
Date: August 13, 2020

To: Eric Walls
Senior Director, Supply Chain Management

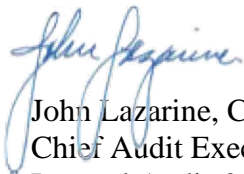
From: John Lazarine, Chief Audit Executive
Internal Audit & Consulting

Subject: Audit Report – ProCard Program Audit (19-03)

As part of our FY 2020 Audit Plan, we recently completed the ProCard Program audit. Attached is the report detailing the results of this review. Management’s Action Plans are included the report.

We appreciate the cooperation and assistance we received from the management and staff throughout the review.

Respectfully,



John Lazarine, CIA, CISA, CRISC
Chief Audit Executive
Internal Audit & Consulting Services

Distribution:

cc: Dr. William Henrich, President
Andrea Marks, Senior Executive Vice President and Chief Operating Officer
Ginny Gomez-Leon, Vice President and Chief Financial Officer
Yeman Collier, Vice President and Chief Information Officer
Gerald Long, Assistant Vice President, Business Affairs
Eric Walls, Senior Director, Supply Chain Management
J. Michael Peppers, Chief Audit Executive, UT System

External Audit Committee Members:

Randy Cain
Regina Conklin
Ed Garza
Carol Severyn

Executive Summary

Objective and Scope

As part of our approved annual Audit Plan, a review of the ProCard program was completed. The objective of this audit was to assess the adequacy and effectiveness of processes and controls for managing the ProCard program. The review focused on activity for the period September 2018 through April 2020 (Fiscal Year 2019¹ & FY 2020²), which totaled over \$7 million in ProCard spend. **Appendix A-C** contains additional information of the ProCard Activity for the period under review. Our methodology included the following procedures:

- Review and analysis of internal controls relating to the procurement card program and transactional data
- Cardholder interviews and review of documentation to test the transactions for compliance to Institutional policies and procedures

Management is currently implementing several initiatives across the Institution, which will result in fewer ProCard holders and the centralization of certain financial activities. This audit evaluated the processes and controls in place as of April 2020.

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

Summary of Results

Overall, we determined ProCard purchases are generally in compliance with the Institution's policy outlined for the ProCard Program. However, opportunities were identified to enhance controls and oversight to further ensure compliance with the Institution's policies and procedures related to procurement and financial transactions. Specific opportunities for improvement included:

- Enhanced monitoring of cardholder transactions to ensure compliance with Institutional procurement policies
- Assuring ProCard transactions are appropriately reviewed and approved
- Segregating administration duties for the ProCard program
- Enhancing controls over issuance and maintenance of ProCards
- Increasing usage and monitoring of ProCard rebate program

We did not find any evidence of fraud or misappropriation of funds during the course of our review. Management has agreed to the results of this audit. The detailed findings, Audit's recommendations and Management's action plans are detailed in the attached table. We would like to thank Supply Chain Management leadership and staff for the support and assistance provided during this audit.

¹ Fiscal Year 2019 (September 1, 2018 – August 31, 2019), Transaction Total \$4,513,791

² Fiscal Year 2020 (September 1, 2019 – April 8, 2020), Transaction Total \$2,522,944

