Payment Card Innovation Series

Preparing your card program for an audit

Tony Grayson, U.S. Bank

Today's agenda

- Overview of Payment Card Innovation Series
- Introduction to today's session
- Audit preparations
  - Payment card organization
  - System controls
  - Policy and procedure
  - Card administration
  - Auditing and monitoring
  - Program reporting and administration
  - Accounting controls
- Questions and answers

Objective of the Payment Card Innovation Series

Provide organizations with payment card insights that foster collaboration, communication and understanding within the industry
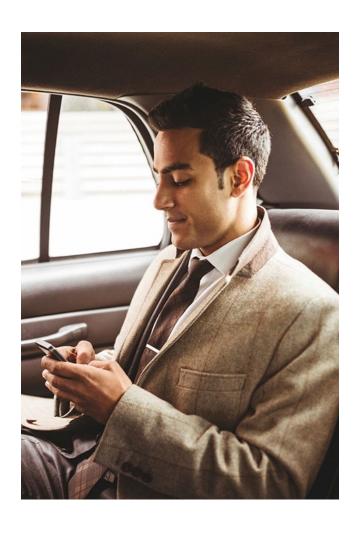
Understanding our audience (poll question)

Which scenario best describes your organization's adoption of payment card products and solutions?

A. Limited adoption of corporate travel or purchasing cards

B. Strong adoption and utilization of corporate travel or purchasing cards

C. Utilization of virtual cards (e-payables) for Accounts Payable

D. Some combination of the above

Discussion of framework and assumptions

Each program and industry **is unique**

Not intended to be all **encompassing**

Everyone is **not at the same level** of program **maturity**

Internal and external reviews have basic similarities

Key payment card audit considerations

Payment card organization – **position descriptions** and organizational structure

System controls – understanding **access to key applications**

Policy and procedures – **foundational aspects** of any program review

Payment card provider

Card administration – focus on **program operational controls**

Auditing and monitoring – confirmation **controls function as designed**

Reporting and program administration – **establishes management oversight** of program

Accounting controls – review of **non-transactional financial activities**

Payment card organizational considerations

Internal reviews begin with the organizational structure

Audit request	Current organizational chart	Card program position descriptions
Purpose and rationalization	• Basis for employee interviews, controls planning and segregation of duties review • Serve to define scope of program involvement	• Are employees performing duties outlined in job descriptions? • Do employees meet the basic skill qualifications and experience to perform the role as described?

Deliverable	• Current (last 30 days) organizational chart
	• Clearly defined lines of responsibility and reporting
		• Current position description
		  • Position summary
		  • Key functions
		  • Expected performance
		  • Experience and skills
		  • Supervisory relationships
		  • Education or certification

Understanding system access and privileges are key to control

Who within the organization can access key systems and what function do they perform?

Employee access listing	Roles and privileges	Frequency of access

Employee access listing
- Basis for employee interviews
- Controls planning
- Segregation of duties evaluation
- Evaluation of appropriateness

Deliverable: list of all employees with access to key card-related systems (that is, system user list)

Roles and privileges
- Potential segregation of duties issues?
- Focus on roles that can manipulate or change information

Deliverable: report of roles and privileges for all users and associated capabilities

Frequency of access
- Assessment of appropriateness
- Need for continued access?

Deliverable: report of last date of system access or access in the 30, 60, 90 days (that is, system access report)

Card policy serves as a cornerstone of any audit

Scope and overview	Appropriate usage	Responsibilities	Administration
• Extension of card program philosophy • Defines card program goals and objectives • Establishes cardholder eligibility	• Definitions and examples of appropriate usage • Card safe-handling requirements • Spend and transaction thresholds • Loss or reinstatement of card privileges	• Establishes accountability and expectations • Required performance of cardholders, reviewers, approvers and card office	• Addresses training requirements • Fraud reporting expectations and requirements • Potential tax implications

The policy establishes guidelines, boundaries and acceptable uses for the card program.

Card procedures serve as a cornerstone of any audit

Program management procedures	Cardholder notifications procedures	Approval procedures	Fraud procedures
• Address card ordering, distribution and storage • Card termination and suspension • Card destruction	• Notification of terminated employees • Employees on leave of absence (LOA) • Internal employee transfers	• Card application and approval process • Establishing transaction and velocity limits • Transaction approval	• Comprehensive fraud plan in place • Execution of preventive and detective controls testing • Risk-based auditing • Actionable program reporting

Procedures establish defined and repeatable best practices for program management.

Frequent requests involving card administration

Request from auditors → **Audit purpose** → **Deliverable**

Request from auditors	Audit purpose	Deliverable
Samples of approved payment card applications	Confirms applications are authorized and approved	**Signed** cardholder applications with appropriate approvals
Samples of cardholder agreements	Confirms employee care and ownership of card	**Signed and dated** cardholder agreement
Documentation supporting limit or velocity changes	Confirms limit changes are in accordance with policy	Documentation supporting approvals of limit changes
Policy and procedures for ordering and receiving cards	Ensures segregation of duties controls are in place	Audit trail of card orders, card receipt and activation

Ausiting and monitoring provide assurance of controls

MCC blocking and controls	• Merchant category code (MCC) blocking reflects organizational card policy. • Documentation and confirmation MCC controls are in place and working as designed.
Card transaction review	• What is the policy regarding the timely review and approval of transactions? • What is the transaction audit plan and is it followed on a consistent basis?
Expense reporting and allocation	• Who is responsible for transaction review? Are they well versed in card policy? • Does your policy clearly define expense substation? Are there ramifications for omission?

