Purchasing Card Transactions

Background

A purchasing card program is an efficient and cost-effective method for procuring small dollar, high volume purchases. Purchases for goods and services must be supported by appropriate documentation, have a valid business purpose, and be in compliance with policies, procedures, laws, and tax requirements. Various constituents across the organization are responsible for ensuring the safeguarding of assets to avoid fraud, abuse, waste, and any real or perceived conflict of interest.

Key Risks

- Unauthorized and inappropriate purchases
- Fraudulent activity not detected in a timely manner
- Non-compliance with grant requirements
- Lack of compliance with federal tax requirements
- Cardholder uses purchasing card for personal benefit

Key Controls

- Organization's "tone at the top"
- Timely monthly reconciliation of purchasing card activity
- Strong purchasing card policies and procedures that address all key risk areas
- Level 3 transaction information, if available, included in the transaction review and approval
- Verification of goods received for high dollar purchases
- Continuous monitoring program to review suspicious transactions
- Segregation of duties between cardholder, transaction approval, and monthly reconciliation
- Timely closing of purchasing cards upon employee termination (or few days prior to termination)
- Purchasing cards should not default to grant funding sources (i.e. review and approval before a purchasing card expense is charged on a research project)
- Low single transaction and monthly limits on purchasing card
- Review and approval of the purchasing card transaction before posting to financial system
- Review and approval of transactions by supervisor
- Ethics/Compliance hotline for employees to anonymously report suspicious activity
- Separate travel and purchasing card programs
- Strong discipline protocols to address non-compliance and prevent from reoccurring

Audit Tests

- Review purchasing card policies and procedures; benchmark key policy topics (against peer institutions).
- Refer to data analytic tests below. Select a sample of purchasing card transactions to validate assertion derived from data analytics:
    - Review supporting documentation to validate that the expense is adequately approved and supported and the expense is allowable, allocable and reasonable.
    - Review transaction for compliance with the organization's purchasing card policy.
    - Compare submitted receipt documentation with level 3 bank information, if available.
    - Compare submitted receipt with previously submitted vendor receipts from other purchasing card users for uniformity and consistency.
    - Look for inaccurate vendor name, contact information, and item SKU codes.

Data Analytics

- Receive data from various sources/databases including:
    - Purchasing card transaction data (from ERP and the bank)
    - Level 3 transaction data
    - Purchasing card demographic cardholder data (purchasing card master file)
    - Employee master file
    - Travel and expense transaction data
- Combine above data. Data analytics should be used for understanding data as well as for testing. Suggested tests or queries:
    - Cardholder Demographics
        - Individuals with multiple purchasing cards
        - Match purchasing cardholders to employee master file data (mismatched cards indicate terminated or non-employees)
        - Identify purchasing cards with limited use but high dollar purchases
    - Cardholder Trend Analysis
        - Classify by vendor
        - Classify by Merchant Category Code (MCC)
        - Classify by monthly limits
        - Classify by single transaction limits
    - Transaction Analysis – Personal Purchases
        - Level 3 item description key word search
            - Examples include Apple, IPhone, IPad, gift cards, clothing and high-end retailers
            - Summarize transaction data by key words (e.g. gift cards) by department/cardholder

- MCC codes unrelated to business objectives
  - Examples include timeshares, health and beauty spas, dentists/orthodontists, and child care services
- Transaction from suspicious vendors
  - Examples include PayPal, EBay, Square, Facebook, financial institutions
- Purchases split in more than one transaction ('split transactions')
- Transactions on weekends and holidays
- Transactions in vacation destination areas
- Transaction Analysis – Duplicate Transactions
  - Multiple purchases of same item in short time period (same vendor, cardholder, amount, and SKU code)
  - Purchasing card expense submitted for T&E reimbursement
  - Duplicate payments via accounts payable and purchasing card
- Transaction Analysis – Abnormal Purchasing Card Usage
  - Transactions after employee termination date
  - Transactions made with inactive purchasing cards (purchasing cards that are inactive in financial system but still active in the bank system)
  - Cash advance transactions
  - Summarize declined transactions by cardholder
  - Summarize transactions by vendor and identify vendor which are used by one cardholder
  - Summarize transaction volume and amounts and compare with others with similar job responsibilities
  - Summarize transactions by expense categories to identify unallowable purchases

Common Audit Findings

- Inadequate purchasing card policies and procedures to ensure accurate and consistent application
- Lack of review by supervisor to ensure appropriate use of purchasing card
- Inadequate supporting documentation or lack of business purpose for purchasing card transactions
- Purchasing card violations are not tracked or monitored, and related discipline is not enforced
- Purchasing cards are not closed in a timely manner
- Lack of controls over the granting of purchasing card exceptions

- Lack of segregation of duties over purchasing card administrator, account manager, and business manager responsibilities
- Opportunities to enhance continuous monitoring function
- Purchasing card program is not aligned with the defined purpose

Tips & Tricks

- If there are any receipt discrepancies, contact the vendor. In many circumstances they can validate the details of the purchase. This can be helpful when level 3 purchasing card transaction data varies from the supporting documentation submitted by the cardholder.
- Vendors also have online tools available to research past order details, tracking, and shipping information. These tools can also be helpful to validate purchase receipt details.
- Vendor website can be used to research item numbers on receipts to get additional information on what items were purchased.
- Gain an understanding of the purchasing card program and how it fits within Procurement (purpose of the program).

Resources

- Uniform Guidance micro-purchase threshold
- Uniform Guidance cost principles
- IRS 1099 requirements
- Online receipt template websites, such as:
  - http://www.fakereceipt.us/salesreceipt.php
  - https://expressexpense.com