



UNIVERSITY OF
TEXAS
ARLINGTON

PROCUREMENT CARD AUDIT – ANALYTICAL REVIEWS

OCTOBER 14, 2013

INTERNAL AUDIT DEPARTMENT
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MEMORANDUM

TO: Dr. Vistasp M. Karbhari
President

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

DATE: November 26, 2013

SUBJECT: Procurement Card Audit - Analytical Reviews Report
Dated October 14, 2013

Executive Summary

We have completed the Procurement Card Audit - Analytical Reviews as included in our FY 2014 annual audit plan. The objective of this audit was to perform an analytical review of Procurement Card (ProCard) spending for a sample of departments to ensure compliance with University policy. The audit focused on transactions for the period of June 1, 2012 through May 31, 2013.

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

- High dollar purchases;
- Potential split payments;
- Cardholders with frequent near limit purchases and;
- Multiple transactions to the same vendor.

Using the results of the analysis, we selected a judgmental sample of 20 cardholders from 12 departments for review.

ProCard spending and controls over cardholders generally appear to be in compliance with University policy and procedures; however, our tests indicated an instance of a split purchase, a missing Purchasing Card Transaction Log, and inconsistent notification to Procurement Services when cardholders terminate or transfer to other departments.

We appreciate the courtesy and cooperation we received from the Procurement Services staff and the ProCard holders contacted during this audit. If you have any questions,

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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, Director of Procurement Services
Dr. Perry Fuchs, UT Arlington, Chair, Department of Psychology
Mr. Jim Baker, UT Arlington, Director of Athletics
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 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 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* and *Generally Accepted Government Auditing Standards*. The *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. UTS 129 titled "Internal Audit Activities" require that we adhere to the *Standards*. The scope of this audit covered transactions from June 1, 2012 to May 31, 2013.

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

- High dollar purchases;
- Potential split payments;
- Cardholders with frequent near limit purchases and;
- Multiple transactions to the same vendor.

Using the results of the analytical review, we selected a judgmental sample of 20 cardholders from 12 departments. The results of our review are noted below.

Audit Results

We examined three months of transaction logs selected judgmentally for each of the 20 cardholders in the sample and tested the transactions listed on the logs and related documentation against the following attributes:

- Valid business purpose
- Purchase within the maximum \$4,000 (\$2,000 prior to January 1, 2013)
- Purchase was not on the list of disallowed purchases
- Vendor was not on the State of Texas warrant hold list
- Verify that state sales tax was not paid on purchases
- Transaction was not a prohibited split purchase

In addition, we tested the transaction logs for these additional attributes:

- Cardholder maintains a transaction log, properly completed
- The transaction log is reconciled to the VP7 Payment Voucher screens in DEFINE
- Appropriate supporting documentation is maintained in support of the purchases
- The transaction log is reconciled, approved, and dated by the department head, manager or designee
- The DEFINE VP7 ProCard Payment Voucher was approved by the appropriate level authority and proper segregation of duties exist in the department

Also, we tested controls over:

- The cancellation of ProCards for cardholders who terminated their employment
- The initiation of change in departmental information and account numbers for cardholders transferred to other departments

Testing results were satisfactory for the attributes tested with the exception of the following:

Split Purchase

We identified two transactions of \$1,192.45 for a single purchase entered into DEFINE on September 19, 2012 for a Department of Psychology cardholder. The purchase appears to have been split based on the single invoice for \$2,384.90 in the supporting documentation. Splitting the purchase circumvents the University's requirement to process a purchase order for purchases in excess of the procedural limit and avoids additional management review and approval of the purchase. The maximum purchase limit for a single ProCard purchase at the time was \$2,000.

1. Recommendation:

The Associate Professor of Psychology should review Procedure 4-11, *Purchasing Card (ProCard) Program, Section II: ProCard Restrictions and Use*, to ensure he has a good understanding of the requirements associated with ProCard use, especially concerning split payments. Additionally, those persons in the Psychology Department who are charged with reviewing the cardholder's Purchasing Card Transaction Logs should be more vigilant and watch for evidence of split transactions.

Management Response:

The Chair of the Department of Psychology will ensure that the review of Procedure 4-11 is completed by October 21, 2013.

Target Implementation Date: October 21, 2013

Responsible Party: Interim Chair, Department of Psychology

Missing Purchasing Card Transaction Log

The Department of Athletics could not locate the August 2012 Purchasing Card Transaction Logs and related documentation for a cardholder. Typically, the August transaction log is split in two parts, August 1 to August 15 and August 16 to August 31, due to year-end. Due to the missing transaction logs, unauthorized, prohibited, and split purchases may go undetected by management - resulting in a loss to the University.

2. Recommendation:

Department of Athletics management should ensure that all transaction logs for each ProCard holder in Athletics are turned in for review monthly by the cardholders and maintained in a central location in the department. If management detects missing

transaction logs, the cardholder should be responsible to recreate the log and obtain all related documentation.

Management Response:

The Athletic Director immediately revoked the privileges of the cardholder in question upon these findings. A specially called meeting for all Procurement cardholders was held, stressing the importance of proper recordkeeping, and keeping in compliance with University policies and procedures, for the use of these types of purchases. A signed acknowledgement of all who attended has been included. In a departmental staff meeting, the importance of this issue was made known to the complete Athletic Department staff. After a monthly review of all transactions, the Athletic Director will be given a list of any cardholders who have not met these agreed upon policies. The University Compliance Officer attended the last staff meeting and addressed some of these issues and will be attending the next staff meeting to go into further detail reviewing the University policies and procedures.

Target Implementation Date: October 1, 2013

Responsible Party:

Director of Intercollegiate Athletics
Senior Associate Athletic Director for Finance and Administration
Associate Athletic Director for Business and Operations

Cardholder Termination and Transfer Process

Departments do not always contact Procurement Services when cardholders terminate or transfer to other departments as described in Procedure 4-11, *Purchasing Card (ProCard) Program: Section IX: Cardholder Termination or Transfer*. ProCards could be lost, stolen, or misused by the terminated or transferred cardholders leading to unauthorized purchases and potential losses to the University.

3. Recommendation:

Procurement Services should send a communication to University management reminding them about the ProCard cardholder termination and transfer process as described in Procedure 4-11, *Purchasing Card (ProCard) Program: Section IX: Cardholder Termination or Transfer*.

Management Response:

After a careful review of Section IX in Procedure 4-11, Procurement Services recommends amending subsection B, which applies to cardholders transferring from one department to another. The proposed verbiage is as follows:

“B. When a cardholder transfers from one department to another, the ProCard will be cancelled. The department that the employee is transferring from must notify Procurement Services to initiate the cancellation. To take the appropriate actions for the employee to receive a new ProCard for the new department, please see Section I of this procedure.”

Additionally, a communication will be disseminated to University regarding the procedure for ProCard cardholder termination and revised procedure for transfers.

Target Implementation Date: November 26, 2013

Responsible Party: Director, Procurement Services

Conclusion

ProCard spending and controls over cardholders generally appear to be in compliance with University policy and procedures; however, our tests indicated an instance of a split purchase, a missing Purchasing Card Transaction Log, and inconsistent notification to Procurement Services when cardholders terminate or transfer to other departments.

We appreciate the courtesy and cooperation we received from the Procurement Services staff and the ProCard holders contacted during this audit.