SAN DIEGO: AUDIT & MANAGEMENT ADVISORY SERVICES
0919

September 6, 2011

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Director Disbursements/Travel
Mail Code 0955

Subject: *Express Card Program*
                   Audit & Management Advisory Services Project 2011-06

The final audit report for the Express Card Program, Audit & Management Advisory Services Project 2011-06, is attached. We would like to thank the members of Disbursements Division for their cooperation and assistance throughout the audit.

We were able to reach agreement regarding management corrective actions to address the issues identified during the audit, and these management corrective actions are included in the report. Consequently, a formal response to this audit report is not required. The management corrective actions will be added to our follow-up system, and we will contact you at the appropriate time to schedule and conduct follow-up procedures.

UC policy requires that all draft audit reports, both printed and electronic, be destroyed after the final report is issued. Please either return these documents to AMAS or destroy them at this time.

Please call me if you have any questions regarding this audit report.

Stephanie Burke
Assistant Vice Chancellor
Audit & Management Advisory Services

Attachment

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AUDIT & MANAGEMENT ADVISORY SERVICES

University of California
San Diego

Express Card Program
June 2011

<u>**Performed By:**</u>

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<u>**Approved By:**</u>

Stephanie Burke, Assistant Vice Chancellor

Project Number: 2011-06

Express Card Program
Audit & Management Advisory Services Project 2011-06

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I.   Background

Audit & Management Advisory Services (AMAS) has completed a review of the Express Card Program as part of the approved audit plan for Fiscal Year 2010-11. This report summarizes the results of our review. The Express Card is a Visa card issued by US Bank in the name of UCSD employees, but with corporate liability, which provides an efficient and cost effective method of payment of eligible goods and services. Purchases are subject to UCSD Express Card policies including:

- A limit of $4,999 is established for a single transaction; and a limit of $10,000 is established for each monthly billing cycle.
- Purchases must be used for official UCSD business purposes; and personal charges are strictly forbidden.
- A limit is placed on the types of goods and services purchased. Merchant Category Classification (MCC) Codes are used to block categories of vendors as well as specific vendors.
- The Express Card may not be used for items vulnerable to misuse such as travel, food, and cash advances via ATM machines.
- Exceptions to policies regarding dollar limits and MCC Code restrictions must be appropriately approved.
- Receipts must be obtained and provided to Department Administrators for review, approval and filing, along with a statement of the business purpose of the expense.

UCSD has had the Express Card Program in place since 1997.   A total of 2,272 Cardholders have been assigned Express Cards, nearly double the number of Cardholders in 2003. The matrix below offers a comparison of overall activity between 2003 and 2011.

Description	2003	2011
Number of Cardholders	1,150	2,272
Annual number of transactions	44,716	112,905
Annual dollar value	$9,687,642	$40,185,188
Average value per transaction	$217	$356

Detailed Express Card Program guidelines and policies are published both on websites and in printed publications. Department roles for Express Card activity include the Cardholder, who makes purchases; and the Department Administrator, who reviews and approves transactions. A Transaction Reviewer, who performs a general review with a focus on account distribution, is generally an optional position established at the discretion of the Department Administrator. In practice, this position is considered mandatory when a Cardholder is also the Department Administrator. Mandatory training is required for all Cardholders and Department Administrators. All Cardholders are

required to sign an agreement holding them responsible for compliance with all policies and procedures for use of the card, including program restrictions and limitations. The Express Card Program Team (ECPT) administers and oversees all aspects of the Express Card Program. In addition, AMAS conducts periodic department audits to evaluate Express Card activity and controls, including sample testing of transactions.

The Express Card Program has been enhanced over the years to provide greater functionality, and more efficient processing and monitoring, including upgrades to the Express Card management system (EC Manager), distribution of charges to multiple accounts using a single card, greater use of the web and email for processing activity, implementation of the P-card use tax application, and most notably, the use of ACL automated sampling from types of transactions deemed inherently vulnerable.

II. Audit Objective, Scope, and Procedures

The objective of our review was to examine campus practices for the administration of the Express Card Program, and to evaluate whether the program as implemented provides reasonable assurance that Express Card activity is restricted to University business utilizing the appropriate procurement method.

