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Rio Grande Valley

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Procurement Card – Continuous Auditing

Report No. 17-06

March 2017

Office of Audits & Consulting Services

March 15, 2017

Dr. Guy Bailey, President
The University of Texas Rio Grande Valley
1201 West University Drive
Edinburg, Texas 78539

Dear Dr. Bailey,

The Office of Audits & Consulting Services has completed the audit of Procurement Card - Continuous Auditing as part of our fiscal year 2016 Audit Plan. The audit objectives were to:

- develop custom data analytic reports that continuously identify procurement card transactions that may require further review;
- test the items identified in the custom reports to ensure they adhere to procurement card policies and procedures; and,
- determine if the custom reports could be used by management as a tool to increase awareness and compliance throughout the institution.

The scope of this audit consisted of all procurement card transactions for the first eight months of fiscal year (FY) 2016 (September 1, 2015 through April 30, 2016).

Our examination was conducted in accordance with guidelines set forth in The University of Texas System's Policies UTS 129 and the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (Standards). The Standards set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance of audit work, and management of internal auditing department. UTS 129 requires that we adhere to the Standards.

Overall, we concluded the majority of the procurement card transactions tested complied with procurement card policies and procedures, and were adequately documented and reviewed by the Procurement Office. In addition, we determined certain custom IDEA reports could assist management with compliance monitoring of procurement card transactions; therefore, we will continue to provide procurement management with exception reports.

We appreciate the assistance provided by UTRGV's management and other personnel. We hope the information and analyses presented in our report are helpful.

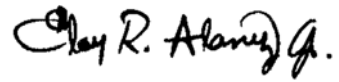
Office of Audits and Consulting Services
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The Woods 140
One West University Blvd.
Brownsville, Texas 78520-4933
(956) 882-7023

ESRAX 1.101
1201 West University Drive
Edinburg, Texas 78539-2999
(956) 665-2110

utrgv.edu

Sincerely,



Eloy R. Alaniz, Jr., CPA, CIA, CISA
Chief Audit Executive

cc: Mr. Doug Arney, Senior Associate Vice President for Operations
Mr. Alex Valdez, Chief Procurement Officer
UTRGV Internal Audit Committee
UT System Audit Office
Governor's Office of Budget, Planning and Policy
Sunset Advisory Commission
State Auditor's Office
Legislative Budget Board

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EXECUTIVE SUMMARY

The University of Texas – Rio Grande Valley’s (UTRGV) procurement card program was established to have a more efficient and cost-effective method of purchasing and paying for small dollar purchases of \$1,000 or less. This program is available to University departments as an option for payment of goods and services. The program is intended to fully comply with all applicable University purchasing policies and procedures while facilitating the purchasing process and expediting the payment process for small dollar purchases.

The objectives of this audit were to:

- develop custom IDEA Data Analysis Software reports that continuously identify procurement card transactions that may require further review;
- test the items identified in the custom reports to ensure they adhere to procurement card policies and procedures; and,
- determine if the custom reports could be used by management as a tool to increase awareness and compliance throughout the institution.

The scope of this audit consisted of all procurement card transactions for the first eight months of fiscal year (FY) 2016 (September 1, 2015 through April 30, 2016), which included 6,543 transactions totaling \$1,057,565 in purchases, and the current procurement card policies and procedures.

Overall, we concluded the majority of the procurement card transactions tested complied with procurement card policies and procedures, and were adequately documented and reviewed by the Procurement Office. In addition, we determined certain custom IDEA reports could assist management with compliance monitoring of procurement card transactions; therefore, we will continue to provide procurement management with exception reports. We observed the following:

- One of the split transactions tested was for an invoice billed to a legacy institution for temporary labor provided by a consulting company totaling \$2,261 and dated October 20, 2013. This charge was processed with a merchant code of “other”. Consulting and professional services are not allowed to be paid with a procurement card.
- An inventory of procurement cards issued was not updated as cards were issued, cancelled or reissued.
- The *Procurement Card Program Manual* did not document the process to request spending limit increases and reference UTRGV’s HOP policies.