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Approved
for Release



John Lazarine, Chief Audit Executive, Internal Audit & Consulting Services

	Observation/Condition	Recommendation	Management's Responses
Procurement Process			
1	<p>The ProCard program was introduced to establish a more efficient, cost effective method of purchasing and payment for small-dollar transactions. However, in some instances, the program appears to have been misused to by-pass Institutional procurement processes.</p> <p><u>Competitive Bidding</u> As part of our audit, we reviewed all ProCard transactions, and summarized by vendor (See Appendix A for listing) to determine compliance with Institutional procurement policies and procedures. We identified:</p> <ul style="list-style-type: none"> • Vendors (2) with a total spend that exceeded the \$50,000 procurement threshold requiring a contract. • Vendors (28) with aggregate spend over the \$15,000 procurement threshold requiring three quotes to be obtained to be compliant with procurement policies. <p>Evidence of bids, pricing arrangements, or other efforts to obtain best pricing with vendors with aggregate spend of over \$15,000 were not obtained by cardholders except for the Print Shop. In most cases, this occurred due to multiple cardholders from different departments purchasing from the same vendor. Without proper monitoring of ProCard expenditures by vendor across the Institution, appropriate competitive bidding procedures cannot be adhered to and the Institution is missing opportunities to leverage its buying power to obtain the best available pricing and thereby reduce operational costs.</p> <p><u>Existing Contracts</u> In addition, we also noted instances where vendors such as Amazon (total spend \$1,005,288) and Walmart (total spend \$108,354) were utilized for purchases out of convenience instead of utilizing existing contracts already in place and available for staff to purchase routine supplies (office, medical, etc.).</p>	<p>Supply Chain Management should:</p> <p>1.1 Implement processes for periodic monitoring of ProCard expenses by vendor to identify and act upon opportunities for price negotiation.</p> <p>1.2 Procurement staff should utilize the reports available from the Amazon Business Account obtained in May 2020 to monitor transactions to identify potential violations to current procurement policies and procedures.</p> <p>1.3 Monitor ProCard transactions to detect cardholders not utilizing existing contracts to purchase goods and services.</p> <p>1.4 Cease the use of PayPal as a method of payment with the ProCard Program as to avoid potential fraudulent transactions.</p>	<p>Owner: Eric Walls</p> <p>Implementation Date: 9.1.20</p> <p>Action Plan:</p> <p>1.1 Purchasing will review spend data on a semi-annual basis to identify potential sourcing opportunities to ensure the institution is receiving best value.</p> <p>1.2 This was implemented immediately after go-live of the Amazon Business Account on 5/20/20. The ProCard administrator will pull Amazon spend reports monthly to audit transactions for compliance.</p> <p>1.3 With the support of leadership, Supply Chain Management will review ProCard spend data on a semi-annual basis to identify rogue spend whereby a contracted vendor could have been used and will work to guide those cardholders towards established purchasing procedures such as Jaggaer or PeopleSoft requisitions. As we continue efforts to restructure the processing of financial transactions as part of the EDGE initiative using centralized business services centers, we will incorporate transactional reviews at appropriate levels before ProCard transactions are made. Implementing centralized business</p>

Observation/Condition	Recommendation	Management's Responses
<p><u>PayPal</u> We identified PayPal transactions totaling \$110,416. Using PayPal to pay for goods and services with the ProCard increases the risk of financial loss to the Institution since: (1) dispute rights are lost with the original vendor in which PayPal was used to compensate and (2) personal transactions to include cash transactions can occur relatively undetected.</p> <p>Risk Rating: Medium</p>		<p>units throughout the institution will reduce the number of ProCard holders and provide a mechanism to independently assess the appropriateness of the transaction and detect whether contract vendors should more appropriately be used.</p> <p>1.4 Supply Chain Management worked with Citibank to block PayPal as a supplier effective 8/1/2020. The ProCard Manual will be updated accordingly to reflect this change.</p>

	Observation/Condition	Recommendation	Management's Responses
Approval Process			
2	<p>Controls over the approval of cardholder transactions are not sufficient to ensure transactions are appropriate and within Institutional policy. Currently, cardholder transactions are approved within the ProCard program system³ and by paper copy submitted monthly to the ProCard Administrator. We noted approximately 50% of the Account Managers are not managers and do not have approval authority for their department's financial transactions (except for ProCard transactions) processed through the Institution's financial system, PeopleSoft. Additionally, we noted approximately 77% of the Account Managers are approving transactions for cardholder's that are equal or above their paygrade.</p> <p>Having an employee approve transactions for someone above their level is generally not an adequate control. There is a risk the approver will not appropriately question transactions, or there may be pressure (implicit or explicit) to just accept the transaction, rather than question the cardholder. Additionally, not having someone at an appropriate level reviewing transaction(s), could result in an increased risk of items not properly flagged for the correct accounting fund and project identification code, resulting in recording errors in PeopleSoft.</p> <p>A review of the ProCard expenditures at the departmental level is crucial to ensure that the transactions are reasonable, appropriate and have the proper supporting documentation. Although the monthly ProCard packets, which includes a copy of the monthly statement, receipts, and a coversheet with the Account Manager and Cardholder signatures, are sent to the ProCard Administrator for review, based on the volumes of transactions and the amount of supporting documentation, it is not feasible for the Administrator to perform an effective review of all transactions. For example, Audit identified instances where gift cards, computers, software, and prescription medication,</p>	<p>Supply Chain Management should:</p> <p>2.1 Assign Account Managers that have the appropriate level of authority within the Institution to appropriately review and approve financial transactions.</p> <p>2.2 Utilize both Citibank reporting capabilities, as well as the reporting capabilities from the Institution's recently acquired Amazon Business Prime Account to monitor approvals and activity.</p>	<p>Owner: Eric Walls</p> <p>Implementation Date: 3.31.21</p> <p>Action Plan: 2.1 In the short term, Supply Chain Management will immediately modify the ProCard Transaction Approval Cover Sheet to indicate that the authorized signature for the Project/Grant may not be both the cardholder and Account Manager, and that a higher level of review is required. This will require an authorized signatory for the Project/Grant other than the cardholder and Account Manager to approve the ProCard transactions. Supply Chain Management will also work to review, test, and possibly implement the automated approvals of ProCard transactions that are available within the Citibank online system. As we continue efforts to restructure the processing of financial transactions as part of the EDGE initiative using centralized business services centers, we will incorporate transactional reviews at appropriate levels before ProCard transactions are made. Implementing centralized business units throughout the institution will reduce the number of ProCard holders and provide a mechanism to independently assess the appropriateness of the transaction and detect whether contract vendors should more appropriately be used.</p>

