,866.69

Schedule 4 includes a listing of the non-compliant or questionable purchases for each University. The **Schedule** lists date purchased, vendor, description, dollar amount and whether the purchase is non-compliant with policy or considered questionable. The non-compliant or questionable transactions identified in the previous table for ISU include eight purchases of computers totaling \$10,822.29. During our review period, ISU policy prohibited the purchase of computer CPUs costing \$500 or more.

Six of the eleven SUI transactions included in the table above and detailed in **Schedule 4** were purchases of flowers. SUI policy allows the purchase of flowers unless the purchase is for an employee or their family. In that case, approval by the Provost or Vice President is required. While the purchase of flowers is a kind gesture, it may not be an appropriate use of University funds.

Using ISU’s procurement card database, we were able to quickly identify an additional 95 transactions totaling \$8,855.21 that appear to violate ISU procurement card policy. We discussed each of the transactions with the procurement card administrator and received her concurrence the transactions did not appear to comply with ISU policy. In addition, we were able to identify 130 transactions totaling \$11,003.51 for purchases of telephones, cell phones and related equipment that appear to violate UNI policy.

We also identified significant amounts of food, beverages and hospitality-type items purchased with procurement cards at each University. However, documentation for the purchases did not always include the business purpose of the purchase. In addition to food and beverages, flowers and gifts were purchased and phone charges were paid with procurement cards. Purchases of this nature are high risk areas for abuse.

While the procurement card policies at SUI and UNI did not specifically exclude computer purchases and none of the Universities prohibited the purchase of computer accessories or supplies, the decentralized procurement of computers and related items is not a good practice. The ISU policy in effect during our audit period prohibited use of procurement cards for purchases of computer CPUs greater than \$500, but did allow purchases of computer equipment, such as printers, hard drives, networking components, printers, software and related supplies. In March 2004, ISU revised its policy to not allow any purchases of computers using procurement cards. Also, the policy was changed to specify that data networking equipment, switches, routers and wireless access points may not be purchased using procurement cards.

In addition, during testing of transactions for compliance with University procurement card policy we identified purchases that included sales tax. Universities are exempt from sales tax and it should not be incurred by the cardholder making the purchase. At UNI, we also identified a number of over limit fees incurred on cardholder accounts. The fees totaled approximately \$2,400.

Recommendation – The Universities should implement procedures to monitor procurement card transactions to ensure purchases made by cardholders are appropriate, necessary and comply with University policy.

Procurement card administrative staff at UNI should implement procedures to ensure over limit fees are not incurred.

SUI Response – SUI maintains that our policies and procedures do ensure that purchases made via the procurement card are appropriate, necessary and comply with our policies. Given the \$65 million expended through the procurement card program during the course of this audit, the findings of the Auditor of State demonstrate that the program is sound and that no significant abuses were noted.

SUI maintains contracts for office supplies, airlines, hotels, computers and scientific supplies. Departments are encouraged to purchase from these contracts with their procurement card. The top 20 vendors utilized by SUI cardholders, are vendors with whom pricing agreements are available. SUI's Strategic Sourcing Initiative includes the review of procurement card transactions and has developed discounted pricing contracts based on the vendor spend across departments. In comparison to the \$119,439 spent on computer purchases listed in the above table, SUI spent a total of \$3,925,852 over the last 2 years off the SUI Dell and discounted contracts. Purchasing computers from our discounted contract with the procurement card is a procurement card best practice.

None of the findings show that the purchases were made for larger quantities than were necessary or with unnecessary features. Departments are responsible for procuring items that meet their mission, ensuring that the items are necessary and prevent the purchases from being converted to personal use, regardless of the procurement tool used to procure the goods.

ISU Response – The small numbers of transactions that appear to violate the procurement card policy were identified from 55,950 FY03 procurement card transactions. They are not questionable purchases, as they have a legitimate business purpose. Using our database, we are able to identify transactions that may be questionable. We verify there is an appropriate business purpose and if a procurement card policy is violated, the cardholder is warned or loses their procurement card privileges. If a transaction does not have a valid business purpose, the cardholder must reimburse the university.

UNI Response – UNI has changed its procedures for making payment, eliminating late payment fees. As necessary, cardholders may have their limits increased for a limited time to facilitate increased spending, eliminating the cost of over limit fees.

UNI believes its current procedures ensure purchases made by cardholders are appropriate, necessary and comply with University policies.

Conclusions:

SUI – While we did not identify significant abuse based on the limited number of transactions tested, we did identify transactions that did not comply with University policy and did not meet the test of public purpose. It was not our intention to provide assurances on the soundness of the procurement card program. The intent of our review was to identify possible areas where the procurement card program could be improved to help ensure its success and limit problems as the program continues to grow.

ISU – As discussed with ISU officials during our review, the summary table includes both questionable purchases and purchases not in compliance with University policy. Eight of the fourteen items identified in this finding were computer purchases and three were purchases of phones and related equipment. The purchase of the computers and phones clearly violate ISU procurement card policy. The remaining three transactions were included in the finding because they do not meet the test of public purpose.

UNI – Response accepted.

FINDING 15 – Purchases Not Made From University Stores - The procurement card policies of each University require cardholders purchasing office supplies to make the purchase from University Stores if the items are available. If the items are not available, cardholders are generally allowed to purchase the items elsewhere. Cardholders are also allowed to purchase office supplies from other vendors if they can obtain and document substantial savings realized by purchasing from outside vendors.

We identified 21 purchases of office supplies from outside vendors that did not include documentation of determining availability from University Stores. In addition, there was no documentation showing a substantial savings was realized by purchasing from outside vendors. Of the 21 purchases identified, 1 was made by SUI, 12 were made by ISU and 8 were made by UNI. The purchases are summarized in the following table.

Date	Department	Vendor	Amount	Description
SUI				
05/14/02	Pediatrics	MacMillan Accts & Adm	\$1,343.97	Office supplies
ISU				
01/29/02	Facilities Planning & Management	Staples	42.86	Eraser refill, punch, highlighters, pens, tape
02/17/03	Biomedical Sciences	Target	129.90	VCR tapes
05/01/03	Veterinary Clinical Sciences	Staples	1,105.29	Office supplies inventory
05/08/03	Biomedical Sciences	Staples	35.71	Binders, notebooks, paper
06/10/03	Biomedical Sciences	Staples	523.50	Pocket PC, ink cartridge refills

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Date	Department	Vendor	Amount	Description
06/19/03	Biomedical Sciences	Staples	320.99	Computer paper, binders
06/30/03	Biomedical Sciences	Staples	14.94	Sticky tape (2 sided tape)
09/30/02	Facilities Planning & Management	E Labeling LLC	109.54	2 cases ribbon
10/10/02	Veterinary Diagnostic Lab	Staples	76.98	Label maker and tape
11/10/02	Biomedical Sciences	Staples	103.88	Toner, bubble wrap
11/15/02	Veterinary Clinical Sciences	Staples	53.99	Toner cartridges
11/25/02	Veterinary Diagnostic Lab	Office Depot	133.64	Office supplies
UNI				
10/15/01	Business & Community Services	Wal Mart	207.35	Supplies for the office
10/10/01	Humanities & Fine Arts	University Book Store	14.99	Office supplies
12/12/01	Natural Sciences	Office Max	405.82	Office supplies
06/01/02	Price Lab School	Wal Mart	19.94	Computer accessories
06/13/02	Humanities & Fine Arts	Office Max	1,145.60	Office supplies
06/10/02	Humanities & Fine Arts	Staples	150.00	Staples, staplers, misc. office supplies
12/11/02	Education	Younkers	125.00	25 pens @ \$5 each for meeting with Chinese
03/10/03	Education	University Book Store	710.99	Paper shredder
Total			<u>\$ 6,774.88</u>	

Recommendation – The Universities should ensure cardholders purchase office supplies and other available and necessary items from sources within the Universities rather than purchasing from outside sources. If the items are not available or substantial savings can be achieved by purchasing the items from an outside vendor, documentation should be maintained to reflect this.

SUI Response – SUI allows direct procurement through the General Stores’ website for office supplies. This web ordering system identifies which items are on contract. The cardholder can then use other SUI contracts with office supply vendors to purchase items that are not on the General Stores contract. These purchases are under \$2,000 and the savings is generated, not from the cost of the item, but from the administrative savings of not having to issue a requisition, purchase order and invoice into the system, as well as not having to document the savings for such a low dollar items.

ISU Response – ISU had already identified the need for a strong, cost effective office supply contract. As members of the Iowa Biotechnology Association (IBA), we participated in developing a collaborative request for proposal (RFP) document seeking written competitive proposals for an office supplies contract. The RFP process was conducted by the IBA, utilizing our volume and volume from other IBA members to help encourage competition. The resulting contract was implemented in FY05. The new office supplies contract is coordinated by our Central Stores department and provides excellent pricing, web-based access and ordering, next day product delivery, and reduced administrative costs using the procurement card for payment processing. This should significantly reduce the need for staff to go off-campus for office supply needs.

UNI Response – UNI has changed its procedures since the time period under review; current procedures require justification for office supply purchases made on the procurement card since Campus Supply was identified as a vendor of “First Contact.” Additionally, during the purchasing post audit, office supplies purchased on procurement card are documented and reported to Campus Supply which evaluates whether a follow up call to the cardholder is necessary.

Conclusion - Responses accepted.

FINDING 16 – Interdepartmental Purchases – SUI and ISU cardholders may use their cards to make purchases from other University departments. For example, the ISU University bookstore accepts procurement cards for purchases made by cardholders from other departments. Several departments and stores within SUI also accept procurement cards for payment of purchases made by cardholders from other departments. According to the SUI procurement card website, SUI’s General Stores, Laundry Services, Video Center, Biochemistry Stores, Memorial Union, Rental Pool and University Book Store accept procurement cards from other departments. UNI does not allow any interdepartmental purchases using procurement cards.

