



Description	January 2020 to December 2021
Total Procard Expenses	\$3,815,080
Average Monthly Procard Expenses	\$158,962
Procards	94 Issued to 75 Unique Individuals
Non-travel Expense Reimbursements	\$87,228 to 129 Unique Individuals

BACKGROUND: Departments use procurement cards (procards) as a cost-effective payment alternative to low-dollar purchase orders and check requests under \$5,000. The University of Texas (UT) System Administration’s Controller’s Office, through its Financial Shared Services (FSS) unit, is responsible for administering the procard program. As of March 2022, there were 54 active procards and six active One Cards, which are procards with enhanced flexibility that may be used for official occasions. FSS is also responsible for processing employee reimbursements for non-travel business expenses that employees may incur. For a summary of the top procard expenses by category and department and employee

reimbursements by category, see *Appendix A*.

This audit was included in the Fiscal Year (FY) 2022 audit plan, as these areas have not been recently audited, and addresses risks related to procard purchases and process changes related to a hybrid working environment.

OBJECTIVE: To determine whether there are adequate processes and controls surrounding procard use and non-travel employee reimbursements, including testing for appropriate business purpose.

CONCLUSION: FSS has established adequate processes and controls for reimbursements to employees for the business expenses they have incurred. FSS also provides centralized procard monitoring, which includes ensuring timely account classification and cost center assignment of procard expenses. In addition, FSS offers guidance that has been well-received by the departments and has developed a procard manual. However, opportunities exist to strengthen processes and controls for procard use. These include developing and tracking centralized procard training, drafting a procard policy and updating the procard manual, maintaining procard authorization documentation, developing a process to identify and disable procards timely, and working with departments to ensure that software purchases receive the appropriate approvals prior to purchase and to ensure that procards are not used to bypass applicable procurement procedures.

OBSERVATIONS

- 1**
Medium

Without initial and periodic refresher training, procard holders are less likely to be aware of program updates or changes in applicable rules, increasing the risk of inappropriate charges and decreased administrative or purchasing efficiency.
- 2**
Medium

Without a procard policy statement and updated procard manual, cardholders may not be fully informed of all requirements and responsibilities regarding procards, increasing the risk of inappropriate procard management and usage.
- 3**
Medium

Without retaining documented approval for opening new procards, there is no evidence of authorization for employees to use a procard. Untimely closing of procards assigned to separating or transferring cardholders increases the risk of unauthorized or fraudulent activity on those procards.
- 4**
Medium

Without prior review of software purchases via procard, UT System Administration may be exposed to higher risk of unauthorized access to sensitive and confidential information, use of unsanctioned cloud service providers, and auto-renewal payments of software no longer in use.
- 5**
Low

Payments for goods or services without a contract, when required, increases the risk of non-compliance with State of Texas contracting requirements, opportunities to negotiate advantageous terms and conditions are missed, and total contract spend cannot be accurately monitored.

Management developed action plans that incorporated System Audit Office recommendations to address these observations and anticipates implementation by March 31, 2023.



ProcCard Training: Provide and Track Formal ProcCard Training

Without initial and periodic refresher training, procard holders are less likely to be aware of program updates or changes in applicable rules, increasing the risk of inappropriate charges and decreased administrative or purchasing efficiency.

As part of monitoring responsibilities, the procard administrator in Financial Shared Services (FSS) reviewed monthly procard statements, ensured the monthly procard logs were completed and approved, emailed cardholders with informational program updates, and took a customer service-oriented approach to help resolve issues. Procard holders interviewed acknowledged the procard administrator's professionalism and helpfulness. While some of the more tenured employees recalled receiving procard training several years ago from the Controller's Office, there is currently no centralized or documented training available from FSS, and no requirement that procard holders receive training before they are issued a procard. In addition, procard

holders interviewed were either unfamiliar with or did not use the procard-issuing bank's available online tools.

During the audit scope, individual departments were responsible for providing their cardholders with procard training, which tended to be on-the-job and not tracked. Consequently, knowledge of procard rules could vary by cardholder, each of whom is responsible for their own procard. A common, formal training may have prevented some of the observations noted in this audit, which include:

- Purchasing unapproved software or cloud storage services without review by the Offices of Technology and Information Services (OTIS) and/or Information Security (ISO);
- Allowing recurring payments for services to be automatically charged without adequately determining whether those services are necessary;
- Purchasing goods or services that are likely to have been required to be obtained through the contracting process; and
- Notifying FSS that a department cardholder has separated from employment after the former employee/cardholder has left UT System Administration.