Program reporting drives visibility and transparency

Establishes management oversight and responsibility of card program

Employee transaction and activity review

- Does past cardholder activity warrant existing spend limits?
- Who are the top cardholders in terms of spend and transaction activity?
- Is cardholder activity consistent with job responsibilities and departmental activities?

Merchant spend and transaction analysis

- Who are the top merchants in terms of spend and activity?
- Is merchant activity consistent with the departmental mission?
- What are the top MCC in terms of spend and activity?

Program dashboard review

Reflection of program philosophy
The reporting dashboard should serve as an extension of the program philosophy and reflect the broader goals and objectives.

Key metrics
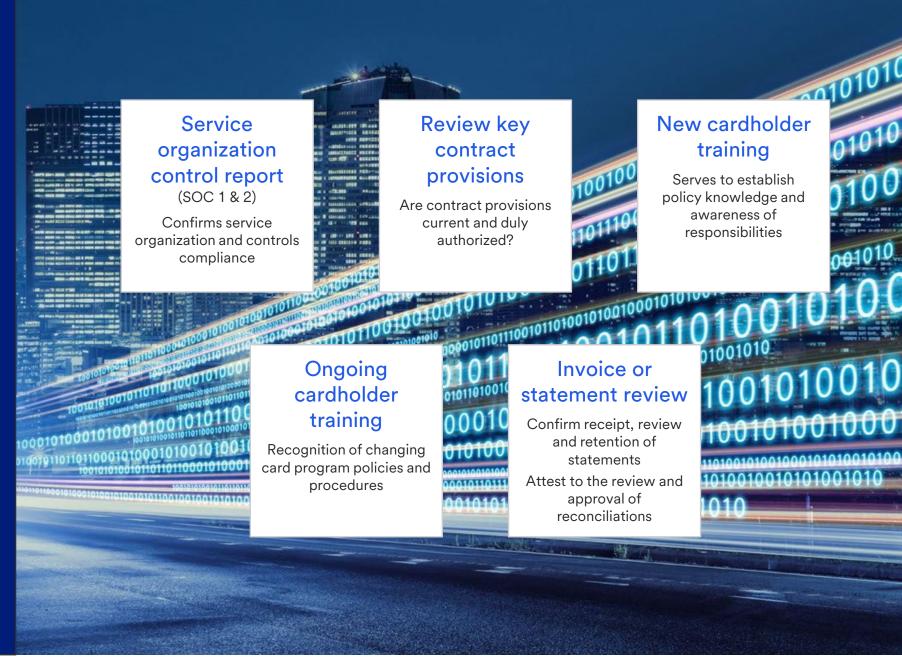There's no right or wrong set of reporting metrics.

They need to be actionable and reflective of what's important to your organization.

Sample metrics
Key reporting metrics could include:

- Card utilization percentage current month
- Percent of active cards in past 30, 60 or 90 days
- Value of unexpensed transactions
- Transaction declines by cardholder and reason
- Number of invoices avoided

Frequent program administration audit requests

Service organization control report
(SOC 1 & 2)

Confirms service organization and controls compliance

Review key contract provisions

Are contract provisions current and duly authorized?

New cardholder training

Serves to establish policy knowledge and awareness of responsibilities

Ongoing cardholder training

Recognition of changing card program policies and procedures

Invoice or statement review

Confirm receipt, review and retention of statements

Attest to the review and approval of reconciliations

Accounting controls ensure accurate financial statements

Accrual entries
- Unexpensed card transactions (in accordance with policy)
- Earned but not received rebate (in accordance with policy)

Review revenue sharing calculations
- Supporting documents
- Confirm amounts and calculations
- Standard or discount rates (if applicable)

Clearing account reconciliations
- Preparation and review (in accordance with policy)
- Addressing long-standing reconciling items

Personal charges
- Policy expectations
- Procedure for recoupment of funds

Consulting services

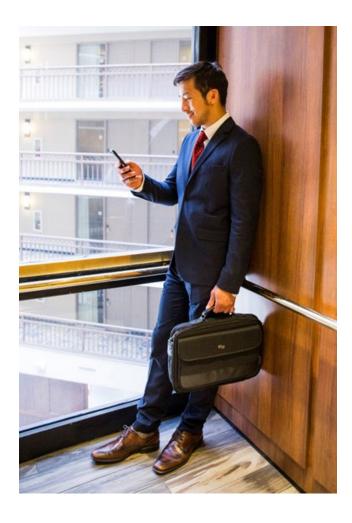## Require in-house payment card consulting expertise

- Available for life of banking relationship
- Expertise across full spectrum of procure-to-pay processes
- Provided at no cost
- Leverages external industry data sources
- Industry certified expertise

Services provided

- Payment strategy development
- Industry benchmarking analysis
- Best practices consultation
- Program optimization
- Payment process mapping
- Program utilization review
- White paper program evaluation
- Supplier retention strategy recommendations

Questions and answers

Payment Card Innovation Series

Factors in identifying the right payment card provider

Strategies for the adoption of payment card best practices

Techniques to maximize the value of your payment card programs

The importance of developing key reporting metrics

Preparing your card program for an audit

Tony Grayson
Vice President Payment Consulting
anthony.grayson@usbank.com
615-761-4048