

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

**MEDICAL CENTER
PROCUREMENT CARD
Project #12-029
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MANAGEMENT SUMMARY

UCSF Medical Center implemented the Procurement Card (P-Card) program through US Bank in 1998 to reduce administrative costs, simplify business processes for payments for business related low dollar purchases. The P-Card program at the Medical Center is managed by the Medical Center's Procurement Services Department (Procurement Services). As of January 2012, there were 66 active purchase card accounts and the total spend in fiscal year 2011 on P-Card purchases was \$2.3 million. The P-Card program is governed by UC Business and Finance Bulletin BUS 43, *Material Management*, which sets forth the basic policies and requirements for the University's P-Card program.

The purpose of this review was to assess whether the Medical Center's P-Card Program is operating in compliance with BUS-43, if there is effective oversight of P-Card activity and management of the program, and if control practices for those departments reviewed were adequate and in compliance with BUS-43 requirements.

Based on the procedures performed, Audit Services concluded that the Medical Center's P-Card Program is not operating in compliance with BUS-43 and is not being effectively operated and managed.

We found a number of areas where UCSF policies and procedures were not consistent with the requirements stated in BUS-43. There were also several control deficiencies found related to the oversight and management of the P-Card program both centrally in Procurement Services, as well as at the departmental level, which consequently resulted in non-compliant practices and increased risk of P-Card misuse. The Medical Center does not have a structured training program that adequately provides training to cardholders and department designated reviewers and no provision for refresher training. Additionally, procedures for the granting of exceptions to the policy were found to be inadequate and did not comply with policy. Audit Services found numerous transactions in excess of the established transaction and monthly limits and in several of the restricted expenditure category code groups, for which documented exceptions did not exist. Furthermore, some exceptions had been granted by the P-Card administrator, who did not have the appropriate designated authority to do so.

For the selected departments reviewed, Audit Services found several control deficiencies and policy violations, including cardholders sharing their P-Cards with other employees; lack of review of P-Card purchases by department managers or designated reviewers; and inadequate segregation of duties and non-retention of documents supporting the receipt and business justification of the purchases. Finally, there was one department who was using their P-Card to purchase items that should be purchased through an established purchase order, thereby forgoing receiving the less-expensive contract pricing for the items.

Lastly, Procurement Services had not considered the potential benefits derived from consolidating both the Campus and Medical Center P-Card programs.

The Procurement Services has been advised of the aforementioned control deficiencies and has initiated a set of comprehensive actions to establish appropriate controls to ensure effective management and operation of the P-Card program. Multiple corrective actions have been completed or are currently in process and their implementation will be followed-up on by Audit Services.

More detailed information on the observations can be found in the attached table.

I. **BACKGROUND**

UCSF Medical Center implemented the Procurement Card (P-Card) program through US Bank beginning in 1998, to reduce administrative costs, simplify business processes and improve efficiency by issuing Visa cards to employees. The P-Card program was designed to meet departmental business needs and to simplify payment of most business related, non-travel, low-dollar purchases of goods and services. Common risks involved with P-Card programs include: fraud and misuse of card accounts, lack of proper oversight and monitoring of expenditures resulting in non-compliance with University policy, and higher level of scrutiny by the general media.

The P-Card program is governed by University's Business and Finance Bulletin BUS-43, *Material Management*, Part 8, Procurement Card Program (BUS-43). This Bulletin sets forth the basic policies and requirements for the P-Card program implemented at each campus.

The P-Card program at the Medical Center is managed by the Medical Center's Procurement Services, with a designated Procurement Card Administrator who is responsible for the program's day-to-day management and operation. As of January 2012, there were 66 active purchase card accounts/users. For the fiscal year 2011, there were just over 6,000 transactions that resulted in expenditures of \$2.3 million. Cards are issued to authorized employees (and not intended for use by others) with automatic restrictions placed on certain types of expenditures (known as Merchant Category Code Groups) and with established transaction and monthly expenditure limits of \$499 and \$5,000, respectively.