BACKGROUND

The Procurement Office for The University of Texas—Rio Grande Valley (UTRGV) manages the procurement card program. At the time of this audit, the office was organized into four operating areas which included purchasing, accounts payable, shipping and receiving and travel services. The office reports to the Office of Finance & Public Policy, who reports to the Executive Vice President for Finance and Administration. The purchasing function focuses on administering the University’s procurement contracts, procurement card program, and historically underutilized business (HUB) and small business program.

The key procurement card program personnel include the associate director for procurement, program coordinator, program specialist and associate director for accounts payable. They issue and cancel cards, set institutional purchase limits, review purchase documentation, pay procurement card statements, maintain procurement card policy, and provide training. At the time of this audit, there were 164 active procurement cards issued to University staff and departments. Some of these cards belong to the Procurement Office’s credit card checkout program that makes procurement cards available to departments without cards that need a card for occasional use.

The University’s procurement card program is authorized by the State of Texas Comptroller of Public Accounts through a contract with a credit card bank. The procurement card is a MasterCard used with any vendor that accepts the card as a form of payment. The University’s procurement card program is based on the following policies and state statutes:

- *UTRGV Procurement Card Program Manual*
- *UTRGV Handbook of Operating Procedures(HOP)*, Section ADM 10-410, Procurement Card Program
- UT System wide Policy, UTS 159, Purchasing
- *Texas Government Code* §403.023, Credit, Charge, and Debit Cards
- *Texas Administrative Code* Title 34, Part 1, Chapter 5, Subchapter E, Rule §5.57, Use of Payment Cards by State Agencies
- UT Board of Regents *Rules and Regulations* Series 10501, Delegation to Act on Behalf of the Board

The *Procurement Card Program Manual (Manual)* sets guidelines for procurement card use and is based on University and UT System wide policies, and state statutes. The guidelines include items such as spending limits for single purchases and billing cycles, unauthorized purchases, documentation and record retention, and statements for termination of procurement card privileges if policies and state statutes are not followed. If three violations occur within a one-year period, or failure to produce all requested documentation, will result in revocation of the individual user’s procurement card privileges as per *Procurement Card Program Manual*. The Procurement Office determines allowable merchant codes to be used for procurement card

purchases. The top merchant codes used are typically food and supplies purchases. Refer to Appendix A.

AUDIT OBJECTIVE

The objectives of this audit were to:

- develop custom IDEA Data Analysis Software reports that continuously identify procurement card transactions that may require further review;
- test the transactions identified in the custom reports to ensure they adhere to procurement card policies and procedures; and,
- determine if the custom reports could be used by management as a tool to increase awareness and compliance throughout the institution.

AUDIT SCOPE & METHODOLOGY

The scope of this audit consisted of all procurement card transactions for the first eight months of FY 2016 (September 1, 2015 through April 30, 2016), which included 6,543 transactions totaling \$1,057,565 in purchases, and the current procurement card policies and procedures. To accomplish the audit objective, we performed the following:

- Gained an understanding of procurement card processes
- Obtained list of procurement cards issued through April 2016
- Retrieved procurement card transactions from procurement card service provider
- Ran IDEA data analytical scripts on procurement card transactions
- Selected samples for testing
- Tested samples for compliance with applicable policies

IDEA Data Analysis Software (IDEA) was used to test procurement card purchases using custom scripts developed by the UT System Audit Office. The custom scripts analyzed procurement card transactions for the following:

- Cardholders and Accounts
 - procurement card limits
 - employees with multiple cards
 - Transactions
 - suspicious vendors
 - foreign country transactions
 - split transactions
 - round number transactions
-

- over and under the limit transactions
- weekend transactions
- Trending and Summary Reports
 - procurement card account averages
 - procurement cardholder averages
 - vendor averages
 - spending by procurement card account and vendor

Our audit was conducted in accordance with guidelines set forth in The University of Texas System wide's Policy (UTS) 129, Internal Audit Activities and The Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing (Standards)*. The *Standards* set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance of audit work, and management of the internal audit department. UTS 129 requires that we adhere to those *Standards*.

