



CREDIT CARD PURCHASES

A system of internal control may be implemented in many different ways. Because political subdivisions vary in purpose, size and complexity, no single method of internal control is universally applicable. However, the five internal control components should be present and functioning in all political subdivisions.

Questions have been accumulated for all five internal control components. This document includes questions pertaining to various noncompliance issues regarding the use of credit cards. These questions can be used to aid in designing a proper system of internal control over credit cards that will allow deficiencies in procedures over credit cards to be prevented or detected and corrected. It is not necessary to address all questions in this document. These are only suggestions and ultimately it is up to the unit on how they implement it. The internal control system as a whole has to be designed and implemented appropriately in order to allow deficiencies over credit card procedures to be prevented or detected and corrected.

Components of Internal Control:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

Control Environment - Sets the tone of the unit and influences the effectiveness of internal controls within the unit. It comprises the integrity and ethical values of the unit and is set by the governing board and management. The standards, processes, and structures which form the control environment pervasively impact the overall system of internal control.

The questions in this section are divided by questions that pertain to the governing board, management and both the governing board and management.

Governing Board:

	YES	NO
1) Does the governing board oversee the unit's internal control system regarding credit cards?		
2) If considered necessary, did the governing board establish an oversight committee and appoint members with high ethical values, excellent communication and problem solving skills?		
3) Does the unit have a mission statement, objective and goals?		
4) Does the governing board convey periodic messages of expectations to all employees?		
5) Did the governing board authorize credit card use through an approved credit card policy? If yes, was the credit card policy approved in the minutes?		
6) Did the credit card policy include the following?		
a. Internal control procedures over credit card purchases.		
b. Outline the authority and responsibility for credit card purchases within the governmental unit.		
c. Issuance and use must be handled by an official or employee designated by the governing board.		
d. Limit the number of credit cards and users to a minimum if possible.		
e. Set account limits with credit card companies and vendors.		
f. Deactivate the ability to make cash advances.		
g. The purpose for which the credit card may be used. (travel, online purchasing, emergency/ small purchases, automatic payments)		
h. Types of purchases that are prohibited or restricted. (personal expenses, purchases above a threshold amount, etc.)		
i. The card must be returned to the custody of the responsible person after credit card purchases are made.		
j. The designated official or employee must maintain an accounting system or log which would include names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged and the date the card is issued and returned. The log should be reviewed by the appropriate level of management.		
k. Credit cards must not be used to bypass the accounting system.		
l. Purchase orders are issued to provide the fiscal officer with the means to encumber and track appropriations to provide timely and accurate accounting information and monitoring of the accounting system.		
m. Payments cannot be made on the basis of a statement or a credit card slip only. Supporting documents such as paid bills and receipts must be available.		
n. Any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee may be the personal obligation of the responsible officer or employee.		
7) How involved is the governing board in understanding the entity's credit card procedures, overseeing the effectiveness of internal controls over credit card procedures, and evaluating whether the accounting records that support the payment of credit cards are correct? For example, is the governing board's involvement limited to attending board meetings, or does the board oversee other things such as unit controls, accounting practices, etc.		



	YES	NO
8) Did the governing board develop an organizational chart? If yes, is the organizational chart current and accurate?		
9) Have job descriptions been created outlining specific duties? If yes, do these duties address responsibilities required for the handling of credit cards?		
10) Has fiscal authority been formally delegated to specific management personnel?		
11) Did the governing board adopt a written travel policy?		
12) Did the governing board develop a formal employee evaluation system to set the intervals in which employees will be evaluated? If yes, does the formal evaluation system include disciplinary action that will be taken if an employee does not meet the expectations noted in the evaluation system?		
13) Does management provide documented processes for the handling of credit cards to the governing board for review?		
14) Are accounting department employees required to take vacations?		
15) Has the governing board developed and implemented a conflict of interest and ethics policy? Is there a system of annual acknowledgment in place where either through e-mail submission or manual documentation, each official and employee attests that they have read the policy and will adhere to the policy?		
16) Are there regular meetings of the governing body to set policies and objectives and review the entity's performance?		
17) Are the minutes of such meetings prepared and signed on a timely basis?		
18) Are confidentiality agreements required for employees who come in contact with confidential information?		
19) Are policies regarding personal use of computer equipment and software clearly stated?		

