

**UNIVERSITY OF CALIFORNIA, DAVIS
AUDIT AND MANAGEMENT ADVISORY SERVICES**

**Accounting & Financial Services
Procurement and Contracting Services
Procurement Cards
Audit and Management Advisory Services Project #16-64**

September 2016

Fieldwork Performed by:

Lisa M. Montesanto, Senior Auditor

Reviewed by:

Tony Firpo, Audit Manager

Approved by:

Jeremiah J. Maher, Director

Procurement Cards

MANAGEMENT SUMMARY

As part of the planned reviews for fiscal year 2016-17, Audit and Management Advisory Services (AMAS) conducted a review of the procurement card (P-Card) program at UC Davis.

BACKGROUND

A procurement card is a credit card authorized by the University of California and issued by U.S Bank to designated employees to enable the timely purchase of goods or services under \$5,000. Procurement card programs operate throughout the UC system within the structure allowed by UC policy Business and Finance Bulletin (BFB) BUS-43 Material Management.

It has been generally recognized that low value transactions can be processed at a lower cost using procurement cards than using purchase orders.

The UC Davis Procurement and Contracting Services department (Procurement) is actively working with campus departments to analyze and optimize the cost of their units' procurement methods. Procurement anticipates that with the launch of the AggieBuy system, purchases that would have been made with P-Cards will instead be made using AggieBuy, further reducing cost per transaction. At the same time, Procurement expects that transactions that might have been made via automatic purchase order (APO) will shift to P-Cards.

In the fiscal year ending June 30, 2016, \$55 million in UC Davis purchasing was completed using P-Cards. This included \$32 million in transactions via the departmental processes that were the focus of this review, and \$23 million via the UCDBuy program administered by Procurement.

The responsibility for certain key elements of the UC Davis P-Card program lies within the departments that participate in the program, due to the decentralized nature of the program structure on this campus. Therefore, the successful administration of the P-Card program depends on the collaboration of Procurement and the participating departments.

PURPOSE AND SCOPE

The purpose of the review was to assess controls over issuance and use of purchase cards as well as their actual or potential impact on the procurement cycle.

We performed a high level assessment of the UC Davis P-Card program design as compared to UC policy and industry best practices.

We evaluated whether key program elements functioned adequately in the fiscal years 2014-15 and 2015-16.

We tested certain monitoring controls that Procurement performs as this monitoring is critical to ensure that the program is operating properly and that misuse of P-Cards is detected and remedied timely.

We also conducted a survey of program participants to test and obtain information regarding the operation of elements such as the review of transaction support documentation, completion of monthly bank reconciliations, and the maintenance of separation of duties that are the responsibility of participating departments, rather than central campus administration. These duties are as, if not more, important to the successful management of risk within the program as the centrally performed control activities.

CONCLUSION

We found that the UC Davis program contains all required program elements as well as the best practices components that are practical for our campus. This indicates that the program design contains adequate risk protection.

We verified via review of high level evidence and selected testing that most key program elements are operating as designed. Certain exceptions are detailed in Appendix A and discussed in the body of the report.

Our survey of over one thousand program participants (71% of those invited to participate) indicated that the majority of respondents understand program requirements and regularly comply with policy.

Our interviews with Procurement staff and our survey results indicate that there are frequent external attempts to misuse our P-Cards.¹ This underscores the need to continue to perform reconciliation, review, and dispute resolution procedures.

We have described opportunities to strengthen the program and bring it into full compliance with UC policy in the sections that follow.

OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT CORRECTIVE ACTIONS

A. UC Davis needs formal procedures for P-Card program self-assessment. Procurement can improve the function of certain key program elements.

BFB-BUS-43 requires that each campus establish procedures for self-assessment to review the effectiveness of campus procurement policies and procedures. The Procurement department has conducted monitoring activities of the P-Card program, but has not established formal procedures.

We observed exceptions when we tested key program elements. Our survey results indicated other instances of noncompliance. Key program elements and the exceptions observed are described in Appendix A.

¹ Twenty-eight percent of the cardholder respondents to our survey indicated that they had observed a confirmed fraudulent transaction on their P-Card at some time. This is consistent with the data for the past two years that Procurement obtained from U.S. Bank: 407 fraud cases opened for 1,436 cardholders (28%).

Recommendations

Procurement's P-Card unit must develop, document, and maintain a monitoring program that routinely confirms the proper operation of the key program elements required by UC policy.