The scope of our review included central oversight of the Express Card Program (the Program), use of the Program by campus departments, and reconciliation processes. The scope of review also included responsibilities assigned to the ECPT, Cardholders, and Departmental Administrators, and the use of ACL as an audit and monitoring tool.

In order to achieve our objectives we completed the following:

- Reviewed prior audits relative to the use of the Express Card;
- Evaluated Express Card policies and procedures;
- Interviewed members of the ECPT;
- Evaluated the appropriateness of department assignments on the master list of Express Cardholders, Department Administrators, and Transaction Reviewers;
- Reviewed recent audits completed by members of the ECPT;
- Selected a sample of transactions for detailed testing, and examined the supporting documentation, including receipts and business purpose; and
- Reviewed the daily reconciliation performed to assure ACH payments via Mellon Bank agreed with the transactions billed to UCSD by US Bank.

III. Conclusion

We concluded that overall campus practices in the administration of the Express Card Program provide reasonable assurance that Express Card activity is restricted to University business utilizing the appropriate procurement method. However, we noted

some exceptions pertaining to approval processes and Cardholder assignments, and opportunities for improving procedures and monitoring processes. These are discussed in the following sections of the report.

IV.   Observations and Management Corrective Actions

A.   Approval and Documentation Processes

Express Card approval and documentation processes were not conducted in strict conformance with University policy.

The retention of transaction receipts, the documentation of the business purpose, and the review and approval by the Department Administrator are important internal controls associated with the usage of Express Cards. University Policy (BUS-43, Part 8; V.A.3.e) requires that documentation supporting Express Card purchases must be signed and dated electronically or on paper. Campus guidelines do not include this requirement.

Current practices require that adequate documentation of the business purpose and formal approval by the Department Administrator be provided when the original receipt has been lost or is otherwise unavailable. In these instances, an Express Card Missing Receipt Declaration is required. This form specifically requires written documentation of the business purpose and approval. The business purpose is also requested when a transaction is selected for review by the ECPT.

Though it is not spelled out that documentation should be signed and dated, the need for retaining supporting documentation and reviewing transactions is stated in several places: on the Express Card Department Administrator Authorization Form, the Express Card Program Roles Blink page, How to Review Transactions Blink page, and the Cardholder Agreement. Further, the Cardholder Agreement states that individual transaction receipts are to be attached to periodic statements and submitted to the responsible authorizing supervisor for review and approval. Further, whenever the Express Card is used, an email notification is automatically sent to the Department Administrator.

In the case of sponsored research awards, a contemporaneous documentation of the business purpose (benefit to the award), approval, and retention of receipts is especially important to mitigate external audit risk.

Management Corrective Actions:

The ECPT will request UCOP to consider revising its policy to permit equivalent electronic controls for the signing and dating by the Reviewer

on one of the allowable documents to indicate that an administrative
review was performed.

The ECPT will modify the role and training for Express Card
Administrators and Transaction Reviewers to ensure that campus
procedures satisfy the policy requirement for written approval (or
equivalent control) of Express Card transactions.

B.   Span of Review

**In some instances, the number of Cardholders reporting to a single
Department Administrator was excessive and presented a control weakness.**

In some instances, an unusually high number of Cardholders reported to a single
Department Administrator. Several Department Administrators oversaw
transactions by as many as sixty cardholders or more. Ninety-one Cardholders
reported to one Department Administrator. This presented a control weakness
and was contrary to the provisions of BUS-43 (Part 8; III) which states that a
Reviewer shall not be assigned transaction verification for more than ten Express
Cardholders, although the policy also allows the ECPT to approve more than ten
Cardholders per reviewer.

The ECPT indicated that this policy does not take into account tools available to
facilitate transaction review such as EC Manager, and does not take into account
the percentage of time that a specific Department Administrator's time is
dedicated to reviewing Express Card transactions.

Management Corrective Actions:

The instances cited above will be reviewed and corrected by the ECPT as
needed. The ECPT will also encourage departments to establish a span of
review that ensures effective transaction review. In cases where a
department requests that an individual serve as Department Administrator
for more than ten Cardholders, the ECPT will require the department to
justify in writing how they will ensure effective transaction review with
such a broad span of control.

