



THE UNIVERSITY OF TEXAS
PERMIAN BASIN

Procurement Card Audit

Fiscal Year 2022

September 19, 2023

Office of Internal Audit
4901 E. University Boulevard
Odessa, Texas 79762

Procurement Card Audit Fiscal Year 2022 (carry-forward)

SUMMARY



BACKGROUND AND OBJECTIVE

The University of Texas Permian Basin (UTPB) Procurement Card Program provides an efficient way for departments to purchase low-cost goods or services that do not require competitive sourcing. However, the Program is not intended to allow cardholders to bypass purchasing rules.

The Purchasing Department is responsible for administering the Program, including processing of procurement card applications, distribution of cards, cardholder training, and ongoing monitoring of card use. As of July 2023, there were 74 active UTPB procurement cards and four awaiting activation. A total of approximately \$685,000 was spent using UTPB procurement cards in fiscal year (FY) 2023 through June 30.

The objective of this audit was to determine whether policies and procedures are effective to ensure that procurement card use complies with UTPB and State requirements. This audit was included in the FY 2022 annual audit plan based on risks associated with misuse of procurement cards. The audit was suspended in FY 2022 due to staff turnover, with fieldwork re-performed in FY 2023.

CONCLUSION

Management and oversight of the UTPB procurement card program is not fully effective in preventing and detecting non-compliance or inappropriate card use. Enhanced monitoring, to include data analysis methods, timely communication, and enforcement of policy will help ensure cardholders understand and comply with purchasing rules and inappropriate or potentially fraudulent use is addressed promptly.

OBSERVATIONS

**1
High**

Improved monitoring of Procurement Card activity is needed to enforce compliance with purchasing policies.

**2
High**

Procurement Card misuse should be timely communicated to educate the cardholder and discourage future non-compliance, with escalating consequences for repeated misuse.

**3
Medium**

Procurement Card Policies, Procedures, and Training Materials should be updated to clearly reflect current expectations and purchasing practices.

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



High

Observation 1: Improved monitoring of Procurement Card activity is needed to enforce compliance with purchasing policies.

The Procurement Card Monitor downloads card activity directly from the bank to review for potential policy violations based on merchant. A review of available supporting documentation is also performed for items that require approval under current policy to verify that documented approval exists. However, the data currently obtained does not include a description of items purchased; thus, identifying prohibited items or items requiring approval is not always possible. Other types of inappropriate use are not considered in the review, such as splitting purchases to circumvent transaction limits, purchases after an employee's termination, or shipments to a non-UTPB address. Any potential exceptions identified by the Procurement Card Monitor in this process are noted and sent to the Director of Purchasing for handling. No further action is being taken at this time.

All card activity for fiscal year 2023 through June 30 was obtained for audit testing, including item descriptions where available. A sample of nine types of prohibited items was selected for limited testing, identifying 18 instances in which cardholders purchased prohibited items but were not detected by current monitoring practices. These exceptions included meals, postage, hotels, gasoline, cameras, rental of vehicles, subscriptions, flowers, and gift cards.

Policies and procedures also describe secondary monitoring conducted by the Office of Accounting, consisting of a review of account activity for reconciliations and confirmation that no Texas sales tax was paid. However, the Accounts Payable Supervisor confirmed that this process is no longer performed because of employee turnover.

Effective and timely monitoring of procurement card activity will aid in detecting card misuse, whether intentional or not, enable enforcement of policies, and help identify areas in which additional training of cardholders is needed.

Action Plan: The Purchasing Office will work with Internal Audit to develop more detailed monitoring capabilities based on the methods used for this audit, including review of item descriptions when available and other types of inappropriate use that can be detected through analysis of purchase data (for example, split transactions). Spot-check audits will be performed to monitor for inappropriate use or non-compliance with policy that is not easily detected through analysis of data (for example, payment of sales tax, shipments to a non-UTPB address, or failure to perform a warrant check if required). The Purchasing Office will seek Internal Audit's guidance in establishing a method to select cardholders for these audits.

Target Implementation Date: Beginning with next statement cycle, with full implementation by November 30, 2023.

Responsible Party: Director of Purchasing.



High

Observation 2: Procurement Card misuse should be timely communicated to educate the cardholder and discourage future non-compliance, with escalating consequences for repeated misuse.

An escalation process and sanctions for repeated card misuse have been developed. They are communicated in training materials but not enforced because monitoring practices are not fully effective and follow-up on potential policy violations does not occur. (See Observation 1.)

Timely communication with the cardholder upon first violation will aid in educating the cardholder on allowable use and deter future misuse. Enforcing the established escalation process for repeated misuse, up to and including revocation of card privileges, will ensure policies and monitoring procedures effectively detect and prevent unallowed purchases, purchases requiring additional review and approval, and fraud.