Procurement should communicate policy, provide reference resources, and tailor training so that P-Card program participants regularly receive accurate information on the proper operation of these key elements.

Procurement must remedy the specific exceptions noted in Appendix A.

Management Corrective Actions

1. By March 15, 2017, Procurement will develop, document, and maintain a monitoring program that routinely confirms the proper operation of the key program elements required by UC policy.
2. By February 15, 2017, Procurement will communicate with P-Card participants regarding:
 - their department's obligation to maintain proper separation of duties
 - the limit on the number of cards a single reviewer may be assigned
 - the requirement that supporting documents be attached to the KFS P-Card document (PCDO) during the review process.
 - the fact that attachment of supporting documents within KFS meets the requirement that support be retained for five years after the close of the fiscal year in which a P-Card purchase was made, and the fact that any other documentation, such as bank statements, need not be retained for longer than that period.
 - the need to communicate any employee separation to P-Card staff immediately or in advance
 - that best practices for online purchases would include using separate accounts for UC Davis business and personal shopping

Procurement will include these topics in program training, in communications at new cardholder monthly meetings, and on the P-Card website.

3. By March 15, 2017, Procurement will establish procedures to regularly review a summary report of the training status of all P-Card cardholders and reviewers.
4. By April 15, 2017, Accounting and Financial Services (A&FS) will modify the Quali Financial System so that a PCDO may not be approved without proper classification of the transaction by object code.
5. By February 15, 2017, P-Card staff will establish procedures to regularly obtain and review bank reports of disputed P-Card transactions and their resolution.
6. By August 15, 2017, Procurement will include all items required by BFB-BUS-43 in initial and refresher training for cardholders and reviewers. The P-Card website will be updated to allow program participants to access this information as needed between training sessions.

7. By February 15, 2017, Procurement will establish procedures to regularly review a report that will indicate the number of cardholders assigned to each reviewer in the P-Card program.

B. The campus needs a documented P-Card transaction review program.

BFB-BUS-43 requires an administrative review of purchase transactions in accordance with procedures that have been approved by the campus Controller. Although the Procurement department has regularly reviewed P-Card transactions for policy compliance, a transaction review program approved by the Controller has not been documented or implemented.

Recommendations

As part of the P-Card self-assessment monitoring program, Procurement should establish clear, risk-based procedures for transaction testing in accordance with policy. These procedures should be approved by the campus Controller.

Testing should be performed per these procedures by the P-Card staff, with periodic review by the Director of Controls and Accountability. Testing should be documented to allow centralized access.

Management Corrective Actions

1. By March 15, 2017, the Procurement department will establish written procedures for the administrative review of P-Card transactions that will be incorporated into the P-Card self-assessment monitoring program. These transaction review procedures will be approved by the campus Controller.
2. By March 15, 2017, P-Card staff will regularly perform risk-based selection and review of P-Card transactions. Selection and review processes and the resolution of any exceptions investigated will be documented in ACL Results Manager.
3. By March 15, 2017, P-Card staff will establish procedures to regularly provide the Director of Controls and Accountability with a summary report of the procedures performed to review P-Card transactions. The summary report will include a description of any policy exceptions noted, and how these were resolved.

C. The campus needs guidelines for appropriate sanctions for the abuse of P-Cards.

BFB-BUS-43 states that each campus shall establish guidelines for appropriate sanctions to address any abuse or misuse of procurement cards by cardholders or reviewers. It requires that all sanctions must be carried out in a timely manner.

UC Davis has no such guideline documents.

Recommendations

Procurement should establish written sanctions guidelines that indicate the actions that will be taken in the event of specific policy or procedures violations or in the event of outright abuse of procurement cards. The guidelines should be detailed enough to address the most common or likely types of violations.

The guidelines should articulate a planned progression of actions that will take place when sanctions need to be enforced such that there will be adequate notification to the cardholder or reviewer, the supervisor of the cardholder or reviewer, and leadership of the affected department before any sanction is imposed that might negatively impact that department's operations.

Management Corrective Actions

1. By February 15, 2017, the Procurement department will establish and document sanctions guidelines for the P-Card program. These will be published on the Procurement department's website. The guidelines will include the notification process that will be carried out before non-urgent sanctions are imposed.

D. The purchase of gift cards has increased and not all units exercise adequate controls over gift cards once they have been purchased.

