

Non-PO Purchases Audit

Audit Report # 16-01

August 29, 2016

The University of Texas at El Paso
Institutional Audit Office

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August 29, 2016

Dr. Diana Natalicio
President, University of Texas at El Paso
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El Paso, Texas 79968

Dear Dr. Natalicio:

The Office of Auditing and Consulting Services has completed a limited scope audit of Non-PO voucher and procurement card purchases. During the audit, we identified opportunities for improvement and offered the corresponding recommendations in the audit report. The recommendations are intended to assist the University in strengthening controls and help ensure that the University's mission, goals and objectives are achieved.

We appreciate the cooperation and assistance provided by the staff of Purchasing and General Services and Accounts Payable during our audit.

Sincerely,

Lori Wertz
Chief Audit Executive

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EXECUTIVE SUMMARY

The Office of Auditing and Consulting Services has completed a limited scope audit of Non-Purchase Order (Non-PO) and Procurement Card (Pro-Card) purchases.

During the audit we noted the following:

- The University does not have a process in place to review Non-PO vouchers for compliance with purchasing guidelines.
- Two (\$8,096) of 30 Non-PO vouchers reviewed should have been processed with a PO.
- Two (\$3,644) of 13 Pro-Card transactions tested were split transactions.

Based on the exceptions noted above, we conclude that the processes for the identification and monitoring of Non-PO voucher purchases can be strengthened with the recommendations outlined in this report.

BACKGROUND

Texas Government Code Sec. 2155.063 states, "except as otherwise provided by this subtitle, a purchase of or contract for goods or services shall, whenever possible, be accomplished through competitive bidding."

University purchasing guidelines are outlined in the Purchasing Operating Procedures Manual (Purchasing Manual), which incorporates state regulations. At the time of the audit, the Purchasing Manual stated "all purchases must be accompanied by a fully approved Purchase Order (PO) or be an allowable purchase utilizing a procurement card transaction. A purchase that has been made without prior issuance of an approved PO or allowable Procurement Card Transaction may be considered as circumventing the Purchase Office Procedure(s)."

The purchase of certain commodities and services may be exempt by state statute from competitive bidding or may be required by statute to be procured through an alternate purchasing method. Some exceptions are identified in the table below:

Item	Texas Government Code Section
Library materials and services	2155.139(a)
Professional services and fees	2155.001
Utilities	2155.001

PO Purchases

Personnel authorized to procure materials and services on behalf of the University must prepare an electronic purchase requisition using Miner Mall, UTEP's e-procurement system. The requisition is electronically routed for the approvals and budget check.

For the audit period, the bid requirements were as follows¹:

Open Market Procurements		
\$0 to \$4,999	Spot Market	No bid
\$5,000 to \$24,999	Informal	Minimum of three verbal or informal quotes
\$25,000 or greater	Formal	Required posting on the Electronic State Business Daily

Procurement Card (Pro-Card) Program

The Pro-Card offers departments the ability to purchase non-restricted commodities directly from vendors without issuing a purchase order. The card holder may make low dollar purchases (\$1000 or less) from vendors that accept the MasterCard credit card.

¹ Effective November 1, 2015, new purchasing threshold guidelines were implemented.

AUDIT OBJECTIVES

The objectives of this audit were to review:

- Non-PO vouchers for compliance with University purchasing policies,
- approvals for emergency purchases, and
- Pro-Card purchases for split purchases and over the limit transactions.

SCOPE AND METHODOLOGY

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

Audit methodology included identifying purchasing risks, interviewing key personnel and reviewing support documentation to verify compliance with applicable regulations and policies. The scope for this audit was September 1, 2014 through August, 31, 2015. During this audit period the implementation of PeopleSoft was in process and purchasing procedures required Interim Approval Processes.

RANKING CRITERIA

All findings in this report are ranked based on an assessment of applicable qualitative, operational control and quantitative risk factors, as well as the probability of a negative outcome occurring if the risk is not adequately mitigated. The criteria for the rankings are as follows:

Priority - 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.