When vendors accept payment from a customer in the form of a credit card, the vendor is charged a processing fee by the issuing credit card company. University departments accepting cards must also pay this processing fee. Credit card payments are attractive to vendors because they immediately receive an electronic payment from the credit card company instead of billing the customer and receiving payment at a later date.

While it can be asserted a purchase made from another University department using the procurement card contributes to the rebate received by the University, the rebates are typically used for the benefit of Purchasing. Therefore, the vendor department is actually charged a fee that supplements the funds of the Purchasing Department.

Each University already has an existing system in place to facilitate interdepartmental transfers of funds that results in no additional costs incurred by the purchasing or selling departments. Using procurement cards for purchases made from other University departments results in unnecessary expenses to certain departments.

Recommendation – The Universities should not allow use of procurement cards for interdepartmental purchases, with the possible exception of purchases from University bookstores. The transactions between departments should be completed by using existing interdepartmental purchasing processes of the Universities.

SUI Response – SUI determined that the benefit of utilizing the procurement card for low dollar transactions to be greater than the merchant cost from VIA for taking the card. Procurement card purchases off of the General Stores Office Supply vendor are not charged a transaction fee by Visa, as the transaction fee is charged directly to the office supply vendor directly. The procurement card rebate will be used to offset the internal department’s costs associated with the acceptance of the UI procurement card. We are also working with our provider to lower the transaction costs to the internal vendor when the procurement card is used.

ISU Response – ISU reviews and analyzes the cost of accepting procurement cards for interdepartmental purchases to determine if it is less costly than the traditional billing process. In some cases where the processing fee is less than the traditional billing process, we have chosen to accept procurement cards.

UNI Response – UNI does not allow interdepartmental purchases on the procurement card.

Conclusion - Responses acknowledged. Although requested, SUI and ISU were not able to demonstrate the cost of accepting procurement cards for interdepartmental purchases was less costly than the traditional billing process. It appears the usual method for interdepartmental purchases, particularly at ISU, involves minimal cost.

FINDING 17 – Discretionary Items

The use of procurement cards by employees with limited purchasing responsibilities also increases the possibility of employees purchasing unnecessary items. When cardholders are able to individually purchase items, it precludes the Universities from negotiating possible quantity discounts, permits inconsistencies in prices paid and makes it difficult to ensure purchases are made from vendors with whom the University has an established contract. It also allows employees to make purchases in larger quantities than may actually be needed or purchase items with unnecessary features. The risk of excessive or unnecessary purchases increases with procurement cards, especially if there is no requirement for pre-approval of the purchase by someone with an understanding of what the cardholder needs for performing his or her job.

By testing only a limited number of purchases at the three Universities, we identified the following items for which consideration should be given to better coordination of purchases and the business purpose of the purchase should be appropriate, clearly documented and approved. Purchases of PDAs, digital cameras and other electronics were more effectively and quickly identified at ISU and UNI due to the format and content of procurement card databases.

- **PDA Purchases** - We identified 68 instances of PDAs, including some accessories, purchased by cardholders of the Universities. PDAs are hand-held computers used for maintaining and organizing addresses, planning schedules, writing memos, preparing project lists, emailing and documenting business or personal expenses. However, PDAs may also be used for other personal purposes such as playing music, playing games, email and other personal activities. ISU policy specifically allows purchase of PDAs using procurement cards. UNI policy is not specific.

The following table summarizes the 68 PDA and accessory purchases identified.

University	Number of Purchases	Amount of Purchases	Dollar Range
SUI	-	\$ -	-
ISU	49	18,332.07	\$84.94 to \$1,862.89
UNI	19	6,977.42	\$78.95 to \$1,137.85
Total	68	\$ 25,309.49	

Some of the PDAs identified in our testing have extensive capabilities, some of which appear to be unnecessary for basic business purposes. The cost of PDAs purchased by the Universities' cardholders ranged from \$79 to \$1,863, which included accessories such as keyboards and cases in certain instances.

- **Digital Cameras** - Several departments of each University purchased digital cameras and accessories during fiscal years 2002 and 2003. We identified 141 examples of digital camera and accessory purchases that are summarized in the following table.

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University	Number of Purchases	Amount of Purchases	Dollar Range
SUI	4	\$ 6,495.83	\$1,229.96 to \$2,095.95
ISU	132	88,088.36	\$52.85 to \$2,010.98
UNI	5	4,078.90	\$199.99 to \$1,420.55
Total	141	\$ 98,663.09	

The cost of digital cameras and accessories purchased by the Universities' cardholders ranged from \$53 to \$2,096. Digital cameras are typically not in continual use. Therefore, use of such items could be coordinated and done on a check-out basis at the departments. As a result, fewer cameras and other similar items would need to be purchased.

- Other Electronics Items - We identified several examples of other electronic items purchased with procurement cards at each University. Examples include CD and DVD players, CDs and videos, camcorders and televisions and TV/VCR combos. While many of the items may be for appropriate purposes, the business purpose of the purchases identified was not evident within the procurement card system.

The Universities' procurement card policies generally do not prohibit purchase of discretionary items that are easy and attractive to convert to personal use. Also, discretionary items of this nature often are not required to be tagged as University property and inventoried because the cost does not meet the Universities' threshold requiring capitalization. As a result, risk of misappropriation, misuse or abuse is increased.

Recommendation – The Universities should implement procedures to ensure quantity discounts are obtained when appropriate for purchase of discretionary items such as, computers, computer equipment, accessories and supplies, PDAs, digital cameras and other electronic items and accessories. Also, the Universities should more consistently coordinate such purchases within and between the Universities, ensure the test of public purpose is met and document the purpose and need for each item purchased.

SUI Response – SUI's Strategic Sourcing Initiative over the past two years has demonstrated savings through established contracts for computers, travel, office supplies and other products. SUI has obtained several contracts for procurement card purchases by reviewing the volume of transactions on all cards. Cardholders are informed of these contracts by a procurement card listserv as well as by a direct link to the contract information within the ProTrav system. SUI recognizes its fiduciary responsibility as an institute of higher education. Departments recognize the importance of this responsibility and will continue to review and approve the purpose and need for all items purchased.

ISU Response – ISU's procurement card transaction database enables regular monitoring of transactions from electronics merchants and audits of departments with high activity levels. In total, 181 PDA's and digital cameras were purchased by procurement card at ISU during the two identified fiscal years. In context, these were identified out of 99,847 transactions. Legitimate business purposes were identified by the acquiring departments, ensuring the test of public purpose is met. Over the course of those two years technology improvements and model replacements associated with PDA's and digital cameras were frequent. The necessary functional capabilities of these items are determined by the specific research requirements or the academic/administrative activities of the department.

UNI Response – UNI requires approval of all purchases on the Procurement card by the respective department head, subsequent review is also performed by Accounts Payable staff in the Office of Business Operations, including review of stated business purpose. If an item is deemed inappropriate without an acceptable business purpose the employee is responsible for reimbursing the University for the amount of the charge.

Conclusions:

SUI and ISU – The Universities should implement procedures to ensure quantity discounts are obtained when appropriate for purchase of discretionary items and should more consistently coordinate such purchases within and between the Universities.

UNI – Response accepted.

Schedules

Schedule 1

**Board of Regents Universities – A Review of Procurement Card Programs
Highest Monthly Credit Limits and Associated Single Transaction Limits**

University		Monthly	Single
Department	Employee Title	Credit	Transaction
		Limit	Credit Limit
<u>State University of Iowa</u>			
Accounts Payable	Clerk III	\$ 550,000	40,000
Business Administration - Graduate Programs	Program Associate II	120,000	30,000
Intercollegiate Athletics	Director, Administrative Services	100,000	38,000
Accounts Payable	Clerk III	75,000	2,100
Accounts Payable and Travel	Clerk III	75,000	2,100
Accounts Payable and Travel	Clerk III	75,000	2,100
Accounts Payable and Travel	Clerk III	75,000	2,100
Intercollegiate Athletics	Clerk IV	65,000	38,000
Internal Medicine	Program Assistant	50,000	16,000
Intercollegiate Athletics	Project Assistant	50,000	10,000
<u>Iowa State University</u>			
Purchasing	Assistant Director	100,000	10,000
Purchasing	Purchasing Agency II	100,000	10,000
Facilities, Planning and Management	Project Planning Specialist II	75,000	2,000
Veterinary Diagnostic Lab	Account Clerk	50,000	2,000
Facilities, Planning and Management	Project Planning Specialist II	50,000	2,000
Purchasing	Purchasing Agent IV	50,000	5,000
Economics - Agriculture	Program Coordinator II	50,000	9,999
Biochemistry, Biophysics and Molecular Biology - Ag	Clerk III	40,000	2,000
Veterinary Teaching Hospital	Storekeeper III	35,000	2,000
Admissions	Associate Director	30,000	15,000
<u>University of Northern Iowa</u>			
Athletics Administration	Associate Athletic Director/Internal Operations	50,000	25,000
Athletics Administration	Clerk IV	25,000	10,000
Athletics Administration	Senior Associate Athletic Director/Business Services	25,000	10,000
College of Business Administration	Secretary IV	15,000	5,000
UNI-Dome Operations	Ticket Manager	15,000	5,000
College of Natural Sciences	Secretary IV	15,000	5,000
The Career Center - Advising/Career Services	Office Coordinator I	10,000	2,500
Gallagher-Bluedorn	Director, Performing Arts Center	10,000	2,500
Chemistry Department	Secretary III	10,000	2,500
Controller's Office - Financial Accounting/Reporting	Secretary IV	10,000	2,500

University Procurement Card Programs

**Board of Regents Universities – A Review of Procurement Card Programs
Monthly and Single Transaction Limits for Selected Cardholders**

