



UNIVERSITY OF
TEXAS
ARLINGTON

**PROCUREMENT CARD AUDIT
DECEMBER 11, 2014**

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MEMORANDUM

TO: Dr. Vistasp Karbhari
President

FROM: Ken Schroeder *Ken Schroeder*
Director, Office of Internal Audit

DATE: January 28, 2015

SUBJECT: Procurement Card Audit Report Dated December 11, 2014

Executive Summary

We have completed the Procurement Card (ProCard) audit as included in our FY 2014 annual audit plan. The objective of this audit was to perform an analytical review of ProCard spending for a sample of departments to ensure compliance with University policy. The audit focused on transactions for the period of June 1, 2013 through May 31, 2014.

We obtained ProCard transactions from Payment Card Services and performed analytical reviews using IDEA Data Analysis Software. This software allowed us to examine the transactions for items such as:

- transactions that exceeded the single purchase limit,
- cardholders with frequent near limit purchases,
- potential split payments,
- purchases made on weekends and holidays, and
- purchases made to unusual vendors.

ProCard spending and controls over cardholders generally appear to be in compliance with University policy and procedures; however, our tests indicated an instance where the ProCard was used to pay an installment payment to a vendor account balance. We also noted the need to review purchases that are near, within, and beyond the policy limit, and to reassess whether to maintain underutilized ProCards with only one or two transactions in a year.

The reportable findings and recommendations in this audit were deemed significant to the department or process. None of the findings are deemed as a “priority finding” to the University. A priority finding is defined as “*an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or*

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important operational objective of a UT institution or the UT System as a whole. Standard factors for determining a Priority Finding have been established in three categories: namely, Organizational Controls, Quantitative Risks, and Qualitative Risks.”

We appreciate the courtesy and cooperation we received from the Payment Card Services staff and the ProCard holders contacted during the audit. If you have any questions, please contact me at extension 2-2018.

cc: Dr. Ronald L. Elsenbaumer, UT Arlington, Provost and Vice President for Academic Affairs
Ms. Kelly Davis, UT Arlington, Vice President for Business Affairs and Controller
Mr. John Hall, UT Arlington, Vice President for Administration and Campus Operations
Ms. Julia Cornwell, UT Arlington, Senior Director of Procurement Services
Dr. Pedro Reyes, UT System, Executive Vice Chancellor for Academic Affairs
Mr. Alan Marks, UT System, Attorney – General Law Section
Mr. J. Michael Peppers, UT System, Chief Audit Executive
Ms. Moshmee Kalamkar, UT System, Audit Manager
Mr. Ed Osner, Legislative Budget Board
Mr. Jonathan Hurst, Governor’s Office of Budget, Planning and Policy
Internal Audit Coordinator, State Auditor’s Office
Mr. Ken Levine, Sunset Advisory Commission
Report File

Background Information

The ProCard program is authorized by Texas Procurement and Support Services through a contract with Citibank. UT Arlington ProCards are Citibank MasterCard. The ProCard program is designed to delegate authority and capability to purchase certain low-cost items directly from vendors, without customary purchasing department processes and procedures. Use of the ProCard significantly reduces the acquisition time and labor costs associated with the requirements to obtain purchase order numbers, process invoices for payments, and prepare large numbers of voucher/payment documents. Procedures for using the ProCard and maintaining the required documentation must be strictly followed. The ProCard program is described in Procedure 4-11, *Purchasing Card (ProCard) Program*. ProCards are assigned to individual employees and each employee is responsible for his/her credit card.

Merchant Category Codes (MCCs) are assigned to each ProCard transaction, which identifies the type of merchant. These codes can be used to restrict the use of the ProCard for certain merchant types.

Representatives from Payment Card Services of the Division of Business Affairs periodically visit all departments utilizing the ProCard to assess levels of familiarity with related procedures. Training is provided for new ProCard users, and monthly reviews of departmental ProCard transactions are conducted for indications of compliance issues.

Objectives

The main objective of this audit was to perform an analytical review of ProCard spending for a sample of departments to ensure compliance with University policy. Key sub-objectives included:

- perform analytical review of ProCard transactions to determine potentially inappropriate purchases;
- perform detailed testing on a sample of ProCard transactions to ensure compliance with University processes and procedures;
- determine whether ProCards for a sample of terminated or transferred employees were handled in accordance with University policy.

Scope and Methodology

Our examination was conducted in accordance with guidelines set forth in the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. These *Standards* set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance of audit work, and management of the internal auditing department. UT System policy UTS 129 titled "Internal Audit Activities" requires that we adhere to the *Standards*. The scope of this audit covered the ProCard transactions from

June 1, 2013 to May 31, 2014, consisting of 72,495 ProCard transactions with a total transaction amount of \$16,691,582.

We obtained ProCard transactions from Payment Card Services and performed analytical reviews using IDEA Data Analysis Software. This software allowed us to examine the transactions for items such as:

- transactions that exceeded the single purchase limit,
- cardholders with frequent near limit purchases,
- potential split payments,
- purchases made on weekends and holidays and;
- purchases made to unusual vendors.

Based on the results of our analysis, we selected samples for testing as identified below.

Audit Results

ProCard Transactions

Using the ProCard transactions file provided by Payment Card Services, we extracted the transactions based on the below criteria.