High – A finding identified by internal audit that is considered to have a medium to high probability of adverse effects to the UT institution either as a whole or to a significant college/school/unit level.

Medium – A finding identified by internal audit that is considered to have a low to medium probability of adverse effects to the UT institution either as a whole or to a college/ school/unit level.

Low – A finding identified by internal audit that is considered to have minimal probability of adverse effects to the UT institution either as a whole or to a college/ school/unit level.

AUDIT RESULTS

A. Non-Purchase Order (PO) Vouchers

Non-PO vouchers are used to process vendor payments when a PO was not created. These vouchers do not route through Purchasing and General Services (Purchasing). Products and services that do not require a PO or contract/agreement include:

- Subscriptions
- Memberships
- Booth Fees
- Accreditation Fees
- Professional License Renewals
- Exam Fees
- Postage
- Hotel Bills
- Affiliation Agreements
- Inter-Agency Agreements
- Collaboration Agreements
- Sponsored Research Agreements

Non-PO vouchers are also used to process construction payments for the Office of Facilities Planning and Construction projects authorized by The University of Texas System (UT System), inter-departmental transfers, employee reimbursements and Pro-Card payments.

Using data analytics we identified 5,957 Non-PO vouchers totaling \$17,698,097 for the audit period.

A1. Identifying Non-PO Purchases

Non-PO vouchers are created by the department and routed to Accounts Payable (AP) for approval. If the Non-PO voucher does not comply with policies outlined in the Purchasing Manual, AP forwards the voucher to Purchasing on a case by case basis. There is not currently a process in place to notify Purchasing of all Non-PO vouchers that do not follow the purchasing guidelines. Failure to follow purchasing policy can result in purchases not being competitively bid, conflict of interest issues, and failure to comply with Historically Underutilized Business (HUB) regulations.

Recommendation:

AP and Purchasing should develop a process for identifying purchases made using a Non-PO voucher. Departments using Non-PO vouchers to bypass Purchasing policy should be notified and corrective action should be recommended to help ensure future compliance.

Level: This finding is considered **Medium** due to the potential risk from lack of compliance with purchasing policies and procedures.

Management Response (Purchasing):

Non-PO vouchers that are not compliant with Purchasing policy will be flagged by AP for further review in the Purchasing office. Purchasing will contact end-users to inform them of the importance of complying with Purchasing policies and procedures.

Responsible Party:

Purchasing Director and Associate Vice President of Purchasing and General Services.

Management Response (AP):

A workflow report will be implemented to provide traceability of Non-PO vouchers that bypassed Purchasing policy. AP staff will review transactions and expense codes used and identify the Non-PO vouchers that should have been processed through a PO and report them to the Purchasing Department.

Responsible Party:

Director of Business Services, Assistant Director and Manager of Accounts Payable.

Implementation Date:

January 1, 2017.

A2. Testing for Non-PO Purchases

In order to identify Non-PO vouchers that should have been processed with a PO, we met with AP and Purchasing to identify expense account codes that should be processed on a PO. These expense account codes were then matched to the Non-PO vouchers and potential Non-PO purchases were isolated. Based on the analysis performed, we identified 593 vouchers totaling \$949,381 that potentially bypassed Purchasing guidelines.

Using data analytics techniques, a sample of 30 Non-PO vouchers totaling \$143,202 was chosen for testing with the following results:

- 22 (\$121,018) were properly processed as Non-PO vouchers.
- Two (\$3,075) vouchers were not processed on POs because the vendor did not accept POs.
- Two (\$8,096) vouchers bypassed Purchasing guidelines.
- Four (\$11,013) vouchers were space lease payments. The Purchasing Manual lists the delegated authority for space lease agreements as the Associate Vice President for Business Affairs and the Director of Purchasing and General Services; however, space lease agreements are not processed on POs.

Recommendation:

AP should identify purchases made using a Non-PO voucher and notify Purchasing. Purchasing should work with the departments to educate them on the importance of following Purchasing guidelines in order to comply with state regulations.