A centralized training resource could ensure consistency in the quality and completeness of training across departments. A requirement for initial and periodic refresher training for procard holders could help keep cardholders informed of any program updates and serve as a reminder of their responsibilities, including procurement rules and the need to notify FSS when procards should be closed. In addition, education on using the procard-issuing bank's available online tools could assist cardholders with managing procard activity.

ACTION PLAN

We agree. To minimize or altogether eliminate the risk of inappropriate charges, FSS has created a project timeline for the ProcCard training and tracking plan with training dates tentatively set for November 8th and November 10th, 2:00-3:00 PM. This will help ensure consistency in the quality of the transactions as well as emphasize the accountability per cardholder. Training will be scheduled for the month of November 2022 for all cardholders and the departmental administrative coordinator, with notification to the department leaders. The training agenda will include ProcCard Program Updates, Rules, Risk Mitigation, and a review of software purchases. These will be one-hour training sessions for each cardholder that will also include a live walkthrough a transaction log, a check for financial sanctions, (vendor on hold), purchases over \$500.00, tax, etc. Moving forward, FSS will host an annual refresher session and will require this training for subsequent, new cardholders effective September 1, 2023.

Anticipated Implementation Date: November 10, 2022



Procard Policy and Procard Manual:
Develop Procard Policy Statement and Update Procard Manual

Without a procard policy and updated procard manual, cardholders may not be fully informed of all requirements and responsibilities regarding procards, increasing the risk of inappropriate procard management and usage.

A procard policy can help ensure compliance with applicable rules and regulations and set expectations for the appropriate and efficient use of procards. Currently, UT System Administration does not have a procard policy. While there is no procard policy, UT System Administration has a procard manual that includes important topics regarding procard responsibilities and requirements. We compared the UT System Administration procard manual to a sample of those at other UT System institutions and identified opportunities to enhance UT System Administration's procard manual in the following areas:

- Clarify the definition of "software" to determine whether review by OTIS and/or ISO is required prior to purchasing software with a procard. In addition, add cloud storage to the disallowed procard purchase list.
- Include a statement that the sharing of procards is not allowed.
- Document that there are associated consequences for procard misuse, including but not limited to suspension of procard privileges.
- Provide additional guidance regarding procard cancellations and describe the process to be followed when an employee separates from UT System or changes to a role that no longer needs a procard.

Coupled with initial and periodic training, a procard policy statement and updated procard manual could reduce errors and ensure consistent and appropriate use over time.

ACTION PLAN

We agree. To ensure all cardholders are fully informed of requirements and their respective responsibilities as cardholders, FSS will develop a Procard Policy and Update the Procard Manual (Manual). The Manual will include cardholder guidance, helpful tips, a frequently asked question section, the policy statement, account code guidance, and a more robust disallowed list, including what can be charged on the card and what will not be allowed, e.g., the sharing of cards. Documentation will ensure that consequences for procard misuse will be addressed, including possible revocation of procard privileges. A flowchart will also be created showing the procard process, from the beginning of the application approval to the final cancellation of the card.

Anticipated Implementation Date: March 31, 2023



Procard Process Enhancements:
 Retain Procard Approval Documentation and Close Procards Timely

Without retaining documented approval for opening new procards, there is no evidence of authorization for employees to use a procard. Untimely closing of procards assigned to separating or transferring cardholders increases the risk of unauthorized or fraudulent activity on those procards.

On March 22, 2022, UT System Administration had 54 open Citibank cards. Most departments had one assigned procard, while other departments, such as the Controller’s Office, External Relations, and University Lands had more than one assigned procard.

Card Opening: Five new employees opened new procard accounts between January 1, 2020, and December 31, 2021. While the procard administrator was able to provide procard request emails for those five employees, each department head’s approval was not always documented or maintained as required by FSS procedures. Retaining the procard approval documentation ensures accountability that each procard was opened with a business justification and the cardholder was validly authorized to hold a procard for a department.

Card Closing: According to FSS, procards that are lost or stolen or belonging to a cardholder who leaves a department or otherwise no longer needs their procard should be closed immediately. Based on cardholder reports from the procard-issuing bank and job information from PeopleSoft, there were 14 active cards belonging to 14 individual cardholders who separated from employment between January 1, 2020 and December 31, 2021. Of those, 13 cards were closed untimely—between 6 and 542 days after the cardholder’s separation from employment.