II. **PURPOSE AND SCOPE**

The purpose of this review was to assess the controls over the use and administration of the P-Card program. The objectives of the review were to ensure:

- Compliance with existing Medical Center and University Policies for P-Card usage;
- There is effective oversight of P-Card activity and management of the P-Card program; and
- There are effective departmental controls in place for P-Card purchases.

To complete the review, we interviewed personnel and reviewed documentation from the Procurement Services and other selected departments. Specifically, the following procedures were performed:

- Medical Center policies and procedures for purchase cards were reviewed to determine whether they are consistent with the University of California P-Card policy requirements;

- A sample of eleven cardholders was selected to ensure that each cardholder has signed a statement acknowledging receipt of the card and agreeing to be bound by the terms and conditions of University procurement card use;
- The current cardholders list was compared to the payroll employee records to validate that all cardholders are current active employees.
- Determined that accounts were timely terminated when cardholders separated from the University;
- Expense reimbursements made to P-Cardholders was performed to ensure that the University did not pay twice for goods or services.
- Audit Control Language (ACL) software tool was used to perform an analysis of P-Card transactions data to identify;
 - Purchasing transactions volume and dollar amounts by Department;
 - Splitting of purchases to circumvent transaction limits;
 - Transactions from dis-allowed merchant categories and validate that an exception approval was on file; and
 - Transactions that are in excess of the established transaction limit and validate that there was an exception on file.
- The transaction report was reviewed for unusual purchases or purchases that appear to be personal in nature. Such transactions identified were followed-up with the cardholder;
- Oversight of purchase card transactions by the Program Administrator was verified by;
 - Selecting a sample of departments from the Transaction Summary Report who have not reviewed their transactions to determine that appropriate follow-up has taken place;
 - Reviewing the escalation procedures in place for instances of non-compliance with P-Card policies.
- The process for ensuring that sales tax is correctly applied and accounted for P-Card purchases was reviewed.
- Management and oversight of P-Card purchasing activity was reviewed for a selected sample of departments to ensure compliance with University policy. Procedures to assess departmental controls included:
 - Verification that receipts for purchases corresponded to information on the transaction log and bank statement;
 - Determination that appropriate segregation of duties between the cardholder and the reviewer/approver of transactions existed;
 - Verification that the reconciled statement, receipts and transaction logs are reviewed and approved by the card holder's manager and retained for the required amount of time as indicated in the policy.
 - For any transactions rejected by US Bank, verification that the error or dispute resolution process has been completed by the card holder.
 - Determination that cardholders are adequately securing the P-Cards.

The scope of the review was limited to the specific procedures described above and related to transactions and activities occurring between July 2010 and September 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 use and administration of the P-Card for departments not specifically covered in this review. Fieldwork was completed in March 2012.

III. CONCLUSION

Based on the procedures performed, Audit Services concluded that the Medical Center's P-Card Program is not operating in compliance with BUS-43 and is not effectively operated or managed. The Medical Center has not given proper attention, oversight and management to the P-Card program and this has resulted in practices that are not in compliance with BUS-43 requirements. The lack of compliance and necessary oversight of P-Card activity has not promoted an environment of control and accountability that is critical to having an effective P-Card program. Several oversight responsibilities specified by the system-wide policy were not performed, nor were policy requirements enforced to ensure appropriate P-Card usage and minimize risk of misuse. Audit Services found numerous transactions in excess of the established transaction and monthly expenditure limits and several transactions were for supplies and services from vendors in the restricted merchant category code groups. In some cases the P-Card transaction exceptions did not exist or were out of date, while in others, an exception had not been properly submitted, approved or retained.

For the selected departments reviewed, Audit Services found numerous instances of non-compliance with policy, including cardholders sharing their P-Cards with other employees; lack of review of P-Card purchasing transactions; inadequate segregation of duties between the cardholders and the individuals who review/approve their transactions and non-retention of documents supporting the receipt and justification of the purchases. There were also examples of P-Cards being used for items that should go through standard purchase orders.

As part of the actions to consider, Audit Services believes consideration should be given by the Medical Center to evaluate the benefits to be derived by combining the Campus and Medical Center P-Card programs.

Further details on our observations, including Management Corrective Actions to address these issues can be found in the attached observations table. (See Attachment A)

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