



State of Delaware
Office of Auditor of Accounts
Kathleen K. McGuinness, CFE, RPh

Working Hard to Protect YOUR Tax Dollars

Performance Audit

Fiscal Year 2018 Higher Education Procurement Card

April 30, 2020

The Office of Auditor of Accounts (OAOA) performed a performance audit to determine whether internal controls over Procurement Card activities at Delaware State University were effective in ensuring compliance with organization policies and applicable state regulations.



STATE OF DELAWARE
OFFICE OF AUDITOR OF ACCOUNTS

KATHLEEN K. MCGUINNESS, CFE, RPH
STATE AUDITOR

To: Delaware State University

The attached report provides the results of our performance audit on the Procurement Card internal controls and compliance with applicable state regulations and organization policy for Delaware State University, for the period July 1, 2017 through June 30, 2018.

The Office of the Auditor of Accounts is authorized under 29 Del. C., § 2906 to perform post-audits of all the financial transactions of all State agencies. 29 Del. C. § 6902 (1) defines Delaware State University as a State agency for procurement purposes.

My office conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This report can be accessed online through the Office of the Auditor of Accounts website at <http://www.auditor.delaware.gov>.

Sincerely,

A handwritten signature in blue ink, appearing to read 'K. McGuinness'.

Kathleen K. McGuinness, CFE, RPh
Delaware State Auditor

April 30, 2020

***State of Delaware Fiscal Year 2018 Higher Education Procurement Card
Performance Audit***

Table of Contents

<i>Performance Audit Overview</i>	1
<i>Audit Authority</i>	1
<i>Background</i>	1
<i>Audit Objectives</i>	2
<i>Audit Scope</i>	2
<i>Audit Methodology and Results</i>	2
<i>Schedule of Findings and Recommendations</i>	6
<i>Conclusion</i>	16
<i>Management Response</i>	17
<i>Appendix A</i>	21

Abbreviations:

OAOA	The Office of Auditor of Accounts
PCard	Procurement Card
DSU	Delaware State University
GL	General Ledger
State	State of Delaware

The mission of the Delaware Office of Auditor of Accounts

The Delaware Auditor of Accounts serves Delawareans by ensuring accountability in the use of taxpayer dollars through independent assessments of financial operations, performance management and statutory compliance of state government.

For further information on this release please contact:

Kathleen K. McGuinness, CFE, RPh

kathleen.mcguinness@delaware.gov

(302) 739-5055

Performance Audit Overview

The United States Government Accountability Office develops and promulgates government auditing standards that provide a framework for performing high-quality audit work with competence, integrity, objectivity, and independence to provide accountability and to help improve government operations and services. These standards are referred to as generally accepted government auditing standards (GAGAS).

Performance audits are audits that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

The Office of Auditor of Accounts (OAOA) conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. OAOA believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Authority

OAOA is authorized, under 29 Del. C., § 2906, to perform post-audits of all the financial transactions of all State of Delaware (State) agencies. 29 Del. C. § 6902 (1) defines Delaware State University (DSU) as a State agency for procurement purposes. Therefore, OAOA has the authority to conduct post-audits of procurement transactions made using DSU purchasing cards.

Background

In accordance with Delaware Code Title 29, Chapter § 6901, the purpose of Procurement Card (PCard) regulations is to create a more efficient process to better enable the State to obtain the highest quality goods, materials and services at the best possible price, by maximizing the purchasing value of public moneys.

The PCard process creates a single forum for the procurement needs of state agencies, and technical and legal requirements of Government Support Services are addressed simultaneously so as to increase mutual understanding, respect, trust and equitable treatment for all persons who deal with the state procurement process.

Audit Objectives

The objectives established for the performance audit of DSU, include:

Objective 1: Analyze internal controls over PCard activities for weaknesses.

Objective 2: Test PCard internal controls and determine compliance with organization policy and applicable state regulations.

Objective 3: If warranted, report findings and make recommendations based on the conclusions reached from the analysis and testing performed.

Audit Scope

PCard activity and the related internal controls for the period July 1, 2017 through June 30, 2018.

Audit Methodology and Results

Planning Methodology

OAOA obtained an understanding of the DSU Purchasing Card program by reviewing the following:

- Applicable sections of the Delaware Code and the Delaware Administrative Code
- DSU Purchasing Card Program in place during FY 2018

OAOA assessed the risk of noncompliance with provisions of laws, regulations, and policies. Based on that risk assessment, OAOA designed procedures to obtain reasonable assurance of detecting instances of noncompliance with provisions of laws, regulations, contracts, and policies that are significant within the context of the audit objectives.