Action Plan: When detailed monitoring begins, the Purchasing Office will begin communicating any detected misuse or policy violation to the cardholder and the cardholder's department head, following the established escalation process which begins with refresher training after first violation. These will be tracked so that subsequent violations can be escalated and sanctions imposed for repeated misuse. Initially these communications will be via email, but a more automated notification and tracking method is being considered.

Target Implementation Date: Beginning with next statement cycle, with full implementation by November 30, 2023.

Responsible Party: Director of Purchasing



Medium

Observation 3: Procurement Card Policies, Procedures, and Training Materials should be updated to clearly reflect current expectations and purchasing practices.

UT Permian Basin's latest Procurement Card Policies and Procedures are dated January 2018. Some policies and procedures are outdated and do not reflect current practices. For example, policies state, "Generally, there may be one [card] per department." At least 22 departments currently have more than one card issued. Another example is the requirement that "no purchases will be made through Amazon and E-Bay and only as approved." In the current fiscal year through June 30, approximately 29% of all purchases were made through Amazon, representing 10% of total dollars spent.

A training session is required for each cardholder before a card is issued, and the cardholder signs an Agreement to "accept the responsibility for the protection and proper use" of the card. The training materials outline policies and the cardholder's responsibilities related to card use. The materials also include descriptions of types of items requiring pre-approval and lists of prohibited items. Regarding approvals, training materials include a list of department heads whose approval is required but do not clearly indicate what goods or services would require approval from each.

The list of prohibited items on the cardholder's Agreement and the list included in training materials do not agree. Prohibited items in training materials are extensive and, in some cases, unclear. For example, the list includes "Subscriptions" as a prohibited item but does not specify whether this refers to publications, software, online services, or all. The training materials are also contradictory, indicating that subscriptions require pre-approval, again not clarifying the type of subscription. Meals are also listed as prohibited. Through June 30 of this year, cardholders spent approximately \$36,800 on meals using a procurement card. Some cardholders have reportedly been granted blanket approval for an exception to use the card for meals. While the current Director of Purchasing believes the prior director could have informally allowed this exception in one case, there is no documentation to support this.

A sample of the prohibited items listed in the Policies and Procedures and training materials was used for the testing described in Observation 1. Of the 18 prohibited purchases identified, five included an approval for the exception.

Clear and consistent policies, procedures, and training materials will help cardholders understand and comply with rules and allow for effective monitoring and consistent enforcement. Exceptions to policy should rarely be necessary, and circumstances under which an exception request may be approved should be clearly defined and communicated in policies and training materials.

Action Plan: The Purchasing Office will review and update procurement card policies to simplify and clarify requirements, align with current practices, and minimize common exceptions. Once new policies are in place, training materials will be updated and any significant changes will be communicated to all cardholders. Monitoring and enforcement procedures will be adjusted as needed when updated policies are adopted.

Target Implementation Date: November 30, 2023, for updated policies. December 31, 2023, for updated training materials.

Responsible Party: Director of Purchasing

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METHODOLOGY



This audit was conducted 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The UTPB Office of Internal Audit is independent per GAGAS requirements for internal auditors.

Scope & Procedures: This audit was included in the FY 2022 annual audit plan, with initial fieldwork performed in spring 2022. However, the audit was not completed at that time due to staff turnover. Upon resuming the audit in July 2023, it was determined that audit fieldwork and testing should be reperformed because of the significant delay. The scope of the engagement included policies and procedures in place when the audit resumed, with testing of procurement card transactions in FY 2023 through June 30. Procedures included review of applicable policies, procedures, and training materials; discussion with responsible staff; analysis of procurement card activity September 1 to June 30; and testing for compliance by selecting a judgmental sample of nine types of prohibited items. Audit procedures were conducted between July and August 2023. We will follow up on the action plans in this report to determine their implementation status. Any requests to extend the implementation dates for observations rated Priority or High will require approval from applicable Executive Officers. This process will help enhance accountability and ensure timely action is taken to address the observations.

Observation Ratings:

Priority	An issue or condition that, if not addressed timely, has a high probability to directly impact achievement of a strategic or important operational objective of UT Permian Basin or UT System as a whole.
High	An issue considered to have a medium to high probability of significant adverse effects to UT Permian Basin as a whole or at the college/department/unit level.
Medium	An issue considered to have a low to medium probability of adverse effects to UT Permian Basin either as a whole or at the college/department/unit level.
Low	An issue considered to have minimal probability of adverse effects to UT Permian Basin either as a whole or at the college/department/ unit level.

Criteria:

- UTPB Procurement Card Policies, Procedures, and Training Materials
- Texas Administrative Code §5.57, Use of Payment Cards by State Agencies

Report Distribution:

To: Cesario Valenzuela, Vice President for Business Affairs and Chief Financial Officer
cc: Dr. Sandra K. Woodley, President
Elsa Montalvo, Director of Purchasing
UT Permian Basin Internal Audit Committee
External State of Texas Agencies (State Auditor, Legislative Budget Board, Governor's Office)