AUDIT RESULTS

Cardholder and Account Testing

According to the *Manual* a cardholder, whose name appears on the card, is defined as the UTRGV employee designated by the project manager and/or department head to utilize a procurement card and is the individual held accountable for all charges made with his/her card. The cardholder is the only person authorized to use the procurement card and only full-time employees may be cardholders.

Each cardholder, reconciler, cost center manager, and department head must receive procurement card training before the card is issued and complete training once a year thereafter. New participants must complete "instructor led" training before participation in the program. Current participants will complete the annual refresher training on the UTRGV Blackboard portal and complete an assessment online.

The institutional spending limits per the *Manual* is \$5,000 per monthly billing cycle and \$1,000 maximum for a single transaction. Project Managers may choose lower limits for cardholders within their department. Intentionally splitting of purchases in order to circumvent single purchase limits is not allowed. The *Manual* did not list any exceptions to these spending limits. However, the required procurement card program training states the cardholders should contact the Procurement Office to obtain approvals for any purchases over the single swipe limit of \$1,000. It does not address the process to increase the monthly billing cycle limit. A procurement card charge over the limit will not go through the credit card bank unless a representative from the Procurement Office increases the limit for the single transaction or the monthly limit.

There were a total of 172 cards issued between September 1, 2015 and April 30, 2016. Of these cards, 164 cards were active and 8 were inactive with the credit card bank. To test cardholder procurement card limits and employees with multiple cards, we obtained a list of procurement cards issued from the Procurement Office and the transactions in the credit card bank system. We reconciled the list of procurement cards issued by the Procurement office to the list of procurement cards that had activity in the credit card bank system during our audit scope period. This reconciliation noted several differences between the two lists. The associate director of procurement provided reasonable explanations for the differences mainly due to not updating the list when cards were canceled or reissued. An updated list of procurement cards issued and active was provided to us, and it did not match the credit card bank system.

We used the IDEA data analysis tool to extract all transactions that had a card with a credit limit higher than \$5,000 or a single transaction limit higher than \$1,000. The analysis produced 153 cards with activity for the audit scope period. We judgmentally selected a sample of 28 (18%) cards to test institutional limits. We verified the cards with monthly spending limits of \$5,000 were appropriately approved, the cards with single transaction spending limits higher than \$1,000 were appropriately approved, and the cards did not have an unlimited transaction limit. We determined 19 of the cards tested for exceeded institutional spending limits had documented approvals for spending limit increase requests by card holders. Approvals by the Procurement Office were communicated to card holder or department staff via email. The associate director of procurement provided a reasonable explanation for one of the cards that did not have an email to document the approval for the increase in institutional spending limits. There were eight cards in the test sample that belonged to the Procurement Office's credit card checkout program. These cards did not have a formal approval process to increase spending limits over the institutional limits. Limit increases for these cards were made at the discretion of the Procurement Office's staff. In addition, further review of the *Manual* revealed that it referenced outdated handbook of operating procedure policy numbers.

To verify that employees did not have more than one procurement card, unless they had proper approval for multiple cards, we tested all 172 cards issued through April 30, 2016. Only one employee had multiple cards with activity in the audit scope period. Two cards were issued to this employee to help manage two different project accounts and we determined they were properly approved by the Procurement Office.

Recommendation:

1. The Chief Procurement Officer should update the *Procurement Card Program Manual* to include the following:
 - Process to request spending limit increases
 - Reference UTRGV's *HOP* policy numbers

Management Response:

1. The Procurement Office is currently working on updates to the Procurement Card Manual to reflect these changes.

Implementation Date:

March 1, 2017

Recommendation:

2. The Chief Procurement Officer should maintain an updated inventory list of procurement cards that agrees to the credit card bank.

Management Response:

2. The Procurement Office is in the process of implementing a Sharepoint site to digitize the p-card application and supporting documentation as a way to maintain the inventory. The Procurement Card Program Coordinator will maintain the Sharepoint database and the Associate Director of Procurement will review monthly.

