

Fiscal Year 2017  
Procurement Card  
Audit

Audit Report # 18-103  
June 4, 2018



The University of Texas at El Paso  
**Office of Auditing and Consulting**

"Committed to Service, Independence and Quality"



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June 4, 2018

Dr. Diana Natalicio  
President, The University of Texas at El Paso  
Administration Building, Suite 500  
El Paso, Texas 79968

Dear Dr. Natalicio:

The Office of Auditing and Consulting Services has completed a limited scope audit of Procurement Card for Fiscal Year 2017. During the audit, we identified opportunities for improvement and offered the corresponding recommendations in the audit report. The recommendations are intended to assist the department in strengthening controls and help ensure that the University's mission, goals and objectives are achieved.

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

Sincerely,

A handwritten signature in blue ink that reads 'Lori Wertz'.

Lori Wertz  
Chief Audit Executive

# **Report Distribution:**

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Dr. Diane N. De Hoyos, Assistant Vice President, Purchasing and General Services

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## **Auditors Assigned to the Audit:**

Lorenzo Canales, Auditor

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## **EXECUTIVE SUMMARY**

The Office of Auditing and Consulting Services has completed a limited scope audit of Procurement Card (ProCard) transactions for the period of September 1, 2016 through August 31, 2017. The objective of this audit was to determine whether the ProCard Program is functioning in compliance with the institutional policies and procedures

During the audit, we noted the following:

- One cardholder set up a ProCard in their personal profile in Amazon instead of a University business account. Funds from two merchandise returns were credited to an employee's personal Amazon gift card account, not to the procurement card cost center.
- Cardholders did not always follow University policies and procedures for card purchases.
- Some departments are not completing ProCard reconciliations.
- ProCards were not terminated timely for several employees separating from the university.
- No split transactions were identified in our sample.
- For ten of 186 cardholders tested who either had new or reactivated cards issued, all attended required training, had departmental approvals and had appropriate documentation on file.

## **BACKGROUND**

UTEP's Purchasing and General Services Department is responsible for administering and monitoring Procurement Card (ProCard) activity. ProCard use has consistently been ranked high in the University-wide risk assessment, primarily due to the large volume of transactions. ProCard transactions totaling \$ 1,390,778 were recorded in Fiscal Year 2017.

Although the ProCard program was designed to be a more efficient, cost-effective method of purchasing and paying for small dollar transactions that are low in volume, previous audits have shown that use has not always followed University rules and regulations.

The Program normally allows three recorded non-compliance strikes before corrective action is taken. Actions can include the suspension or cancellation of the card, depending on the severity of the non-compliance. The Program Administrator (Administrator) is responsible for the overall administration of the program and processes changes to credit limits, account information, name changes, and Procurement Card requests.

## **AUDIT OBJECTIVES**

The objective of this audit was to determine whether the Procurement Card Program is functioning in compliance with the institutional policies and procedures.

## **SCOPE AND METHODOLOGY**

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

The audit scope covered ProCard transactions occurring during the period of September 1, 2016 through August 31, 2017.

Audit methodology included reviewing applicable laws, regulations, policies and procedures, and testing of a sample of ProCard transactions for the audit period.

## 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. ProCard Transactions

#### A.1 ProCard Linked to Personal Amazon and PayPal Accounts

Funds from two merchandise returns were credited to an employee's personal Amazon gift card account, not to the procurement card cost center. The cardholder set up the ProCard in their personal profile in Amazon instead of a separate University business account without informing the supervisor. The employee stated that the transaction was disputed with the vendor for over a year, but the dispute was not noted on the monthly transaction logs as required. The review process for ProCard reconciliation should have, but did not, detect the missing credit to the ProCard cost center.

Per Texas Administrative Code 34 Rule 5.57, a state agency may not accept a cash refund for a purchase if the agency paid for the purchase with a payment card. In addition, policies and procedures for refunds and disputed transactions are clear in the ProCard Manual but were not followed:

- *“The procurement card will have the State of Texas Seal and the wording “For Official Use Only” clearly indicated. This card is for business purposes only and may NOT be used for personal transactions,*
- *Review of future statements is imperative to ensure that the account is properly credited for returns, credits and disputed charges. If an item is returned for any reason, the return must be credited back to the procurement card. Under no circumstances should a cash refund or gift card be accepted in place of the credit. All returns, credits or disputes should be noted on a monthly transaction log, and*
- *Procurement cardholders not abiding by University policies will have their card privileges suspended and or terminated.*

#### **Recommendation:**

*Linking ProCards to personal accounts should be strictly prohibited. All returns should be reviewed for Amazon and PayPal transactions to ensure the funds are credited back to the ProCard and not to personal accounts.*

**Level:** This finding is considered **HIGH** due to the fact that when a ProCard is linked to a personal account, it is very difficult to monitor the activity, and could result in personal refunds and/or unallowable purchases.