Department	Cardholder's Job Title	Monthly Transactions			Average % of Limit Spent
		Credit Limit	Average Spending	High	
State University of Iowa					
Accounts Payable	Clerk III	\$ 550,000	178,967	350,782	32.50%
Accounts Payable and Travel	Clerk III	75,000	27,178	43,450	36.20%
Accounts Payable and Travel	Clerk III	75,000	14,754	27,932	19.70%
Business Administration-Graduate Programs	Program Associate II	120,000	31,448	22,022	26.20%
Business-Tippie School of Management	Program Associate II	10,000	1,094	3,103	10.90%
Business-Tippie School of Management	Program Assistant	10,000	2,471	6,940	24.70%
Intercollegiate Athletics	Director Admin. Services	100,000	10,127	77,139	10.10%
Internal Medicine	Program Assistant	50,000	2,463	7,000	4.90%
Internal Medicine Iowa Donor Program	Program Associate II	15,000	1,341	2,148	8.90%
Purchasing	Director	10,000	468	1,932	4.70%
Iowa State University					
Admissions	Associate Director	30,000	1,598	11,383	5.30%
Biomedical Sciences	Assistant Scientist III	20,000	4,318	11,436	21.60%
Biomedical Sciences	Research Associate II	30,000	14,334	21,705	47.80%
Biomedical Sciences	Secretary II	20,000	1,204	14,444	6.00%

Single Transaction				
Credit Limit	Average	High		Average % of Limit Spent
\$ 40,000	1,956	62,625	^	4.89%
2,100	315	2,125	#	15.00%
5,000	237	2,969		4.74%
30,000	340	8,407		1.10%
2,100	234	1,666		11.14%
2,100	141	3,150	^	6.71%
38,000	3,574	31,500		9.41%
10,000	1,026	5,325		10.30%
2,100	203	1,013		9.70%
2,100	234	1,931		11.14%
15,000	1,475	3,733		9.80%
2,000	314	1,914		15.70%
2,000	277	2,000		13.85%
2,000	206	952		10.30%

**Board of Regents Universities – A Review of Procurement Card Programs
Monthly and Single Transaction Limits for Selected Cardholders**

Department	Cardholder's Job Title	Monthly Transactions			Average % of Limit Spent
		Credit Limit	Average Spending	High	
Economics-Agriculture Programs	Program Coordinator II	\$50,000	3,751	18,939	7.50%
Facilities Planning and Management	Golf Course Superintendent	20,000	6,468	19,342	32.34%
Facilities Planning and Management	Manager Club House	20,000	5,034	10,706	25.20%
Facilities Planning and Management	Project Planning Specialist II	75,000	32,530	45,948	43.40%
Facilities Planning and Management	Project Planning Specialist II	50,000	10,865	17,070	21.70%
Global Agriculture Programs	Program Coordinator III	30,000	3,233	19,586	10.80%
International Education Services	Program Coordinator I	30,000	3,047	10,504	10.20%
University of Northern Iowa					
ABIL Research Program	Director/Associate Professor	10,000	4,287	6,192	42.87%
Athletics Administration	Clerk IV	25,000	4,984	10,291	19.90%
Athletics Administration	Sr. Assoc. Athletic Director	25,000	750	1,898	3.00%
Business and Communication Services	Secretary III	10,000	1,409	6,117	14.10%
Chemistry	Chemical Specialist	10,000	2,418	6,920	24.20%

^ - According to the Procurement Card Administrator, the cardholder's single transaction credit limit was temporarily increased to accommodate this transaction.

- According to the Procurement Card Administrator, the transaction was split to accommodate the single transaction credit limit.

Single Transaction			
Credit Limit	Average	High	Average % of Limit Spent
\$9,999	262	5,840	2.60%
2,000	323	2,000	16.15%
2,500	371	2,037	14.84%
2,000	255	1,985	12.75%
2,000	216	1,902	10.80%
9,999	446	3,803	4.50%
10,000	538	5,868	5.40%
2,500	152	1,463	6.10%
10,000	147	6,717	1.50%
10,000	83	400	0.80%
2,500	139	3,542	5.60%
2,500	133	1,004	5.30%

Schedule 3

**Board of Regents Universities – A Review of Procurement Card Programs
Split Transactions**

University Department	Transaction Date	Vendor	Amount	Cardholder Transaction Limit*	Description of Items Purchased
State University of Iowa					
FACILITIES SERVICES	06/26/01	CHEM-TAINER/DAN'S/TODD	\$ 2,000.00		ACTUAL ITEMS PURCHASED IS NOT LEGIBLE ON THE CHARGE SLIPS
	06/26/01	CHEM-TAINER/DAN'S/TODD	1,916.00		NOTE ON SLIP STATES, "ORDER HAS TO BE BROKEN UP - 2,000 MAX CHARGE"
			<u>3,916.00</u>	2,100	
PATHOLOGY	04/30/02	RESEARCH PRODUCTS INTERNATIONAL CORP	1,990.00		2 ORBITAL BENCHTOP SHAKER W/DOUBLE STACKED PLATFORM
	04/30/02	RESEARCH PRODUCTS INTERNATIONAL CORP	1,005.34		ORBITAL BENCHTOP SHAKER W/DOUBLE STACKED PLATFORM
			<u>2,995.34</u>	2,100	
FACILITIES SERVICES	05/09/02	BEST BUY	1,939.96		2 DIGITAL CAMERAS AND 4 YEAR WARRANTIES
	05/09/02	BEST BUY	209.92		2 CAMERA CASES, 2 LENS CLEANING PEN, 2 LITIUM BATTERIES, 2-5PK CDR
Subtotal FY 2002			<u>2,149.88</u>	2,100	
			<u>9,061.22</u>		
BIOLOGICAL SCIENCES	09/16/02	INSTECH LABORATORIES	2,000.00		Dual Ox/Batch/Flon System
	09/16/02	INSTECH LABORATORIES	2,000.00		Dual Ox/Batch/Flon System
			<u>4,000.00</u>	2,100	
MEDICINE ADMINISTRATION	09/29/02	HYVEE-CORALVILLE #1080	2,000.00		Food for AMSA Banquet
	09/29/02	HYVEE-CORALVILLE #1080	2,000.00		Food for AMSA Banquet
			<u>4,000.00</u>	2,100	
HANCHER AUDITORIUM	11/13/02	MICHAEL KREISER PHOTOGRAPHY	2,000.00		Photography project for AACP
	11/13/02	MICHAEL KREISER PHOTOGRAPHY	2,000.00		Photography project for AACP
			<u>4,000.00</u>	2,100	
FACILITIES SERVICES GROUP - SHOPS	12/04/02	BARTON SOLVENTS INC.	2,909.10		Black Iron Drum Deposit
	12/04/02	BARTON SOLVENTS INC.	2,909.10		Black Iron Drum Deposit
			<u>5,818.20</u>	4,000	
FACILITIES SERVICES GROUP - SHOPS	02/03/03	BAHR WPL	2,298.87		Mahogany KD Pattern
	02/03/03	BAHR WPL	2,298.85		Mahogany KD Pattern
			<u>4,597.72</u>	4,000	

**Board of Regents Universities – A Review of Procurement Card Programs
Split Transactions**

University Department	Transaction Date	Vendor	Amount	Cardholder Transaction Limit*	Description of Items Purchased
PHARMACOLOGY	02/25/03	YSM TREASURY OPERATIONS	2,000.00		PEPTIDES
	02/25/03	YSM TREASURY OPERATIONS	2,000.00		PEPTIDES
			<u>4,000.00</u>	2,100	
Subtotal FY 2003			<u>26,415.92</u>		
SUI total			<u>35,477.14</u>		
Iowa State University					
AGRONOMY	08/22/01	CDW*GOVERNMENT INC.	1,968.45		LUCENT ORINOCO AP-1000 ACCESS PT
	08/22/01	CDW*GOVERNMENT INC.	361.99		LUCENT ORINOCO 11MB PC CARD
			<u>2,330.44</u>	2,000	
FACILITIES PLANNING & MANAGEMENT	12/19/01	EZ GO MARKETING	2,000.00		MISC REPAIR PARTS FOR WINTER REPAIRS ON CARTS & TRACTORS
	12/19/01	EZ GO MARKETING	585.10		5-BRAKE LINKAGE, 3-DRIVE CLUTCH, 4- SPACERS FOR WINTER REPAIR
	12/19/01	EZ GO MARKETING	217.12		MISC REPAIR PARTS FOR WINTER CART & TRACTOR REPAIRS
			<u>2,802.22</u>	2,000	
Subtotal FY 2002			<u>5,132.66</u>		
FACILITIES PLANNING & MANAGEMENT	07/17/02	ELEC. ENG. & EQUIP. CO.	517.50		3-VFD TRANSISTERS (FM10062) W311269
	07/17/02	ELEC. ENG. & EQUIP. CO.	448.00		2-SOLENOID VALVES (1760.7938) FM10135
	07/17/02	ELEC. ENG. & EQUIP. CO.	386.60		EXPLOSION PROOF OUTLET (8001.6800) FM10074
	07/17/02	ELEC. ENG. & EQUIP. CO.	340.00		50-FUSE HOLDERS (8058.6000) FM10074
	07/17/02	ELEC. ENG. & EQUIP. CO.	294.65		MOTOR 2HP (1514.2100) FM10074
	07/17/02	ELEC. ENG. & EQUIP. CO.	259.32		HOFFMAN BOX & BACK PANEL (FM10223) W31133
	07/17/02	ELEC. ENG. & EQUIP. CO.	6.85		COMBINATION SWITCH (FM10171) W311563
			<u>2,252.92</u>	2,000	
VETERINARY CLINICAL SCIENCES	07/17/02	SURGICAL LASER TECH	1,342.50		LASER PROBES FOR EQUIEN
	07/17/02	SURGICAL LASER TECH	1,342.50		LASER PROBES FOR EQUINE
			<u>2,685.00</u>	2,000	
VETERINARY CLINICAL SCIENCES	07/18/02	UNIVERSAL MEDICAL SYSTEMS	1,750.00		NEW ULTRASOUND PROBE
	07/18/02	UNIVERSAL MEDICAL SYSTEMS	1,750.00		NEW ULTRASOUND PROBE AND SUPPLIES
			<u>3,500.00</u>	2,000	

