UNIVERSITY OF CALIFORNIA, DAVIS
AUDIT AND MANAGEMENT ADVISORY SERVICES

UC Davis
Procurement Cards
Audit & Management Advisory Services Project #20-05

January 2020

Fieldwork Performed by:
Pamela Ranslow, Sr. Auditor
Madison Tanner, Law Fellow

Reviewed by:
Tony Firpo, Associate Director

Approved by:
Leslyn Kraus, Director

<div align="center">

Procurement Cards
AMAS Project #20-05

MANAGEMENT SUMMARY

</div>

<u>**Background**</u>

As part of the fiscal year (FY) 2020 audit plan, Audit & Management Advisory Services (AMAS) reviewed the procurement card program at UC Davis.

A procurement card (P-Card) is a credit card authorized by the University of California and issued by U.S Bank to enable the purchase of goods or services under $10,000.

The program, which is administered by Business and Financial Services at Supply Chain Management (SCM), was implemented as an alternative purchasing process to reduce the processing time and paperwork associated with low dollar value purchases. Benefits of the program include built-in controls to prohibit certain "restricted' vendors, and immediate access to the purchase transaction information which allows for reconciliation, review, and audit of procurement card transactions.

Each cardholder is responsible for safeguarding the card and accountable for all purchases made. Cardholders are assigned a respective fiscal officer, who performs an administrative review to ensure the expenditure was properly authorized and appropriate. UC Davis SCM has a program administrator and a program coordinator who have an overall responsibility for the procurement card function, and are the liaison with the card issuer, U.S. Bank. They both oversee management of cards issued and ensure adherence with requirements of the procurement card program and purchasing policy.

In FY 2019, $42 million in UC Davis purchasing was completed using P-Cards.

<u>**Purpose and Scope**</u>

The purpose of this audit was to review internal controls over administration and management of the procurement card program, with an emphasis on centralized oversight and monitoring.

In order to accomplish these objectives, the following procedures were performed:

- Relevant UC and UC Davis policy and procedures were reviewed to gain an understanding of the requirements governing the procurement card program.
- Supply Chain Management personnel were interviewed to gain an understanding of the monitoring controls in place.
- A reconciliation between KFS and U.S. bank was performed to ensure completeness of cardholder information and total amount of transactions in KFS.
- Cardholders and fiscal officers were reviewed to determine compliance with training requirements and number of cards assigned.
- P-card data was obtained from U.S. Bank to perform a trend and data analysis based on automatically approved transactions, holiday/weekend purchases, and Merchant Category Codes to identify deviations.

<div align="center">

UNIVERSITY OF CALIFORNIA
1

</div>

- Purchase limits were reviewed to ensure limit was reasonably set based on total amount of purchases.
- A sample of self- reported personal expenses[1] were reviewed to ensure confirmation of reimbursement to the university was obtained.
- A sample of violations were reviewed to ensure written notices were sent to cardholders.

The scope of the review was limited to procedures performed by SCM. As such, oversight procedures by the fiscal officers was not included in this review.

The timeframe under review was July 2018 – October 2019.

Conclusion

We were able to verify SCM has established adequate monitoring controls to manage P-cards issued and detect non-compliance with the requirements of the procurement card program.

We also concluded that there was opportunity to update policy and implement oversight on automatically approved transactions. These transactions are system-approved 90 days after initiation and therefore are not reviewed by the fiscal officer, which increases the risk of fraud and errors. In FY 2019, $907,843 of P-card purchases were automatically approved.

We thank management in the program for agreeing to take the following actions:

- Define violation and escalation procedures within the P-Card policy;
- Implement a monitoring process over automatically approved transactions.

---

[1] The total volume and dollar amount of self-reported personal expenses were inconsequential in FY19.

Observations, Recommendations, and Management Corrective Actions

A. Automatically Approved Transactions

Automatically approved transactions are not monitored for non-compliance.

Once a purchase with a P-card is made, it is the cardholder's responsibility to submit the Procurement card document (PCDO)[2] for review and approval, with the corresponding source documents[3]. Subsequently, it is the fiscal officer's responsibility to approve procurement card expenses in KFS.

Per UC Davis policy 350-22, the cardholder should reconcile expenses against the bank statements on a monthly basis, and the fiscal officer should approve transactions within 30 days. Prompt approval procedures are critical to ensure that erroneous charges, unauthorized purchases and disputes with vendors can be resolved in a timely matter. In addition, failure to report a dispute with U.S. Bank within 60 days of the statement date will result in the University absorbing the expense.

Currently, KFS is set up to automatically approve PCDOs after 90 days[4] from initiation. Transactions that auto-approve are never reviewed to ensure they were authorized, allowable, and supported by source documents, thereby potentially increasing the risk of errors and fraud. As of FY 2019, 2,569 P-card purchases totaling $907,843 were automatically approved. 180 cardholders had purchases that were automatically approved in multiple months during FY 2019; the following chart presents transactional and frequency data for these 180 cardholders.

Amount	# of Transactions	# of cardholders	Months [5]
$97,499	364	8	12 to 10
$255,163	700	16	9 to 6
$411,892	1201	156	5 to 2

In addition, per the P-Card training program: late submission[6] of PCDO in KFS and/or providing insufficient source documentation with the PCDO document are also considered to be violations. Currently, SCM does not have a process in place to identify or monitor cardholders with frequent automatically approved transactions that may be subject to the violation policy. Furthermore, violations and escalation procedures are not clearly defined in the policy to ensure enforcement.

---

[2] Procurement card document (PCDO)—a document generated by the Financial System that reports when a procurement card transaction has taken place.

[3] Source documents – vendor documents showing itemized costs and descriptions in sufficient details to substantiate procurements card transactions. They may include but are not limited to invoices, sales receipts, and packing slips with cost shown.

[4] Related tax for P-Card purchases is not posted in the ledger until the purchase is approved. As such, P-card transactions are auto-approved after 90 days from initiation to ensure tax is properly accrued.

[5] Number of months during the fiscal year in which the cardholders had automatically approved transactions. For example, there were 8 cardholders with automatically approved transactions in 10, 11 or 12 months of the fiscal year.

[6] A late submission occurs when the cardholder submits the PCDO document for approval 30 days or longer after the purchase was made.

<u>**Recommendation**</u>

We recommend SCM update the policy to define P-Card violations and escalation procedures. We also recommend SCM implement a monitoring process over automatically approved transactions, and enforce the violation policy as applicable.

> <u>**Management Corrective Actions**</u>
>
> 1) By April 15, 2020, SCM will submit a revision of UCD Policy 350-22 to define P-Card violations and escalation procedures.
>
> 2) By July 15, 2020, SCM will implement a monitoring process over automatically approved transactions. This will include:
>   - A trend analysis to identify cardholders with frequent or a high volume of automatically approved transactions;
>   - Spot-check audits on identified cardholders; and
>   - Enforcement of the violation policy as applicable.

<div align="center">***</div>