State Auditor Mike Foley Releases Comprehensive Review of the University of Nebraska's $40 Million Credit Card Program

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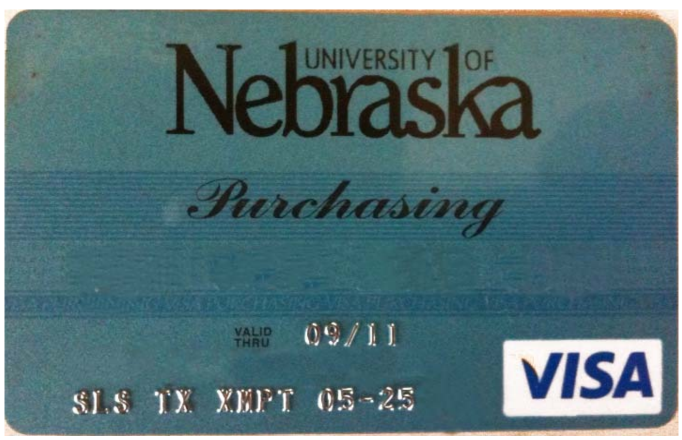
State Auditor Mike Foley announced today the release of a comprehensive review of the University of Nebraska's credit card program. The program consists of VISA-issued credit cards – referred to as procurement cards, purchasing cards or, more commonly, p-cards – used by several thousand University employees to make approximately 145,000 separate transactions per year totaling well over $40 million in annual purchases.

The auditors tested a sample of transactions, as well as corresponding accounting controls over those transactions, that occurred during an 18-month period ending December 31, 2008.

The p-cards have the appearance of a typical US Bank VISA card, except that they have the name of the University of Nebraska imprinted on them along with the cardholder's name and account number. The monthly invoices are entirely paid with public funds through the University's accounting system.



(Sample card without employee name and number)

The audit found significant deficiencies in many areas of University control over the employees' use of the cards, resulting in purchases that were unauthorized, not properly documented, in violation of policies and guidelines, or possibly inappropriate.

The report discloses details on nearly 1,600 separate transactions that were tested by the auditors. Many of these transactions are routine and of little note, while others have the appearance of being inappropriate, such as a $750 purchase from Amazon.com for a 32" digital picture frame, a $628 fountain pen from Borsheims, a $219 golf club that can no longer be located, and an unopened $250 Nintendo Wii gaming system that had not been used since its purchase --- months ago.

University employees made well nearly $11 million of transactions with the major US airlines during the period reviewed. Other high-dollar vendors for p-card transactions included Dell computers, Sigma Aldrich (chemicals), and a wide variety of merchandise from Amazon.com

Comprehensive University guidelines on the proper use of the cards were found to be lacking. Moreover, minimal existing guidelines and policies were often ignored. For example, Nebraska State government policies, as well as written University guidelines in effect on all campuses, prohibit the purchase of first-class airline tickets.

Nevertheless, the auditors found over $283,000 in first-class airline tickets during the period under review including 20 instances of first class tickets costing more than $5,000 each. Five of these airline tickets cost over $10,000 each, and one of these – a round trip first class ticket to China – cost over $15,000.

Much of the problem with airline purchases stems from the current ability of University employees to self-register on the University travel agent's web site and then select flights regardless of cost or class of service.

University guidelines at three of the four campuses also prohibit the use of the cards for the purchase of merchandise gift cards (UNMC operates with a unique exception). The auditors found thousands of dollars of gift card purchases.

On the UNMC campus, the auditors found nearly $55,000 in gift card purchases associated with a "Thank U Reward" program under which University employees can accumulate "medallions" redeemable for gift cards for each time a fellow employee recognizes them for excellent service or special projects.

On another matter, University guidelines prohibit the use of p-cards for cash advances, yet the auditors found many instances of employees using the cards to acquire cash. In some of these instances, there was little or no documentation as to how the cash was subsequently used.

Most of the cards have a limitation on the dollar amount of any given purchase, but University employees were found dividing very large purchases into multiple smaller purchases to defeat the control on the card – a technique known as pyramiding. The auditors documented 120 p-card transactions totaling over $330,000 through pyramiding.

Numerous weaknesses were found in the accounting controls established to govern the cards. In a number of instances, the auditors found active p-cards assigned to former employees who no longer work for the University. For example, on the UNO campus, the auditors found a case in which an ex-employee's card was not cancelled, and current employees ran up over $20,000 in expenses on that card over a period of four months <u>after</u> the original cardholder had terminated her employment.

Another example of accounting control weaknesses was found with respect to the lack of back-up documentation to support the need for the original purchase. Such documentation would normally include a vendor receipt, invoice, or packing slip. The report itemizes dozens of examples of purchases with no contemporaneous supporting documentation whatsoever as to why they were made.

The report stresses the importance of strong accounting controls for many reasons, including the fact that millions of dollars of purchases are being made by employees on weekends and holidays.

One technique of controlling p-card transactions is to place restrictions on the type of merchants with whom the cards can be used (e.g., liquor stores and restaurants). However, that control technique was found to be weak, as many cards were found with no restrictions, or the restrictions were lifted with little or no reason documented as to why. The auditors noted that an ex-employee who terminated with the University five years ago still had access to the secure web site that controls the restrictions on p-card transactions, although there is no indication that he availed himself of such access.

Under the p-card program, the monthly transactions of each cardholder are supposed to be independently reviewed by a second University employee known as the account reconciler. However, the auditors found dozens of instances where the cardholder and the reconciler were actually the same person. The auditors also noted a serious weakness in the University's accounting controls that allow account reconcilers to log in to the system, change their user names, and then reconcile their own accounts.

The auditors also found University employees using p-cards to make certain purchases that qualified for promotional rewards from some vendors. For example, purchases made at Best Buy, Nebraska Furniture Mart, and Famous Footwear qualified the employees for customer rewards, such as merchandise credits or gift cards for use at those stores.

Despite the serious nature of the findings, Foley praised the four members of the University's Board of Regents audit subcommittee for receiving the report in a constructive way. Foley noted that the four Regents and key administrators, including University President J.B. Milliken, pledged an immediate review of the p-card program and prompt implementation of reforms to provide greater scrutiny of p-card transactions to ensure that they are subject to an accounting control regime that safeguards public funds.

Foley observed that many agencies of government become defensive when faced with audit results that are not complimentary. However, in this case, "There was not one word of defensiveness or denial of the need for reform," Foley noted.

Finally, Foley stated that this report has nothing whatsoever to do with whether or not employee credit cards are a more cost-effective way of doing business than traditional purchase orders. While it might be more cost effective in some instances to make purchases on a credit card, as opposed to the cost of processing traditional purchase orders, any cost savings realized can quickly be negated by inappropriate purchases that would never have been made through a more traditional purchasing technique.

A copy of the full report can be found on the State Auditor's Web Site under "What's New" – see link below:
http://www.auditors.state.ne.us/