Level: This finding is considered **Medium** due to the potential risk from lack of compliance with policies and procedures.

Management Response (Purchasing):

Non-PO vouchers that are not compliant with Purchasing policy will be flagged by AP for further review in the Purchasing office. Purchasing will contact end-users to inform them of the importance of complying with Purchasing policies and procedures. Lease agreements are processed via a non-PO voucher as there is already a superseding contract on file.

Responsible Party:

Purchasing Director and Associate Vice President of Purchasing and General Services.

Management Response (AP):

A workflow report will be implemented to provide traceability of Non-PO vouchers that bypassed Purchasing policy. AP staff will review transactions and expense codes used and identify the Non-PO vouchers that should have been processed through a PO and report them to the Purchasing Department.

Responsible Party:

Director of Business Services, Assistant Director and Manager of Accounts Payable.

Implementation Date:

January 1, 2017

A3. Support Documentation for Non-PO Vouchers

The same 30 Non-PO vouchers were reviewed for the appropriate support documentation on file.

The Authorization for Personal Services (APS) form is utilized as support for paying individuals providing consulting or specialized services to the University over \$250.

Four (\$8,852) of the 30 vouchers tested required an APS form. The APS forms for two of the vouchers were not provided when requested but were delivered before the completion of the audit.

No exceptions were noted.

B. Emergency Purchases

Emergencies occur as the result of unforeseeable circumstances and may require an immediate response; therefore, a competitive bid would not be obtained prior to purchase. In this case, an emergency requisition form must be completed in Miner Mall, explaining the nature of the emergency, what caused the situation, and the damage that will occur if the situation is not remedied immediately.

There were nine emergency purchases totaling \$97,458 during the audit period. All emergency purchases were properly documented and approved by Purchasing. No exceptions were noted.

C. Pro-Card

A report containing all Pro-Card transactions for the audit period was obtained from Citibank Global Management System. We identified 9,336 transactions totaling \$1,402,836.

C1. Split Purchases

Based on the Procurement Card Manual, a split purchase occurs when a single transaction is broken into multiple purchases in an effort to circumvent the \$1,000 per transaction limit. Using data analytics, Pro-Card transactions were reviewed to identify potential split transactions, including those individuals having multiple cards. A sample of 13 (\$24,424) of 97 (\$229,006) were chosen for review with the following results:

- Two (\$3,644) of the 13 transactions tested were identified as split purchases.

The Pro-Card Manual states, "Larger purchases may not be divided into small lot purchases to avoid the designated dollar limits." Failure to comply with Pro-Card guidelines could result in theft or misuse of University assets.

Recommendation:

Purchasing should continue to review the Pro-Card transactions to identify potential split transactions to ensure cardholder compliance with Purchasing guidelines. All cardholders should be advised that multiple transactions to the same vendor in the same day could be flagged for further review.

Level: This finding is considered **Medium** due to the potential risk from lack of compliance with policies and procedures.

Management Response (Purchasing):

Purchasing will monitor Pro-Card transactions on a monthly basis to identify any possible split transactions.

Responsible Party:

Purchasing Director and ProCard Administrator.

Implementation Date:

September 1, 2016.

C2. Over the Limit Transactions

According to the Procurement Card Program, the Pro-Card is used to make low dollar value purchases (under \$1,000) from vendors. Per the Pro-Card Manual “If the total payment to be made to a vendor for a purchase is \$1,000 or more, a purchase order must be used.” Exceptions to this policy are made on a case by case basis and require prior approval from Purchasing.

Using data analytics all Pro-Card transactions over \$1,000 were isolated. A sample of 13 (\$51,646) of the 69 (\$89,009) transactions over the \$1000 limit were tested to determine if there was prior approval from Purchasing.

No exceptions were noted.

CONCLUSION

Based on the results of audit procedures performed, we conclude the monitoring of Non-PO purchases for compliance with applicable purchasing state regulations and University guidelines can be enhanced by implementing the audit recommendations outlined in this report.

We wish to thank the management and staff of Purchasing and AP for their assistance and cooperation provided throughout the audit.