Implementation Date:

January 1, 2017

Transaction Testing

The University's policy for the *Procurement Card Program* governs what types of purchases are allowed with the procurement card. The card is used to pay for small dollar transactions of \$1,000 or less for items such as supplies, goods and services. Purchases made with the cards are documented in the University's web based purchasing portal known as iShop. Documentation consists of requisitions, purchase orders, workflow approvals, copies of receipts, expenditure accounting information, and copies of procurement card statements. This documentation is completed after the procurement card purchases have been made but before accounts payable processes the payment to the credit card bank.

We used the IDEA data analysis tool to extract all transactions for the audit scope period. The tool produced the following types of transactions that we used to verify the purchases were appropriately approved, had adequate documentation and appeared reasonable. We judgmentally selected 86 of 5,292 transactions for testing as follows:

Transaction Type	Sample Size	Total Transactions	Total Purchase Orders
Suspicious Merchant Code	14	2,430	13
Suspicious vendors	10	210	10
Foreign country	12	50	12
Split	18	226	7
Cash advance	0	0	0
Round number	10	1,491	10
Weekend	10	469	11
Over and just under the limit	12	416	10
Totals	86	5,292	73

We reviewed the documentation and approval workflows for 73 purchase orders in iShop and verified the transactions were appropriately approved and appeared reasonable. The majority of the transactions tested were documented in iShop, were appropriately approved, and appeared reasonable. One of the iShop workflow approvals included the procurement card program coordinator who verifies that purchases are in accordance with procurement card program guidelines. This includes a review of expense types, justifications, supporting documentation and credit card statement amounts for encumbrance and payment.

Two transactions in the suspicious merchant code category and the foreign country test samples were fraudulent. These transactions were discovered by the Procurement Office and appropriately reported to the procurement card service provider and the UTRGV police department. In addition, we determined only five of the 18 split transactions tested were actually split. The 13 other transactions had different invoices but purchased on the same day. We also noted two of the 18 transactions were over the \$1,000 spending transaction limit. The five split transactions were for two purchases (two invoices) from different cardholders. Split transactions are specifically prohibited in accordance to the *Procurement Card Program Manual*. One of the split transactions tested was for an invoice billed to a legacy institution for temporary labor provided by a consulting company totaling \$2,261 and dated October 20, 2013. This charge was processed with a merchant code of “other”. Consulting and professional services are not allowed to be paid with a procurement card. We determined the Procurement Office monitors the procurement card transactions after the fact during the approval process in iShop. However, they are not adequately monitoring split transactions and charges to the “other” merchant category codes.

Recommendation:

3. The Chief Procurement Officer should implement controls to prevent split transactions.

Management Response:

3. Split transactions will need to be reviewed to check for false positives. Multiple transactions for the same vendor during the same period may include multiple departmental registrations, multiple trips to the same retailer for items that the department forgot to purchase or underestimated the use. Once the Procurement Card Coordinator makes the determination of a split was purposely done the Pro Card violation process will go into effect.

Implementation Date:

March 1, 2017

Recommendation:

4. The Chief Procurement Officer should consider not allowing merchant category codes with “other” or “not elsewhere classified”. If this is not practical, all charges to these merchant category codes should be reviewed closely to ensure unauthorized purchases listed in the *Procurement Card Program Manual* are not paid with a procurement card.

Management Response:

4. The Procurement Card Coordinator will closely monitor transactions in the “other” category to ensure compliance with program guidelines. It is not feasible to remove the “other” category as the merchant controls its designation. Once the Procurement Card Coordinator makes the determination that the expense is in violation of program guidelines, the Pro Card violation process will go into effect. If three violations occur within a one-year period, or failure to produce all requested documentation, will result in revocation of the individual user’s procurement card privileges as per Procurement Card Program Manual.