Internal control and compliance testing samples selected were based on the sample guidance in the *AICPA Audit and Accounting Guide Government Auditing Standards and Single Audits*, Chapter 11, Table 11-2.

State of Delaware Fiscal Year 2018 Higher Education Procurement Card Performance Audit

Objective 1: Analyze internal controls over PCard activities for weaknesses.

Methodology

To analyze internal controls over PCard activities, OAOA obtained and reviewed internal policies and procedures over PCards.

OAOA also interviewed staff and management to establish an understanding of the organization's internal controls. During the interview and walk-through of transactions, OAOA documented the entity's procedures, identified key controls in place and collected supporting documentary evidence of internal control processes in effect. OAOA analyzed and documented internal controls related to the following:

- Creation of new cardholder accounts and issuance of new PCards;
- The termination of cardholder accounts and return of PCards;
- The tracking and review of cardholder accounts and PCard transaction procedures from the purchase of goods and services through the monthly PCard account reconciliations; and
- Dispute resolution and fraudulent transaction resolution.

Results

OAOA noted internal control deficiencies for DSU related to the following:

- Erroneous reporting of PCard transactions in the DSU's general ledger, resulting in overstated assets and understated expenses;
- Missing documentation to support PCard transactions;
- PCard usage by two cardholders who were not full time, permanent DSU employees;
- Violation of the Document Retention Policy which requires retention of PCard charge documentation for three years after a successful audit;
- Lack of documentation to support the return of PCards and the termination employee profiles in the employee offboarding process;
- Lack of documentation to verify cardholder training;
- Lack of a tracking system for gift cards purchased using the PCards.

Refer to Findings in the ***Schedule of Findings and Recommendations*** for details of the deficiencies identified and related recommendations.

State of Delaware Fiscal Year 2018 Higher Education Procurement Card Performance Audit

Objective 2: Test PCard internal controls and determine compliance with organization policy and applicable state regulations.

Methodology

OAOA determined the effectiveness of internal controls over compliance with organization policy and PCard activities by requesting documentation and by examining supporting documentation for an initial random sample of 40 transactions. These transactions were selected from the entire population of 6,166 using analytics software default random selection based on the sample size guidance in the AICPA Audit and Accounting Guide Government Auditing Standards and Single Audits, Chapter 11, Table 11-2.

OAOA then employed analytic software to identify and segregate a population of high-risk transactions. OAOA conducted detail testing on an additional 67 judgmental sample items from the resultant sub-population of 823 transactions. High-risk transactions included:

- Potential split transactions (possibly to avoid purchasing limits)
- PayPal transactions
- Delaware hotel usage
- Transactions missing GL coding
- Transactions with Merchant Category Codes (MCC) susceptible to misuse
- Transactions flagged by the bank as fraudulent

Results

Through testing of 40 random PCard transaction samples and 67 PCard high risk transaction samples, OAOA identified the following compliance deficiencies with organization policies:

- PCard expenses were not reconciled for approval on a timely basis.
- Lack of required pre-approval for single item purchases of supplies and materials over \$500.
- PCard use for purchases prohibited by policy such as, entertainment, travel, split purchases, and controllable equipment (e.g. iPads/tablets, laptops, furniture, etc.).

Refer to Findings in the ***Schedule of Findings and Recommendations*** for details of the deficiencies identified and related recommendations.

Objective 3: If warranted, report findings and make recommendations based on the conclusions reached from the analysis and testing performed.

Methodology

OAOA defined a finding as a deficiency in internal control, noncompliance with provisions of laws, and regulations, or evidence of fraud or abuse.

Results

Refer to Findings in the ***Schedule of Findings and Recommendations*** for details of the deficiencies identified and related recommendations.

Schedule of Findings and Recommendations

Finding Number 1: Erroneous Reporting of PCard Transactions in DSU's General Ledger; Reclassification of Unrecognized Expenses to Pre-Paid Expense

Criteria: Section IV. A. 4., of the DSU Purchasing Card Program states "Cardholders are responsible for the monthly reconciliation of their card. Accounts with transactions outstanding for greater than 30 days will be subject to suspension."

