Procurement Card Audit

Audit Report # 14-07
August 29, 2014

Office of Auditing and Consulting Services

"Committed to Service, Independence and Quality"
August 29, 2014

Dr. Diana Natalicio
President, University of Texas at El Paso
Administration Building, Suite 500
El Paso, Texas 79968

Dear Dr. Natalicio:

The Office of Auditing and Consulting Services has completed a limited scope audit of the University’s procurement card program.

We also have included a follow-up review of the recommendations included in the Procurement Card Audit Report #12-20 dated October 8, 2012, and Miner Mall Procurement System Audit Report #11-30 dated June 28, 2012, which are documented in Appendix A and Appendix B, respectively.

We appreciate the cooperation and assistance provided by the Purchasing Office throughout our review.

Sincerely,

Lori N. Wertz
Interim Director
Report Distribution:

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EXECUTIVE SUMMARY

The Office of Auditing and Consulting Services has completed a limited scope audit of Procurement Card (Pro-Card) transactions for the period of September 1, 2012 through April 30, 2014. The objective of this audit was to determine whether the audited areas are in compliance with institutional policies and procedures.

During the audit, we noted:

- ProCards are used to purchase controlled assets.
- ProCard transactions are not consistently reviewed at the department level.

In addition to the audit, we have included two follow-up reviews:

- the Procurement Card Administration Audit Report #12-20 recommendations dated October 8, 2012, and

The results are outlined in Appendix A and Appendix B, respectively.
BACKGROUND

The University of Texas at El Paso (UTEP) procurement card (Pro-Card) program is a fast, flexible method of processing low dollar purchases from vendors that accept the MasterCard credit card. The Pro-Card allows cardholders to purchase unrestricted commodities of $1,000 or less directly from vendors without issuing purchase orders.

A transaction includes the purchase price, shipping, handling and any other related charges. Purchases greater than the approved single transaction limit will automatically be declined by the bank. The split of large purchases into smaller purchases is not allowed.

The Procurement Card normally allows three violations or strikes before action is taken to cancel or suspend the card, depending on the severity of the policy violation. The Program Administrator (Administrator) is responsible for the overall administration of the Pro-Card program and will notify the cardholder in violation when a strike is issued. Upon receiving three strikes, the Administrator will make the determination to cancel or suspend the Procurement Card.

During the audit period, there were a total of 208 separate Pro-Card holders with aggregate transactions totaling $2,166,683.28. Monthly expenditures range from $74,500 to $174,799 (see table below), with an average transaction amount of $84.06.
AUDIT OBJECTIVES

The objective of this audit was to determine whether the Pro-Card program is operating in compliance with the institutional policies and procedures.

SCOPE AND METHODOLOGY

The audit scope covered Pro-Card transactions occurring between September 1, 2012 and April 30, 2014.

Audit methodology included the use of Computer Aided Auditing Techniques, reviewing the department’s policies and procedures, interviewing key personnel, and reviewing supporting documents.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.
AUDIT RESULTS

A: Unallowable Purchases
According to the University Handbook of Operating Procedures, Chapter 3-University-Owned Property and Equipment, 3.2-Reporting Requirements guidelines: “All new institutional property with a value of more than $500 will be tagged with a UTEP property tag, assigned an inventory number and placed on the official inventory records maintained by the Property Manager. Items valued from $10.01 through $500 shall be tagged with a UTEP property tag without an inventory number.” Failure to properly record inventory could result in theft, loss, damage, or misuse of assets.

We obtained a download of all transactions from Purchasing and General Services. Using IDEA Data Analysis Software, we analyzed the Purchase Item Description field for unallowable purchases and controlled assets over $500 as outlined in the Procurement Card Manual.\(^1\) The results of the analysis are summarized in the table below.

Additionally, we identified 27 iPods purchased. Although iPods are not controlled assets, they are unallowable purchases.

\[\begin{array}{|c|c|} 
\hline
\text{Item Purchased} & \text{Count} \\
\hline
\text{Tablet} & 7 \\
\text{HDTV} & 2 \\
\text{Camera} & 1 \\
\hline
\end{array}\]

\textbf{Recommendation:} The Purchasing Department should continue to monitor for the purchase of controlled assets. Departments purchasing equipment should be required to contact the Property Manager to arrange for the items to be tagged and recorded on the official institutional property inventory.

\textbf{Management Response:}
The Purchasing Department will continue to monitor the purchase of controlled assets and approve purchases on a case-by-case basis. Once the purchase of a controlled item is identified Purchasing will notify the inventory department of the transaction via email; the ProCard holder and the Inventory Supervisor will be copied on the email. Copy of email will be added to the file of the ProCard holder.

\textbf{Responsible Party:} ProCard Administrator

\textbf{Implementation Date:} October 1, 2014

\(^1\) Completion of the Purchase Item Description field is dependent upon vendor capabilities. The field was completed for 62% (15,980) transactions.
B: Testing of Individual Transactions
229 transactions totaling $47,554.64 were reviewed for the following attributes:

- transaction log is reconciled, approved and dated by the cardholder, reconciler and supervisor,
- purchase was not on the list of unallowable purchases,
- original receipts were kept on file, and
- state sales tax was not paid.

