January 7, 2015

To: Giuseppe N. Colasurdo
   President

From: Daniel G. Sherman, MBA, CPA, CIA
       Assistant Vice President

Re: Report on UTHealth BuyCard Program Overview #15-116

We have completed our audit of UTHealth BuyCard Program Overview. This audit is part of our fiscal year 2015 audit plan and was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

The UTHealth BuyCard Program (BuyCard Program) provides faculty & staff with an alternative form of payment for purchases of goods and services that are not available through other purchasing methods such as the eProcurement catalog. The use of BuyCards significantly reduces the acquisition time and labor costs associated with obtaining purchase orders, processing invoices and preparing voucher payments.

BuyCards are issued by Citibank, carry the MasterCard brand, and can be used to make purchases from any supplier who has an active vendor code within FMS. The card can be used at a supplier's place of business, over the telephone or on a website. A BuyCard is issued to an individual employee, who is the only individual allowed to use the card and is responsible for taking appropriate measures to ensure the card and account number are not lost or otherwise compromised.

The objective of this audit was to determine whether controls over the BuyCard Program at UTHealth are working as intended.

Auditing and Advisory Services (A&AS) reviewed relevant policies and procedures, interviewed individuals responsible for the administration of BuyCard compliance and performed a walk-through of the oversight process. A&AS also obtained a list of cardholders and a download of transactions for the period of September 1, 2013 through August 31, 2014. A judgmental sample of transactions was then selected for testing.
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Based on our walk-through, the BuyCard Team monitors transactions on a daily basis to ensure compliance with program requirements. This is achieved by reviewing daily transaction downloads received directly from Citibank. The BuyCard Compliance Coordinators monitor for restricted charges, charges exceeding the established limit or the splitting of charges in an attempt to circumvent the single purchase limit amount, lack of requisition entry, missing receipts/statements, and improper statement reconciliation.

A&AS selected a random sample of 10 days during FY 2014. For each of the days selected, we obtained the Citibank daily transaction download. As stated above, the BuyCard Compliance Coordinator reviews the transaction download and identifies transactions that potentially fall into one of the prohibited categories. When a restricted item or potentially non-compliant purchase is identified, the cardholder is notified by the BuyCard Compliance Coordinator requesting the cardholder to provide additional information and support for the purchase. If the purchase is determined to be non-compliant, the cardholder is subject to probation. Accounts that have been placed on probation are periodically reviewed to ensure compliance issues do not reoccur and are subject to further disciplinary action including possible suspension or revocation of cardholder privileges.

For the sample days selected, we examined the daily downloads in order to verify a review was performed by the BuyCard Compliance Coordinator. We noted the number of transactions to be reviewed by the coordinator ranged from 100 to 800 transactions, with an average of approximately 300 transactions per download. We selected the transactions identified by the BuyCard Compliance Coordinator during his/her review that were possibly non-compliant or identified as needing additional information. We reviewed emails and other supporting documentation to verify transactions in question were adequately supported and satisfactorily resolved. Based on our testing, the transactions in our sample were determined to be appropriate and within the BuyCard Program Guidelines.

In addition to the daily monitoring of transactions, policy indicates the BuyCard Team is also to perform a review of each cardholder’s file on a two-year cycle after the card issue date to ensure compliance with established policies and procedures. During this review, the BuyCard Compliance Coordinator is to complete a BuyCard Compliance Checklist, which scores the respective cardholder in several categories regarding their compliance to the BuyCard Program requirements.

We selected a judgmental sample of 10 cardholders and reviewed their BuyCard Compliance Checklists to determine whether BuyCard compliance reviews were performed timely. The cardholders selected were chosen based on their card issue date and/or their last review date.

In each sample item, the period between review of the cardholder’s file by the BuyCard Compliance Coordinator and the card issue date/last review date was greater than two years. We also noted scoring inconsistencies during the BuyCard Team review process. For example, some cardholders received the same score while having a different number of non-compliance issues identified on the checklist.

Because all 10 items in our sample exceeded the established two-year review period, a second sample was selected. In the second sample, we noted for eight of the 10 sample items, the
period between review of the cardholder's file and the card issue date/last review date was also greater than two years.

These issues were discussed with Procurement Services management and changes were implemented to improve these processes prior to the conclusion of our fieldwork. Specifically, a vacant position within the BuyCard Team was recently filled and is in the process of receiving training, which should ensure more timely performance of the two-year cycle reviews. In addition, the BuyCard Compliance Checklist was reformatted and the scoring methodology changed to formalize the cardholder rating calculations. This change removes the subjective elements previously used to score cardholders. We believe the addition of departmental personnel and the new scoring methodology should ensure reviews are performed more timely and are scored consistently.

We judgmentally selected transactions for testing. We focused on certain risk factors in selecting our sample, such as purchases over established transaction limits, split transactions in same day or multiple dates, even-dollar amounts ($1,200, $1,400, etc.), made from the same buyer to the same vendor on separate dates, nonstandard workdays, from discount or foreign vendors, and high-dollar amounts. Based on our testing, we determined all of the sample transactions selected were allowable, reasonable and for business purposes. However, some exceptions related to the payment of state sales tax on certain transactions were noted.

UTHealth’s HOOP Policy 73, Payment of Taxes, states: “As an agency of the State of Texas, The University of Texas Health Science Center at Houston ("university") is exempt from payment of certain taxes, including but not limited to Federal Excise Tax, State of Texas Sales Tax, and State of Texas Hotel Occupancy Tax. Accordingly, it is the policy of the university that such taxes should not be paid by any representative of the university.”

Included in our review was a test to ensure sales tax was not paid on BuyCard purchases. From our initial sample, 4 out of 25, or 16% had sales tax listed. The process when sales tax is included is the person responsible for reconciling the charge to request a credit of the sales tax. We performed additional work to identify whether this process was followed. We noted 112 purchases had sales tax totaling approximately $2,500 included in the original purchase price. We reviewed the 10 highest sales tax amounts totaling $1,100 and found $730 had been credited.

Overall, we found UTHealth has a policy concerning sales tax and has developed and implemented a process to provide reasonable assurance sales tax is not paid on BuyCard purchases. We suggest Procurement Services conduct an awareness campaign to remind cardholders the sales tax exempt number is printed on the front of the BuyCard so that future payment of state sales tax does not occur.

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The current administration has developed and implemented processes that provide reasonable assurance over UTHealth's BuyCard Program. Currently, Procurement Services is monitoring transactions on a daily basis. Although we noted exceptions with the two year compliance reviews and related scoring methodology, we believe the enhancements implemented prior to the conclusion of our fieldwork related to this area should strengthen controls to ensure cardholders adhere to the BuyCard Program requirements.

A suggestion was made to conduct an awareness campaign regarding UTHealth's exemption from state sales tax.

We would like to thank the Procurement Services team, and the individual cardholders who assisted us during our review.

DGS:wng

Issue Date: January 21, 2015

cc: Audit Committee
    Mike Tramonte
    Danny Rawson