

**UNIVERSITY OF CALIFORNIA, SAN FRANCISCO
AUDIT SERVICES**

**PROCUREMENT CARD
Project #11-042**

June 2011

Fieldwork Performed by:

Paul Lapachet, Senior Auditor

Reviewed by:

Tom Poon, Associate Director

Approved by:

Rick Catalano, Director

**PROCUREMENT CARD
Audit Project #11-042**

MANAGEMENT SUMMARY

UCSF implemented the Procurement Card (P-Card) program, through U.S. Bank, beginning in 2009 to reduce administrative costs, simplify business processes and improve efficiency by issuing visa cards to faculty and employees. The P-Card program is designed to meet departmental business needs to simplify payment of most business related, non-travel, low-dollar purchases (under \$5,000 per transaction) of goods and services. The P-Card program allows for speedy payment remittance to vendors and allows purchases from vendors who do not accept purchase orders. Cardholders and Reviewers/Approvers use U.S. Bank Access Online to review and approve transactions. Common risks involved with P-Card programs include: fraud and misuse, lack of proper oversight and monitoring of expenditures resulting in non-compliance with University policy and higher level of scrutiny by the general media

Prior to the launch of the P-Card program, the campus had a limited program for Event Planner Cards (E-Card). This program, implemented in 2005, is similar to the P-Card program except that it allows the purchase of goods and services for events (e.g. hotel banquet services).

The purpose of this review was to evaluate the adequacy of existing controls surrounding the P-Card and E-Card program to determine if the University's procedures to issue P-Card and E-Card accounts and monitor their activity are sufficient to help ensure compliance with University policy and effective management of the programs. An additional objective of the review was to solicit input from the department cardholders for improvements to the P-Card program.

Based on the procedures performed, we found that the existing controls surrounding these card programs appear to be generally effective for the P-Card Program. However, we noted that the University has not established procedures to periodically review E-Card transactions for compliance to program requirements. Such procedures have been implemented to review P-Card transactions. Additionally, department users provided suggestions to improve the usefulness of these programs including expanded goods and services available for purchase via P-Card and improvements for the U.S. Bank on-line experience as well as Controller's Office Card Program Administration Office response time.

More detailed information can be found in the body of this report.

TABLE OF CONTENTS

MANAGEMENT SUMMARY..... i

TABLE OF CONTENTS.....ii

I. BACKGROUND 1

II. AUDIT PURPOSE AND SCOPE..... 1

III. CONCLUSION..... 3

IV. OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS 4

 A. Event Planner Card Transaction Review..... 4

I. BACKGROUND

UCSF implemented the Procurement Card (P-Card) program, through U.S. Bank, beginning in 2009 to reduce administrative costs, simplify business processes and improve efficiency by issuing visa cards to faculty and employees. The P-Card program is designed to meet departmental business needs to simplify payment of most business related, non-travel, low-dollar purchases (under \$5,000 per transaction) of goods and services. The P-Card program allows for speedy payment remittance to vendors and allows purchases from vendors who do not accept purchase orders. Cardholders and Reviewers/Approvers use U.S. Bank Access Online to review and approve transactions. Common risks involved with P-Card programs include: fraud and misuse, lack of proper oversight and monitoring of expenditures resulting in non-compliance with University policy and higher level of scrutiny by the general media.

As of February 2011, there were 85 authorized P-Cards. For the calendar year 2010, there were approximately 1,100 transactions for a total spend of \$331,720. The P-Card program has seen an increase in transaction volume and total spend in recent months. Using transaction data from the first three months of calendar year 2011, the average monthly card transaction volume has increased 121% to approximately \$116,000 as compared to the last three months of calendar year 2010. The significant increase resulted primarily from the Controller's Office remitting payroll garnishments for child support to the state via P-Card beginning in January 2011. The Controller's Office is in the process of further expanding the program after validation of the controls and feasibility after the pilot and initial roll out.

Prior to the implementation of the P-Card program, the Event Planner Card program (E-Card) was implemented in 2005 to provide University employees a means to easily procure and pay for business-related catering needs. As of February 2011, there were six cards issued under this program. For calendar year 2010 there were 1,256 transactions processed for a total of \$815,350. At the start of our audit, the E-Card program was administered under the Travel and Customer Service Manager. Subsequently, responsibility for this program has been assigned to the Director of Accounts Payable. Accounts Payable (AP) is not looking to grow the program at this time. For the most part, all new cards will be issued under the P-Card program.

The P-Card program is governed by University Policy BUS 43 - Materiel Management, Part 8, and Procurement Card Program. This Bulletin sets forth the basic policies and requirements for the University's P-Card program. The P-Card program for the campus is managed by the UCSF Controller's Office, under the Assistant Controller – Disbursement and Director of Accounts Payable. UCSF has designated a Procurement Card

Administrator who is responsible for the day-to-day management and operation of the P-Card program.

II. PURPOSE AND SCOPE

The purpose of this review was twofold:

- To evaluate the adequacy of existing controls surrounding the P-Card program since its launch in 2009 to determine if the University's procedures to issue P-Card accounts and monitor their activity are sufficient to help ensure compliance with University policy and effective management of the program.
- To solicit input from the department cardholders for feedback and improvements to the P-Card program.

