THE UNIVERSITY OF TEXAS
**MD Anderson** ~~Cancer~~ Center

19-120 Procurement Card Transaction Review

EXECUTIVE SUMMARY

Internal Audit conducted a review of procurement card transactions, which was intended to determine whether the transactions comply with institutional policies and procedures. From a total of 552 cardholders, we tested activity totaling approximately $395,400 for 26 cardholders (representing 13% of $3.14 million in total expenditures) for February and March 2019.

Overall, we found that transactions were adequately supported and related to institutional business. Additionally, the procurement card program has several key elements in place providing governance and guidance, including an active procurement card administrator, 100% post-purchase review of transactions, user's guide, and institutional policies and procedures.

ProCard Spending FY19 (YTD)
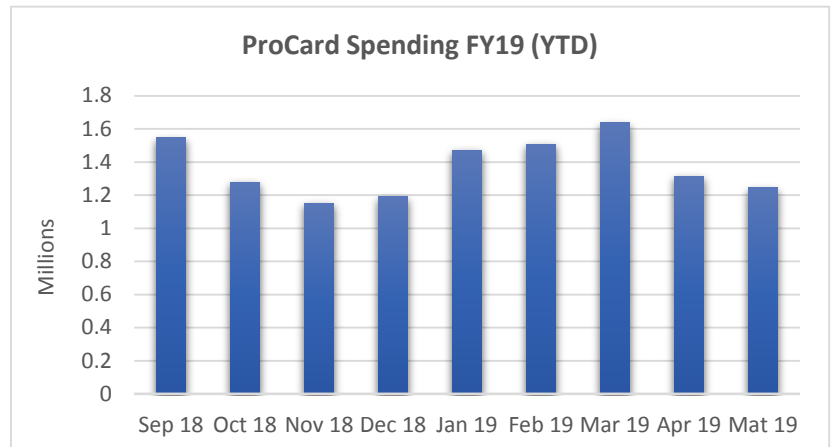
We identified opportunities to enhance oversight and to ensure compliance with policies, including:

- Enhancing the User's Guide regarding allowable purchases and processes for card issuance and limit increases
- Using the purchase order process for repetitive purchases with vendors when more appropriate
- Providing increased training and guidance to ensure that purchases comply with policies, and
- Establishing formal criteria for cardholder eligibility

Our observations are outlined in the **Detailed Observations** section below. We also communicated the observations to the respective procurement cardholders.

Management's Summary Response:
Management agrees with the observations and recommendations and has developed action plans to be implemented on or before 8/31/2019.

Appendix A outlines the methodology for this project.

The courtesy and cooperation extended by the personnel in the selected departments are sincerely appreciated.

Sherri Magnus

Sherri Magnus, CPA, CIA, CFE, CRMA
Vice President & Chief Audit Officer
August 30, 2019

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DETAILED OBSERVATIONS

Observation 1:	
Enhance the Procurement Card User's Guide	*RANKING: Medium*

The Procurement Card User's Guide can be enhanced by adding the following:

- Clear guidance on the allowability of certain types of purchases (e.g. water, coffee and supplies) taking into consideration any State and Institutional policies
- Formal process for approval of restricted purchases
- Formal criteria and process for increasing cardholder limits

When policies and procedures are not comprehensive, inconsistencies and unallowable transactions may occur. Institutional policy states that department policies and operating procedures shall be used to assure integrity and consistency in processes and transactions.

Recommendation:

Management should enhance the Procurement Card User's Guide by clarifying guidance on allowable purchases as well as formalizing the processes for approval of restricted purchases and limit increases.

Management's Action Plan:
Executive Leadership Team Member: Ben Melson
Division/Department Executive: Michael Keneker
Owner: David Trevino
Implementation Date: August 31, 2019

General Accounting will strengthen the Procurement Card User's Guide to include more detailed guidance on purchases that are restricted on the card. A link to State fund expenditure guidelines will be added within the guide. In addition, the guide will outline a formal process of purchase exceptions that will require email correspondence that includes any General Accounting approval, and this documentation would need to be included with the cardholder's purchase support.

