An Audit Report on

# Controls over the Use and Administration of Procurement Cards at Selected Institutions of Higher Education

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Report No. 05-029

**State Auditor's Office**

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State Auditor

*An Audit Report on*

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## Overall Conclusion

Cardholders at the four institutions of higher education that we audited generally used their procurement cards in accordance with state procurement laws and institutional policies and procedures to make purchases that were allowable, reasonable, and appropriate. However, opportunities exist for all four institutions to improve controls to further reduce the risk that cards will be misused in the future.

The following institutions were included in this audit:

> Texas A&M International University (A&M International)

> Texas Tech University Health Sciences Center (Health Sciences Center)

> Texas Tech University (Texas Tech)

> The University of Texas at Arlington (UT Arlington)

## Key Points

**Purchases made with procurement cards were allowable, reasonable, and appropriate, with some exceptions.**

All four institutions have established controls over their procurement card programs. In most cases, these controls are ensuring that purchases made with the cards are allowable, reasonable, and appropriate. (Opportunities to improve these controls are discussed in the following key points.) However, at UT Arlington, management did not respond to instances of possible procurement card fraud in a timely manner. This indicates a potential weakness in UT Arlington's control environment, which increases the risk of procurement card fraud.

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**What Are Procurement Cards?**

Procurement cards are credit cards that entities have their banks issue to designated employees with the charges billed directly to the entity. Entities use procurement cards to streamline their business-related procurement processes for routine purchases within specified dollar amounts.

**Procurement Card Expenditures**

This audit covered expenditures at the four audited institutions for fiscal years 2002 and 2003 and the first six months of fiscal year 2004, for a total of $60.4 million.

In the first six months of fiscal year 2004, the four audited institutions made a total of $27.5 million in procurement card purchases, which is 13.1 percent of total state procurement card expenditures.

| Fiscal Year 2004 Procurement Card Expenditures | |
|---|---|
| All state agencies and institutions of higher education | $209,960,050 |
| A&M International | $1,538,185 |
| Health Sciences Center | $10,129,388 |
| Texas Tech | $ 7,852,976 |
| UT Arlington | $7,985,763 |

Source: Texas Building and Procurement Commission

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**Improving preventive controls will help the institutions reduce the risk of procurement card misuse.**

Opportunities exist for each of the institutions to improve the controls they have put in place to prevent misuse of procurement cards. For example:

➢ At the Health Sciences Center, Texas Tech, and UT Arlington, members of management allowed cardholders to use their procurement cards to purchase items that the institutions' policies prohibit. While exceptions to restrictions may be necessary from time to time, these three institutions' procurement card policies and procedures either do not allow exceptions or do not address the process for granting them.

➢ Targeted judgmental queries of each institution's procurement card transactions identified purchases that exceeded the per-transaction limit, as well as purchases split between transactions and between cardholders to circumvent those limits. These limits are in place in part to help ensure that large-dollar purchases comply with institution and state requirements for competitive bids.

**Strengthening detective controls will help the institutions identify misuse of procurement cards.**

Each institution can improve the controls within its procurement card program that are designed to detect misuse. For example:

➢ A&M International's, Texas Tech's, and UT Arlington's procedures for conducting monitoring independently of the individual departments are either not complete or not documented. Having up-to-date formal procedures that have been approved by management helps ensure that the monitoring function consistently meets management's expectations for identifying and responding to misuse of procurement cards.

➢ Department-level reviewers at A&M International and UT Arlington should improve their reviews of transaction logs that cardholders are required to keep and consistently ensure that transactions are adequately supported. When working as intended, department-level reviews and approvals occur before credit card statements are approved for payment to help detect purchases that do not comply with applicable laws and policies.

## *Subsequent Events*

In May 2004, the Procurement Services Department at UT Arlington implemented an additional monitoring procedure to review hard copy bank statements to identify possible split or inappropriate purchases. The assistant vice president of procurement services follows up with departments to determine the nature of questionable purchases and take appropriate action if necessary. The department

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also screens for inappropriate sales tax charges using reports generated from the Bank One system. (Bank One provides procurement card services for all Texas state agencies through a contract with the Texas Building and Procurement Commission.)

UT Arlington's *Fiscal Regulation and Procedures 4-11-Purchasing Card Program* guide was updated to include a procedure for monitoring card activity to identify and cancel inactive cards.

UT Arlington's Internal Audit Department completed a formal investigation of a cardholder's potentially fraudulent purchases that resulted in the reimbursement of more than $7,000.

A&M International revised its procurement card policies and procedures during this audit, including the addition of guidance to cardholders on selecting a historically underutilized business (HUB) vendor. The university also developed a property management Web site to provide guidance to cardholders on the importance of identifying and tagging capital items for inventory.

Texas Tech reports that it has taken a number of steps to improve procurement card controls. It indicates that it is currently in the process of establishing formal review procedures for procurement card holders, reviewers, and reconcilers. Additionally, it states that it has implemented or is in the process of implementing the following:

➢ It is converting to Bank One's online program to allow cardholders, reconcilers, and account managers to review card activity on a daily basis and to allow departments to enter account information online. During conversion, the cardholders, reviewers, and reconcilers will be given a review of policies and procedures governing procurement card use and administration.

➢ The procurement card administrator is generating reports to identify split and other questionable transactions by departments and individual cardholders.

➢ The procurement card administrator established a requirement to document requests and approvals for exceptions to procurement card purchasing requirements.