Schedule 3

**Board of Regents Universities – A Review of Procurement Card Programs
Split Transactions**

University Department	Transaction Date	Vendor	Amount	Cardholder Transaction Limit*	Description of Items Purchased
FACILITIES PLANNING & MANAGEMENT	07/19/02	D & K PRODUCTS	1,436.50		5 GAL CHEBANOL CHEMICALS
	07/19/02	D & K PRODUCTS	1,436.50		5 GAL CHEBANOL CHEMICALS
	07/19/02	D & K PRODUCTS	1,436.50		5 GAL CHEBANOL CHEMICALS
	07/19/02	D & K PRODUCTS	1,436.50		5 GAL CHEBANOL CHEMICALS
			<u>5,746.00</u>	2,000	
FACILITIES PLANNING & MANAGEMENT	07/22/02	D & K PRODUCTS	2,000.00		67.8 LB RYEGRASS
	07/22/02	D & K PRODUCTS	2,000.00		32.2 LB RYEGRASS & 2 GAL. SUBDUE
	07/22/02	D & K PRODUCTS	2,000.00		8 LBS COMPASS
			<u>6,000.00</u>	2,000	
FACILITIES PLANNING & MANAGEMENT	07/23/02	D & K PRODUCTS	2,000.00		2 LBS COMPASS & 3 GAL. SUBDUE
	07/23/02	D & K PRODUCTS	2,000.00		4 GAL SUBDUE
	07/23/02	D & K PRODUCTS	400.00		1 GAL SUBDUE
			<u>4,400.00</u>	2,000	
AGRONOMY	07/31/02	CDW*GOVERNMENT INC.	58.99		NIKON COOLPIX 5000 CASE, CAMCORDER CASE
	07/31/02	CDW*GOVERNMENT INC.	105.46		TDK CD R MEDIA 50 PACK
	07/31/02	CDW*GOVERNMENT INC.	1,077.40		HP LASERJET PRINTER 2200DN W/DUPLEX
	07/31/02	CDW*GOVERNMENT INC.	1,096.45		VIEWSONIC G810 MONITORS
			<u>2,338.30</u>	2,000	
ANIMAL SCIENCE	08/09/02	RAININ INSTRUMENT CO.	1,201.57		PIPETS, SYRINGES, FILTERS
	08/09/02	RAININ INSTRUMENT CO.	1,200.00		PIPETS SYRINGES, FILTERS
			<u>2,401.57</u>	2,000	
AGRONOMY	08/10/02	CDW*GOVERNMENT INC.	584.35		NETGEAR SWITCH 8PT, 16PT, LASERJET PRINTER
	08/10/02	CDW*GOVERNMENT INC.	1,637.82		SEAGATE DAT LVD, ATA,ATI RADEON DVD,SONY DVD, ETC.
			<u>2,222.17</u>	2,000	
BIOMEDICAL SCIENCES	08/12/02	FINE SCIENCE TOOLS INC.	500.00		BRACHA; FORCEPS
	08/12/02	FINE SCIENCE TOOLS INC.	500.00		BRACHA; FORCEPS
	08/12/02	FINE SCIENCE TOOLS INC.	500.00		BRACHA; FORCEPS, NEEDLE HOLDER
	08/12/02	FINE SCIENCE TOOLS INC.	486.50		BRACHA; HOT BEAD STERILIZER
	08/12/02	FINE SCIENCE TOOLS INC.	304.50		BRACHA; MAYO SCISSORS
			<u>2,291.00</u>	2,000	

**Board of Regents Universities – A Review of Procurement Card Programs
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University Department	Transaction Date	Vendor	Amount	Cardholder Transaction Limit*	Description of Items Purchased
FACILITIES PLANNING & MANAGEMENT	08/13/02	D & K PRODUCTS	1,682.50		5 GAL PRIMO MAXX
	08/13/02	D & K PRODUCTS	1,682.50		5 GAL PRIMO MAXX
	08/13/02	D & K PRODUCTS	1,140.00		120 BAGS STARTER 9-23-14
			<u>4,505.00</u>	2,000	
BIOMEDICAL SCIENCES	08/22/02	NATIONAL INSTRUMENTS	1,650.50		BRACHA; PCI=MIO MULTI I/O BOARD
	08/22/02	NATIONAL INSTRUMENTS	380.50		BRACHA; CABLE AND CONNECTORS
			<u>2,031.00</u>	2,000	
VETERINARY DIAGNOSTIC LABORATORY	09/05/02	QIAGEN INC.	1,990.26		PCR KITS - HARMON
	09/05/02	QIAGEN INC.	16.00		FREIGHT - HARMON
			<u>2,006.26</u>	2,000	
VETERINARY CLINICAL SCIENCES	10/11/02	ANCARE CORP.	1,460.00		CAGE LINERS
	10/11/02	ANCARE CORP.	1,000.00		CAGE LINERS
			<u>2,460.00</u>	2,000	
FACILITIES PLANNING & MANAGEMENT	10/14/02	ELEC. ENG. & EQUIP. CO.	780.00		REPLACEMENT BARE COPPER WIRE (6785.8309) FM008634
	10/14/02	ELEC. ENG. & EQUIP. CO.	475.80		10-TEE CONN.(6785.7150) & 10-TERMINALS (6785.7300) FM10893
	10/14/02	ELEC. ENG. & EQUIP. CO.	407.20		5-BALLAST (W337007) & 2-FLUKE METERS (W111315) FM11078
	10/14/02	ELEC. ENG. & EQUIP. CO.	219.48		BREAKER 480V (FM10992) W336885
	10/14/02	ELEC. ENG. & EQUIP. CO.	88.00		FLUKE METER (FM10857) W111293
	10/14/02	ELEC. ENG. & EQUIP. CO.	21.80		4 BOXES HOOK & LOOP CABLE WRAP (6785.9500) FM10688
	10/14/02	ELEC. ENG. & EQUIP. CO.	18.30		TEST PROBE & FLUKE CARRING CASE (W111293) FM10882
			<u>2,010.58</u>	2,000	
BIOMEDICAL SCIENCES	12/02/02	NATURE PUBLISHING CO.	1,459.00		OURDNK, J; REPRINTS OF ARTICLE IN NATURE BIOTECH
	12/02/02	NATURE PUBLISHING CO.	1,000.00		OURDNK, J; REPRINTS OF ARTICLE IN NATURE BIOTECH
			<u>2,459.00</u>	2,000	
VETERINARY CLINICAL SCIENCES	12/20/02	PACIFIC RESEARCH LABS	1,500.00		CANINE BONES FOR SURGERY LAB
	12/20/02	PACIFIC RESEARCH LABS	1,054.75		CANINE BONES FOR SURGERY LAB
			<u>2,554.75</u>	2,000	

Schedule 3

**Board of Regents Universities – A Review of Procurement Card Programs
Split Transactions**

University Department	Transaction Date	Vendor	Amount	Cardholder Transaction Limit*	Description of Items Purchased
AGRONOMY	12/21/02	BEST WESTERN HOTELS	1,274.90		AG CHEMICAL MEETING/AMES
	12/21/02	BEST WESTERN HOTELS	1,274.90		AG CHEMICAL MEETING/AMES
			<u>2,549.80</u>	2,000	
VETERINARY DIAGNOSTIC LABORATORY	01/03/03	AGILENT	1,525.42		PARTS - PETERSON
	01/03/03	AGILENT	1,092.00		PARTS - PETERSON
	01/03/03	AGILENT	10.00		SHIPPING CHARGES - PETERSON
		<u>2,627.42</u>	2,000		
FACILITIES PLANNING & MANAGEMENT	01/06/03	ELEC. ENG. & EQUIP. CO.	1,223.52		4-HAZLUX FIXTURES (W343221) FM11239
	01/06/03	ELEC. ENG. & EQUIP. CO.	1,223.52		4-HAZLUX FIXTURES (W343221) FM11239
			<u>2,447.04</u>	2,000	
VETERINARY CLINICAL SCIENCES	01/23/03	AFS*PC MALL GOVERNMENT	927.14		COMPUTER MONITOR
	01/23/03	AFS*PC MALL GOVERNMENT	2,000.00		COMPUTER MONITOR
			<u>2,927.14</u>	2,000	
VETERINARY CLINICAL SCIENCES	01/23/03	VETERINARY DYNAMICS INC.	2,000.00		FOAL PLASMA FOR EQUINE
	01/23/03	VETERINARY DYNAMICS INC.	1,059.80		FOAL PLASMA FOR EQUINE
			<u>3,059.80</u>	2,000	
AGRONOMY	01/24/03	THE HOTEL AT GATEWAY CENTER	863.52		FACULTY RETREAT
	01/24/03	THE HOTEL AT GATEWAY CENTER	1,405.98		AGRONOMY FACULTY RETREAT 11/25/02
			<u>2,269.50</u>	2,000	
VETERINARY DIAGNOSTIC LABORATORY	01/27/03	DIAGNOSTIC CHEMICALS LTD.	1,959.32		TGE KITS - BUFFINGTON
	01/27/03	DIAGNOSTIC CHEMICALS LTD.	1,750.22		TGE KITS - BUFFINGTON
			<u>3,709.54</u>	2,000	
VETERINARY CLINICAL SCIENCES	01/29/03	HMT HEALTHTRONICS SERV.	1,750.00		EQUITRODE FOR MCCLURE SHOCKWAVE
	01/29/03	HMT HEALTHTRONICS SERV.	1,750.00		EQUITRODES FOR MCCLURE SHOCKWAVE
			<u>3,500.00</u>	2,000	