³ ProCard Program System is housed within Citibank's banking system. ProCard Program participants log-into Citibank's system to view and make adjustments to cardholder accounts.

<p>including controlled substances, were purchased using the ProCard. These items would not necessarily be detected without physically reviewing the receipt, which is not available electronically through the Citibank system. For there to be adequate processes and controls over ProCard purchases, Departments should be primarily responsible for ensuring they have an effective process for monitoring and reviewing ProCard purchases and the Procurement Department should provide a secondary review.</p>		<p>2.2 Supply Chain Management has incorporated Citibank and Amazon reporting capabilities, beginning 8/1/20, into the ProCard audit and monitoring process in order to better target purchases for further review.</p>
<p>Risk Rating: Medium</p>		

	Observation/Condition	Recommendation	Management's Responses
Segregation of Duties			
3	<p>To reduce the risk of errors and fraud, there needs to be appropriate segregation of duties regarding the administration of the ProCard Program. Currently, there are three people within Procurement that have full administrator access to Citibank's system. However, most of the administrator functions are being conducted by one person. Administrator duties include: reviewing applications, requesting, and receiving ProCards, creating new accounts, setting security restrictions, approving payment of monthly statements, and monitoring cardholder activity.</p> <p>Although we noted opportunities to improve the segregation of duties for administering the ProCard program, we did not find any evidence of wrongdoing or fraud. Audit noted that the ProCard Administrator has been instrumental in performing key control activities, such as monitoring and payment procedures, while performing other duties as assigned within the Procurement Department. Regarding the segregation of duties, it is important that the administration of the ProCard program be performed by more than one person in an effort to lower the Institution's risk of financial loss and to avoid any unnecessary perceptions of misapplication of the Institution's resources.</p> <p>One advantage of the Institution's participation in the Citibank ProCard program is the available reporting functionality of the software. Citibank reporting provides increased visibility into cardholder activity, as well as an audit trail of the ProCard Administrator's activity. Effectively utilizing these reporting capabilities would strongly enhance the monitoring over expenditures and related activities and reduce the probability of errors and misappropriation of funds.</p> <p>Risk Rating: Medium</p>	<p>Supply Chain Management should:</p> <p>3.1 Ensure the ProCard program has appropriate segregation of duties and/or implement compensating controls.</p> <p>3.2 Ensure the ProCard program has adequate coverage to monitor cardholder activity and to also include the use of Citibank reports to increase monitoring capabilities.</p>	<p>Owner: Eric Walls</p> <p>Implementation Date: 9.1.20</p> <p>Action Plan:</p> <p>3.1 The acceptance and processing of ProCard applications has been delegated to another member of the Supply Chain Management team, and approval of new ProCard requests will be reviewed and approved by the Senior Director of Purchasing in order to ensure review and approval of ProCard applications is separated from distribution of physical cards.</p> <p>3.2 Effective 9/1/20, review and approval of requests for new ProCards will be performed by the Senior Director of Supply Chain Management. Processing of the ProCard applications will be assigned to a separate staff member in order to ensure this duty is separated from the administration of the administration of the ProCard program effective 9/1/20. Citibank and Amazon reports will be incorporated into the audit process of card activity effective 8/1/20.</p>