In the fiscal year ending June 30, 2015, \$838,042 was spent to purchase gift cards in 2,090 transactions. Seventy-eight percent of these transactions were made on P-Cards.

In the fiscal year ending June 30, 2016, it is estimated by Procurement that \$1.1 million was spent to purchase gift cards in 2,740 transactions. This is a 28% increase in dollars and a 31% increase in number of transactions from 2015. An estimated 96% of 2016 gift card purchases were made with P-Cards.

The majority (71%) of our survey respondents whose departments purchase gift cards indicated that gift cards are purchased for employee or student recognition. Institutional Research Board (IRB) research studies are the second most popular use, indicated in 18% of responses. Other frequently mentioned purposes are rewards for volunteers or survey participants.

Our survey asked participants to describe how gift card purchases are tracked. We received 391 responses. A large number of respondents stated that there is some form of gift card tracking taking place within their unit. There was variation in the methods used and the degree of scrutiny over distribution. It must be noted that many respondents seemed to confuse tracking the gift card purchase transaction and tracking the actual gift cards once they are purchased.

We also asked participants to describe what controls are in place to secure gift cards before they are distributed. We received 392 comments. Of these, 54% included the word "lock" in the text, indicating in some manner that the gift cards are kept in a secure location prior to distribution. Additional comments indicated this in various ways as well, without using the word "lock."

On the other hand, there were some respondents that seemed unaware that security should be a concern.

Seventy-five percent of respondents (290) replied "Yes" that they keep a record of gift card distributions while 25% replied "No".

No campus policy on gift cards exists. A&FS is working on a draft policy.

Recommendations

A&FS should establish gift card policies that indicate the proper use of gift cards and appropriate controls for safeguarding and tracking their use. These guidelines should be widely communicated and posted on the A&FS website. They should include instructions on gift card dollar limits and how to manage the tax consequences that result from the distribution of gift cards.

The Procurement department should tailor the transactions review program established in MCA B.1 to include a risk-based review of gift card transactions and controls.

Management Corrective Actions

1. By July 15, 2017, A&FS will submit a proposed gift card policy to the campus policy coordinator. At this time, A&FS will post policy requirements on its website as best practice guidelines. Once the policy is approved, the website will be updated to reflect that these guidelines are now campus policy.

APPENDIX A

	<u>Requirement Per BFB-BUS-43</u>	<u>Tested or Verified²</u>	<u>Exceptions Noted - Procurement to Remedy</u>	<u>MCA</u>
1	Designated program Administrator.	Verified		
2	Independent confirmation of receipt of items ordered.	Verified		
3	Independent review of supporting documents by person not a subordinate of cardholder.	Tested	Four percent of Cardholder respondents (45) indicate that the person who reviews their card is a subordinate. Twelve percent of reviewers (34) indicate they review the transactions for a card held by a Superior.	A.2
4	Detailed source documentation for all expenditures.	Tested		
5	Procedures for preventing, investigating, and reporting unauthorized use.	Verified		
6	Sanctions for abuse or misuse established and enforced timely. This may include disciplinary action and cancellation of card.		No written guidelines established.	C.1
7	Documentation retained by department for five years after the close of the fiscal year in which the purchase was made.	Verified	Thirty-six percent of cardholders and 46% of reviewers/fiscal officers surveyed stated that supporting documents are retained by their units for five years after the close of the fiscal year in which the purchase was made. Thirty-four percent of cardholders and 22% of reviewers/fiscal officers indicated less time; 30% of both groups reported more.	A.2
8	Program Administrator maintains file of all policy exceptions, including description of why exception was necessary.	Verified		
9	Clear responsibilities and authority of Campus Controller per BFB-BUS-43, pages 48-50.	Verified		
10	Clear responsibilities and authority of Procurement Unit per BFB-BUS-43, pages 48-50.	Verified		

² Verified indicates that AMAS confirmed that this requirement is part of the UC Davis program. We have noted any exceptions to appropriate function of the elements that we observed in a high level review. Our testing was limited to those key elements that we identified as high risk.