**Board of Regents Universities – A Review of Procurement Card Programs
Split Transactions**

University Department	Transaction Date	Vendor	Amount	Cardholder Transaction Limit*	Description of Items Purchased
AGRONOMY	02/01/03	THE HOTEL AT GATEWAY CENTER	1,324.05		LODGING, FOOD, AND CONFERENCE ROOM FOR EXTERNAL REVIEW MEMEB
	02/01/03	THE HOTEL AT GATEWAY CENTER	1,580.77		LODGING AND FOOD FOR EXTERNAL REVIEW MEMBERS
			<u>2,904.82</u>	2,000	
VETERINARY DIAGNOSTIC LABORATORY	02/03/03	DIAGNOSTIC CHEMICALS LTD.	1,000.15		TEST KITS - BUFFINGTON
	02/03/03	DIAGNOSTIC CHEMICALS LTD.	1,000.14		TEST KITS - BUFFINGTON
			<u>2,000.29</u>	2,000	
VETERINARY CLINICAL SCIENCES	02/04/03	VALLEYLAB INC.	2,000.00		SURGISTAT GENERATOR
	02/04/03	VALLEYLAB INC.	856.35		SUPPLIES FOR SURGERY
			<u>2,856.35</u>	2,000	
VETERINARY CLINICAL SCIENCES	02/05/03	GETINGE/CASTLE INC.	458.62		REPLACE DISPLAY BOARD ON AUTOCLAVE UNIT
	02/05/03	GETINGE/CASTLE INC.	2,000.00		REPLACE DISPLAY BOARD ON AUTOCLAVE UNIT
			<u>2,458.62</u>	2,000	
FACILITIES PLANNING & MANAGEMENT	02/17/03	ELEC. ENG. & EQUIP. CO.	1,835.28		6-BALLAST TANK FIXTURES (1414.5029) FM11883
	02/17/03	ELEC. ENG. & EQUIP. CO.	178.77		SQ D CONTACTOR (W363248) FM12293
	02/17/03	ELEC. ENG. & EQUIP. CO.	138.15		PHASE MONITOR (W373067) FM12404
	02/17/03	ELEC. ENG. & EQUIP. CO.	76.15		SQ D VACUUM SWITCH (W368367) FM12356
			<u>2,228.35</u>	2,000	
VETERINARY CLINICAL SCIENCES	02/26/03	TACONIC FARMS INC.	1,019.45		SUPPLIES FOR JERGENS RESEARCH
	02/26/03	TACONIC FARMS INC.	1,000.00		SUPPLIES FOR JERGENS RESEARCH
			<u>2,019.45</u>	2,000	
FACILITIES PLANNING & MANAGEMENT	03/04/03	WILSON SPORTING GOLF	2,016.00		500 DZ. RANGE BALLS
	03/04/03	WILSON SPORTING GOLF	2,016.00		500 DZ. RANGE BALLS
			<u>4,032.00</u>	2,500	

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**Board of Regents Universities – A Review of Procurement Card Programs
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University Department	Transaction Date	Vendor	Amount	Cardholder	Description of Items Purchased
				Transaction Limit*	
ANIMAL SCIENCE	03/25/03	VARIAN CHROMATOGRAPHY	2,000.00	2,000	4-DAY COURSE TS-31
	03/25/03	VARIAN CHROMATOGRAPHY	<u>1,000.00</u>		4-DAY COURSE TS-31
			<u>3,000.00</u>		
VETERINARY CLINICAL SCIENCES	04/11/03	D & B EQUINE ENTERPRISES	1,000.00	2,000	ELECTRIC POWER FLOAT FOR EFS
	04/11/03	D & B EQUINE ENTERPRISES	<u>1,148.00</u>		EQUINE POWER FLOAT FOR EFS
			<u>2,148.00</u>		
VETERINARY CLINICAL SCIENCES	04/16/03	AMERICAN COMPUTER SUPPLIE	1,152.00	2,000	TPMER CARTRIDGES
	04/16/03	AMERICAN COMPUTER SUPPLIE	1,152.00		TONER CARTRIDGES FOR INVENTORY
	04/16/03	AMERICAN COMPUTER SUPPLIE	1,152.00		TONER CARTRIDGES FOR INVENTORY
	04/16/03	AMERICAN COMPUTER SUPPLIE	1,152.00		TONER CARTRIDGES FOR INVENTORY
			<u>4,608.00</u>		
AGRONOMY	04/28/03	B & H PHOTO-VIDEO-MO/TO	1,678.75	2,000	CAMERA; UV HAZE, UV-1 FILTER, BAG, & LENS HOOD FOR CAMERA
	04/28/03	B & H PHOTO-VIDEO-MO/TO	1,816.85		AUTOFOCUS LENS; FILM SCANNER; WIDE ANGLE LENS
			<u>3,495.60</u>		
AGRONOMY	04/29/03	CDW*GOVERNMENT INC.	474.41	2,000	FLOPPY DRIVE; INK FOR PLOTTER
	04/29/03	CDW*GOVERNMENT INC.	1,867.53		PROJECTOR
			<u>2,341.94</u>		
VETERINARY CLINICAL SCIENCES	05/05/03	MIDWEST REPTILE SHOWS	1,000.00	2,000	RATS AND CHICKS
	05/05/03	MIDWEST REPTILE SHOWS	1,201.25		CHICKS FOR WCC
			<u>2,201.25</u>		
FACILITIES PLANNING & MANAGEMENT	05/08/03	GOLDEN VALLEY SUPPLY CO.	1,897.28	2,000	37-CTN CEILING TILE 12-CTN GRIDS (W401804) FM13538
	05/08/03	GOLDEN VALLEY SUPPLY CO.	852.72		18 CTN CEILING TILE, 5 CTN GRID (W401795)
	05/08/03	GOLDEN VALLEY SUPPLY CO.	852.72		18 CTN CEILING TILE & 5 CTN GRID (W401800) FM13610
	05/08/03	GOLDEN VALLEY SUPPLY CO.	852.72		18CTN CEILING TILE & 5 CTN GRID (W401808) FM13613
			<u>4,455.44</u>		
FACILITIES PLANNING & MANAGEMENT	05/15/03	ELEC. ENG. & EQUIP. CO.	1,594.87	2,000	CONTACTOR & AUXILLARY CONTACTOR (W397520) FM13417
	05/15/03	ELEC. ENG. & EQUIP. CO.	249.63		3-MOTORS (W401679) FM13541
	05/15/03	ELEC. ENG. & EQUIP. CO.	249.63		3-MOTORS (1510.2800) FM13541
			<u>2,094.13</u>		

**Board of Regents Universities – A Review of Procurement Card Programs
Split Transactions**

University Department	Transaction Date	Vendor	Amount	Cardholder Transaction Limit*	Description of Items Purchased
ANIMAL SCIENCE	05/19/03	ARAMARK PIONEER	901.27		MEALS FOR JOHN AIRY SYMPOSIUM
	05/19/03	ARAMARK PIONEER	1,102.14		MEALS FOR JOHN AIRY BEEF CATTLE SYMPOSIUM
	05/19/03	ARAMARK PIONEER	1,089.31		MEAL FOR JOHN AIRY BEEF CATTLE SYMPOSIUM
	05/19/03	ARAMARK PIONEER	1,120.42		MEALS FOR JOHN AIRY SYMPOSIUM
	05/19/03	ARAMARK PIONEER	839.26		BREAK AND MEALS FOR JOHN AIRY CONFERENCE
	05/19/03	ARAMARK PIONEER	800.57		BREAK FOR JOHN AIRY SYMPOSIUM PARTICIPANTS
	05/19/03	ARAMARK PIONEER	1,908.27		MEALS FOR JOHN AIRY SYMPOSIUM PARTICIPANTS
	05/19/03	ARAMARK PIONEER	360.40		MEALS FOR JOHN AIRY CONFERENCE
	05/19/03	ARAMARK PIONEER	1,008.86		MEALS FOR JOHN AIRY CONFERENCE
			<u>9,130.50</u>	2,000	
FACILITIES PLANNING & MANAGEMENT	05/22/03	BRILCO INC.	1,234.80		FILTERS-240(6105.2412), 48(.2422),48(.2424),48(.2420)FM13530
	05/22/03	BRILCO INC.	916.68		FILTERS-240(6105.2424), 24(.2414),24(.2410),36(.2409)FM13344
	05/22/03	BRILCO INC.	648.48		FILTERS-48(6105.2422),120(.2418),24(.2417), 72(.2424)FM13495
	05/22/03	BRILCO INC.	95.22		6-FILTERS 24X24 & 6-FILTERS 18X24 (W003033) FM13388
			<u>2,895.18</u>	2,000	
FACILITIES PLANNING & MANAGEMENT	05/31/03	WILSON SPORTING GOLF	2,016.00		504 DZ RANGE GOLF BALLS
	05/31/03	WILSON SPORTING GOLF	2,016.00		504 DZ RANGE GOLF BALLS
			<u>4,032.00</u>	2,500	
VETERINARY CLINICAL SCIENCES	06/03/03	AMERICAN COMPUTER SUPPLIE	1,152.00		HP 4000 COMPATIBLE LASER CARTRIDGE
	06/03/03	AMERICAN COMPUTER SUPPLIE	1,152.00		HP 4000 COMPATIBLE LASER CARTRIDGE
	06/03/03	AMERICAN COMPUTER SUPPLIE	1,152.00		3 HP 5P COMPATIBLE LASER CARTRIDGE
	06/03/03	AMERICAN COMPUTER SUPPLIE	1,152.00		3 HP 5P COMPATIBLE LASER CARTRIDGE
			<u>4,608.00</u>	2,000	

Schedule 3

**Board of Regents Universities – A Review of Procurement Card Programs
Split Transactions**

University Department	Transaction Date	Vendor	Amount	Cardholder Transaction Limit*	Description of Items Purchased
VETERINARY CLINICAL SCIENCES	06/24/03	PARK AVENUE LAUNDRY SERV.	1,925.00		UNBLEACHED BLANKETS
	06/24/03	PARK AVENUE LAUNDRY SERV.	1,950.00		QUILTED UNDERPADS
	06/24/03	PARK AVENUE LAUNDRY SERV.	1,881.75		BLUE DYED TOWELS
	06/24/03	PARK AVENUE LAUNDRY SERV.	1,214.50		LAUNDRY SUPPLIES
			<u>6,971.25</u>	2,000	
Subtotal FY 2003			<u>145,434.46</u>		
ISU total			<u>150,567.62</u>		
Grand total			<u><u>\$ 186,044.76</u></u>		

* Limits obtained from SUI and ISU procurment card program administrators using data as of March 2004.