Condition: OAOA found that, during the period of our audit, expenses totaling \$462,354 were not recorded in DSU's general ledger due to cardholders not performing their monthly Pcard reconciliations. (See Appendix A.) To clear several years of unreconciled and unrecognized expenses, a \$462,354 journal entry was posted to the general ledger asset account on June 30, 2018 by accounting personnel employed at that time. The journal entry removed undocumented, unidentified, expenses from the PCard reconciliation and posted them to Prepaid Expenses, a balance sheet account. This had the effect of overstating assets (Prepaid Expenses) and understating expenses (various expense accounts). It also had the effect of permanently removing \$462,354 from any budgetary control and ensuring that no follow-up could be done to identify these amounts.

Cause: The DSU Purchasing Card Program was not followed, and cardholders were not held accountable for providing the documentation to reconcile their accounts. No accounts with transactions outstanding over 30 days appeared to be suspended. Poorly designed and enforced internal control procedures failed to provide timely reconciliation and recognition of expenses. The \$462,354 journal entry hid the failure of the procedures.

Effect: The condition, as it existed in FY 2018, created a \$462,354 misstatement in the DSU's general ledger. In addition, since this amount was not posted to any department's budget, it resulted in overspending in the same amount.

Recommendation: Since the books have been closed and audited for FY 2018 and FY 2019, it may not be feasible to research the mis-posted amounts. OAOA recommends that the DSU take actions to prevent such a situation from recurring. The DSU must enforce its policies: "Cardholders are responsible for the monthly reconciliation of their card. Accounts with transactions outstanding for greater than 30 days will be subject to suspension." Transactions that are not supported with receipts within 30 days should be posted to the cardholders' departments' budgets and the cardholders held accountable for their spending.

Management Response: See responses submitted by Delaware State University in the Management Response section of this report.

State of Delaware Fiscal Year 2018 Higher Education Procurement Card Performance Audit

Finding Number 2: Monthly Reconciliations Not Performed Within Policy Guidelines

Criteria: DSU 03-06 Purchasing Card Program states in Section V. I., that “Cardholders are responsible for the monthly reconciliation of their card statement within seven days of the statement issuance.”

Condition: OAOA identified lack of reconciliation of PCards within a timely period. Cardholders and coordinators are not adhering to deadlines for filing expense reports, with supporting receipts in a timely manner, or reconciling the transactions reported in CentreSuite. OAOA tested 86 sampled transactions and found that 33% of the tested samples exceeded 40 days from transaction date until final approval. The dates over 40 days ranged from 41 days to 459 days with the average of 42 days for the random (36) sample population and an average of 49 days for the high-risk (50) sample population.

Cause: There is inconsistent enforcement of existing policy. Poorly designed internal control procedures fail to provide oversight of outstanding expenses on monthly statements.

Effect: The effect of this deficiency results in expenses not being recognized in the period when incurred or not at all. The lack of oversight results in an unrestricted expansion of the amount of unreconciled expenses (see Finding 1).

Recommendation: DSU should research the reporting options available in CentreSuite to determine if automated controls can be applied that will provide notice to cardholders and supervisors of unreconciled expenses. Subsequent automated notices should be elevated to financial managers to perform card suspension as dictated by policy. If automated controls are not available, effective manual controls should be instituted to enforce current policy. Supervisors should hold employees accountable for providing receipts for all PCard transactions before approval. Transactions that are not supported with receipts should be posted to expense in the cardholders’ departments’ budgets and not to a Suspense or Prepaid Expense account.

Management Response: See responses submitted by Delaware State University in the Management Response section of this report.

***State of Delaware Fiscal Year 2018 Higher Education Procurement Card
Performance Audit***

Finding Number 3: PCards Assigned to Users Who Are Not Full Time, Permanent DSU Employees

Criteria: DSU 03-06 Purchasing Card Program states in Section III. 2., all PCard holders are to be full-time, permanent DSU employees that have been designated by the Dean, Chair, or department head. In addition, Section IV. B. 1., states that upon termination, the cardholder's supervisor must retrieve all DSU owned credit cards.

Condition: OAOA determined that two PCard holders were not full time DSU employees. One employee is employed in a consulting capacity and the other employee is a part-time employee at DSU, but neither were full-time, permanent employees.

Cause: PCard administrators have unrestricted access to set up cardholder accounts in the system. Lack of monitoring of employee status by the Purchasing Card Program Administrator resulted in assignment of PCards to non-employees.

Effect: Non-employees are not subject to DSU policy, training requirements, or normal DSU personnel policies, including, termination procedures. There is no control to ensure the return of PCards when a non-employee consultant leaves DSU.