	<u>Requirement Per BFB-BUS-43</u>	<u>Tested or Verified²</u>	<u>Exceptions Noted - Procurement to Remedy</u>	<u>MCA</u>
11	Clear responsibilities and authority of program Administrator per BFB-BUS-43, pages 48-50.	Verified	Verifications of incentive amounts and periodic reconciliations of bank statements to financial systems have not been performed regularly.	A.1
12	Clear responsibilities for Reviewers, per BFB-BUS-43, pages 48-50.	Verified		
13	Clear responsibilities for Cardholders, per BFB-BUS-43, pages 48-50.	Verified		
14	Mandatory initial and annual refresher training for Reviewers.	Verified	See item 16.	A.3
15	Mandatory initial and annual refresher training for Cardholders.	Verified	Decision Support (DS) FIS363 report run 8/4/2016 showed 102 active cardholders with card issue dates prior to current year who show Never as their most recent training date. Procurement states that this report is incorrect and that errors are related to the change from tracking training in DS to tracking in the Learning Management System (LMS). Procurement states that P-Card staff is informed about training status because LMS notifies participants via email when training is due with copies to P-Card staff. Procurement lacks the ability to run an accurate summary report on training status for all participants.	A.3
16	Training must include identification of allowable and unallowable purchases.	Tested		
17	Applications for P-Cards must be submitted by units to program Administrator and be approved by CAO, Dean, or designee of the unit.	Verified		
18	Initial cardholder and reviewer training must be completed before cards are issued.	Verified		
19	Procedure to ensure taxes are properly accrued for payment to the state.	Verified		
20	Administrative review must be documented by the dated signature of the reviewer (electronically or on paper).	Verified		

	<u>Requirement Per BFB-BUS-43</u>	<u>Tested or Verified²</u>	<u>Exceptions Noted - Procurement to Remedy</u>	<u>MCA</u>
21	Administrative review must be completed within a defined period of time.	Tested	A minority of P-Card transactions are not classified by object code by cardholders or reviewers before they are posted to the general ledger. These represent less than 1% of 2016 P-Card transaction dollars.	A.4
22	Procedures for self-assessment of the effectiveness of campus policies and procedures.		See Observation A.	A.1
23	Administrative review of departmental purchase transactions to ensure program requirements are met in accordance with self-assessment procedures approved by the campus Controller.		See Observation B.	B.1
24	P-Cards to be used by a single individual only.	Verified		
25	Cardholders must sign a statement acknowledging receipt of the card and agreeing to be bound by University terms and conditions before issuance of the card.	Verified		
26	Cardholder limits to be set for: dollar limit per transaction; total dollar amount per day; and, total dollar amount per cycle. The total cost of a purchase, (per campus policy, including shipping, handling, and tax) shall not exceed the low value purchase limit of \$5,000.	Verified		
27	The program Administrator will maintain records documenting cardholder and reviewer assignments.	Verified		
28	Each cardholder is responsible for resolving all disputed transactions and must formally notify the issuing bank and the program administrator within 60 days of the account statement of any disputed item.	Tested	No exception noted in timely resolution of disputed items. Observed that Procurement was unable to produce a report documenting all disputed items and their resolution. Procurement has not regularly reviewed bank-issued reports of disputed items.	A.5
29	New cardholder training will include specific topics as	Tested	Noted that most, though not all the required topics were covered in cardholder training.	A.6

	<u>Requirement Per BFB-BUS-43</u>	<u>Tested or Verified²</u>	<u>Exceptions Noted - Procurement to Remedy</u>	<u>MCA</u>
	indicated in BFB-BUS-43 page 68.			
30	A review(er) shall not be assigned transaction verification for more than 10 cardholders.	Tested	Twenty-three (8%) of reviewers in our survey reported that they review more than 10 cards.	A.2, A.7
	Additional exceptions noted:			
			Our initial survey email sent to a list from Procurement of active employee cardholders and their reviewers resulted in nine replies indicating that the individual we had attempted to contact had retired. Procurement stated that this is due to lags between campus information systems.	A.2
			Seven percent of cardholders (53) responded that they had made a personal purchase with their P-Card. Of these, 51% (27) indicated that this was the result of the P-Card number stored by a vendor, while 43% (23) indicated that this was the result of using the wrong card by accident.	A.2
			We asked those who had indicated that personal purchases were made because a card number was stored by a vendor to provide us with the vendor name. Cardholders reported Amazon for 78% (21) of the stored by vendor errors. This represents 40% of the personal purchases reported by cardholders. Reviewers/fiscal officers also noted Amazon in 77% of their comments for a total of reviewer 36 mentions of this vendor as a source of inappropriate, accidental purchases. Other vendors mentioned less frequently, but more than once, include PayPal and iTunes/Apple.	A.2