The following attributes were also tested if applicable:

- purchase was shipped to a University address, and
- food was exemption on file for food purchases.

The results of the testing are summarized in the table.

<table>
<thead>
<tr>
<th>Issue Found</th>
<th># of Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not reviewed</td>
<td>34</td>
</tr>
<tr>
<td>Unallowable purchase</td>
<td>6</td>
</tr>
<tr>
<td>Missing original receipt</td>
<td>5</td>
</tr>
<tr>
<td>Shipped to a home address</td>
<td>19</td>
</tr>
</tbody>
</table>

Failure to properly monitor ProCard transactions could result in theft or misuse of University assets.
Recommendation: The Purchasing Department should continue to emphasize the importance of the departmental review of all ProCard transactions. The ProCard Administrator should conduct spot checks of departments.

Management Response: The Purchasing Department will continue to conduct random reviews of ProCard transactions on a monthly basis. The Purchasing Department will continue to utilize IDEA Software to assist in identifying unallowable purchases. The Purchasing Department will randomly select three ProCard holders on a monthly review and conduct an audit of all transactions for the previous months.

Responsible Party: ProCard Administrator

Implementation Date: October 1, 2014

C: Fraud Testing

Using data analysis software, all transactions were reviewed for the following:

- multiple merchants using the same address, and
- improper reimbursements to employees.

No exceptions were noted.
CONCLUSION

We wish to thank the staff of Purchasing and General Services for their assistance and cooperation provided during the audit.
APPENDIX A

FOLLOW-UP ON PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The items below represent recommendations made by the Office of Auditing and Consulting Services for Audit#12-20.

Follow-up audit procedures included interviewing key personnel, reviewing documents, and limited testing of processes to determine the status of each recommendation. Based on our audit results we have assigned one of the following status descriptions to each recommendation:

(I) - Implemented:
The recommendation has been implemented or an alternative corrective action has been taken.

(IP) - In Progress:
The recommendation has been initiated but is not complete.

(NI) - Not Implemented:
The recommendation has not been implemented and no corrective action has been taken.

(N/A) - Not Applicable:
The recommendation is not applicable due to changes in procedures.

Recommendation Status:
The follow-up audit was limited to the three recommendations from Audit Report #12-20.

- Two recommendations were fully Implemented.
- One recommendation was In Progress.
FINDINGS IN PROGRESS OR NOT IMPLEMENTED

Follow-up audit procedures on original audit recommendations that resulted with a status of *In-Progress* or *Not Implemented* are as follows:

**Monitoring of ProCard Holders**

*Current Status: In Progress*

**Recommendation:**
The Administrator should strengthen the process of identifying terminated cardholders to ensure that ProCards are cancelled in a timely manner.

**Follow-up Audit Results:**
Using data analytics, the list of current ProCard holders was compared to current employee assignments. Test work revealed that the ProCard for one individual was terminated 39 days after the employee separated from the University.

**Revised Implementation Date: October 1, 2014**
APPENDIX B

FOLLOW-UP ON PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

Follow-up audit procedures included interviewing key personnel, reviewing documents, and limited testing of processes to determine the status of each recommendation. Based on our audit results we have assigned one of the following status descriptions to each recommendation:

(I) - Implemented:
The recommendation has been implemented or an alternative corrective action has been taken.

(IP) - In Progress:
The recommendation has been initiated but is not complete.

(NI) - Not Implemented:
The recommendation has not been implemented and no corrective action has been taken.

(N/A) - Not Applicable:
The recommendation is not applicable due to changes in procedures.

Recommendation Status:
The follow-up audit was limited to the one recommendation from Audit Report #11-30.

- One recommendation was In Progress.
FINDINGS IN PROGRESS OR NOT IMPLEMENTED

Follow-up audit procedures on original audit recommendations that resulted with a status of In-Progress or Not Implemented are as follows:

Payments in Excess of Purchase Order

Current Status: In Progress

Recommendation:
Both Purchasing and Accounts Payable should compare the invoices with purchase orders to ensure that payments made do not exceed the approved contract amounts. Any adjustments to the purchase order should be documented via a change order prior to disbursement of funds. Additionally, Purchasing should work with SciQuest to include shipping and handling charges on purchase orders.

Follow-up Audit Results:
Using data analysis, a sample of five completed Purchase Orders were chosen for testing. The purchase orders were compared to payment amounts to determine if payments exceeded contract amounts.\(^1\) The results are summarized in the table below.

<table>
<thead>
<tr>
<th>Reason for Difference</th>
<th>Number</th>
<th>Overage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change Order should have been requested</td>
<td>1</td>
<td>$2,132.00</td>
</tr>
<tr>
<td>Overpayment</td>
<td>1</td>
<td>$2,348.00</td>
</tr>
<tr>
<td>Shipping and Handling</td>
<td>2</td>
<td>$2,705.00</td>
</tr>
</tbody>
</table>

\(^1\) The overpayment was collected August 11, 2014.

The Purchasing Department should continue to educate users of the importance of including applicable shipping estimates in their purchase orders.

Revised Implementation Date: April 30, 2015.