Recommendation: OAOA recommends that PCard administrators conduct a review of current cardholders, with the support of Human Resources, to verify full-time employment status of all cardholders. OAOA also recommends that a checklist be prepared to ensure requirements are met prior to creation of a new cardholder account (i.e. training, employment, etc.).

Management Response: See responses submitted by Delaware State University in the Management Response section of this report.

State of Delaware Fiscal Year 2018 Higher Education Procurement Card Performance Audit

Finding Number 4: Lack of Pre-Approval for Single Item Purchases of Supplies and Materials Over \$500

Criteria: DSU 03-06 Purchasing Card Program, Section V. C., states, “The maximum amount of a single item purchase of supplies or materials will not exceed \$500 (unless prior approval has been received).”

Condition: OAOA found that this policy guidance is not clear or systematically enforced. The majority of cardholder purchases that we examined and which exceeded the \$500 purchase limit, did not show evidence of pre-approval, as required by the policy. The policy, as written, is somewhat confusing. It is not clear as to whether multiple single items of materials or supplies, costing under \$500 but totaling more than \$500, may be purchased in a single transaction without pre-approval, or if pre-approval is required.

Cause: The deficiency is caused by the control design and the implementation of the written policy. The policy as written lacks clarity, possibly contributing to the common disregard of the requirement.

Effect: Lack of the cardholder obtaining pre-approvals for single item purchases over \$500 can lead to excessive spending on purchases. Without oversight, significant assets may be vulnerable to misuse or theft.

Recommendation: OAOA recommends that the policy be re-written to clarify the \$500 spending limit. Cardholders should be advised in an email notice or training update about the intent of the policy. Also, officials approving expense reports may need additional training on the requirement, the need to request supporting documentation of pre-approval, and the proper and acceptable forms of documentation for pre-approval.

Management Response: See responses submitted by Delaware State University in the Management Response section of this report.

State of Delaware Fiscal Year 2018 Higher Education Procurement Card Performance Audit

Finding Number 5: Violations of Policy Restrictions Related to PCard Use for Entertainment, Travel, Purchases That Are Split, And Controllable Equipment (E.G. iPads/Tablets, Laptops, Furniture, Etc.)

Criteria: DSU 03-06 Purchasing Card Program, Section V. E., states: *The following items are prohibited but should not be considered a complete list (grants may have a variety of restrictions specific to the grant):*

- *Any charges for personal or private use*
- *Travel expenses*
- *Transactions valued over the limit allowed for the Purchase Card*
- *Purchases that are split to stay within card transaction limits*
- *Entertainment of any kind, including the purchase of alcohol*
- *Controllable equipment (e.g. IPADs/tablets, laptops, etc.)*

Condition: OAOA noted that purchases which technically violate the details of the policy are potentially justified for DSU business purposes. OAOA noted that 16 of the 50 sample items tested violate DSU policy restrictions for "Non-Allowable Purchases with the Purchasing Card". Instances of purchases included travel expenses, split transactions, entertainment, and controllable equipment. OAOA conducted an evaluation of transactions based on merchant category codes and noted that within the population of 6,116 transactions there are 487 transactions that appear to violate the policy restrictions set forth in DSU Policy Number 03-06, Section V.E. These potential violations amount to \$208,540.

Cause: DSU is not enforcing its policies and holding employees accountable for the non-allowable purchases. There were no explanations of possible justifications in the supporting documentation.

Effect: The disregard of the restrictions in the policy by PCard holders and by management results in a substantial amount of apparently prohibited purchases. While some of these purchases may be allowable, they lack adequate supporting documentation to allow supervisors to make a determination of what may or may not be allowable.

Recommendation: OAOA recommends DSU conduct a review of the policy to clearly define prohibited purchases. This should be followed by an update of restricted merchant category codes (MCC) in the bank system to bring it in agreement with DSU policy. This will help to prevent cardholders from initiating purchases which violate DSU policy. OAOA also recommends re-training for cardholders and expense-approving officials on revisions made to the policy, on when exceptions to the policy might be acceptable and on how to document exceptions.

Management Response: See responses submitted by Delaware State University in the Management Response section of this report.

State of Delaware Fiscal Year 2018 Higher Education Procurement Card Performance Audit

Finding Number 6: Unavailability of Previous DSU Audit Department Reports

Criteria: DSU 03-06 Purchasing Card Program states in Section IV. E., “The Audit Department, who supports Finance and Administration, will be responsible for periodic reviews of the Purchasing Card Program to ensure adherence with DSU policy.” It is a standard part of the audit planning process to request previous auditors’ reports when starting a new engagement to identify risks that may have been previously identified.

