



Winston-Salem State University | University of North Carolina School of the Arts
Office of Internal Audit & Institutional Compliance

601 S. Martin Luther King Jr. Drive
Winston-Salem, North Carolina 27110
phone 336.750.2065 | fax 336.750-8891
www.wssu.edu | www.uncsa.edu

AUDITOR'S TRANSMITTAL

April 30, 2014

Mr. Alan Ireland, Director of Purchasing
Winston-Salem State University
1604 Lowery Street
Winston-Salem, NC 27110

Dear Mr. Ireland:

The Office of Internal Audit has completed its review of the University's p-card function for the period of June 2012 through June 2013. The review involved the use of automated analytics to test 100% of the p-card transactions for compliance with University policies and indications of fraud. We selected the months of June 2012, November 2012 and June 2013 for testing. The results of our review, along with recommendations for corrective action, are contained in this report. The Office of Internal Audit requests that University management review the report and respond to this office within the next 30 days with a plan on how these recommendations will be implemented.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "S. B. Henry".

Shannon B. Henry
Chief Audit Officer and Executive Director of Institutional Compliance

Cc: Mr. Frank Lord, Controller
Mr. J. Nathan Thompson, Assistant Controller

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BACKGROUND, OBJECTIVE AND SCOPE

The Winston-Salem State University purchasing card (P-Card) is a standard Visa card issued to University employees for the purchase of goods and services on behalf of the University. P-Cards are managed by the University's Purchasing Department within the Division of Finance and Administration. The purpose of the P-Card is to streamline procurement and payment processes for selected low dollar, high volume business supplies and services. P-Cards are issued in the employee's name and can be processed by vendors just like personal credit cards. In light of the regulatory compliance and fraud risks associated with the use of P-Cards, the Office of Internal Audit designed and implemented automated analytics to test P-Card transactions for compliance with state and University policies and indications of fraud. We selected the months of June 2012, November 2012 and June 2013 for testing. Selection of this review was based upon a comprehensive plan to assess the internal control environment across all divisions of Winston-Salem State University.

The objectives of our review were as follows:

- To ensure that P-Card transactions are in compliance with statutory requirements and University policies and procedures; and
- To ensure that adequate controls are in place to appropriately safeguard University resources.

To conduct our review we performed the following procedures:

- Processed automated analytics against the University's P-Card data tables for the selected time periods;
- Examined the evidence supporting the exceptions identified during the automated process to ensure propriety;
- Reviewed applicable University policies; and
- Interviewed University employees.

This report presents the results of our review.

AUDIT FINDINGS AND RECOMMENDATIONS

The following audit findings were identified during the current audit and describe conditions that could adversely affect the University's ability to meet its internal control objectives.

FINDINGS:

P-CARD POLICY AND PROCEDURAL DEFICIENCIES.

We identified deficiencies in the University's P-Card policies and procedures related to P-Card management and departmental reconciliation. Deficiencies in internal controls over the procurement of goods and services increase the risk of noncompliance, error, and fraud without timely detection.

1. The University utilizes merchant category blocking to inhibit purchases from vendors deemed inappropriate. During our testing of merchant categories, we noted that the P-Card policies state that the University has blocked all categories deemed inappropriate for use, however, overrides of merchant category blocking are processed on a consistent basis for purchases considered allowable by the P-Card managers. Based on our review of policies and procedures and inquiry of University staff, there is no documented or specific guidance for acceptable overrides of merchant category blocking.

The lack of documented guidance and procedures could lead to improper or inaccurately recorded transactions.

Recommendation: The Purchasing Department should include in its internal procedures the circumstances considered appropriate for procedural overrides to ensure compliance and foster understanding and cross-training within the department.

2. During our review, we noted several inactive employees with active P-Cards. Based on our review and inquiry of the P-Card managers, it appears that department supervisors had not provided the appropriate notification to ensure that P-Cards for inactive employees were appropriately cancelled. Further, we noted that the University has P-Card cancellation policies but lacks procedures to ensure such policies are effectively implemented.

The University's Purchasing Card Guidelines regarding "Termination of Employment" state that: P-Cards must be surrendered immediately upon termination of employment. Further, the section on "Inactive Accounts" states: To protect the security of the program, any P-Card that has not been used for twelve months may be cancelled.

Recommendation: The University should strengthen its P-Card cancellation policies and consider a semi-annual review of active P-Cards to ensure that only active employees have access to University assets.

AUDIT FINDINGS AND RECOMMENDATIONS *(concluded)*

3. During our review, we found that the P-Card policies pertaining to role definition and responsibility are incomplete and not consistently followed. Specifically, we noted the P-Card manager's roles and responsibilities for ensuring P-Card transactions are appropriate and in compliance with P-Card policies are not clearly defined. We also noted instances where the P-Card transactions were not appropriately reviewed and reconciled based on our identification of a duplicate payment and instances of P-Card transactions that appeared irregular due to item description, volume, amount and insufficient documentation. *The items that appeared irregular were addressed in a separate Internal Audit review as a result of reported fraud. The Internal Audit review revealed that members of management were not fulfilling their responsibilities concerning P-Card reconciliation.*

A successful P-Card program, where management's objectives are appropriately carried out, is contingent upon the identification of clearly defined roles, responsibilities and authorities to manage the P-Card program and process throughout the University.

Recommendations:

1. The University should identify and document the P-Card manager's roles and responsibilities for insuring the integrity of the P-Card program.
2. The University should review the duplicate payment and determine if the University is entitled to a refund from the vendor.

The Office of Internal Audit requests that University management respond to this office within the next 30 days with a plan on how these recommendations will be implemented.