MEMORANDUM

TO: Michael R. Shriner  
    Vice President, Business Operations & Facilities

FROM: Kimberly K. Hagara, CPA, CIA, CISA, CRMA  
      Associate Vice President, Audit Services

DATE: December 8, 2014

SUBJECT: Procurement Card Program Oversight and Monitoring Processes Audit Engagement Number 2014-017

Attached is the final report regarding the Procurement Card Program Oversight and Monitoring Processes audit. This audit will be presented at the next Institutional Audit Committee meeting.

Additionally, please find attached Audit Services audit recommendation follow up policy. Each of the recommendations is classified by type at the end of its identifying number: Significant (S), Risk Mitigation (R), or Process Improvement (P). As you will note in the policy, the classification of the recommendation determines the frequency of our follow up. All follow up results are reported quarterly to the Institutional Audit Committee.

Thank you for your cooperation and assistance during the course of this review. If you have any questions or comments regarding the audit or the follow-up process, please feel free to contact me at (409) 747-3277.

Attachments

c: Cheryl A. Sadro  
   Patrick J. Michaelski
The University of Texas Medical Branch
Audit Services

Audit Report

Procurement Card Program
Oversight and Monitoring Processes

Engagement Number 2014-017

December 2014

The University of Texas Medical Branch
Audit Services
301 University Boulevard, Suite 4.100
Galveston, Texas 77555-0150
Procurement Card Program Oversight and Monitoring Processes Audit
Engagement Number: 2014-017

Background
A “procurement card” is a form of company charge card allowing for the procurement of goods and services without using a traditional purchasing process. Procurement cards can help an organization reduce purchasing processing costs while also offering convenient, direct access to needed items. State of Texas agencies are eligible to participate in the “State of Texas Corporate Charge Card Program” administered by the State Comptroller of Public Accounts through a contract with Citibank.

The University of Texas Medical Branch (UTMB Health) participates in the State’s procurement card program with approximately 184 active cardholders. The Academic Enterprise accounts for 63% of total cardholders. Institutional fiscal year (FY) 2014 procurement card purchases totaled approximately $1.5 million, 79% of which was expended by Institutional Support cardholders.

Business Operational and Facilities’ administrative division, the Office of Finance and Budgets, administers UTMB Health’s procurement card program and has responsibility for:

- Enrolling select employees in the program
- Training cardholders
- Terminating cards
- Monitoring card usage for compliance with institutional policies and procedures
- Maintaining enrollment and agreement forms
- Serving as the institutional liaison between cardholders, vendors, and Citibank

Procurement cards, or “procards”, are issued to an individual employee responsible for all transactions made with his/her card. The cardholder’s direct access to goods and services without the checks and balances found in traditional purchasing practices increases the risk for fraud, abuse, and misuse. To help mitigate these risks, an effective procurement card program should contain a system of protective controls including documented policies and procedures, card transaction limits, monthly spending limits, and blocks on unauthorized merchant categories (merchant category codes – MCCs) as well as detective controls through active monitoring and oversight activities.
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Audit Objectives
The primary objective of this audit is to assess the adequacy and effectiveness of the established oversight and monitoring processes for the Procurement Card Program.

Scope of Work and Methodology
The scope included current Procurement Card Program monitoring and oversight activities as well as transactions during the time period of September 1, 2013 – August 31, 2014. Our audit methodology included interviewing key personnel, review of relevant documentation, data analysis and limited testing.

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

Audit Results
Program Overview
Individuals interested in obtaining a procard complete a “Procurement Card Enrollment” form which must be signed by the applicable department leader/executive and submitted to the Procurement Card Program Administrator. Additionally, the prospective cardholder must attend a procard training session and sign a “Cardholder Procurement Card Agreement” form verifying they have read the guidelines and understand their responsibilities as a procurement cardholder, including the maintenance of a transaction log documenting all card activity.

Each department utilizing a procard has a “Department Coordinator” who serves as a liaison between the Program Administrator and the cardholder. Additionally, the Department Coordinator verifies all charges are backed up by supporting documentation which is retained in the department. The third key individual within the program is the “Reviewer” who is responsible for sampling and testing procard transactions to verify that they are appropriate and supported by adequate documentation. UTMB Health’s Procurement Card Program Administrator also serves as the Reviewer.

Program Governance
Organizational Placement
The Business Operations and Facilities (BOF) Office of Finance and Budgets oversees all aspects of the procurement card program. The Purchasing Department within BOF’s Supply Chain division oversees all other aspects of the procurement process. While both areas reside under the BOF umbrella, Audit Services’ benchmarking with peer institutions and review of best practices indicates, generally, all procurement activities should be housed within the single division responsible for purchasing.