	Observation/Condition	Recommendation	Management's Responses
Issuance and Maintenance of ProCards			
4	<p>The process for issuing ProCards needs improvement. The current process for obtaining a ProCard is for an application to be completed and approved by the cardholder's Department Head and submitted to the Procurement Department for processing. Although department leadership should have the authority to request a ProCard for their staff, it appears that the level of judgement being used to approve a ProCard request is at times being based on convenience, and not business need.</p> <p>For example, a review of ProCard transactions identified instances where employees purchased items for their research projects at a local pharmacy instead of utilizing the appropriate Institutional procurement protocols. ProCards have also been issued to visiting scientists who are temporary employees of the Institution. The purpose of the ProCard is to assist in facilitating operations by allowing staff to utilize the card for small dollar purchases or to make purchases in which the preferred method of payment is a credit card. Based on our review of transactions, we noted a theme across the Institution in which staff are utilizing financial tools, such as the ProCard, for convenience purposes, rather than go through the appropriate Institutional procurement processes.</p> <p>The Procurement Department is responsible for the ProCard program and currently does not monitor for this type of activity. If ProCards are issued and inappropriate buying patterns are confirmed, then cards should be revoked. The Procurement department has attempted to do this in the past with some success, but they have generally met resistance by the cardholder or the department. The Procurement department must be in a position to fully enforce the Institution's related policies and procedures, which will require executive and departmental leadership support. ProCards (credit cards) are inherently higher risk but can be a very useful financial tool when effectively managed.</p> <p>Risk Rating: Medium</p>	<p>Supply Chain Management should:</p> <p>4.1 Expand the ProCard application review process to help ensure that the applicant has a reasonable business need in order to be issued a ProCard.</p> <p>4.2 Suspend and/or cancel ProCards for violations of Institutional policy.</p> <p>4.3 Ensure the ProCard program has adequate coverage to monitor cardholder activity and to also include the use of Citibank reports to increase monitoring capabilities in order to detect inappropriate business use of the card.</p>	<p>Owner: Eric Walls</p> <p>Implementation Date: 9.1.20</p> <p>Action Plan:</p> <p>4.1 Supply Chain Management will develop objective criteria to evaluate all ProCard applications in order to ensure that the request for a ProCard is appropriate and necessary. Supply Chain Management will encourage consolidation of ProCard activities to minimize the number of needed cardholders per department or organizational unit. Implementing centralized business units throughout the institution as part of the EDGE initiative will reduce the number of ProCard holders and provide a mechanism to independently assess the appropriateness of the transaction and detect whether contract vendors should more appropriately be used.</p> <p>4.2 Supply Chain Management agrees that deliberate and recurring violations of ProCard policy should result in loss of the cardholder privilege and will proceed accordingly to enforce card cancellation as appropriate. Additionally, Supply Chain Management will conduct an annual review of card activity and cancel unused cards. Implementing centralized business units throughout the institution as part of the EDGE initiative will reduce the number of ProCard holders and provide a mechanism</p>

			<p>to ensure utilization of ProCard is appropriate.</p> <p>4.3 Supply Chain Management has incorporated Citibank and Amazon reporting capabilities, beginning 8/1/20, into the ProCard audit and monitoring process in order to better target purchases for further review. Additionally, Supply Chain Management will review ProCard spend data on a semi-annual basis to identify rogue spend whereby a contracted vendor could have been used and will work to guide those cardholders towards established purchasing procedures such as Jaggaer or PeopleSoft requisitions.</p>
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Suggested Business Process - Rebate Revenue

The processes and procedures to ensure the Institution maximizes the potential revenue opportunity from the ProCard rebate program can be enhanced. To help ensure appropriate handling of rebate matters, it is important to address related responsibilities for receipt, review and recording of rebates. The revenue stream from rebate programs are funds that can be utilized for the benefit of the Institution as a whole. In order to maximize revenue streams, rebate opportunities should be verified.