Observation 2:	
Use Appropriate Payment Mechanism	*RANKING: Medium*

Our analysis of procurement card transactions for the two month audit period identified repetitive purchases with ten suppliers totaling approximately $114,000, as well as high-dollar purchases totaling approximately $10,000 related to conference planning and other goods and services. Although many of the suppliers are set up in PeopleSoft, the procurement card continues to be the preferred method for these purchases.

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The procurement card guidelines state that the card should be used for small dollar, low-volume, non-repetitive transactions. Additionally, the guidelines state that purchase orders are the primary mechanism for vendor payments. When the procurement card is used in lieu of purchase orders, transactions will not be routed through the Institution's standard review and approval workflow. As a result, the cardholder has not taken advantage of the more efficient purchase order process. Also, there may be limited assurance that the best value was obtained, and that purchases align with institutional guidelines.

Recommendation:
The Procurement Card Program Administrator should periodically perform an analysis of procurement card transactions to identify opportunities where purchase orders would be appropriate. Guidelines should be strengthened to provide cardholders with more specific criteria on when to utilize the procurement card versus purchase orders for certain suppliers and transactions.

Management's Action Plan:
Executive Leadership Team Member: Ben Melson
Division/Department Executive: Michael Keneker
Owner: David Trevino
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General Accounting will work with various departments to direct recurring purchases to the more appropriate purchase order method of payment. Guidelines within the User's Guide will also be enhanced to provide clarification on the types of items that should be paid via purchase orders using pre-approved and contracted vendors.

Observation 3:
Ensure Compliance with Procurement Card Guidelines   *RANKING: Medium*

We identified several procurement card purchases (totaling $24,000) considered unacceptable per institutional guidelines, which are outlined in the chart below:

When procurement card purchases do not comply with institutional guidelines, there is a risk that inappropriate purchases may occur and institutional funds could be misused. Additionally, the purchase of cloud services outside of the approved process could potentially put institutional data at risk.

Recommendation:
Management should ensure that procurement card purchases comply with the Procurement Card User's Guide. Additional training and guidance should be given to cardholders as necessary to facilitate compliance.

Types of Unacceptable Purchases in Sample

- Web-based/cloud services
- PayPal purchases
- Software license renewal
- Equipment maintenance
- Promotional items
- On-site masseuse services
- Food for departmental meeting
- Table lamps
- Service recognition awards
- Video voiceover services

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Management's Action Plan:
Executive Leadership Team Member: Ben Melson
Division/Department Executive: Michael Keneker
Owner: David Trevino
Implementation Date: August 31, 2019

General Accounting will enhance built-in restrictions already placed on the card accounts to ensure that charges that would be considered potentially unacceptable cannot be processed using the Procurement card as a method of payment, unless an exception is granted. The list of unallowable purchases, both in the User's Guide and in new cardholder training, will provide more details as to what more specifically is restricted.

Observation 4:
Establish Criteria for Cardholders   *RANKING: Low*

Currently, there are no written guidelines or criteria for determining who will be issued a procurement card. The Guide describes the cardholder role, but does not indicate any restrictions on who can obtain a card. Best practices indicate that criteria should be established for cardholder eligibility.

At the time of our review, there were more than 550 procurement cardholders within 315 departments across the Institution. As the number of cardholders increases, widening the span of control, the risks are increased that errors and misuse may occur and go undetected.

Recommendation:
Management should establish criteria for cardholder eligibility for inclusion within the Guide.

Management's Action Plan:
Executive Leadership Team Member: Ben Melson
Division/Department Executive: Michael Keneker
Owner: David Trevino
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General Accounting will work to ensure that the number of cardholder users in any given area are necessary relative to the size and needs of the department. Departmental management may be required to provide a justification for open accounts for users with little or no purchase activity.

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Appendix A

Objective, Scope and Methodology:
The objective of this review was to determine whether procurement card transactions comply with institutional policies and procedures. The review focused on activity for the period January 2019 through March 2019, with detailed testing of transactions that occurred in February and March 2019.

Our methodology included the following procedures:
- Review and analysis of procurement card transaction data to judgmentally select cardholders and transactions for testing
- Cardholder interviews and review of documentation to test the transactions for compliance
- Follow-up with the ProCard Contract Administrator for additional information as necessary

Our internal audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and *Government Auditing Standards*.

Number of Priority Findings to be monitored by UT System: None
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.*

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