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February 3, 2021

Rosemarie Rae  
Vice Chancellor and Chief Financial Officer

Vice Chancellor Rae:

We have completed our audit of the procurement card program as per our annual service plan in accordance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and the University of California Internal Audit Charter.

Our observations with management action plans are found in the accompanying report. Please destroy all copies of draft reports and related documents. Thank you to the staff of the procurement card program for their cooperative efforts throughout the audit process. Please do not hesitate to call on Audit and Advisory Services if we can be of further assistance in this or other matters.

Respectfully reported,

Jaime Jue  
Director

cc: Controller Michael Riley  
Director Dan Parnas  
Chief of Staff Rosemary Kim  
Vice Chancellor Marc Fisher  
Assistant Vice Chancellor and Chief of Staff Ann Jeffrey  
Director Russell Chung  
Associate Chancellor and Chief of Staff Khira Griscavage  
Senior Vice President and Chief Compliance and Audit Officer Alexander Bustamante



# AUDIT AND ADVISORY SERVICES

Procurement Card Program

Audit

Project No. 20-741

February 3, 2021

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**University of California, Berkeley  
Audit and Advisory Services  
Procurement Card Program**

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# OVERVIEW

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## Executive Summary

The purpose of our audit was to evaluate the design of selected internal controls related to the campus procurement card program. Ownership of the program was transitioned to the campus Controller's Office from UCSF Supply Chain Management in November 2017 and Controller's Office management has taken a number of steps to rebuild and expand the function since that time.

Our audit scope entailed an assessment of central campus procedures and controls in place at the time of our audit and procedures included interviews with card program staff, process walkthroughs, and review of related documentation.

Based upon the results of the audit work performed, we note that management has implemented a number of key controls related to program management, including the development of policies, procedures, training materials, and tools for the broader campus cardholder community. As part of management's ongoing work to optimize program effectiveness, we identified two areas of opportunity to further support compliance with program goals and requirements.

- *Program Oversight and Monitoring:* Given the size of the procurement card program, responsibility for the daily processing and approval of individual card transactions is delegated to departmental staff rather than managed centrally. We observe an opportunity to further promote and leverage division and department level accountability in managing risks by developing and formalizing minimum requirements for division-level programs, periodically reviewing higher risk programs to ensure requirements are being met, and enhancing training and monitoring activities to build awareness and facilitate the identification of potentially fraudulent or unallowable transactions.
- *Program Card Approver Assignment:* University procurement card program requirements established in Business and Finance Bulletin (BFB) BUS-43 *Purchases of Goods and Supplies; Supply Change Management*, specify that transactions should be reviewed and/or approved by someone at the supervisory level who is not subordinate to the cardholder. Although communicated to the cardholder community, these requirements are not routinely enforced by the campus. Accordingly, we recommend that the campus procurement card manager recommunicate the BUS-43 criteria as an essential requirement to participate in the procurement card program and monitor compliance on a periodic basis.

## **Source and Purpose of the Audit**

The purpose of our audit was to evaluate the design of selected internal controls related to the campus procurement card program. Ownership of the program was transitioned to the campus Controller's Office from UCSF Supply Chain Management in November 2017 and Controller's Office management has taken a number of steps to rebuild and expand the function since that time.

## **Scope of the Audit**

Our audit scope entailed an assessment of central campus procedures and controls in place at the time of our audit and areas of focus included

- documentation and communication of policies and procedures;
- card program controls related to issuance, purchasing limits and restrictions, and cancellation and closure;
- monitoring of usage and activity by cardholders including for fraud risks and policy non-compliance; and
- clarity and reasonableness of roles and responsibilities, including segregation of duties considerations.

Audit procedures included interviews with card program staff, process walkthroughs, and review of related documentation. Fieldwork was conducted during March to June 2020.

## **Background Information**

The campus procurement card program consists of three separate types of cards (bluCard purchasing, event planner, and travel study) provided to the campus community to facilitate the direct purchasing of certain business-related goods and services by approved campus cardholders. Since reassuming campus ownership of the program in 2017, the Controller's Office has worked to rebuild and strengthen program administration and expand the use of procurement cards across the campus as an efficient and lower cost method of purchasing and payment where appropriate.

At the time of our audit, there were approximately 1,100 cards in use across the three programs, with procurement card expenditures of more than \$37 million in fiscal year 2019.

Purchases made using procurement cards are subject to the same university policies as purchases transacted through other purchase/payment mechanisms. These policies include BFB-BUS-43 *Purchases of Goods and Services; Supply Chain Management*, BFB-G-28 *Travel Regulations*, and BFB-BUS-79 *Expenditures for Business Meetings, Entertainment, and Other Occasions*.