Management:

1) Does management develop and maintain documentation of the internal control system regarding credit cards?		
2) What procedures did management put in place for the handling of credit cards?		
a. Does management assign responsibility, and delegate authority to oversee credit card use and ensure that the credit card policy is being followed?		
3) Does management establish an organizational structure, assign responsibility and delegate authority in order to achieve proper procedures over credit cards? If yes, did management establish and document the organizational structure of each office and department? Examples of items to incorporate into the organizational structure could include: an organizational chart, outline of specific duties, designation of responsible persons for each part of the accounting process, documentation of internal control procedures over specific accounting areas, etc.		
4) Does management ensure compliance with the unit's personnel policies and procedures concerning hiring, training, promoting and compensating?		
5) Does management check credentials and references for new employees?		
6) Do employees who are involved in credit card procedures receive continuous or periodic training? If yes, what kind of training do employees receive to help them maintain their accounting and financial reporting competencies?		
a. What background, education, and experience do accounting personnel have that assist them with their duties?		
7) Does management reward employees for following good internal control practices through promotions or increase in compensation?		
8) Is turnover of key fiscal personnel relatively low?		
9) Does management evaluate performance and hold individuals accountable for their responsibilities? If yes, what action is taken for employees not performing their responsibilities?		
10) Is cross training completed to ensure that more than one employee is knowledgeable about credit card procedures? This cross training would allow more than one employee to be aware of potential design deficiencies in the internal controls or of noncompliance with internal controls.		
11) Does management ask employees for their suggestions on how to improve processes?		
12) Has management given a high priority to its internal control structure?		
13) Does management discuss internal controls at management and other staff meetings?		

Governing Board and Management:

1) Does the governing board and management stress adherence to policies and procedures?		
2) Is there a clear assignment of responsibility and delegation of authority to deal with such matters as organizational goals and objective, operating functions and regulatory requirements?		



Risk Assessment - Risk is the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment is the process used to identify and assess internal and external risks to the achievement of objectives, and then establish risk tolerances. It is the basis for determining how risk will be managed.

	YES	NO
1) Does management identify, analyze, and respond to risks related to credit card procedures?		
a. What areas have been identified regarding credit card procedures that may be exposed to risk?		
i. Risk factors may include noncompliance with statutes and other policies and ordinances, changes in management or employees, competence and experience of personnel assigned to the review of credit cards, findings reported in prior audits regarding credit cards, new technology allowing alteration of documents, unauthorized disbursements, returning goods for cash, fictitious invoices and vendors, unauthorized access to accounting applications, override of system controls, lost or stolen credit cards, etc.		
b. Does management analyze the identified risks to determine the effect of the risk on achieving proper procedures over credit cards? For example, does management consider how likely the risk will occur, if the risk is based on complex or unusual transactions, if the risk is based on fraud, etc.		
c. How has management addressed risks associated with using computerized accounting records, such as unauthorized access to applications or data, potential loss of data, and reliance or inadequate systems that may adversely affect internal control?		
d. How has management responded to identified risks? For example, management may accept the risk and take no action, choose to eliminate certain processes to avoid the risk and/or institute proper internal controls.		
e. When needed, does management go back to the governing board to enact or modify policies that will clearly define these areas?		
2) Does management clearly define proper credit card procedures to enable the identification of risks and to define risk tolerances? Written procedures should be clear and address items such as who will be involved in the handling of credit cards, how proper credit card procedures will be achieved, and when will proper credit card procedures be in place.		
3) Is management continually aware of changes, both external and internal, that could affect credit card procedures? If yes, does management determine any modifications needed in the internal control process to adopt to these changes?		
4) Did the governing board or management incorporate external requirements, such as state statutes and Uniform Compliance Guidelines?		
5) What happens when the credit card policy is not followed? What consequences will be enforced?		
a. Who is responsible for late charges?		
b. Who is responsible when sufficient documentation of purchases is not provided?		
c. If personal expenses are incurred using the credit card, how is repayment obtained from the employee?		
6) What procedures are in place when employees with access to credit cards leave employment, credit cards are lost or stolen or unauthorized cards are obtained?		
7) What procedures are in place to ensure credit card purchases are allowable and properly reflected in the accounting records?		
8) Are employees involved in the credit card process bonded?		

Control Activities - The actions and tools management establishes through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives and to respond to risk in the internal control system.