C.   Cardholder Also Functions As Department Administrator

**Twenty one cardholders also functioned as Department Administrators,
which was a policy violation and weakened internal controls.**

Cardholders who also function as Department Administrators are a violation of University policy (Part 8; V.A) and present a significant control weakness. Express Card practices permit that, when this situation occurs, a Transaction Reviewer effectively mitigates the control weakness. There are several issues with this procedure:

- Transaction Reviewers, unlike Cardholders and Department Administrators, are not required to complete a training program.

- Transaction Reviewers are appointed by Department Administrators. An effective process is not in place to verify that a Transaction Reviewer is at a hierarchy that would allow them to perform an independent review of transactions. In at least one instance, a Transaction Reviewer was subordinate to the Cardholder/Department Administrator.

- The function of a Transaction Reviewer is primarily to review the accuracy of account distribution. The Department Administrator should retain responsibility for approval of transactions.

    Management Corrective Actions:

    A review of Cardholders who also function as Administrators will be undertaken to assess internal controls and the need for dual roles. The ECPT will revise its training program to emphasize the need for an independent and effective review process, especially in those instances where the dual role is present.

D.   **Affiliates**

Approval for the issuance of cards to Affiliates and documentation of active and inactive Affiliates appeared inadequate.

In some cases, Express Cards were issued to non-employees (Affiliates) to be used for the purchase of goods and services for the University. Twenty three Affiliate Express Cards were active as of the completion of the audit field work. The following exceptions were noted:

- University policy (BUS 43, Part 8; VI.G) requires the approval of the Campus Controller for issuance of cards to other than faculty or staff. The Controller does not approve these prior to issuance, although the Controller is notified of Affiliate Cardholders via the Annual Report of Express Card Activity. The listing of Affiliates is updated annually by the ECPT for this report.

- The form used to document the issuance of an Affiliate Card could not be located for two Affiliates. ECPT has requested the missing documentation.

- The document used to reconcile active and inactive Affiliates was out of date. This document was updated by the ECPT during the audit.

Management Corrective Actions:

The Campus Controller will delegate the authority for approving Express Cards for Affiliates to the Disbursements Division Director.

The Disbursements Division Director will review and approve department requests for Affiliate Express Cards on a case-by-case basis.

Missing documentation for Affiliates will be updated and scanned into Disbursements imaging system.

E.   **Policy Exceptions**

The file of policy exceptions required by BUS-43 was not current or complete.

University policy (BUS-43, Part 8; VI.P) requires maintenance of a file of policy exceptions, including a brief description of why the exception was necessary. A review of the file indicated a number of instances in which the date and/or description of why the exception was necessary was not completed. In some instances where a description was on file, it did not address the necessity of the exception.

Management Corrective Actions:

The ECPT will review the exceptions issued to date, update the file accordingly, and will work with Procurement to regularly update the file of policy exceptions on a timely basis.

F.   **ECPT Criteria for Selection of Transactions for Review**

The ECPT has done an exceptional job of classifying transactions into vulnerable categories for their audits. However, there is room for improvement with the process for selecting transactions for testing within these categories.

The ECPT has classified transactions into vulnerable categories for their audit purposes, but the selection of individual transactions for audit within these vulnerable categories is entirely judgmental. For the month of March 2011, the EC program generated approximately 10,400 transactions in total; 5,300 were identified by ACL and reviewed by the ECPT, and 329 were selected for detailed testing. The selection process could be improved by incorporating random selection and selection based on dollar value into the selection process.   For example, the March 2011 Audit of Specific Merchants (ACL #09A) encompassed only 10 transactions with a total value of $2,547. This represented less than one-half percent (0.5%) of all transactions on a dollar value and transaction volume basis. Seventy percent of the transactions audited were less than $100 and fifty percent of the transactions were less than $57.

Management Corrective Actions:

Guidelines will be adopted for the selection of transactions to be audited by the ECPT. The ECPT will re-evaluate the ACL criteria for sample section, and consider modifying the criteria to include random selection and selection based on dollar value. Judgment will remain a key component of the selection process.