Our Institution has received a total of \$121,419 based on a rebate program embedded in the statewide contract with Citibank to provide a Commercial Charge Card Service (ProCard). The rebate program is based on total dollar expenditure of all participating entities paid on a semi-annual basis. Texas institutions of higher education receive their portion of the rebate payment directly from Citibank. The rebate percentage is enhanced by an early payment incentive that increases for each day a payment is received in full before 30 days from the invoice date. Therefore, state agencies, to include institutions of higher education, should attempt to pay account balances as quickly as possible. Management should make an informed business decision regarding the use of its funds. Gaining a better understanding of the rebate program and the additional funds that our Institution may qualify for would allow leadership to make a more informed decision of how quickly to pay the bill.

Use of an institutional ProCard as a method of payment for routine expenses should be considered in an effort to increase rebate revenues to assist in the Institution's objective to lessen the financial impact of the recent environmental effects to the Institution's overall operations.

In the current environment where the Institution is seeking ways to maximize revenue, Audit suggests Supply Chain Management consider the following:

- Make every reasonable effort to expedite payment to Citibank to maximize rebate revenue.
- Assign responsibility for receiving, verifying, and recording of rebate revenue from Citibank.
- Consider strategic use of the ProCard as a method of payment for Institutional expenses to increase rebate revenue.

Management Action Plan:

Supply Chain Management coordinated with the Accounting Department in June of 2019 to communicate the importance of prompt payment of the ProCard invoice in order to maximize rebate revenue. Immediate payment of the invoice upon receipt has been the practice of the Accounting Department since that time.

Citibank rebates are received via ACH deposit. Verifying deposit to the correct account, recording and reporting this income is already part of Bursar's Office process to post funds received in the appropriate Project. Additionally, Supply Chain Management records and Citibank revenue as part of its cost savings reporting.

Supply Chain Management will work in coordination with Accounting to identify strategic opportunities to charge recurring expenses such as utilities to an institutional ProCard in order to increase institutional rebates.

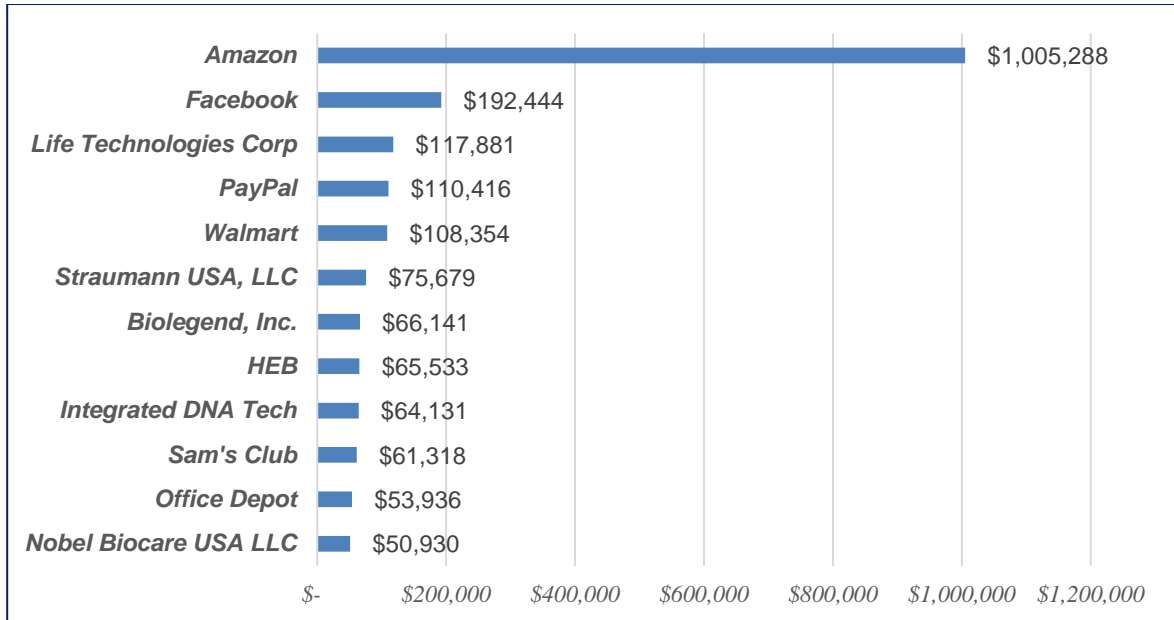
Summary of Risk Ratings

Based on the results of this audit, there were no findings considered to be Priority to the Institution. The UT System Internal Audit finding classification system includes Priority, High, Medium, or Low classifications. 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. Non-Priority Findings are ranked as High, Medium, or Low, with the level of significance based on an assessment of applicable risk factors and probability of a negative outcome occurring if the risk is not adequately mitigated.