Condition: OAOA was not provided with copies of any Audit Department reports previously performed for the Purchasing Card Program. It is our understanding, based on an e-mail from Interim COO on March 4, 2020, that an internal audit of the Purchasing Card Program had been started but never approved by the previous President or by the Board. Therefore, OAOA was unable to evaluate the PCard policy requirement for the Audit Department to conduct periodic reviews to ensure adherence with DSU policy. Internal audits are a key internal control designed to help management locate and correct weaknesses in the internal control and accounting systems.

Cause: Management reported, and OAOA noted, that there has been turnover in the DSU internal audit function and that the internal auditor position is currently vacant.

Effect: With the vacancy in the internal auditor position, there is a lack of an independent and objective review over the risk and controls associated with the Purchasing Card Program, in addition to other areas of DSU.

Recommendation: OAOA recommends that DSU conduct and document an independent and objective internal audit of PCard processes to assess its current activities and make recommendations where weaknesses or inefficiencies are observed. Weaknesses should be identified and resolution tracked to ensure adoption of any newly instituted procedures.

Management Response: See responses submitted by Delaware State University in the Management Response section of this report.

State of Delaware Fiscal Year 2018 Higher Education Procurement Card Performance Audit

Finding Number 7: Document Retention Policy Violations and Loss of Supporting Documentation

Criteria: The Document Retention Policy (DSU Policy 01-07) states that procurement card documentation is required to be retained for three years after a successful audit.

Condition: Source documents for PCard business transactions, requested by OAOA, could not be produced from DSU's files. From the 107 sample items, expense reports could not be located for 21 items (20%). OAOA determined that a deficiency exists in the inconsistent maintenance, tracking, and control of source documents related to PCard expenditures. The electronic data system (CenterSuite), used by DSU, maintains expense reports and uploaded supporting documentation for two years; however, DSU does not have a process for routine download and storage of electronic records from the CenterSuite software system. DSU prints and maintains paper copies of approved expense reports with supporting documentation, but because expenses are not submitted timely, locating specific paper reports is problematic, requiring searches through several months of data. The majority of the unsupported sample documents requested by OAOA exceeded the two-year period but were within three years of the requested date.

Cause: There is a lack of supervision over the PCard document retention process. CenterSuite has a two-year limit on retaining data before it is inaccessible to the PCard holder. In addition, DSU does not enforce the seven-day reconciliation period as the policy requires (Finding 2), resulting in transactions that are undocumented and unreconciled.

Effect: A large percentage of documents that were within the scope of this audit (three years) could not be retrieved, making those transactions un-auditable. Management cannot comply with statutory audits and document requests related to grant awards.

Recommendation: OAOA recommends that DSU coordinate the CenterSuite system's two-year document maintenance capability with its three-year document retention policy. Alternatively, DSU should establish a requirement for routine download and storage of electronic documents from the CenterSuite system before they reach the two-year limit.

Management Response: See responses submitted by Delaware State University in the Management Response section of this report.

State of Delaware Fiscal Year 2018 Higher Education Procurement Card Performance Audit

Finding Number 8: Lack of Control Procedures for Terminated Cardholders

Criteria: DSU 03-06 Purchasing Card Program Section IV. B. 1., “The cardholder’s supervisor is responsible for notifying the Purchase Card Program Administrator for the cardholder’s separation from the University...” It also states in Section IV. B. 2., “The Cardholder’s supervisor is responsible for approving all expense reports and ensuring all purchases are for a legitimate business purpose.”

Condition: OAOA identified 27 DSU employee cardholders that terminated their employment during fiscal year 2018. OAOA noted that the PCard of one terminated cardholder had one transaction posted, 16 days after the employment termination date (\$189.68 at Yankee Candle). The expense report and receipt for the charge could not be produced.

Cause: The termination of the employee did not appear to be coordinated with the return of the employee’s PCard. However, the lack of supporting documents for the purchase in question makes it difficult to determine a more precise cause.

Effect: There is an increased risk of fraudulent or inappropriate spending.

Recommendation: OAOA recommends the DSU Human Resources (HR) offboarding checklist includes signatures from each department that management is required to complete when employment is terminated. OAOA also recommends that the Purchasing Card Program Administrator be added to the HR employment termination checklist and that employee profiles be checked to ensure all assigned cards are deactivated. Additionally, OAOA recommends that each department the employee processes through should attach a copy of the department checklist as a verification that all steps in the offboarding process have been completed. These procedures should be included in the documented policies and be part of initial and annual training.