**Board of Regents Universities – A Review of Procurement Card Programs
Non-compliant or Questionable Purchases**

University	Date Purchased	Vendor	Description Per Supporting Documentation	Dollar Amount	
<u>SUI</u>	03/08/02	Olive Garden	Meal for the procurement card team to celebrate a job well done for procurement card system work completed.	\$ 80.00	*
	04/15/03	Astor Crowne Plaza	Food, room service	22.73	*
	07/16/03	J C Penney Co.	Blazer, pants and tie purchased for a graduate student so he could represent the Department of Anatomy and Cell Biology at an annual memorial service for families of cadaver donors.	144.97	*
	11/06/03	Heaven Scent Flowers	Arrangement sent to a surgery patient. Relationship to University not documented.	35.00	*
	11/07/03	Every Bloomin Thing	Flowers for funeral of a student athlete's family member.	35.00	*
	11/07/03	Every Bloomin Thing	One dozen roses for student athlete upon death of a family member.	55.00	*
	12/12/03	Three Samurai Japanese Restaurant	Lunch for 14 individuals identified by the University. Receipt shows purchase included 6 beverages (\$7.50), 21 appetizers (\$90.38), 15 entrées (\$304.25) and an \$80.43 gratuity. The entrées ranged in price from \$10.95 to \$26.95.	482.56	*
	01/09/04	1-800-Flowers.com Inc.	Floral arrangement sent by the Athletics Department to a family for a funeral. Relationship to University not documented.	59.98	*
	01/23/04	Penguins Comedy Club	Tickets to a performance and taco bar for 60 people. Staff recognition event for Health Care Information Systems Department.	1,020.00	*
	01/27/04	Down to Earth Florist	100 carnations for staff members for "monthly treats."	75.00	*
	01/30/04	North Liberty Flower Shop	Flowers for funeral of a student's family member.	55.13	*
	SUI Total			<u>2,065.37</u>	
<u>ISU</u>	09/21/01	KMart 00039719	Phone and answering machine	44.98	nc
	06/03/02	Hickory Park Restaurant	Meals for 7 hourly employees working for an Animal Science professor	27.83	*
	07/25/02	Hickory Park Restaurant	Research work at Rhodes Research Farm - meals	36.40	*
	08/29/02	The Signal-Cellular Ins.	Replacement cell phone for a Facilities, Planning and Management employee	35.00	nc

Schedule 4

**Board of Regents Universities – A Review of Procurement Card Programs
Non-compliant or Questionable Purchases**

University	Date Purchased	Vendor	Description Per Supporting Documentation	Dollar Amount	
<u>ISU</u>	09/04/02	CDW*Government Inc	Sony VAIO CIMW Picturebook XPP	1,999.00	nc
	10/18/02	The Wireless Store	Cell phone, headset & case for a Facilities, Planning and Management employee	102.97	nc
	11/30/02	Hobby-Lobby #254	Christmas party supplies - purchased by a Vet Diagnostic Lab employee	63.14	*
	12/12/02	Bestbuy.com 88994009	Sony Computer for a Materials Science and Engineering professor	731.73	nc
	12/21/02	Ultimate Electronics #56	Sony laptop computer for ISU usage.	1,746.53	nc
	02/04/03	Dell Marketing L.P.	2.4 P4 PC	1,370.60	nc
	02/26/03	J&R Sound/mailorder	Computer	1,417.48	nc
	02/28/03	Toshiba	SAT PRO XP PRO	1,438.99	nc
	04/18/03	Onset Computer Corp II	HOBOS	968.00	nc
	06/19/03	Best Buy 00008128	Computer	1,149.96	nc
ISU Total				<u>11,132.61</u>	
<u>UNI</u>	08/01/01	U.S. Cellular	Cell phones	94.27	nc
	09/18/01	Pizza Hut	Chem seminar - 10 pizzas	96.38	*
	11/09/01	Kmart	Tylenol	10.49	*
	03/12/02	US Cellular	Cell service	107.52	nc
	05/14/02	Famous Dave's	Supper for retirement	206.06	*
	05/14/02	Hy-Vee	Wine for retirement gathering	14.99	*
	08/16/02	US Cellular	Cell phone	59.86	nc
	03/12/03	Bancroft's Flowers	Flowers for employee	14.98	*
	06/01/03	US Cell	Cell service	64.16	nc
UNI Total				<u>668.71</u>	
Grand Total				<u><u>\$ 13,866.69</u></u>	

nc - Transaction does not comply with University procurement card policy.

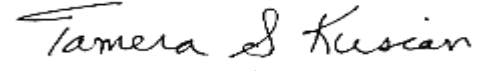
* - Transaction was questionable in regards to public purpose. While the transaction does not violate University procurement card policy, the disbursement does not appear to meet the test of public purpose.

University Procurement Card Programs

Board of Regents Universities – A Review of Procurement Card Programs

Staff

This review was conducted by:
Annette K. Campbell, CPA, Director
Mark C. Moglestad, CPA, Senior Auditor
Marc D. Johnson, Staff Auditor


Tamera S. Kusian, CPA
Deputy Auditor of State

Appendices

University Procurement Card Programs

**Board of Regents Universities – A Review of Procurement Card Programs
Performance Volume Rebate Matrix**

ELAN FINANCIAL SERVICES VISA®
PURCHASING CARD PROGRAM

PERFORMANCE VOLUME REBATE ADDENDUM

SCHEDULE A

Net Annual Charge Volume	Average Transaction Size																			
	\$160.00	\$170.00	\$180.00	\$190.00	\$200.00	\$210.00	\$220.00	\$230.00	\$240.00	\$250.00	\$260.00	\$270.00	\$280.00	\$290.00	\$300.00	\$350.00	\$400.00	\$450.00	\$500.00	
\$15,000,000.00	0.3540%	0.3820%	0.4060%	0.4290%	0.4490%	0.4670%	0.4830%	0.4980%	0.5120%	0.5250%	0.5360%	0.5470%	0.5570%	0.5670%	0.5750%	0.6120%	0.6390%	0.6500%	0.6770%	0.7190%
\$17,500,000.00	0.3960%	0.4240%	0.4480%	0.4710%	0.4910%	0.5090%	0.5250%	0.5400%	0.5540%	0.5670%	0.5780%	0.5890%	0.5990%	0.6090%	0.6170%	0.6540%	0.6810%	0.6920%	0.7190%	0.7610%
\$20,000,000.00	0.4370%	0.4650%	0.4890%	0.5120%	0.5320%	0.5500%	0.5660%	0.5810%	0.5950%	0.6080%	0.6190%	0.6300%	0.6400%	0.6500%	0.6580%	0.6950%	0.7220%	0.7330%	0.7600%	0.7980%
\$22,500,000.00	0.4760%	0.5030%	0.5270%	0.5500%	0.5700%	0.5880%	0.6040%	0.6190%	0.6330%	0.6460%	0.6570%	0.6680%	0.6780%	0.6880%	0.6960%	0.7330%	0.7600%	0.7710%	0.7980%	0.8360%
\$25,000,000.00	0.5130%	0.5410%	0.5650%	0.5880%	0.6080%	0.6260%	0.6420%	0.6570%	0.6710%	0.6840%	0.6950%	0.7060%	0.7160%	0.7260%	0.7340%	0.7710%	0.7980%	0.8090%	0.8360%	0.8740%
\$30,000,000.00	0.5660%	0.5940%	0.6180%	0.6410%	0.6610%	0.6790%	0.6950%	0.7100%	0.7240%	0.7370%	0.7480%	0.7590%	0.7690%	0.7790%	0.7870%	0.8240%	0.8510%	0.8620%	0.8890%	0.9310%
\$32,500,000.00	0.5760%	0.6040%	0.6280%	0.6510%	0.6710%	0.6890%	0.7050%	0.7200%	0.7340%	0.7470%	0.7580%	0.7690%	0.7790%	0.7890%	0.7970%	0.8340%	0.8610%	0.8720%	0.8990%	0.9410%
\$35,000,000.00	0.5860%	0.6140%	0.6380%	0.6610%	0.6810%	0.6990%	0.7150%	0.7300%	0.7440%	0.7570%	0.7680%	0.7790%	0.7890%	0.7990%	0.8070%	0.8440%	0.8710%	0.8820%	0.9090%	0.9510%
\$37,500,000.00	0.5950%	0.6230%	0.6470%	0.6700%	0.6900%	0.7080%	0.7240%	0.7390%	0.7530%	0.7660%	0.7770%	0.7880%	0.7980%	0.8080%	0.8160%	0.8530%	0.8800%	0.8910%	0.9180%	0.9600%
\$40,000,000.00	0.6050%	0.6330%	0.6570%	0.6800%	0.7000%	0.7180%	0.7340%	0.7490%	0.7630%	0.7760%	0.7870%	0.7980%	0.8080%	0.8180%	0.8260%	0.8630%	0.8900%	0.9010%	0.9280%	0.9700%
\$42,500,000.00	0.6150%	0.6430%	0.6670%	0.6900%	0.7100%	0.7280%	0.7440%	0.7590%	0.7730%	0.7860%	0.7970%	0.8080%	0.8180%	0.8280%	0.8360%	0.8730%	0.9000%	0.9110%	0.9380%	0.9800%
\$45,000,000.00	0.6240%	0.6520%	0.6760%	0.6990%	0.7190%	0.7370%	0.7530%	0.7680%	0.7820%	0.7950%	0.8060%	0.8170%	0.8270%	0.8370%	0.8450%	0.8820%	0.9090%	0.9200%	0.9470%	0.9890%
\$47,500,000.00	0.6340%	0.6620%	0.6860%	0.7090%	0.7290%	0.7470%	0.7630%	0.7780%	0.7920%	0.8050%	0.8160%	0.8270%	0.8370%	0.8470%	0.8550%	0.8920%	0.9190%	0.9300%	0.9570%	1.0000%
\$50,000,000.00	0.6430%	0.6710%	0.6950%	0.7180%	0.7380%	0.7560%	0.7720%	0.7870%	0.8010%	0.8140%	0.8250%	0.8360%	0.8460%	0.8560%	0.8640%	0.9010%	0.9280%	0.9390%	0.9660%	1.0090%
\$55,000,000.00	0.6480%	0.6760%	0.7000%	0.7230%	0.7430%	0.7610%	0.7770%	0.7920%	0.8060%	0.8190%	0.8300%	0.8410%	0.8510%	0.8610%	0.8690%	0.9060%	0.9330%	0.9440%	0.9710%	1.0100%
\$60,000,000.00	0.6530%	0.6810%	0.7050%	0.7280%	0.7480%	0.7660%	0.7820%	0.7970%	0.8110%	0.8240%	0.8350%	0.8460%	0.8560%	0.8660%	0.8740%	0.9110%	0.9380%	0.9490%	0.9760%	1.0150%
\$65,000,000.00	0.6580%	0.6860%	0.7100%	0.7330%	0.7530%	0.7710%	0.7870%	0.8020%	0.8160%	0.8290%	0.8400%	0.8510%	0.8610%	0.8710%	0.8790%	0.9160%	0.9430%	0.9540%	0.9810%	1.0200%
\$70,000,000.00	0.6630%	0.6910%	0.7150%	0.7380%	0.7580%	0.7760%	0.7920%	0.8070%	0.8210%	0.8340%	0.8450%	0.8560%	0.8660%	0.8760%	0.8840%	0.9210%	0.9480%	0.9590%	0.9860%	1.0250%