**Management Response:**

*Purchasing & General Services is presently researching and benchmarking with other UT Institutions to determine the potential feasibility of an Amazon business account setup for the University.*

**Responsible Party:**

*Dr. Diane N. De Hoyos, Assistant Vice President, Purchasing & General Services.*

**Implementation Date:**

*June 4, 2018*

## **A.2 Cardholders did not always follow policies and procedures**

Auditors judgmentally selected a sample of 11 of 186 total cardholders to perform detailed testing. Criteria included guidelines for allowable purchases provided in the ProCard Manual.

**Issues:**

- Receipts were not provided on 4% of the cardholder transactions reviewed.
- Nine food purchases from one employee, for amounts ranging from \$3 to \$340 were noted.  
Eight of 9 of the food purchases (89%) did not have food exception forms on file.
- Entertainment forms were missing for three of 11 (27%) food and entertainment purchases.
- Two Amazon Prime Memberships were purchased with the ProCard; however, one of the two membership transactions was later reversed.

**Recommendation:**

*Cardholders who do not follow procedures in the ProCard Manual should be required to attend training after the strike so they are fully aware of the policies and procedures to be followed.*

**Level:** This finding is considered **MEDIUM** because cardholders are not following ProCard rules, and unallowable purchases could be made.

**Management Response:**

*Purchasing & General Services will develop a targeted training to address the specific infraction. A mandatory one-on-one training will be held with the cardholder.*

**Responsible Party:**

*Erika Rosales, Director, Purchasing & General Services.  
Cecilia Cantu, Contract Administrator, Purchasing & General Services.*

**Implementation Date:**

*September 1, 2018*

### **A.3 Lack of Departmental ProCard Log Reconciliations**

Internal Audit reviewed 22 ProCard monthly reconciliation logs to determine if departments in the College of Health Sciences are reconciling and approving the ProCard bank statements. The cardholder, account reconciler, and supervisor all have responsibilities outlined in the UTEP ProCard Manual:

**Cardholder:** *After a purchase is made, the cardholder is ultimately responsible for verifying that all transactions, (Ex: if the account reconciler is out on leave) listed on the statement is valid and that the amount charged is accurate.*

**Reconciler:** *It is the Reconciler's responsibilities to monitor and reconcile all transactions in PeopleSoft and update transaction logs for each of the program cycles.*

**Supervisor:** *Supervisors are responsible for ensuring that each transaction served a legitimate business purpose and that it is appropriate and necessary for the department. Verify the cardholder obtained receipts and that each of the expenditures is allocated to the appropriate account number.*

*Lastly, at the end of each cycle, the corresponding Transaction Log must be signed and dated by the Supervisor within one month's time of the monthly PeopleSoft Reconciliation being issued.*

The results of the review are as follows:

- Monthly reconciliations were not performed in the College of Health Sciences for three of 22 (14%) reconciliation logs requested. Receipts for purchases during these months were also not available.
- The timeliness of ProCard reconciliations and reviews could not be determined for two of the 22 (9%) monthly reconciliations since the supervisor did not date the logs.
- Seventeen of 22 (77%) ProCard logs were reconciled timely and completely.
- The cardholders who did not prepare and review the reconciliations no longer have active ProCards due to the implementation of a business center. All four departmental cards were removed. Two new cardholders were added to the business center.

**Recommendation:**

*Departmental reconciliations of the ProCard Logs should be performed at the end of each monthly cycle to detect errors and/or fraud in a timely manner.*

**Level:** This finding is considered **MEDIUM** because not performing reconciliations could result in errors, misclassifications, unallowable purchases, and fraud.

**Management Response:**

*Incomplete reconciliations of hard copy transaction logs are identified in the monthly random review audit. The memo that is sent that addresses any infractions will additionally require that the cardholder remedy the infraction to the extent possible.*

**Responsible Party:**

*Erika Rosales, Director, Purchasing & General Services.  
Cecilia Cantu, Contract Administrator, Purchasing & General Services.*

**Implementation Date:**

*September 1, 2018*

## **A.4 Split purchases not found**

*Per the ProCard Manual, a “split purchase” occurs when a total cost of a single or multiple purchase(s) from one source, is more than \$1,000.00 and the purchase is broken up into multiple transactions with the express purpose of circumventing the \$1,000.00. For example if an item costs \$2,000.00 and it is split \$1,000.00 and \$1,000.00, this is a violation and a strike will be accessed.”*

Internal Audit examined all Fiscal Year 2017 (FY17) transactions from the eleven cardholders in the sample selection. All 1,432 transactions, totaling \$161,776, were reviewed. No split transactions were identified.

