

UC MERCED AUDIT AND ADVISORY SERVICES

March 15, 2016

To: Michael Reese – Vice Chancellor For Business and Administrative Services
Subject: Audit of Low Value Purchases and Expense Reimbursements
Ref: Audit Report No. M16A004

Internal Audit has completed an audit of UC Merced's low value purchasing and expense reimbursements. The audit was part of the Fiscal Year 2015 – 2016 Audit Plan.

The audit reviewed purchases and reimbursements by many campus departments. We appreciate the help we received from Business Officers, Department Purchasers, and Procurement Services during this audit.



Todd Kucker
Internal Audit Director

Attachment:

cc: SVP Vacca
Chancellor Leland
Associate Chancellor Putney
Controller and Assistant Vice Chancellor Riley
Executive Director Deegan
Director Groesbeck
Director Meade

**UNIVERSITY OF CALIFORNIA, MERCED
AUDIT AND ADVISORY SERVICES**

**Low Value Purchases and Expense Reimbursements
Report No. M16A004**

March 15, 2016

Work Performed by:
Brandi Masasso, Internal Audit
Todd Kucker, Internal Audit

Report Summary

Internal Audit has completed an audit of low value purchasing and expense reimbursements. During the audit we reviewed samples of low value orders, purchase card transactions, and travel expense reimbursements completed during Fiscal Year 2014 - 2015. Overall, we noted adequate controls over these lower value purchases. During the audit, we identified areas where there could be efficiency improvements and potential cost savings. These areas for improvement are discussed in the report.

Objectives and Scope

Internal Audit has completed an audit of departmental purchasing, which was part of the Fiscal Year 2015 – 2016 audit plan. The purpose of the audit was to review controls over low value purchasing and reimbursements to employees.

The specific audit objectives were to:

- Evaluate departments' control over low value purchasing (less than \$5,000) and compliance with UC policy related to these purchases;
- Determine whether controls related to purchase card purchases have been properly designed and are operating effectively; and,
- Evaluate review procedures and monitoring of travel reimbursements by departments to verify that employees are appropriately reimbursed for their travel costs.

To fulfill the audit objectives, we completed the following testing.

- To test low value purchases, we randomly selected 100 low value orders completed during Fiscal Year 2014 - 2015 for testing. The sample covered purchases by many different campus departments. We reviewed documentation maintained by departments and system information related to the purchases to verify that the purchases were appropriately approved and that the items purchased by departments complied with UC policy. Certain items and services are not supposed to be purchased using a low value order as special approvals are required.
- To test purchase card transactions, we utilized data analytics to review for unusual transactions during Fiscal Year 2014 - 2015. We then selected a sample of 94 purchase card transactions which covered purchases by many different departments and reviewed documentation related to the purchases. We reviewed purchases for appropriate review and approval, adequate segregation of duties related to purchasing and receiving, and reviewed compliance with UC policy and sales/use tax reporting.
- To test the reimbursements, we randomly selected 100 travel and entertainment expense reimbursements. We reviewed the backup documentation maintained in the Express system and verified that reimbursed expenditures complied with UC policy.

The following chart shows the number and amount of low value purchase transactions and reimbursements completed during Fiscal Year 2014 – 2015 from which we selected our samples.

	Number of Transactions	Total Spending	Average Purchase/Order
Low Value Orders (N Class Orders)	7,247	\$6,115,708	\$844
Purchase Card Transactions	6,799	\$1,252,312	\$184
Travel Reimbursements	7,158	\$3,774,639	\$527

Background

To promote efficient and low cost methods for low value purchasing, it is important to put efficient and effective controls in place. The overall administrative cost of purchasing low value items should be considered along with the risk of fraudulent purchases.

BFB-BUS-43 *Materiel Management* is the UC policy over procurement. The policy includes the requirements related to purchases under \$5,000. The campus Materiel Manager is able to delegate low value purchasing authority to campus personnel designated by departments. This purchasing authority relates to the use of low value purchase orders and to purchase cards transactions.

Procurement Services is responsible for maintaining a listing of items that should not be purchased using low value purchasing methods as there are special requirements and approvals related to the items. The policy includes examples such as inventorial equipment, ethyl alcohol, hazardous materials, and consulting services. Procurement Services is also responsible for adequately training department purchasers.

Overall, UC Policy outlines a few requirements for low value purchasing which provides a framework for the campus procedures.

1. **Separation of Duties** – A Reviewer (who should be at the supervisory level) other than the person who places the order shall certify that the items ordered were received.
2. **Adequate Documentation** – Source documentation shall provide sufficient detail to allow verification of expenditures.
3. **Periodic Appraisals** – To ensure purchases comply with UC policy, internal auditors or a designee of the Materiel Manager should periodically review purchases by department purchasers.
4. **Training** – The campus Procurement Services department is responsible for ensuring that training is available to all employees with low value purchasing authority.

Travel Reimbursements

G-28 *Travel Regulations* is the policy of the University to comply with IRS regulations regarding the provision and reimbursement of business-related travel. G-28 provides guidance related to business travel such as which expenditures will be reimbursed and the documentation required for reimbursement.

UC Merced utilizes the UCLA Express system for setting up reimbursement requests. Travelers and reviewers are accountable for verifying that reimbursement requests comply with UC policy. The UCLA Travel Office also reviews information set up in the Express system for compliance with policy.