Source: Rebate addendum to the University procurement card agreements.

**Board of Regents Universities – A Review of Procurement Card Programs
Analysis of Procurement Card Advantages Reported by the Universities**

- 1. *Provides users control of low-dollar purchases and facilitates many low-dollar acquisitions, enabling end users to achieve objectives while allowing purchasing professionals to concentrate on high-dollar, more complex acquisitions.***
 - We agree the use of procurement cards under the Universities' policies allow users more control of low-dollar purchases and facilitates low-dollar acquisitions. However, we believe users have been given too much control over purchases and the risks of inappropriate and unallowable transactions occurring and going unnoticed have substantially and adversely increased.
 - Also, we agree that, due to implementation of the procurement card program, purchasing professionals may be able to concentrate on more significant and complex acquisitions while the end users are enabled to achieve objectives. However, control over initiation and substantiation of procurement card transactions needs to be improved by end users at the departmental level.
- 2. *Provides a more efficient and cost-effective procedure for handling small dollar, non value-added purchases.***
 - We agree there is potential for more efficiency and cost-effectiveness by using procurement cards, but at the same time we believe there is not an appropriate level of control and oversight, especially at the departmental level, under current Universities' policy and practices. Also, it is not clear to what extent operational efficiencies have been realized due to difficulty of quantifying all associated costs and impact on other aspects of the Universities' operations, such as additional costs necessary to administer the procurement card programs.
 - Additionally, while the Universities have developed and implemented new processes and systems for purchasing with procurement cards and have reported increases in efficiency, it is not clear to what extent operational efficiencies have been realized, particularly in terms of staffing and other costs. It appears the Universities have not weighed all related costs against the benefits to determine overall impact on efficiency. To determine any efficiency gains, other related costs and factors associated with monitoring, oversight and administration of the procurement card program also need to be considered. Reported benefit number 4 includes some additional relevant information.
- 3. *Provides complete documentation and ensures products are received in a more timely manner.***
 - Complete documentation may be provided by using procurement cards, but supporting documentation should be complete regardless of the purchase method used. Also, in some instances, less documentation is received using procurement cards for purchases.
 - Timeliness of receipt of goods may be increased for employees with procurement cards in the sense they may go out and purchase items as needed. However, the practice of allowing employees to purchase items as needed is not the most efficient and beneficial to departments and overall University operations. It is important Universities carefully plan and coordinate purchases of items needed frequently for University business and, as a result, greater efficiencies would be realized by receiving price breaks for higher volume purchases.
 - Also, it seems using procurement cards to order items from vendors would only increase timeliness in instances where vendors will not provide or ship goods until payment is received.

**Board of Regents Universities – A Review of Procurement Card Programs
Analysis of Procurement Card Advantages Reported by the Universities**

- 4. *Eliminates requisitions, purchase orders, and payment vouchers and thereby reduces administrative work with fewer invoices processed and fewer checks written.***
- We agree the Universities have reduced the number of purchase requisitions, purchase orders and payment vouchers. However, it is not clear to what extent or whether efficiencies have been gained as related to overall purchasing administrative work since there are also increased demands and responsibilities for administering and monitoring the procurement card programs, both at the departmental and University administration levels.
- 5. *Assures acceptance of cards virtually anywhere in the world.***
- We agree use of procurement cards helps assure acceptance anywhere in the world. However, this adds additional exposure for the Universities and increases the risk associated with using such cards, such as possible misuse. Therefore, the fact the cards are accepted anywhere makes it even more important the Universities ensure sufficient controls are in place to ensure appropriate use of procurement cards.
- 6. *Enhances the joint rebate/revenue-sharing program, which helps offset the cost of administration.***
- We agree receipt of rebates is an advantage if obtained as a result of appropriately approved and necessary purchases. SUI has been and is currently using procurement cards to pay for utility, telephone and other monthly services and items and is realizing the benefit of increased rebates. SUI internally promotes use of procurement cards to pay for such higher dollar and volume items and it has been an effective practice for obtaining higher procurement card rebates and may also promote efficiency.
 - A significant advantage is achieved by combining the Universities' procurement card purchase activity for the rebate calculation as opposed to calculating the Universities rebate separately. On their own, a University may not qualify for a rebate or would not reach the higher rebate tiers.

**Board of Regents Universities – A Review of Procurement Card Programs
State University of Iowa
Blocked Merchant Category Codes**

Blocked MCCs for cards that allow travel

MCC Number	MCC Description
4829	Wire transfer money order
6010	Financial institutions--manual cash
6011	Financial institutions--automated cash
6051	Non financial institutions
5967	Direct marketing -- inbound telemak

Blocked MCCs for cards that do not allow travel

MCC Number	MCC Description
3501-4000	Hotels
7011	Lodging—hotels, motels, and resort
3000-3299	Airlines
3300-3500	Hotels
7512	Automobile rental agency
4829	Wire transfer money order
6010	Wire transfer money order
6011	Financial institutions—automated cash
6051	Non financial institutions
6760	Savings bonds

Source: SUI Procurement Card Program administration.

University Procurement Card Programs

**Board of Regents Universities – A Review of Procurement Card Programs
Iowa State University
Blocked Merchant Category Codes**

ISU1 - Standard configuration

MCC Number	MCC description	MCC Number	MCC Description
5812	Restaurants	7929	Bands, entertainers
5813	Bars/taverns	7993	Video amusement game supply
5814	Fast food restaurants	7995	Casino, betting, lottery
5921	Beer, liquor, wine stores	7261	Funeral services
3501-3722	Hotels & Lodging	7273	Dating & escort services
7011	Hotels & Lodging	7295	Babysitting services
3000-3299	Airlines	7297	Massage parlors
4511	Airlines	7299	Misc personal services
3351-3441	Car rentals	8351	Child care services
7512	Car rentals	7012	Timeshares
4829	Money orders, wires	7032	Sports camps
6010	Manual cash disbursements	7033	Camp grounds & trailer parks
6011	Automatic cash disbursements (ATM)	7911	Dance halls, studios
6051	Travelers checks	7932	Pool & billiard establishments
4121	Taxis/limousines	7933	Bowling alleys
4131	Bus lines	7991	Tourist attractions/exhibits
4411	Cruise lines	7992	Public golf courses
4457	Boat rentals	7994	Video game arcades
4722	Travel agencies	7996	Amusement parks, circuses
4723	Travel	7998	Aquariums seaquariums
4761	Travel arrangements	6611	Overpayments
4784	Toll & bridge fees	7321	Credit reporting agency
4789	Transportation services	9211	Court costs including alimony/child support
5962	Direct marketing travel	9222	Fines
7523	Auto parking lots	9223	Bail & bonds payments
7524	Express payment parking lots	9311	Tax payments
7832	Motion picture theatres	9411	Government loan payments
7833	Express payment theatres	9700	Automated referral services
7841	Video tapes rental stores	6760	Savings bonds
7922	Ticket agencies		

Board of Regents Universities – A Review of Procurement Card Programs
Iowa State University
Blocked Merchant Category Codes

ISU2 - Study Abroad Configuration		ISU3 – Hospitality Configuration	
MCC Number	MCC description	MCC Number	MCC Description
0742	Veterinary services	5921	Beer, liquor, wine stores
6012	Financial institutions merchandise	3000-3299	Airlines
6051	Travelers checks	4511	Airlines
7261	Funeral services	3351-3441	Car rentals
7273	Dating & escort services	7512	Car rentals
7295	Babysitting services	4829	Money orders, wires
7297	Massage parlors	6010	Manual cash disbursements
7299	Misc personal services	6011	Automatic cash disbursements (ATM)
8351	Child care services	6051	Travelers checks
6611	Overpayments	7261	Funeral services
7321	Credit reporting agency	7273	Dating & escort services
9211	Court costs including alimony/child support	7295	Babysitting services
9222	Fines	7297	Massage parlors
9223	Bail & bonds payments	7299	Misc personal services
9311	Tax payments	8351	Child care services
9411	Government loan payments	6611	Overpayments
9700	Automated referral services	7321	Credit reporting agency
		9211	Court costs including alimony/child support
		9222	Fines
		9223	Bail & bonds payments
		9311	Tax payments
		9411	Government loan payments
		9700	Automated referral services
		6760	Savings bonds

Source: ISU Procurement Card Program administration.