Description	Cards Closed	Percentages
Untimely	13	93%
Timely	1	7%
Total	14	100%

FSS acknowledged that those procards should have been closed sooner. Although the specific reason for delays in closing varied in each instance, the general observation is that the departments should inform the procard administrator in FSS of any cardholder separations or transfers timely (either in advance or within a day or two of a cardholder’s last day worked) as part of the offboarding workflow. Departments are also reminded to collect procards from separating employees on the separation checklist provided by the Office of Talent and Innovation.

ACTION PLAN

We agree. To ensure evidence of authorization for cardholders, FSS has created a process of documentation for the Procard and Onecard applications. This process includes the initial application request from the department to the departmental management approval to the final closing of the card. FSS will also create a process flow that demonstrates to stakeholders the process for the timely closing of the Procard and Onecard when cardholder separates. This process flow includes the department administrative coordinator and the Office of Talent & Innovation (OTI) business partner who work collaboratively during the offboarding process via the separation checklist.

Anticipated Implementation Date: August 31, 2022



Proc card Software Purchases:

Ensure Departments Obtain OTIS Review Prior to Purchasing Software with Proc cards

Without prior review of software purchases via proc card, UT System Administration may be exposed to higher risk of unauthorized access to sensitive and confidential information, use of unsanctioned cloud service providers, and auto-renewal payments of software no longer in use.

Departments may procure software with proc cards if the software to be purchased is less than \$5,000 and on the OTIS pre-approved list. Pre-approved software includes those that are available from vendors with whom UT System Administration has active software license agreements. If not on the pre-approved list, then a department must obtain OTIS approval prior to completing the software purchase.

OTIS completed \$46,336 of software purchases by proc card from 34 merchants on behalf of 21 departments. In addition, 14 departments completed \$43,407 of software purchases by proc card from 51 merchants. We reviewed a sample of non-OTIS department purchases and found that the departments are not consistently requesting OTIS approval prior to making the purchase or not requesting approval at all.

For software purchased by the departments, there was no evidence of OTIS approval maintained with the proc card supporting documentation. In one instance, the department believed it had delegated authority to make software purchases under \$5,000 without OTIS approval. Departments were not clear on what types of software needed prior approval. In addition, the proc card manual does not describe the risks that proc card software purchases can present to UT System Administration.

One department made approximately \$4,500 in automatic payments to a cloud service provider. The invoices referenced a former UT System Administration department that was closed in 2018. The current proc card holder had believed the service was for an active program when it was not. The previous department had originally procured the cloud services in FY 2016. Since then, UT System Administration has paid over \$50,000 to the vendor. The services were procured without a contract and set up with automatic monthly proc card payments. The vendor could have access to electronic copies of UT System Administration data. We brought this to the department's attention, and the department is in the process of canceling the services and working with OTIS and the vendor to determine whether the vendor has UT System data and other corrective action to be taken.

While software purchases by proc card are more expedient and may quickly address immediate needs, such purchases could bypass needed privacy and security evaluations and introduce unnecessary risk. This could include providing access to sensitive or confidential data with an unsanctioned vendor who may not have the necessary controls in place to protect the data. In addition, software purchases with proc cards do not afford UT System Administration departments the ability to negotiate terms and conditions to address risks or data protection. Many low-dollar software purchases include "clickwrap agreements" that are drafted by the vendor for the benefit of the vendor and are not open to negotiation. Proc card purchases of software, if not monitored, could also result in annual auto-renewal payments for software or services that may no longer be needed.

ACTION PLAN

We agree. To minimize the potential risk of unauthorized access to sensitive and confidential information, use of an unsanctioned cloud service provider, and auto-renewal payments of software that is no longer in use, FSS will consult with the Information Security Office to discuss a process for software purchases. This consultation will include collaborating with OTIS, to help develop criteria for when it is allowable to purchase via proc card. Once the best practice has been established, cardholders will be notified of the practice regarding software purchases with a proc card.

Anticipated Implementation Date: December 31, 2022



Contract Compliance:
Ensure Procards Are Not Used to Bypass Established Procurement Procedures

Payments for goods or services without a contract, when required, increases the risk of non-compliance with State of Texas contracting requirements, opportunities to negotiate advantageous terms and conditions are missed, and total contract spend cannot be accurately monitored.