- Cardholders with
 - a. high dollar amounts and unusual number of transactions
 - b. even dollar purchases (split purchases)
 - c. frequent near limit purchases
 - d. multiple transactions to the same vendor on the same day and if they consist of one large purchase (checking for split payments)
- Transactions that exceeded the single purchase limit
- Seasonal purchases (immediately prior to major holidays, summer, fiscal year end, etc.)
- Purchases made on weekends
- Purchases to unusual vendors

From these extracted transactions, we judgmentally selected five samples from each criteria listed above. We reviewed the supporting documentation for each of the items in the sample and noted that these were approved by the department head, manager, or designee; included appropriate supporting invoices; were not on the list of disallowed purchases; and did not have any sales tax paid. Observations noted in our testing are as follows.

Procedure Violation

The Biology Department used the ProCard to pay an installment payment to a vendor account balance. The department established an account with a vendor and made payment to the account via the ProCard. This account should have been settled via a purchase order through

Procurement Services. As stated in Procedure 4-11, “*The ProCard program is designed to delegate authority and capability to purchase certain low-value items directly to the departmental account manager.*” Additionally, the policy states that “*cardholders may not split or divide purchases into amounts less than \$4,000 to circumvent the requirement to process a small dollar purchase order for purchases over \$4,000.*”

1. Recommendation:

The Biology Department should review Procedure 4-11, *Procurement Card Program*, to obtain a good understanding and use of the ProCard. The purpose of the ProCard is for purchasing certain low value items and not for settling accounts payable balances.

Management Response:

The Biology Department will conduct training for staff ProCard holders on Monday, February 16, 2015 at 10 am to review Procedure 4-11. The staff will attend a meeting and the faculty will be sent, via email, a copy of Procedure 4-11 for their review.

Target Implementation Date:

February 16, 2015

Responsible Party:

Department Chair and the Administrative Service Officer

Improved Monitoring Activity

Payment Card Services performs regular reviews of ProCard purchases per cardholder. The review includes verifying appropriate management approval and supporting invoices of the transactions. During our testing, we noted several instances where the ProCard Analyst/Reviewer identified potential violations and properly communicated with the department in question to resolve. We commend the ProCard Analyst/Reviewer on his increased level of review.

Payment Card Services, however, does not include in its regular review of ProCard transactions the review of single purchase limit that may indicate potential violation of procedures such as split payment and installment payment to vendor accounts. Part of our testing was to review the appropriateness of a single ProCard transaction that are near, equal to, and beyond the limit of \$4,000. We sorted the amount of the ProCard transactions for a given period to identify which transactions are near, equal to and beyond the limit of \$4,000. In particular, we noted that there was a \$4,000 single purchase transaction that was an installment payment to a vendor account (Observation #1).

2. Recommendation:

Payment Card Services should include in its regular review of ProCard transactions the verification of all single purchase transactions within a review period (e.g.,

monthly) that are near, equal to and beyond the official limit to determine their validity.

Management Response:

Single purchase transactions that are near, equal to and beyond a dollar transaction value of \$3800 and greater, will be reviewed using data downloaded from CitiBank. Payment Card Services will perform this task and review every month. Going forward, IDEA software will be purchased to assist with this verification of data.

Target Implementation Date:

January 31, 2015

Responsible Party:

Senior Director of Procurement

Underutilized ProCards 

We noted that there were 31 cardholders with only one or two transactions made from June 1, 2013 through May 31, 2014. Of the 31 cardholders, 18 cardholders had only one transaction and 13 cardholders had only two transactions during the year reviewed. These underutilized cards are exposed to the risk of card theft, identity theft, fraudulent purchases, losing the card, etc.

3. Recommendation:

Payment Card Services should review the listing of cardholders with minimal activity and consider cancelling the ProCards to reduce the risk of card theft, exposure to identity theft, fraudulent purchases, losing the card, etc.

Management Response:

The ProCard Analyst will perform a review of all cardholders' transactional history for the calendar year of 2014. For those cardholders that have 24 or less transactions in the previous year, the ProCard Analyst will send an email to the department head or equivalent, giving them the history of transactions, the risks of having the card, and the suggestion that the card be cancelled. If the department head or equivalent does not want the card cancelled, a written justification for retention will need to be provided and approved by the Provost or applicable vice president or designee. Procedure 4-11 will be amended for inclusion of this new process. Going forward, this review will be done at the beginning of each calendar year.

Target Implementation Date:

April 30, 2015

Responsible Party:
Senior Director of Procurement

Terminated and Transferred Employees

We obtained from the Human Resources department a list of terminated and transferred employees as of July 31, 2014. We judgmentally selected a sample of 10 employees to test to determine whether ProCards for terminated and transferred employees were handled in accordance with the University policy and procedures. We used IDEA software to analyze the ProCard transactions from June 1, 2014 through May 31, 2014 against the list of terminated employees and noted that there were no ProCard purchases made after the termination date of these employees. Using the list of cancelled ProCards obtained from Payment Card Services and the appointment history in UTShare, we noted that the ProCards of these selected sample transferred employees had been canceled prior to their respective termination dates.

Conclusion

ProCard spending and controls over cardholders generally appear to be in compliance with University policy and procedures; however, our tests indicated an instance where the ProCard was used to pay an installment payment to a vendor account balance. We also noted the need to review purchases that are near, within, and beyond the policy limit, and to re-assess whether to maintain underutilized ProCards with only one or two transactions in a year.

The reportable findings and recommendations in this audit were deemed significant to the department or process. None of the findings are deemed as a “priority finding” to the University. A priority finding is defined as “*an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole. Standard factors for determining a Priority Finding have been established in three categories: namely, Organizational Controls, Quantitative Risks, and Qualitative Risks.*”

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