

**Best Practice: Purchasing Card Auditing at Ohio University**

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## **EXECUTIVE SUMMARY:**

In 1998, Ohio University implemented a purchasing card (pcard) program. Slowly but surely, as it was used first for high dollar/low volume purchasing, and later as a travel card, the pcard began to replace more traditional purchasing and travel methods.

The pcard is an efficient tool, requiring less effort administratively than requisitions, purchase orders, check-cutting, and travel expense reports and reimbursements. Encouraging pcard use was desirable, but the auditing required for a very high and growing volume of transactions was becoming overwhelming.

The challenge was to provide the needed customer service, communication, and training, while still sufficiently auditing transactions. Due to limited University resources and budgeting challenges, increasing staff was not an option.

To address this challenge, an innovative program was put into place. The program determined which transactions were low risk, which were high risk, and how best to identify and minimize fraudulent activity.

The answer was:

- **To free up time:** A sampling program whose sampling percentages were carefully determined and well supported.
- **To communicate, train, and perform more value-added auditing:** Regularly scheduled Customer Service Visits that double as On-Site Audits of departmental documentation and processes.
- **To continue to properly monitor suspicious activity:** High risk audits that use reporting capabilities to review transactions that occur with particular vendors or during particular times.

The program has been very successful. Universities nationwide knock at our door for advice and information for best practices in pcard auditing. The Ohio University pcard staff has done presentations on this topic at national pcard and travel related conferences. They have also hosted visits to the Ohio University Pcard Office from Emory University, Miami of Ohio, Kent State, and Shawnee State regarding pcard auditing practices. They serve on GE Money's Customer Advisory Board representing Higher Education and were instrumental in helping GE develop, pilot, and implement their Controlled Value Card. The Controlled Value Card is a declining balance card that has proved to be very desirable to GE customers, especially in the Higher Education market. GE Money also sent their leader in product development to the Ohio University campus to review reporting strategies used "in house" to address audit and 1099 reporting requirements and integrate ideas within their new, robust pcard software (SAM).

## **INTRODUCTION TO OHIO UNIVERSITY:**

Ohio University was established in 1804, the first institution of higher education in the Northwest Territory. Ohio University's main campus and its five satellite campuses are located in beautiful southeastern Ohio, in the foothills of the Appalachian Mountains.

Ohio University employs about 5,000 faculty, administration, and support staff servicing about 28,442 students. It is a public institution, and a Research 1 University.

## **STATEMENT OF THE PROBLEM:**

The purchasing card program began in early 1998. Usage grew, and after several years of roll-out and promotion, it became apparent that the pcard was on its way to becoming the highly preferred method for low-dollar/high volume purchasing, and for travel expenditures.

The challenge was to find the best method to audit high-volume pcard use, despite limited University resources and ever-increasing transactions levels.

## **DESIGN:**

At the beginning of the program, transactions were monitored in the pcard software system: PARIS (provided by GE Money). Each transaction was reviewed on-line by two pcard auditors. This practice became impractical as the number of cardholders, and the

number of related transactions, grew. Not only was the sheer volume overwhelming, but the concentration on a 100% on-line audit left the pcard auditors with no time to provide much-needed attention to customer service and training.

**The following programs were developed to meet the challenge:**

**CUSTOMER SERVICE VISITS:** An on-site audit program that allows for unannounced “customer service visits,” on a rotating basis, to the various units within the University, was planned. The plan allows pcard auditors to review departmental practices, identify problem areas, communicate best practices, and provide regular reporting to department administrators. And because receipts for pcard purchases are kept at the department level, it also allows pcard auditors to compare hard copy receipts against the information in PARIS.

The program was developed with the help of professional external auditors, and the University’s Internal Audit Office. It consists of:

- A schedule that allows for each area of the University to be audited with a frequency of at least every 18 months.
- Well-defined goals and practices for the auditors on-site.
- Standardized reports that are provided regularly to the Internal Audit Office, the University Controller, and the appropriate Deans, Directors, or Department Heads.