Management Response: See responses submitted by Delaware State University in the Management Response section of this report.

***State of Delaware Fiscal Year 2018 Higher Education Procurement Card
Performance Audit***

Finding Number 9: Controls to Verify Cardholder Training

Criteria: DSU 03-06 Purchasing Card Program states in Section IV.A. 2., “Prior to issuance and activation of a Purchase Card, all cardholders must complete the formal training program provided by the University Controller.”

Condition: OAOA noted that cardholder training is not being documented or tracked. During OAOA's walkthrough of procedures, management stated that training is conducted prior to issuance and once annually for each cardholder; however, DSU lacks documented support for initial and annual PCard training. Without source documents showing proof of cardholder training, there is no way to adequately track training completion.

Cause: There is no procedure in place to ensure PCard training is conducted for all cardholders.

Effect: This increases the risk of personnel obtaining a DSU PCard account without the proper training. Untrained employees increase the risk of fraud, waste and abuse.

Recommendation: OAOA recommends that a system be implemented to document and track the completion of initial and annual training requirements.

Management Response: See responses submitted by Delaware State University in the Management Response section of this report.

Finding Number 10: Lack of Tracking System for Gift Cards

Criteria: DSU 03-06 Purchasing Card Program states in Section V. G., “Each expense report must be submitted with the appropriate supporting documentation.”

Condition: Gift cards were purchased using the DSU PCard without documentation of how the cards were accounted for or distributed. OAOA noted a single purchase of 120 Visa gift cards totaling \$4,180 among the sample population. Management could not provide further detail, other than the bank-provided transaction level detail. OAOA further noted that existing policy does not address procedures to specifically account for gift card purchases.

Cause: There is a lack of policies and procedures to specifically account for the purchases of gift cards. As noted previously, in general, supporting documentation is not provided by PCard holders for a large number of transactions.

Effect: Gift card purchases are inherently risky, using business funds. These items are highly pilferable and readily converted into cash. Failure to have a comprehensive policy for the tracking and distribution of gift cards increases the risk of cardholder fraud and abuse.

Recommendation: OAOA recommends that a system be implemented to secure, document, and track gift cards by number from the initial purchase until final distribution, and that the system for tracking be documented in policy. OAOA further recommends that any system used for gift card distribution considers and adopts a policy of separation of duties and records the receipt of a gift card with the signature of the final receiver.

Management Response: See responses submitted by Delaware State University in the Management Response section of this report.

Conclusion

We thank the management and staff of Delaware State University for their assistance and cooperation with our performance audit. We trust that you will find the recommendations that came out of the audit useful.



Management Response



DELAWARE STATE UNIVERSITY

OFFICE OF FINANCE & ADMINISTRATION

State of Delaware Performance Audit

Fiscal Year 2018 Higher Education Procurement Card

Delaware State University respectfully submits the following management responses.

FINDINGS 1: Erroneous Reporting of PCard Transactions in DSU's General Ledger; Reclassification of Unrecognized Expenses to Pre-Paid Expense.

Recommendation: Since the books have been closed and audited for FY 2018 and FY 2019, it may not be feasible to research the mis-posted amounts. OAOA recommends that DSU take actions to prevent such a situation from recurring. The DSU must enforce its policies: "Cardholders are responsible for the monthly reconciliation of their card. Accounts with transactions outstanding for greater than 30 days will be subject to suspension". Transactions that are not supported with receipts within 30 days should be posted to the cardholders 'departments' budgets and the cardholders are held accountable for their spending.

Management Response: Earlier this Fiscal Year, Delaware State University identified the FY 2018 and FY 2019 mis-posted amounts and expensed the reconciled amounts to the department's current years' budgets where possible. Delaware State University is currently reviewing the Procurement Card Policy, including how transactions that are not supported with receipts will be posted to the cardholders 'departments' budgets and how cardholders will be held accountable for their spending.

FINDINGS 2: Monthly Reconciliations Not Performed Within Policy Guidelines

Recommendation: DSU should research the reporting options available in CentreSuite to determine if automated controls can be applied that will provide notice to cardholders and supervisors of unreconciled expenses. Subsequent automated notices should be elevated to financial managers to perform card suspension as dictated by policy. If automated controls are not available, effective manual controls should be instituted to enforce current policy. Supervisors should hold employees accountable for providing receipts for all PCard transactions before approval. Transactions that are not supported with receipts should be posted to expense in the cardholder's 'departments' budgets and not to a Suspense or Pre-paid Expense account.