Recommendation 2014-017-01-R:
Business Operations and Facilities leadership should consider organizationally aligning the Procurement Card Program within the Purchasing Department.
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Management's Response:
We concur with the realignment of the Procurement Card Program to be within the Purchasing Department scope.

Implementation Date: August 31, 2015

Control Environment
An effective procurement card program includes sufficient internal controls to mitigate risks of card misuse or abuse. These controls should include both protective/preventive and detective controls.

Protective/Preventive Controls
Policies and Procedures
Detailed policies and procedures provide guidance to help ensure consistent compliance with program and management directives. The Logistics Procurement Card Program Citi Bank Manual appeared to contain sufficient, detailed information for users; however, Audit Services noted several instances during our testing where current practice was not aligned with established policies such as applications no longer need approval by the Executive Director of Supply Chain & Chief Purchasing Officer as stated in the manual.

Recommendation 2014-017-02-R:
The Procurement Card Program Administrator should review the existing procard policies and procedures with current operational activities and purchasing compliance requirements, updating them as needed. All updates should then be distributed to all appropriate individuals.

Management's Response:
The Procurement Card Administrator will coordinate with UTMB Procurement a current review the existing procard policies and procedures with current operational activities and purchasing compliance requirements and make appropriate updates as needed. We will also compare our policy and procedures to best practices as well as other UT System component’s policies and procedures. Any revised policies and procedures will be distributed to the appropriate parties upon completion.

Implementation Date: March 31, 2015

Expenditure Limitations
Well-designed procurement card programs establish cardholder transaction limits, monthly spending limits, and blocks on unauthorized merchant category codes. Audit Services interviews and review of pertinent documentation indicated UTMB Health’s procurement card program includes all three elements.
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Detective Controls

Administrative Forms Management
Participation in UTMB Health’s procard program requires the completion of three forms. The prospective cardholder must complete an Enrollment form and an Agreement form acknowledging their completion of training and acceptance of responsibility for card purchases. The Department Coordinator must sign a similar Agreement form acknowledging responsibility for activities related to their role in the program.

Audit Services testing of a sample of 30 cardholders indicated the following:

- Enrollment Forms
  - 1 form could not be located
  - 16 of 29 forms available (55%) lacked department head signatures
  - 1 form was signed and approved by cardholder as the department head

- Cardholder Agreement Forms:
  - 5 forms could not be located
  - 9 of 25 forms available (36%) lacked department head signatures

- Department Coordinator Agreement Forms
  - 2 forms could not be located
  - 9 of 28 available forms (32%) lacked department head signatures

Based on the testing results, opportunities exist to improve current processes related to forms completion and retention.

**Recommendation 2014-017-03-P:**
The Procurement Card Program Administrator should develop and implement a forms management process to ensure all required forms are appropriately completed and maintained.

**Management’s Response:**
Management’s Response: The Procurement Card Administrator will develop and implement a forms management process to ensure all required forms are appropriately completed and maintained. We will re-authorize current cardholder accounts by sending out the three forms to cardholders to fill out and re-submit to the Procurement Card Administrator. Working with UTMB Procurement we will ensure the appropriate manager level is authorizing the procurement card within their purview. We will also validate the forms are completed and there is no missing information.

**Implementation Date:** March 31, 2015
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Reconciliation of Internal and Citibank Cardholder Information
The Procard Program Administrator is responsible for cardholder enrollment, maintaining a list of cardholders, and termination of cards. Audit Services selected a sample of 135 cardholders from the Administrator’s internal list and compared them with cardholder data maintained by Citibank. We noted Citibank listed 5 active cardholders not on the Administrator’s list. Similar discrepancies were noted for suspended cards.

Recommendation 2014-017-04-R:
The Procurement Card Administrator should reconcile internal cardholder listings with the Citibank listing on a monthly basis.

Management’s Response:
The Procard Administrator will reconcile on a monthly basis the Citibank listing to the internal cardholder listing.

Implementation Date: December 15, 2014

Cardholder Practices
Procurement Card Program policies and procedures state only the cardholder whose name is embossed on the card is authorized to use that card and monthly transaction logs are to be maintained and reviewed. Audit Services review of card transaction logs of the top three users and interviews with key personnel indicated one cardholder allows the Department Coordinator to use the holder’s card. Additionally, one cardholder did not keep transaction logs indicating the Department Coordinator was not fulfilling their monthly monitoring responsibilities. The results of this limited testing could indicate more widespread non-compliance with established policies.

Recommendation 2014-017-05-R:
The Procurement Card Program Administrator should consider developing and implementing a periodic retraining program for both cardholders and Department Coordinators. Such program could be offered via the institution’s Enterprise Learning Management (ELM) system.