Appendix E

**Board of Regents Universities – A Review of Procurement Card Programs
Comparison of Allowable Use Policies**

Legend:

X = Allowable use of procurement cards according to University policy.

Allowable Use Description	SUI	ISU	UNI	Remarks about policy differences
Airline tickets	X	-	X	SUI and UNI are supposed to use preferred travel agencies to save time and ensure negotiated discounts are received.
Business meals	X	X	X	Examples include: faculty recruitment meals, athletic recruit meals, meeting with business associates if meeting pertains to University business, official University receptions and events.
Car rental and gasoline when travel related	X	-	-	SUI travelers should use the preferred vendor link for National Car Rental on the travel web page to take advantage of the discount. Not allowed by ISU and UNI.
Conference registrations	X	X	X	SUI departments must provide a copy of the registration form, traveler's name, social security number, trip dates and conference location. Similar information is included on travel expense reimbursement vouchers for ISU and UNI.
Copying charges while traveling	X	-	-	Not allowed by ISU and UNI policy.
Express freight	X	X	X	Federal Express, Airborne Express, etc.
Fax and telephone calls	X	-	-	Only those that are SUI business related and incurred while traveling. Not allowed by ISU and UNI.
Foreign transactions	X	-	-	The \$20 foreign draft fee charged by the bank is eliminated. Not specified by ISU and UNI policy.
Ground transportation	X	-	-	SUI travel related (i.e. taxi, shuttle service). Not allowed by ISU and UNI policy.
Hotel deposits	X	-	-	Not allowed by ISU policy and not specified in UNI policy.
Interdepartmental expenses (where the procurement card is accepted)	X	X	-	Several departments at SUI accept procurement cards for payment by other departments within the University. ISU just has a few departments accepting procurement cards. UNI does not allow interdepartmental purchases.
Laboratory supplies	X	X	X	
Lodging - room, room tax, telephone access charges	X	-	-	Not allowed by ISU and UNI policy.
Maintenance contracts	X	-	-	Not specified by ISU and UNI policy.

**Board of Regents Universities – A Review of Procurement Card Programs
Comparison of Allowable Use Policies**

Allowable Use Description	SUI	ISU	UNI	Remarks about policy differences
Maintenance expenses	X	X	X	
Memberships (non-UIHC staff)	X	X	-	Not specified in UNI policy.
Monthly service fees such as cell phones and pagers	X	-	-	ISU and UNI have allowed purchases of certain monthly service fees, but cell phones and pagers are not specified in policy.
Office equipment (low dollar, non-capital equipment)	X	X	X	
Office supplies	X	X	X	If not available from University stores.
Operating supplies	X	-	-	Not specified in ISU and UNI policy.
Personal Digital Assistant (PDA)	-	X	-	SUI and UNI have also allowed procurement card purchases of PDAs, but the policies do not include PDAs as an example of allowable use of procurement cards.
Phone orders	X	-	-	Not specified in ISU and UNI policy.
Repairs (non-Automotive) and technical services	X	X	X	ISU may authorize upon written request to the Procurement Card Team in Purchasing if the vendor is organized as a corporation and not as a sole proprietorship or partnership.
Subscriptions	X	X	-	Not specified in UNI policy.

Source: Allowable use policies were obtained and summarized from the:

- SUI Procurement Card Procedure Manual on SUI's procurement card website.
- ISU Procurement Card User Guide on ISU's procurement card website.
- UNI cardholder agreement form and processing guide available from the UNI procurement card website. UNI is developing comprehensive procurement card policies and procedures.

Appendix F

**Board of Regents Universities – A Review of Procurement Card Programs
Comparison of Unallowable Use Policies**

Legend:

X = Not an allowable use of procurement cards.

Unallowable Use Description	SUI	ISU	UNI	Remarks about policy differences
Airline executive club memberships	X	-	-	Not specified in ISU and UNI policy.
Alcoholic beverages	X	X	X	
Animals	X	X	X	ISU specifies laboratory animals or livestock, animal cages and aquariums as not allowed.
Automotive repairs	X	X	X	
Business cards	X	X	X	
Capital equipment	X	X	X	See Note 1 .
Cash advances	X	-	X	ISU allows cash advances for Study Abroad.
Computers or laptops for \$500 or more, PDA's exempt.	-	X	-	ISU recently changed its policy. Now purchases of any computers and laptops are not allowed. PDAs are still allowed. Not specified in SUI and UNI policy.
Construction services	-	X	-	Not specified in SUI and UNI policy.
Controlled substances	-	X	X	Allowed for University of Iowa Hospital.
Copying and printing	X	X	X	See Note 2 .
Cylinder gases and liquid nitrogen	X	X	-	Not specified in UNI policy.
Data networking equipment	-	X	-	ISU policy also specifies switches, routers, hubs, wireless access points and any device that plugs into a data network. Not specified in SUI and UNI policy.
Furniture, furnishings and artwork	-	X	-	Not specified in SUI and UNI policy.
Gasoline	X	X	X	See SUI exceptions in Note 3 .
Gifts for Staff	X	X	-	Not specified in UNI policy.
Golf or similar memberships are not allowable	-	X	-	Not specified in SUI and UNI policy.
Hospitality, food, entertainment, meals and interview expenses	X	X	X	Not allowed by SUI and ISU unless appropriately approved by departments and Purchasing. UNI policy does not include exceptions regarding hospitality, food and entertainment.
Items available though campus supply stores	X	X	X	ISU and UNI allow purchase of items from outside vendors if not available or documented substantial savings may be realized. SUI requires use of General Stores if available, otherwise must use preferred vendors under agreement.

**Board of Regents Universities – A Review of Procurement Card Programs
Comparison of Unallowable Use Policies**

Unallowable Use Description	SUI	ISU	UNI	Remarks about policy differences
Items from conflict of interest vendors	-	X	-	Not specified in SUI and UNI policy.
Items on University or Regents contracts	-	-	X	Not specified in SUI and ISU policy.
Lease, rentals of equipment and storage	X	X	X	SUI breaks down its policy into two defined areas: Long-term leases and rentals of equipment (6 months or longer) and any lease of property including storage space.
Letterhead		X	X	Not specified in SUI policy.
Moving expenses	-	X	-	Not specified in SUI and UNI policy.
Office supplies and other items from outside vendors	X	X	X	Purchase of office supplies from other vendors is not allowed if items are available from University stores
Online auction services such as Ebay.com	-	X	-	Not specified in SUI and UNI policy.
Personal items and personal expenses	X	X	X	
Pharmaceuticals and drugs	-	X	-	Not specified in SUI and UNI policy.
Photocopier supplies	-	X	-	Not allowed if available through ISU Stores. Not specified in SUI and UNI policy.
Postal and parcel services	-	X	-	Not allowed if available at from ISU Postal & Parcel Services. Not specified in SUI and UNI policy.
Purchases involving trade of University property	X	X	X	
Radioactive materials and hazardous materials	X	X	X	SUI policy does not specify hazardous materials as unallowable
Technical services and professional services	-	X	X	ISU policy also does not allow repair and technical services without written authorization from Purchasing. Not specified by SUI policy.
Telephones and related equipment	X	X	X	SUI and ISU policy include: If needs cannot be met through University Telecommunications services then another provider may be used. ISU policy also specifies cordless telephones, IP phones and cell phones as unallowable items.
Travel expenses such as hotel rooms, meals, car rentals and parking fees	-	X	X	See Note 4 for more information regarding SUI and ISU policies and exceptions.

Appendix F

**Board of Regents Universities – A Review of Procurement Card Programs
Comparison of Unallowable Use Policies**

Unallowable Use Description	SUI	ISU	UNI	Remarks about policy differences
Weapons and ammunition	X	X	X	ISU policy also specifies "firearms".

Source: Unallowable use policies were obtained and summarized from the:

- ◆ SUI Procurement Card Procedure Manual on SUI’s procurement card website.
- ◆ ISU Procurement Card User Guide on ISU’s procurement card website.
- ◆ UNI cardholder agreement form and processing guide available from the UNI procurement card website. UNI is developing comprehensive procurement card policies and procedures.

Notes:

- 1** - The Universities’ equipment capitalization policy through fiscal year 2003 was to capitalize all equipment purchases of \$2,000 or more. Therefore, procurement cards may not be used to purchase equipment that would be capitalized under University policy. Otherwise, the necessary equipment may be purchased. Recently, ISU policy increased purchase limit to \$5,000 or less because of change in capitalization policy. Equipment costing from \$2,000 to \$5,000 is not allowed unless the single transaction limit for a cardholder was increased high enough to allow the purchase.
- 2** - The SUI Printing Department is the official printing and copying purchaser for SUI as mandated by Iowa law. Photocopying may be purchased if needed when out of town on SUI business.

ISU policy does not allow use of external vendors for printing or photocopying without consent of Printing Services in accordance with Board of Regents policy. Also, ISU policy specifically does not allow purchase of letterhead.

UNI policy does not allow printing and copying unless significant savings are realized or while traveling. Also, UNI does not allow letterhead to be purchased using procurement cards.
- 3** - SUI allows procurement card purchase of gasoline when traveling and using a rental vehicle and to fill rental trucks used to move SUI property. SUI employees must use the Motor Pool gas card to purchase gasoline for Motor Pool vehicles.
- 4** - SUI does not allow meals for individual travel to be charged to procurement cards. All other travel expenses, other than personal expenses, are allowed on SUI procurement cards.

ISU travel expenses may not be charged to procurement cards and continue to be the responsibility of the University employee requiring a travel expense voucher for reimbursement and assessment of taxable meals. However, ISU allows use of procurement cards for travel related expenses under the Study Abroad Program.