Procards provide departments a cost-effective payment alternative for low-dollar purchase orders and check requests for low-dollar goods or services. However, if a service is anticipated to be ongoing and meets established dollar thresholds, then an agreement, whether obtained through informal bidding or through formal solicitation, could be necessary. The UT System Administration procard manual states “[procards] are not to be used to bypass appropriate procurement procedures but rather to supplement the purchasing process.” Consequently, procards should not be used to pay for goods or services with terms that should be agreed-upon by contract or purchase order. In general, informal bids are used to procure goods or services when the expected value equals or exceeds \$15,000 but less than \$50,000.

When the expected value of goods or services exceeds \$50,000, a formal solicitation process is required. In addition, procards should not be used to make payments for goods or services procured under a contract or purchase order. Such payments should be processed with a voucher through FSS with payments remitted by check or electronically through the Automated Clearing House (ACH) network.

Excluding procard payments to commercial airlines (where a contract is in place) and payments for lower dollar goods through Amazon, we reviewed 15 of the top third-party, commercial vendors that received payment by procard and identified:

- Three vendors were paid by procard for scheduled, ongoing services with no contract in place. For one of the services, we were informed that a contract is in the process of being developed for the ongoing service that has been provided. In another instance, UT System Administration has a contract with the vendor for other, lower dollar goods or services but not higher dollar, ongoing services.
- One hotel vendor was paid over \$93,000 by procard for which there is no hotel rate agreement in place for the location used. However, UT System Administration has a rate agreement for the same vendor for a different location.
- Three vendors under contract were paid by both procard (over \$412,000) and ACH (over \$186,000) for similar services.
- Approximately \$160,000 paid by procard to four vendors under contract.

It is possible that departments may not have been aware of instances when issuing a request for proposal for certain goods or services might have been necessary at the time of initial purchase. For contracted services, departments may have found payments by procard a more expedient payment alternative and may not have been consistently aware of the need to process payments for contracted services by voucher through FSS.

ACTION PLAN

We agree. To ensure cardholders do not bypass procurement procedures and to help minimize the risk of non-compliance with Texas contracting requirements, FSS will consult with Contracts and Procurement and create a process for purchases of goods and/or services without a contract. The cardholder will be made aware of the risks, including missing potential advantageous terms to negotiate, and the potential risk of not monitoring contract expenditures.

Anticipated Implementation Date: December 31, 2022



The System Audit Office conducted this engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing* and generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the engagement to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our objectives. The System Audit Office is independent per GAGAS requirements for internal auditors.

SCOPE AND PROCEDURES

The audit scope included procard and employee reimbursement activity (excluding travel) that occurred between January 2020 and December 2021, and the internal controls that were in place at the time of fieldwork. Audit procedures included gaining an understanding of procard and reimbursement processes and segregation of duties, analyzing procard and reimbursement transaction data, testing a sample of procard and reimbursement transactions for compliance with policies, and testing a sample of departments for reconciliations and segregation of duties.

We will follow up on action plans in this report to determine their implementation status. Any requests for extension to the implementation dates for observations rated Priority or High require approval from the System Administration Internal Audit Committee. This process will help enhance accountability and ensure that timely action is taken to address the observations.

OBSERVATION RATINGS

Priority	An issue that, if not addressed timely, has a high probability to directly impact achievement of a strategic or important operational objective of System Administration or the UT System as a whole.
High	An issue considered to have a medium to high probability of adverse effects to a significant office or business process or to System Administration as a whole.
Medium	An issue considered to have a low to medium probability of adverse effects to an office or business process or to System Administration as a whole.
Low	An issue considered to have minimal probability of adverse effects to an office or business process or to System Administration as a whole.

CRITERIA

UT System Administration policies and procedures, including, but not limited to:

- [HOP 2.1.2 Entertainment Expenses and Guidelines on Other Uses of Institutional/Gift Funds](#)
- [HOP 3.2.5 Tuition Assistance](#)
- [ProCard Overview \(internal SharePoint site\)](#)
 - [ProCard Manual](#)
- [Employee Reimbursement - Concur \(internal SharePoint site\)](#)

REPORT DATE

June 23, 2022

REPORT DISTRIBUTION

To: Casilda Clarich, Director, Financial Shared Services
Cc: Veronica Hinojosa Segura, Associate Vice Chancellor and Controller
William Huang, Deputy Chief Information Officer
UT System Administration Internal Audit Committee
External Agencies (State Auditor, Legislative Budget Board, Governor’s Office)



Top Procard Expenses and Reimbursements by Categories and Departments