Appendix A – Summary Analysis of ProCard Activity

Comparison of Vendors with Aggregate Spend of Over \$50,000

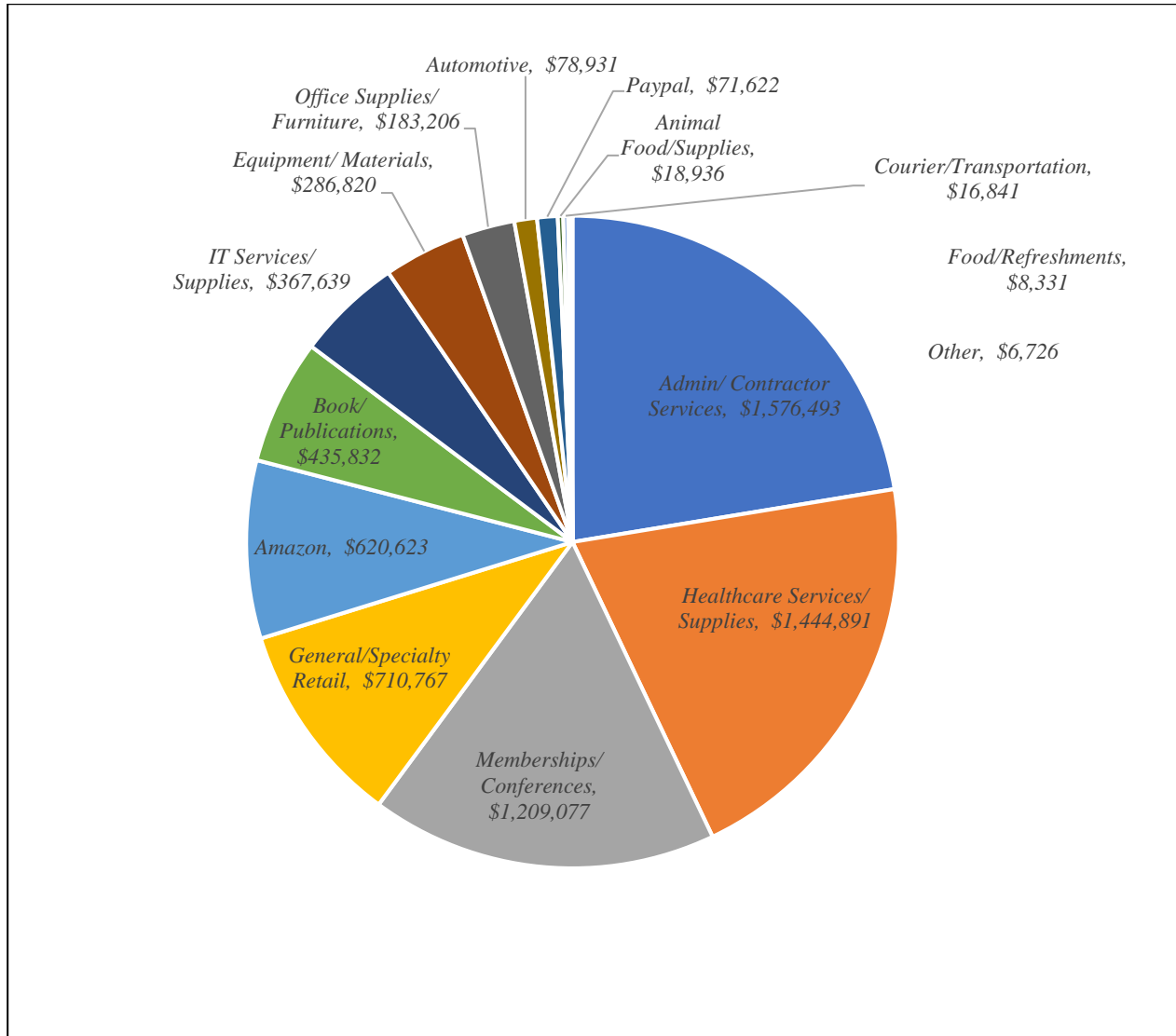
September 1, 2018 – April 8, 2020



Appendix B – Schedule of ProCard Transactions by Transaction Category Code

Transaction Totals by Consolidated Merchant Category Code Descriptions⁴

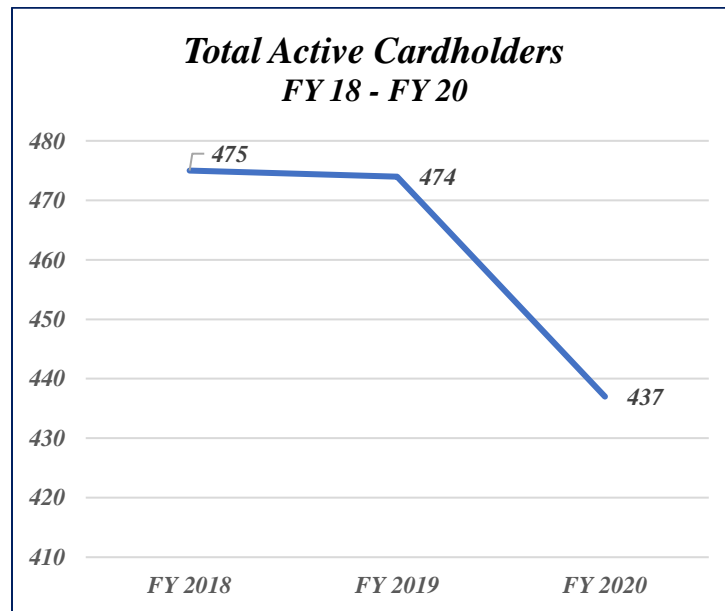
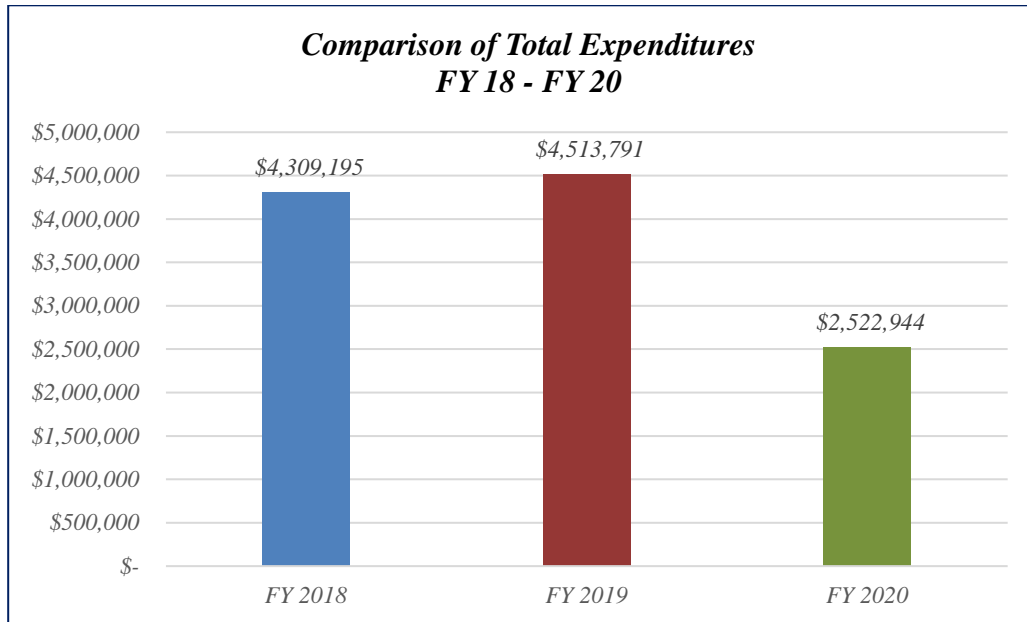
September 1, 2018 – April 8, 2020



⁴ Chart consists of over 150 Merchant Category Code (MCC) descriptions summarized for presentation purposes.

Appendix C – Schedule of ProCard Transactions by Fiscal Year

Trend Analysis of Cardholder Usage FY 2018 – FY 2020⁵



⁵ Fiscal Years Defined:

FY 2018 – September 1, 2017 – August 31, 2018

FY 2019 – September 1, 2018 – August 31, 2019

FY 2020 – September 1, 2019 – April 8, 2020

Appendix C – Schedule of ProCard Transactions by Fiscal Year Con't