**SAMPLING PROGRAM:** To free up auditor time for the customer service visits, a random sampling program was developed for everyday transactions, using Excel downloads from PARIS, and an Access program to provide the samples. Sampling levels were determined by studying the data available from PARIS and by using a 95% confidence level to calculate actual risk. After extensive study, the following procedures were put into place:

- All transactions over \$5,000 are audited at 100%
- All travel or entertainment transactions are audited at 25%
- All other transactions (approx 80% of the transactions are in this category) are audited at 5%.

Statistics showed, and both external and internal auditors have since concurred, that these levels provided sufficient auditing, while freeing up the pcard auditors' time for the far more value-added activity of providing the on-site customer service visits described above.

**HIGH-RISK TRANSACTION AUDITS:** To take a closer look at certain types of transactions, high-risk activity was identified, and special auditing practices were put into place to identify and target suspicious activity. With the help of the Internal Audit Office, the Pcard Office identified the need for three reports which are now subject to regular review:

- Reports for all (100%) activity with high risk suppliers such as Amazon and E-bay, are pulled monthly for review.

- Decline reports - reports provided by GE Money describing any incident of the card being declined - are scrutinized monthly for any suspicious patterns.
- Reports showing all weekend transactions are reviewed monthly.

## **IMPLEMENTATION PROCESS:**

RANDOM SAMPLING FIRST: Because it freed up time, and because it could be done entirely “in-house” - i.e., within the Pcard Office - the random sampling program for the everyday transaction audits was implemented first. Careful study and planning allowed this implementation to go smoothly. Some lessons learned:

- Auditors, controllers, and other accounting personnel are made nervous by the prospect of sampling. Document and retain the study which leads to the determination of sampling percentages. Auditors will want to see the documentation, and assumptions will be challenged. A formal plan, that uses hard data to back up decision-making, will survive all audits and challenges.
- Again to withstand challenges, be certain to gain supervisory, executive support for the sampling program prior to proceeding.
- Automate the processes: Download data into Excel for easy sorting and calculations. Use simple Access programs to pull random samples from the Excel worksheets, and to query for various indicators of problematic activity.

CUSTOMER SERVICE VISITS SECOND: Next, with the time freed up by the sampling, the customer service visits began. Splitting up the various University areas

into manageable sections, and clearly defining practices prior to performing the first audit, allowed this implementation to go smoothly as well. Some lessons learned:

- Start off with announced audits for the first round of audits, to allow the University community to become familiar with Pcard Office audit practices and expectations.
- Move quickly to unannounced audits to better assure year-round compliance and optimize the chance of catching offenders.
- Partner closely with any Internal Audit Office that exists in your institution, to avoid duplicate efforts and to provide a consistent message to University departments.
- Make sure the auditors in question are confident, personable, professional, and positive in nature. They are out there doing unannounced audits and they are the face of the program. Negative attitudes or rude behavior will doom the program.

**HIGH RISK TRANSACTION AUDITS THIRD:** The high risk transaction audits are the latest addition to Ohio University's Pcard Audit program. These audits are again entirely in-house, and implementation was simple and painless. The biggest lesson learned: The high risk audits should have been implemented right from the start, to compliment and strengthen the random sampling program.

## **BENEFITS:**

The following benefits were realized:

- Because proper controls were in place, Pcard use could be encouraged and expanded. Purchase Orders are down 75%, and the number of checks is down 50%. This allowed FTE's in the Procurement area (Purchasing, Pcard, and Accounts Payable) to be reduced by 23% over a period of approximately five years (through attrition).
- Pcard auditors received job upgrades and find the work more fulfilling than sitting in front of their screen the entire day, doing 100% on-line transaction audits. Their time and talents are being put to much better use – a plus for all involved.
- Because the customer service visits allow auditors to see departmental files, they have retrieved many dollars in reimbursements from violations that can only be found by looking at the actual documentation.
- Departmental pcard practices have improved and become more consistent as the customer service visits have worked to communicate best practices interdepartmentally. The visits also have kept department administrators informed of Pcard Office expectations, and helped them identify and deal with problem cardholders in their areas.

**RETROSPECT:** See implementation “lessons learned” above.