## Summary Conclusion

Based upon the results of the audit work performed, we note that management has implemented a number of key controls related to program management, including the development of policies, procedures, training materials and tools for the broader campus cardholder community. As part of management's ongoing work to optimize program effectiveness, we identified two areas of opportunity to further support compliance with program goals and requirements for management's consideration:

- *Program Oversight and Monitoring:* Given the size of the procurement card program, responsibility for the daily processing and approval of individual card transactions is necessarily delegated to departmental staff rather than managed centrally. We observe an opportunity to further promote and leverage division and department level accountability in managing risks by developing and formalizing minimum requirements for division-level programs, periodically reviewing higher risk programs to ensure requirements are being met and enhancing training and monitoring activities to build awareness and facilitate the identification of potentially fraudulent or unallowable transactions.
- *Program Card Approver Assignment:* University procurement card program requirements established in BUS-43 specify that transactions should be reviewed and/or approved by someone at the supervisory level who is not subordinate to the cardholder. Although communicated to the cardholder community, these requirements are not routinely enforced by the campus. Accordingly, we recommend that the campus procurement card manager recommunicate the BUS-43 criteria as an essential requirement to participate in the procurement card program and monitor compliance on a periodic basis.

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# SUMMARY OF OBSERVATIONS & MANAGEMENT RESPONSE AND ACTION PLAN

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## Program Oversight and Monitoring

### Observation

Since transitioning ownership of the procurement card program back to the Berkeley campus in November 2017 from UCSF, Controller's Office management has taken a number of steps to rebuild the function, including the hiring of a dedicated program manager and the development of policies, procedures, training materials and tools for the broader campus cardholder community. Given the size of the procurement card program (approximately 1,100 cards across the bluCard, event planner card and travel study card programs), responsibility for the daily processing and approval of individual card transactions is delegated to departmental staff rather than managed centrally. Controller's Office procurement card program management and each designated division financial leader share responsibility for managing overall program administration at the campus and division-level respectively to ensure an appropriate level of monitoring and control.

At the time of our audit, Controller's Office procurement card program management was in the process of evaluating opportunities to refine its approach to central monitoring and oversight, and had initiated a number of program enhancements. In connection with this effort, we observe an opportunity to further promote and leverage division and department level accountability and recommend adopting or continuing the following enhancements to procedures.

- Build upon and formalize existing minimum requirements for division-level programs to include (i) routine (quarterly or semi-annual) confirmation of ongoing appropriateness of cardholders, card limits, approvers, and chartstrings potentially as part of existing campus SAS 115 procedures; (ii) establish protocols for approvers to report/escalate concerns regarding potentially inappropriate procurement card use to division management, and (iii) special handling requirements for cards linked to restricted funding sources.
- Formalize and implement plans to periodically assess division-level procedures and controls on a rotating basis through inquiry and documentation review, with emphasis on units with larger cardholder and transaction volumes, higher risk purchases, or a higher incidence of reported anomalies.
- Expand training programs to include card program authorized signers and require formal certification of completion of card program participant training prior to issuing cards and granting procurement card transaction roles in BFS.
- Enhance existing fraud risk management program related to procurement card activities, including updating training materials to include an expanded focus on cardholder and third party fraud risks and leveraging issuing bank transaction reporting tools to identify and flag higher risk or potentially fraudulent or unallowable transactions based on vendor type, MCC, or account code. We recommend that Supply Chain Management be consulted and engaged in the development of these tools and materials to detect unusual patterns of card activity.

## **Management Response and Action Plan**

- The Card Program currently communicates information regarding cardholders, limits, chartstrings, MCC exceptions, etc to Division Finance Leaders (DFLs) on an annual basis; the Card Program will consider requiring formal recertification. The Card Program is interested in learning more about the quarterly key controls process and how recertification could be a part of that.
- The Card Program will also research development of a specific online training module for our authorized signers as well as a ‘toolkit’ of documentation that will assist them in understanding and properly managing their local card program.
- The Card Program will expand existing trainings to include: greater emphasis on fraud reduction strategies, specific instructions on signing up for automated alerts when card activity occurs, and instructions on how to properly report unusual or specific activity to authorized signers and the Card Program.

The estimated completion date for management’s actions is July 1, 2021.

## **Procurement Card Approver Assignment**

### **Observation**

University procurement card program requirements established in BUS-43 specify that “A Reviewer (who should be at a supervisory level) other than the person placing an order shall certify that the items ordered were received.” Further, policy specifies that “An individual other than the person who places an order shall periodically perform an administrative review of selected purchase documents to verify that the expenditures listed on the daily procurement card transaction report are supported by the required internal documentation” and that “this person should not be the subordinate of any procurement cardholder”.

We understand that currently these requirements are not routinely enforced and that individuals who are in a subordinate role to cardholders may be designated as approvers. While we acknowledge the potential operational challenges associated with consistently adhering to the role assignment requirements outlined in BUS-43, ensuring the independence of the verification and approval activity from purchasing is a critical internal control. Accordingly, we recommend that the campus procurement card manager recommunicate the BUS-43 criteria to divisions as an essential requirement to participate in the procurement card program and monitor compliance on a periodic basis and that any exceptions to policy be formally requested by the unit and approved by Controller’s Office management according to policy.

### **Management Response and Action Plan**

The Card Program agrees that maintaining the independence of verification and approval is a key internal control, and per recommendations will consider how we can better emphasize this:

- As part of the above proposed annual recertification process, the Card Program will consider specifically requiring authorized signers to certify that approvers are being properly set up and managed according to policy and will also consider providing specific



information on what immediate steps to take when roles or job duties change within a unit outside of our normal recertification process.

The estimated completion date for management's actions is July 1, 2021.