Management’s Response:
The Procurement Card Administrator will develop and implement a refresher training program for existing cardholders and Department Coordinators. We will explore the best and most expeditious way to offer this training, either in a classroom setting and/or through the institution’s Enterprise Learning Management (ELM) system.

Implementation Date: April 30, 2015

Monitoring Activities
Audit Services noted current procard program monitoring activities include a monthly bank reconciliation performed by the Program Administrator and a monthly review of cardholder
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transactions performed by the cardholder’s assigned Department Coordinator. Additionally, the Procard Administrator performs a semi-annual transaction log and receipts audit by selecting a random sample of 10% of the cardholder population and reviewing the transaction log and receipts associated with one month’s worth of transactions. While these activities provide some level of assurance, industry best practices strongly advocate the use of technology/data analytics to provide more monitoring coverage and identify potential cardholder use issues.

Assisted by the University of Texas System Audit Office Data Analytics division, Audit Services performed the following analyses of FY 2014 transaction data:

- **Transaction Limit Exceeded $2,000** – Fifty-four transactions were identified as exceeding the established transaction limit. Audit Services reviewed a sample of 12, noting that documented approval to exceed the limit was available at the completion of our fieldwork for four of the 12 tested (33%).

- **Monthly Limit Exceeded $20,000** – Three instances were identified where a card exceeded the monthly card limit. No documentation was available at the completion of our fieldwork supporting approval for the cardholder to exceed the monthly expenditure limits.

- **Prohibited Expenditures** – Unless exempted by the Procard Administrator, cardholders are prohibited from purchasing certain goods and services with their cards. This prohibition is established at the card level based on the assigned merchant category code (MCC). Some cardholders are granted permanent exemptions whereas others may receive an “ad hoc” exemption based upon a specific request/need/purchase. Audit Services attempted to identify potential prohibited expenditures; however, a definitive list of prohibited MCC codes which would allow for testing was unavailable at the time of our fieldwork. Additionally, Audit Services noted UTMB Health’s procard policy related to prohibited expenditures does not readily map to all of the vendor descriptions used by Citibank. For example:

<table>
<thead>
<tr>
<th>MCC (Merchant Category Code) List</th>
<th>UTMB Health Procard Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hardware, plumbing, heat equipment and supplies (Business to Business MCC)</td>
<td>Equipment regardless of cost</td>
</tr>
<tr>
<td>Postal services</td>
<td>Postage and Postage Items</td>
</tr>
<tr>
<td>Drugs, drug proprietyan’s, and druggists’ sundries</td>
<td>Any controlled or prescription drugs</td>
</tr>
<tr>
<td>Automotive tire stores</td>
<td>Motor fuel, lubricants, tires and tubes</td>
</tr>
</tbody>
</table>

- **Potential Split Transactions** – Audit Services analysis indicated a total of 176 potential transactions split to avoid the established daily dollar limits.
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Recommendation 2014-017-06-R:
Business Operations and Facilities leadership should explore the feasibility of acquiring a data analytics tool to augment and expand current monitoring activities.

Management’s Response:
Business Operations and Facilities leadership will acquire a data analytics tool to augment and expand current monitoring activities. We will also work with Citibank to explore what additional information or tools they have that would assist with data analytics.

Implementation Date: April 30, 2015

Recommendation 2014-017-07-R:
Procard Program leadership should ensure internal policies related to prohibited expenditure categories are in sync with the categories promulgated under the State’s procard program. Additionally, internal policies should reflect current allowable and prohibited expenditure categories along with a process for requesting, approving, and documenting purchasing exceptions granted to individual card holders.

Management’s Response:
Procard Program leadership will review internal policies and make sure the policies reflect UTMB prohibited expenditure categories. We will establish a formalized process for requesting, approving and documenting purchasing exceptions granted to individual card holders.

Business Operations and Facilities Executive leadership will immediately review current permanent card holder exceptions to policy and procedures. Any permanent exceptions deemed unnecessary will be rescinded. Exceptions based on operational needs will be accessed, documented, and reviewed on an annual basis.

Beginning with December activity, Business Operations and Facilities Executive leadership will begin monthly reviews of all exceptions granted during the month and expenditures.

Implementation Date: March 31, 2015 (December 2014 for review of current permanent card holder exceptions, January 2015 for monthly exception review)
Conclusion
Audit Services conducted an audit of UTMB Health's the Procurement Card Program. Opportunities exist to strengthen the control environment related to oversight and monitoring activities through cardholder reconciliation, policy enhancement, and use of data analytics.

We greatly appreciate the assistance provided by Business Operations and Facilities staff and hope that the information presented in our report is beneficial.

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