No exceptions noted.

## **B. ProCard Card Monitoring**

### **B.1. Monitoring performed by ProCard Administrator**

The ProCard Administrator in the Purchasing Department is responsible for the overall administration and monitoring of ProCard activity on campus.

Based on a review of email correspondence between the administrator and cardholders, the administrator responds promptly to exception requests and proactively finds solutions to cardholder concerns. The administrator conducts a minimum of three random reviews of cardholder accounts every month to verify accuracy, completeness, and timeliness of the preparation and review of departmental ProCard logs.

In addition, tax and transaction reviews for all active cardholders are conducted on a monthly basis. Potential unallowable transactions and sales tax payments are identified and resolved. Consequences for violations of policy are clearly outlined in the ProCard Manual and include strikes, warnings, and passes:

The administrator may issue strikes, warnings or passes after following up on questionable transactions depending on the explanations and support documentation provided by the cardholder.

Per the ProCard Manual,

*“The procurement card normally operates under a three (3) strikes you’re out basis, depending on the severity of the policy violation. Strikes normally consist of violations such as failure to approve PeopleSoft document(s), failure to maintain a transaction log, failure to obtain signatures on the transaction logs, or purchasing an item that should not be purchased by using the procurement card.”*

A warning is issued for minor violations, for example, the first time a supervisor fails to timely approve transactions in PeopleSoft. A pass is given if the cardholder provides a reasonable explanation and support documentation to justify the purchase in question.

The ProCard Administrator actively monitors cardholder transactions. No exceptions were noted.

## **B.2 Timeliness of Closing Accounts**

ProCards were not terminated timely for five of the nine (56%) cardholders who terminated employment in FY17. Additionally, there is no documentation on file as to the final disposition of two of the 9 cards.

Twenty-eight Citi Bank ProCard accounts were closed during the FY17 audit period. Nine of the 28 accounts were closed because employees terminated their employment with the University. Internal Audit compared the Citibank account close dates with PeopleSoft termination/transfer action dates to determine the timeliness for the close out of accounts.

Employees that have separated from the University are identified via an HR monthly report. The report can only be sent to the Pro Card Administrator once a month, and captures employees that have exited in the prior month. Separated employees are also identified via an email notification that is sent when a department initiates an employee separation via an electronic routing form. Not all employees are separated via an electronic routing form.

Per the ProCard Manual,

*“When a cardholder terminates employment with The University, the department / unit has the specific obligation to reclaim the procurement card and return it to the Procurement Card Program Administrator prior to the employee’s termination date. Failure to do so may result in revocation of all department / unit card privileges. If a terminated employee continues to use the card, the department will be liable for all*

*charges. After receiving the cards, the Pro Card Administrator disposes the card by shredding them.”*

**Recommendation:**

*The ProCard Administrator should request access to scheduled terminated employee reports to identify cards that should be deactivated. The ProCard Administrator should document the final disposition of each card received.*

**Level:** This finding is considered **MEDIUM** because the ProCard could continue to be used after the employee leaves the University.

**Management Response:**

*Purchasing & General Services will develop a form to document the final disposition of the card. The form will indicate the date the card was received, and the Citibank close date. A hard copy form will be kept in the cardholder's physical file, and noted in the Pro Card database.*

**Responsible Party:**

*Cecilia Cantu, Contract Administrator, Purchasing & General Services.*

**Implementation Date:**

*September 1, 2018*

### **B.3. Issuance of New ProCards**

The ProCard Manual outlines the procedure to request new procurement cards for a department. All Procurement Card requests must go through the Program Administrator, and employees are required to take mandatory training on procurement card use before the card is activated or renewed. Internal audit selected ten of 186 cardholders to confirm that:

- The department request and approval for ProCard is on file.
- Proper authorization(s) for ProCard are on file.
- Cardholder attended training provided and it was documented.

All documents were on file. No exceptions were noted.

## **CONCLUSION**

Based on the results of audit procedures performed, we conclude that ProCard operations will be enhanced by implementing our recommendations.

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