Management Response: Delaware State University is evaluating the automated controls available in CentreSuite as well as other expense and management software to include Concur. These automated controls would be customized to align with Delaware State University's Procurement Policy.

1200 NORTH DUPONT HIGHWAY • DOVER, DELAWARE 19901-2277 • (302) 857-6200 • FAX (302) 857-6202

Delaware State University is an equal opportunity employer and does not discriminate because of race, creed, national or ethnic origin, sex or disability.



KATHLEEN
McGUINNESS
DELAWARE
STATE AUDITOR
REPORT FRAUD: 1-800-55-FRAUD

State of Delaware Fiscal Year 2018 Higher Education Procurement Card Performance Audit



DELAWARE STATE UNIVERSITY

OFFICE OF FINANCE & ADMINISTRATION

FINDINGS 3: PCards Assigned to Users Who are Not Full Time, Permanent DSU Employees

Recommendation: OAOA recommends that PCard administrators conduct a review of current cardholders, with the support of Human Resources, to verify full-time employment status of all cardholders. OAOA also recommends that a checklist be prepared to ensure requirements are met prior to creation of a new cardholder account (i.e. training, employment, etc.).

Management Response: Delaware State University enhanced its PCard administration in FY 2019 to include email notification from Human Resources to our Procurement Card Administrator on any separation of service. Our Procurement Card Administrator and Human Resources will verify that all current cardholders are full-time employees.

FINDINGS 4: Lack of Pre-Approval for Single Item Purchases of Supplies and Materials over \$ 500

Recommendation: OAOA recommends that the policy be re-written to clarify the \$ 500 spending limit. Cardholders should be advised in an email notice or training update about the intent of the policy. Also, officials approving expense reports may need additional training on the requirement, the need to request supporting documentation of pre-approval, and the proper and acceptable forms of documentation for pre-approval.

Management Response: Delaware State University is currently reviewing the Procurement Card Policy to include clarification of spending limits. In addition to the initial mandatory training that is already taking place. In addition, Delaware State University is committed to offering annual training to all cardholders.

FINDINGS 5: Violations of Policy Restrictions Related to PCard Use for Entertainment, Travel, Purchases that are Split, And Controllable Equipment (E.G. iPads/Tablets, Laptops, Furniture, Etc).

Recommendation: OAOA recommends DSU conduct a review of the policy to clearly define prohibited purchases. This should be followed by an update of restricted merchant category codes (MCC) in the bank system to bring it in agreement with DSU policy. This will help to prevent cardholders from initiating purchases which violates DSU policy. OAOA also recommends re-training for cardholders and expense-approving officials on revisions made to the policy, on when exceptions to the policy might be acceptable and on how to document exceptions.

Management Response: Delaware State University is currently reviewing the Procurement Card Policy to include clarification of prohibited purchases and an update of restricted merchant category codes (MCC) in the bank system to bring it in agreement with DSU policy.

1200 NORTH DUPONT HIGHWAY • DOVER, DELAWARE 19901-2277 • (302) 857-6200 • FAX (302) 857-6202

Delaware State University is an equal opportunity employer and does not discriminate because of race, creed, national or ethnic origin, sex or disability.



KATHLEEN
McGUINNESS
DELAWARE
STATE AUDITOR
REPORT FRAUD: 1-800-55-FRAUD

State of Delaware Fiscal Year 2018 Higher Education Procurement Card Performance Audit



DELAWARE STATE UNIVERSITY

OFFICE OF FINANCE & ADMINISTRATION

INDINGS 6: Unavailability of Previous DSU Audit Department Reports

Recommendation: OAOA recommends DSU conduct and document an independent and objective internal audit of PCard processes to assess its current activities and make recommendations where weaknesses or inefficiencies are observed. Weaknesses should be identified, and resolution tracked to ensure adoption of any newly instituted procedures.

Management Response: Delaware State University recognizes the importance of having an independent internal assessment of purchasing cards. Delaware State University was in the process of hiring an internal auditor before the COVID19 Pandemic and will continue that process once the current Pandemic has subsided. Currently, Delaware State University is accessing purchase card transactions by utilizing current qualified staff members.