Implementation Date:

January 1, 2017

Trending and Summary Reports Testing

We used the IDEA data analysis tool to extract all transactions for the audit scope period. The tool produced the following types of transactions that we used to verify the purchases were

appropriately approved, had adequate documentation and appeared reasonable. We judgmentally selected 5 transactions from the highest monthly totals for testing as follows:

Transaction Type	Sample Size	Total Transactions	Total Purchase Orders
Account averages	5	173	15
Cardholder averages	5	167	18
Vendor averages	5	1,629	18
spending by account and vendor	5	4,409	15
Totals	20	6,378	66

We reviewed the documentation and approval workflows for 66 purchase orders in iShop and verified the transactions were appropriately approved and appeared reasonable. No exceptions were noted.

IDEA Reports

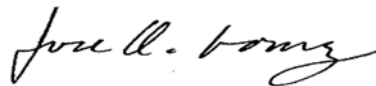
We evaluated if the extra controls provided by IDEA analytical reports were beneficial for the procurement card program. We determined that at the time of the audit all the extra controls provided by IDEA were not necessary. However, IDEA may be considered to complement some of the existing controls or if procurement card program processes change. In addition, individual IDEA scripts may be used to detect weaknesses in controls for split transactions and merchant category codes.

CONCLUSION

Overall, we concluded the majority of the procurement card transactions tested complied with procurement card policies and procedures, and were adequately documented and reviewed by the Procurement Office. In addition, we determined certain custom IDEA reports could assist management with compliance monitoring of procurement card transactions; therefore, we will continue to provide procurement management with exception reports.



Norma Ramos, CIA, CGAP
 Director



Joe Gomez, MS, CISA
 Senior Information Technology Auditor

Appendix A – Top 25 Merchant Codes Based on Transaction for Period 9/1/2015-4/30/2016

Rank	Merchant Code	Merchant Code Description	Card Transactions	Number of Merchants	Total Dollar Amount
1	5411	GROCERY STORES, SUPERMARKETS	982	8	70,878
2	5942	BOOK STORES	528	15	53,789
3	5814	FAST FOOD RESTAURANTS	465	48	57,144
4	5812	EATING PLACES, RESTAURANTS	416	128	62,948
5	5300	WHOLESALE CLUBS	397	1	70,377
6	5200	HOME SUPPLY WAREHOUSE STORES	316	5	42,634
7	8299	SCHOOLS & EDUCATIONAL SVC-NOT ELSEWHERE CLASSIFIED	307	42	46,068
8	5943	OFFICE, SCHOOL SUPPLY, AND STATIONERY STORES	198	12	20,821
9	7311	ADVERTISING SERVICES	145	12	12,904
10	7399	BUSINESS SERVICES-NOT ELSEWHERE CLASSIFIED	137	60	32,977
11	5999	MISCELLANEOUS AND SPECIALTY RETAIL STORES	134	54	23,819
12	7299	OTHER SERVICES (NOT ELSEWHERE CLASSIFIED)	131	10	8,174
13	8398	ORGANIZATIONS, CHARITABLE AND SOCIAL SERVICES	103	53	37,567
14	5945	GAME, TOY, AND HOBBY SHOPS	103	14	11,222
15	5099	DURABLE GOODS, NOT ELSEWHERE CLASSIFIED	103	20	31,469
16	8699	ORGANIZATIONS, MEMBERSHIP-NOT ELSEWHERE CLASSIFIED	102	41	34,161
17	5941	SPORTING GOODS STORES	99	33	30,024
18	5331	VARIETY STORES	79	9	5,593
19	8220	COLLEGES, UNIV, PRO SCHOOLS, JUNIOR COLLEGES	76	29	20,646
20	5251	HARDWARE STORES	71	18	8,061
21	5085	INDUSTRIAL SUPPLIES NOT ELSEWHERE CLASSIFIED	66	35	14,577
22	5734	COMPUTER SOFTWARE STORES	60	26	8,737
23	5533	AUTOMOTIVE PARTS, ACCESSORIES STORES	57	13	4,370
24	5732	ELECTRONIC SALES	55	24	11,321
25	5541	SERVICE STATIONS WITH OR WITHOUT ANCILLARY SERVICE	54	6	2,324
Top 25 Merchant Code Totals			5,184	716	\$722,606
Period Merchant Code Totals			6,543	1,311	\$1,057,565