Our review included both the P-Card and E-Card programs.

To complete the review, we interviewed personnel and documentation from the Controller's Office and selected departments. Specifically, the following procedures were performed:

- University policies and procedures were reviewed to gain an understanding of the requirements governing procurement cards.
- All current procurement cardholders were compared to the payroll system to verify that they are University employees.
- AP records were reviewed to verify that all current procurement cardholders had completed required training.
- A judgmental sample of 18 accounts (representing 15% of the combined P-Card and E-Card population) was selected to verify that: an application was completed, there was appropriate separation of duties between the cardholder and the reviewer, and that the account limits and restrictions were consistent with University policy.
- AP personnel were interviewed and department records were reviewed to gain an understanding and assess the on-going management of the P-Card program.
- A judgmental sample of 15 administrative reviews performed by the Controller's Office was selected to determine if these reviews were sufficient to evaluate compliance with program policies and procedures.
- An analysis of transaction data was performed to verify that purchases were not split to circumvent transaction limits.
- Expense reimbursements made to procurement cardholders were reviewed to determine that purchases were not made with a P-Card and submitted for reimbursement.
- We judgmentally selected six departments for review (2 departments with high P-Card usage, 2 with moderate usage and 2 with low usage) and had department managers complete a questionnaire on their

experience with the program. The questionnaire covered the following areas: Purchase Limits, Restrictions on Goods and Services, Review Process and Internal and External Contacts. Additionally, we asked for their suggestions to improve the usefulness of the program.

- A judgmental sample of P-Card transactions from the selected departments was reviewed for compliance to University policies.

The scope of the review was limited to the specific procedures described above and related to transactions and activities occurring between January 2010 and March 2011. As such, work completed is not intended, nor can it be relied upon to identify all instances of potential irregularities, errors and control weaknesses that may occur in the card programs not specifically covered in this review. Fieldwork was conducted between April 2011 and June 2011.

III. CONCLUSION

Based on the procedures performed, we found that the existing controls surrounding the P-Card program appear to be adequate and effective. AP's procedures to issue P-Card accounts and monitor their activities are sufficient to ensure compliance with University policy and effective management of the program. P-Card expenditures reviewed appeared to be consistent with University policy. Additionally, departments reviewed have implemented effective procedures to help ensure compliance with the procurement card program requirements. Noteworthy controls implemented within the P-Card program include:

- P-Cards are issued only after the required documentation (P-Card Application, P-Card Department Agreement Form, and evidence of required training) is received, reviewed and approved in the Controller's Office.
- Per transaction, daily and credit limits exists for each card.
- Merchant Category Codes (MCCs) that P-Cards are authorized to use are restricted. Blocked merchants include: airlines, car rentals and travel agencies. Exceptions to blocked MCCs are made on a case by case basis for individual cardholders and require justification.
- AP performs periodic reviews of P-Card transactions for policy violations.

While no significant control deficiencies were identified for the P-Card Program, we noted that procedures to provide oversight and monitoring for E-Card purchase activities have not been implemented in the Controller's Office. A review of E-Card transactions identified purchases of non-event related goods and services that would have been discovered if a monitoring program was established.

From our interview of departmental cardholders and related questionnaires, suggestions to improve the usefulness of the P-Card program were noted. Overall P-Card users were satisfied with the newly increased Purchase Limits and the Review Process. Additionally, contact with the Bank and the P-Card Administrator was generally satisfactory. P-Card users provided the following suggestions:

- Expanding the Goods and Services to include: Travel, Parking, Hotel Banquet Services and "State Inspection Services" (for elevator inspections).
- Cardholders noted that the U.S. Bank website is not user friendly and that U.S. Bank on-line training was too long and not practical.
- Users commented that service from the P-Card Administrator could be improved in the following area: delays in receiving cards, the process to request unblock MCCs, and support for urgent concerns.

Detailed information on our observation and management corrective action can be found below.

IV. **OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS**

A. **Event Planner Card Transaction Review**

Procedures have not been established to periodically review Event Planner Card (E-Card) transactions for compliance to program requirements.

A periodic review would allow the Controller's Office to assess compliance and when needed effectively communicate and educate offending cardholders to prevent future reoccurrence.

From the data analysis, we noted that E-Cards accounts were used to make frequent recurring purchases for non-event related goods and services (e.g. telecommunications, courier services and office supplies). While the purchases themselves were not inappropriate, using an E-Card to transact these purchases was outside the guidelines of the program. These types of purchases had continued due to a lack of independent monitoring and communication with departments about appropriate E-Card requirements.

Additionally, during our review we also noted one E-Card purchase in the amount of \$1,612 was split into two transactions for \$900 and \$712 in contravention of program guidelines. The single transaction limit set for this account was \$1,250. As there were no monitoring procedures to review transactions, this was not discovered by the Controller's Office.

Management Corrective Actions

By September 30, 2011, the Controller's Office will eliminate the Event Planner Cards and migrate the users to the Procurement Card Program to reduce duplication and to increase efficiency of the Purchase Card Program.

* * *