UCIRVINE | INTERNAL AUDIT SERVICES

PALCard (Procurement Card) Program

Internal Audit Report No. I2021-108
January 21, 2022

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JENNIFER CHEY
PALCARD AND LOW VALUE PURCHASING MANAGER
PROCUREMENT SERVICES

RE: PALCard (Procurement Card) Program
        Report No. I2021-108

Internal Audit Services has completed the review of the PALCard Program and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. If you have any questions or require additional assistance, please do not hesitate to contact me.

Sincerely,

Mike Bathke
Director

Attachment

C: Audit Committee
    Snehal Bhatt, Chief Procurement Officer and Executive Director – Procurement Services

I.   MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2020-2021 audit plan, Internal Audit Services (IAS) conducted a review of the PALCard (Procurement Card) Program at the University of California, Irvine Campus (UCI) and Medical Center (UCI Health).

In general, PALCard controls and processes appear to be functioning as intended. Based on the audit work performed, some internal controls need improvement and should be strengthened to minimize risks, ensure compliance with University policies and procedures, and/or best business practices. Specifically, the following concerns were noted.

Post Reviews of Auto-Sent Transactions - There are currently no procedures in place to ensure a post review occurs after transactions are auto-sent to the general ledger without a reconciler's review. This observation is discussed in section V.1.

Internal Procedures - There are no documented procedures regarding the review of various reports such as the daily transaction report, new accounts, declined transactions, inactive accounts, etc. Also, procedures surrounding sample audits and escalation procedures for cardholder abuse are not current. This observation is discussed in section V.2.

Documentation Upload into the Kuali Financial System (KFS) - IAS noted that departments did not upload their supporting documentation into KFS. These departmental selections are non-compliant with the PALCard Cardholder process as noted on the "Become a Cardholder" webpage. This observation is discussed in section V.3.

II.   BACKGROUND

PALCard is UCI's procurement card program designed to help departments and schools manage low value purchases. PALCard is a privilege granted to departmental staff and faculty with purchasing duties and must be used in a responsible and appropriate manner.

In order to obtain a PALCard, applicants must read on-line material then take and pass an e-test. Retakes of the test may be only repeated once in a 24-hour period. Once the e-test is completed, an application is completed through KFS and must be approved by the PALCard Administrator.

Procurement Services oversees the PALCard program for both the campus and UCI Health. Today, PALCard activity comprises 74 percent of all low value purchase volume and 76 percent of the total low value spend at UCI. During calendar year 2020, there were 1,338 PALCard holders creating over 101,000 PALCard transactions, for a total spend of over $45.7 million in purchases.

III.   PURPOSE, SCOPE AND OBJECTIVES

The purpose of this audit was to evaluate the administrative internal control environment, compliance with University policies and procedures, and effectiveness of program operations. The scope included review and sample testing from January 1, 2020 through December 31, 2020.

The audit included the following objectives:

1. Obtain a detailed understanding of significant processes and practices employed for utilizing the PALCard and determine if adequate controls are in place;

2. Determine if PALCard accounts are appropriately managed at the department level; and

3. Determine if the central PALCard Unit properly manages PALCard accounts and that the accounts are in accordance with issuing bank and university requirements.

IV.   CONCLUSION

In general, the PALCard transaction processes appear to function as intended. However, Procurement Services could improve controls and processes in the areas of post review of PALCard charges automatically posted to the general ledger, internal procedures, and departmental awareness of uploading supporting documentation for transactions into KFS.

IAS discussed observation details and recommendations with management, who formulated action plans to address the issues. These details are presented below.

V.   OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Post Reviews of Auto-Sent Transactions

Background

PALCard documents must be reviewed and approved by the PALCard reconciler within 15 calendar days of the created date on the PALCard reconciliation document (PCDO) after which time the document will automatically post to the general ledger. Transactions that show "super-user" approval are transactions that are auto-sent to the general ledger without a reconciler's review. Of the approximately 101,000 PALCard transactions totaling $45.7 million conducted in

CY2020, about 7,300 transactions (7%) totaling $3.4 million (7.4%) were super-user approved.

Observation

As part of audit procedures performed, IAS selected four PALCard super-user approved transactions to test for documentation of post review by the department.

For two of the selections, evidence of post review was not readily apparent in KFS; follow-up was needed with the cardholder and reviewer to acquire and review missing documentation of the post review.

There are currently no procedures in place to impose a post review of auto-sent transactions. To prevent unauthorized and potentially fraudulent transactions, management should establish post review procedures and communicate them to PALCard reconcilers to ensure that the applicable independent review occurs.

Management Action Plan

Management will require all reconcilers/fiscal officers to confirm they reconciled the auto-sent transactions/ledger reconciliation within three months of the transaction and make a note in the "Notes and Attachment" section of the PCDO. If there were General Error Corrections (GEC)s processed, the GEC document number can be added in the "Notes and Attachments" section of the PCDO.

Management will also review and update web pages to include language regarding post review requirements for auto-sent PALCard transactions. This information will also be communicated to all the cardholders and reconcilers.

Due Date: March 31, 2022

2. Internal Procedures

Background

Procurement Services runs various reports to monitor and manage PALCard activity. Various Daily Transaction Reports (DTR) are downloaded daily and include information used for datamining, detecting fraud, and identifying dormant accounts. Additionally, sample audits are conducted weekly to ensure University and internal purchasing policies, record retention requirements, and purchasing cardholder controls are being observed. The PALCard Auditor position is responsible for conducting and documenting these audits.

Observation

Although procedures are sufficiently documented for cardholder and reconcilers, Procurement Services does not have adequately documented internal procedures surrounding the various reports they review to monitor and manage PALCard activity. Also, the current written procedures regarding the sample audits they perform and the escalation procedures they administer for cardholder abuse is outdated. These procedures do not reflect current practices and should be updated.

Without documented and updated internal procedures, management may be unable to ensure effective and consistent processing as well as continuation of workflow should a critical position become vacant.

Management Action Plan

Management will document internal procedures regarding the various reports reviewed to monitor and manage PALCard activity. Also, internal procedures regarding sample audits and escalation procedures will be reviewed and updated.

Due Date: March 31, 2022

3. **Documentation Upload into the KFS**

   Background

   According to the "Become a Cardholder" webpage on the Procurement Services website, cardholders are required to document their purchases by uploading the appropriate supporting documentation into KFS under the "Image Scanning" tab. Furthermore, IAS notes that on this webpage, cardholders who do not upload documentation in a timely manner will have their account placed on hold.

   Observation

   As part of audit procedures performed, IAS selected 46 PALCard transactions for testing to determine appropriateness and proper documentation. IAS noted that for 17 selections, departments did not upload their supporting documentation into KFS. These departmental selections are non-compliant with the PALCard Cardholder process as noted on the "Become a Cardholder" webpage. Furthermore, scanning documents and having them readily available for review creates efficiencies when monitoring and auditing these transactions. Consequently, IAS had to follow up directly with the cardholders and reviewers for these 17 selections in order to acquire and review hardcopies of their documentation.

   According to management, departments bear the responsibility of maintaining records and, for the past few years, departments have had a choice of either

maintaining documentation internally or using KFS as a document repository. Allowing departments to maintain their documentation internally and not use KFS as a repository contradicts management's published processes for documenting the purchase.

To maintain consistency in documentation requirements for PALCard transactions, management should review and update all applicable language on relevant web pages.

Management Action Plan

Management will review and update web pages containing any pertinent language regarding documentation requirements for PALCard transactions.

Due Date: March 31, 2022