	YES	NO
1) Is there a system of checks and balances (segregation of duties) to ensure the proper handling of credit cards and proper reporting of credit card transactions?		
a. Are responsibilities for approving credit card claims segregated from those preparing credit card claims?		
b. Are responsibilities for writing the checks segregated from those involved in approving credit card claims?		
c. If a signature stamp is used, are there controls in place to safeguard against access to the signature stamp?		
d. Are responsibilities for acknowledging the receipt of goods or services segregated from those involved in preparing claims?		
e. Are responsibilities for acknowledging the receipt of goods or services segregated from those involved in writing checks?		
f. Is a review completed by an individual outside the disbursement process in which the credit card claim amount is compared to the supporting documentation attached to the claim and the amount of the check? If yes, is this review documented as evidenced by initials, tick marks, etc., indicating procedures performed.		
g. Does an employee who does not have authority to make credit card purchases review monthly credit card documentation in sufficient detail to determine that proper supporting documentation is available? If yes, is this review documented as evidenced by initials, tick marks, etc., indicating procedures performed.		



	YES	NO
2) Does a designated official or employee maintain an accounting system or log which includes the names and titles of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, the date the card is issued and returned, sufficient documentation provided, etc.?		
3) If a log is maintained, is the log reviewed by an appropriate level of management?		
4) Does the designated official or employee collect the credit card once the purpose of the credit card has been accomplished?		
5) Are credit card purchases authorized by designated individuals?		
6) Does a designated official or employee compare credit card purchases to an approved credit card policy?		
7) Does a designated official or employee compare credit card purchases to an approved travel policy?		
8) What procedures exist to document that goods and services were received?		
9) Are credit card claims audited by the fiscal officer prior to payment?		
10) Are credit card claims approved by the governing board?		
11) If credit card claims are paid prior to the approval of the governing board, is there a policy on paying claims in advance that includes credit card payments?		
12) If purchase orders are used, are all credit card purchases based on purchase orders signed by officials or employees?		
13) Are original invoices or other receipts (not photocopies) attached to each credit card claim to support the disbursement?		
14) Are original invoices or other receipts used rather than credit card statements?		
15) Are original invoices or other receipts reconciled to credit card statements?		
16) Are credit cards reviewed for errors?		
17) Are detailed credit receipts obtained and not just the summary?		
18) Are invoices or other receipts originals and not photocopies?		
19) Are credits or refunds reviewed for reasonableness? For example, are credits or refunds for returned goods or unallowable charges you are aware of reflected on the credit card statement?		
20) Are vendors noted on the credit card statement for authorized vendors only?		
21) Did management design the entity's information system and related control activities to ensure the proper handling of credit card purchases?		
a. Did management implement control activities through written policies?		
b. Is access to disbursement applications appropriately controlled by user logins and passwords?		
22) Are individuals involved in credit card procedures knowledgeable?		
23) Is there a checklist for the review of credit card transactions that includes the following?		
a. Employee names with their responsibilities and duties		
b. Deadlines for completing the preparation, review and posting of credit card claims		
c. Detail of supporting documentation required		
24) When reviewing credit card charges, is it determined if expenses were for items that did occur and are for business related items?		

Information and Communication - Relevant information from both internal and external sources is necessary to support the functioning of the other components of internal control. Communication is the continual process of providing, sharing, and obtaining necessary information.

	YES	NO
1) Are procedures established to ensure that proper communication and documentation exists for internal communications between offices, departments, management and the governing board regarding credit card procedures?		
a. How does the unit internally communicate information to employees regarding credit card procedures, including responsibilities for internal control? Are records maintained to document this communication?		
b. Are procedures established to ensure that the communication requirements are being followed and necessary information is being communicated properly?		
c. Are procedures established for feedback on and clarification of the information provided?		
2) What procedures are in place to collect the information needed in the handling of credit cards?		
a. Does management use the most current information available to ensure the handling of credit cards is working as required?		



Monitoring - Activities that allow management to assess the quality of internal controls over time and make adjustments as necessary. Proper monitoring ensures that controls function properly.

	YES	NO
1) Are procedures in place to ensure that appropriate personnel perform their required duties sufficiently and adequately follow the policies and procedures of the unit regarding credit card procedures?		
2) Are internal control procedures over the handling of credit cards evaluated and adjusted on a regular basis? For example, personnel changes, newly elected officials, etc.		
a. What follow-up action is taken for identified problems or weaknesses in internal controls over the handling of credit cards?		
3) Does a confidential reporting system exist so that individuals may report suspected fraud and abuse of the unit's policies?		