Audit Results

Based upon our testing, we concluded that controls related to low value purchasing and travel reimbursements are operating effectively. Overall, departments are adequately following policy requirements related to low value transactions. During our audit, we noted a few instances where restricted items were incorrectly purchased with a low value order, departments did not maintain receiving documentation, and sales and use tax was not correctly recorded. We communicated the minor issues with Procurement Services so they can continue to improve their training and guidance.

During the audit, we heard concerns regarding employees abusing travel reimbursements by automatically claiming a daily per diem for domestic travel rather than being reimbursed for actual travel costs. The UC travel policy attempts to balance IRS reporting requirements with cost-effective documentation requirements. As a result, receipts for meals under \$75 are not required to be submitted with a request for reimbursement. This makes it very difficult to enforce the policy as travelers are not required to provide evidence of costs incurred although they consistently request the daily maximum (or near that amount). **In essence, the UC system is relying upon travelers to be ethical and abide by a policy which requires reimbursement for actual costs.** As receipts are not required, we determined that it was not possible to audit compliance with this policy.

Internal Audit completed this audit to comply with monitoring responsibilities outlined in BFB-BUS-43 *Materiel Management*. While internal control weaknesses were not identified, we identified a couple areas where procedures and guidance could be improved. The recommendations identify potential improvements and written management corrective actions were not required.

1. Utilization of Purchasing Cards

During 2012, the oversight of UC Merced's Purchase Card program was transferred from UCLA to UC Merced Procurement Services. During the last few years, the volume and amount of purchasing card transactions has grown steadily.

Fiscal Year	Number of Transactions	Total Spend	Average Number of Transactions per Workday
2012 – 2013	4,121	\$830,087	17
2013 – 2014	5,014	\$1,036,980	20
2014 – 2015	6,799	\$1,252,312	28
8 Months ended February 29, 2016	5,049	\$1,063,367	32

During 2013, Procurement Services at the UC Office of the President hired a consulting firm to review low value purchasing throughout the UC system. During October 2015, the final report was issued to the campus Controllers which analyzed the processing costs related to utilizing different purchasing methods. The report recommended increasing the use of payment cards and decreasing the use of low value orders. Card payments at the point of sale can eliminate an invoice (the estimated cost to process an invoice through accounts payable on a UC campus is \$4.50) and a paper check (the estimated cost to process a paper check is \$1.49).

During the audit, we noted low value orders issued for very small purchases. Around 20% of the low value orders issued during FY 2014 – 2015 were less than \$100. There are advantages in utilizing a purchase card rather than using a low value purchase order for small purchases. The processing costs are lower and the bank handling the payment card program pays UC Merced an incentive based upon the amount of spend on the purchasing cards.

To determine why some departments have been hesitant to move away from low value orders, we discussed utilizing purchase cards with department business officers. The business officers mentioned various difficulties in using purchasing cards that create additional work for administrative employees.

- The use of a purchase card causes additional work to identify the details related to a transaction. When a purchase card is used to purchase, the only description for the transactions in the financial system is “USBank” (the bank that manages the card program). Low value orders make it easier to trace particular purchases in the financial system as the vendor’s name is included in the transaction.
- Individual items on one purchase card transaction cannot be separated and recorded under separate object codes in the financial system.
- With a low value order, the items are formally received from the shipping company on campus by Shipping and Receiving. With a purchase card transaction, someone else in the department has to follow up with the purchaser to verify that the items were received by the campus.

Overall, it appears that there is the potential to increase efficiencies and reduce costs through utilizing a purchase card rather than low value orders. We recommend that Procurement Services work with department purchasers to determine how difficulties might be removed so the use of purchase cards will continue to increase.

During the audit, we also noted that purchase card transactions appear to be over controlled. There are multiple reviews of these low value transactions. Department purchasers and their supervisors complete and approve the card transactions. The system has been set up to also include the Purchase Card Administrator in Procurement Services as a non-mandatory Post Authorization Notification (PAN) reviewer on all transactions. With the increasing number of purchase card transactions, Procurement's review of all PAN's won't be sustainable. The effective controls over the transactions are with the department employees. Procurement Services should set up processes to periodically monitor for unusual card transactions. In summary, we recommend Procurement Services simplify processes and eliminate difficulties in utilizing purchase cards. We noted that Procurement Services has already taken steps to reduce restrictions related to merchant category codes.

2. Update campus procedures

Campus procedures are written to clarify how UC policy is applied on a daily basis at UC Merced. Procedures related to low value purchasing provide guidance to the department buyers.

Low value purchasing was last audited during 2012. During the 2012 audit, we identified that campus procedures needed updating to be in line with UC policy. For various reasons, the campus procedures were not updated. During the current audit, we noted instances where the written campus procedures for purchasing were not in line with Procurement's current guidance and expectations.

BFB-BUS-43 *Materiel Management* was recently updated on October 1, 2015. We recommend that the written campus procurement procedures be reviewed to verify that they are in line with the updated UC policy. If the local campus procedures are not useful in providing more guidance than is already in the UC policy, we recommend updating or removing the out of date campus procurement procedures. The Procurement Director confirmed that the department is currently reviewing and editing the campus procurement procedures.