INDINGS 7: Document Retention Policy Violations and Loss of Supporting Documentation

Recommendation: OAOA recommends DSU coordinate the CenterSuite system's two-year document maintenance capability with its three-year documentation retention policy. Alternatively, DSU should establish a requirement for routine download and storage of electronic documents from the CenterSuite system before they reach the two-year limit.

Management Response: Delaware State University is currently reviewing the Procurement Card Policy to include its document retention policy and procedures for the storage of procurement card data.

INDINGS 8: Lack of Control Procedures for Terminated Cardholders

Recommendation: OAOA recommends the DSU Human Resource (HR) offboarding checklist includes signatures from each department that management is required to complete with employment is terminated. OAOA also recommends that the Purchasing Card Program Administrator be added to the HR employment termination checklist and that employee profiles be checked to ensure all assigned cards are deactivated. Additionally, OAOA recommends that each department the employee processes through should attach a copy of the department checklist as a verification that all steps in the offboarding process have been completed. These procedures should be included in the documented policies and be part of initial and annual training.

Management Response: Delaware State University enhanced its PCard administration in FY 2019 to include email notification from Human Resources to our Procurement Card Administrator on any separation of service. The Procurement Card Administrator is charged with ensuring all assigned cards are deactivated.

1200 NORTH DUPONT HIGHWAY • DOVER, DELAWARE 19901-2277 • (302) 857-6200 • FAX (302) 857-6202

Delaware State University is an equal opportunity employer and does not discriminate because of race, creed, national or ethnic origin, sex or disability.



**KATHLEEN
McGUINNESS**
DELAWARE
STATE AUDITOR
REPORT FRAUD: 1-800-55-FRAUD



DELAWARE STATE UNIVERSITY

OFFICE OF FINANCE & ADMINISTRATION

FINDINGS 9: Controls to Verify Cardholders Training

Recommendation: OAOA recommends that a system be implemented to document and track the completion of initial and annual training requirements.

Management Response: Currently, Delaware State University requires mandatory training before a procurement card is issued. A sign-in sheet is used to document attendees. In addition, Delaware State University is committed to offering annual training to all cardholders.

FINDINGS 10: Lack of Tracking System for Gift Cards

Recommendation: OAOA recommends that a system be implemented to secure, document, and track gift cards by number from the initial purchase until final distribution, and that the system for tracking be documented in policy. OAOA further recommends that any system used for gift card distribution considers and adopts a policy of separation of duties and records the receipts of a gift card with the signature of the final receiver.

Management Response: Delaware State University is currently reviewing the Procurement Card Policy to include documentation of gift cards purchased along with procedures on the monitoring of the distribution of gift cards.

1200 NORTH DUPONT HIGHWAY • DOVER, DELAWARE 19901-2277 • (302) 857-6200 • FAX (302) 857-6202

Delaware State University is an equal opportunity employer and does not discriminate because of race, creed, national or ethnic origin, sex or disability.



**KATHLEEN
McGUINNESS**
**DELAWARE
STATE AUDITOR**
REPORT FRAUD: 1-800-55-FRAUD

**State of Delaware Fiscal Year 2018 Higher Education Procurement Card
Performance Audit**

Appendix A

DSU's Department of Finance provided the following monthly summary of PCard Reconciliation timeliness for the year ended June 30, 2018. The chart below shows the amount of transactions reconciled each month. The remaining amounts were not properly recorded.

P-Card Reconciliation				
FY 2018				
6.30.18				
	Total Dollar Tx (from Bank Statements)	Dollar Value Processed per JV	Percent submitted per Dollar Value	Percent submitted per Number of Tx
Jul	64,143.39	19,701.76	30.72%	Unknown
Aug	121,299.33	58,452.72	48.19%	Unknown
Sept	145,175.45	47,115.04	32.45%	Unknown
Oct	142,616.67	112,944.77	79.19%	Unknown
Nov	117,671.36	45,327.34	38.52%	Unknown
Dec	90,968.45	44,102.02	48.48%	Unknown
Jan	42,547.32	26,424.95	62.11%	Unknown
Feb	103,702.46	52,577.90	50.70%	Unknown
Mar	89,414.34	Proc w/Apr	NA	Unknown
Apr	123,636.09	51,348.81	41.53%	Unknown
May	137,733.42	51,348.81	37.28%	Unknown
Jun	70,607.45	30,296.40	42.91%	45.85%
Total	1,249,515.73	539,640.52	43.19%	
Outstanding, Pending, Rejected Remaining as of 6.30.18		152,317.73	12.19%	
Tx Proc outside of their respective month		557,557.48	44.62%	