➢ It established procedures to verify that procurement card applications are submitted only by Texas Tech University or Texas Tech University System employees.

➢ It reviews card activity immediately for all terminating employees and for cardholders whose cards are canceled.

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## Summary of Management's Response

Management at all four institutions generally agree with our recommendations and have reported plans for implementing them.

## Summary of Information Technology Review

At each institution, the automated controls related to procurement cards appear to be adequate. (A&M International's procurement card processes are primarily manual.) Information technology work focused on the following systems at the four institutions:

➢ At UT Arlington, *DEFINE is the central accounting system. UT Arlington contracts with the University of Texas at Austin to use *DEFINE for an annual fee. This system is maintained and serviced by UT Austin.

➢ At the Health Sciences Center and Texas Tech, the Tech Financial Information Management (TechFIM) system is used to pay charges billed from procurement cards. The Texas Tech Network provides the primary security interface to TechFIM.

➢ At A&M International, the Financial Accounting Management Information System provides the only information system interface to pay charges billed from procurement cards.

## Summary of Objectives, Scope, and Methodology

The objectives of this audit were to determine (1) whether the audited institutions have adequate processes and controls in place for the use of procurement cards to ensure that state funds are spent appropriately and (2) whether procurement cards are being used in accordance with state procurement laws and/or institutional policies and procedures.

The audit included the procurement card program procedures and controls from central administration to individual cardholders at the audited institutions. We audited procurement card management and transactions for fiscal years 2002 and 2003 and for the first six months of fiscal year 2004.

The methodology consisted of obtaining each institution's record of procurement card expenditures from Bank One's One View System and from the Comptroller of Public Accounts and sampling transactions to evaluate compliance with state law and institutional policies. In addition, we gained an understanding of each institution's control environment through questionnaires and interviews.

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# Detailed Results

## Purchases Made with Procurement Cards Were Allowable, Reasonable, and Appropriate, with Some Exceptions

Texas A&M International University (A&M International), Texas Tech University (Texas Tech), Texas Tech University Health Sciences Center (Health Sciences Center), and the University of Texas at Arlington (UT Arlington) have established controls over their procurement card programs. In most cases, these controls are ensuring that purchases made with the cards are allowable, reasonable, and appropriate (see text box). Chapters 2 and 3 discuss actions that the institutions need to take to strengthen both preventive and detective controls for their procurement card programs. Doing so will help them reduce the likelihood that misuse will occur in the future.

Testing identified that cardholders made some prohibited purchases such as those listed in the text box. However, the sampled transactions were generally in compliance with the institutions' policies. (See Appendix 2 for the results of tests of random samples of transactions.) All the institutions had identified at least some of the prohibited and potentially unreasonable items prior to the audit test and had taken appropriate actions.

> ### Allowable, Reasonable, and Appropriate
>
> Limiting the items that can be purchased with procurement cards helps entities ensure that the cards are used as intended: for small, routine, reasonably priced, business-related purchases.
>
> Cardholders are typically prohibited from using their procurement cards for the following:
>
> - Personal items
> - Fuel
> - Sales Tax
> - Travel expenses
>
> Such limits also ensure that high-risk items, such as ammunition, capital assets, and controlled substances, are subject to the more rigorous controls and tracking associated with traditional purchase methods.

However, at UT Arlington, management did not respond to possible procurement card fraud in a timely manner. This indicates a potential weakness in UT Arlington's control environment that increases the risk of procurement card fraud.

The audit sample showed that from April 2002 to November 2003 a cardholder had on more than one occasion used his procurement card to make personal purchases, such as donating to the UT Arlington alumni association, purchasing gas, and paying fees to an escort service. Although management was aware of some of these purchases and had on occasion

> ### UT System's Policies and State Law Require the Reporting of Known Instances of Possible Fraud
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> - The University of Texas System's Business Procedures Memorandum 50-01-02, "Statement of Operating Policy Pertaining to Dishonest or Fraudulent Activities," establishes that its component institutions will promptly identify and investigate "every suspected defalcation, misappropriation and other fiscal irregularity."
>
> - Section 321.022(a) of the Texas Government Code states:
>
>   If the administrative head of a department or entity that is subject to audit by the state auditor has reasonable cause to believe that money received from the state by the department or entity or by a client or contractor of the department or entity may have been lost, misappropriated, or misused, or that other fraudulent or unlawful conduct has occurred in relation to the operation of the department or entity, the administrative head shall report the reason and basis for the belief to the state auditor.

asked the individual to reimburse UT Arlington, it did not revoke the procurement card or take steps to monitor the individual's expenses more closely.

Not until May 2004 did management sanction the cardholder and review his account to identify additional prohibited purchases, some dating back to 2002. UT Arlington executives were aware of this situation but did not notify the Internal Audit Department or the State Auditor's Office as required by University of Texas System policy and state law (see text box on previous page). In July 2004, the UT Arlington president asked the Internal Audit Department to begin a formal investigation of the potential fraud. When the investigation began, the cardholder resigned and subsequently reimbursed UT Arlington for more than $7,000 in prohibited purchases.

In another incident at UT Arlington, the Procurement Services Department was aware that a card had been stolen and canceled the card. However, it did not inform the Internal Audit Department or the State Auditor's Office, as required.

By not responding promptly and appropriately to violations and potentially fraudulent use of cards, management weakens cardholders' incentive to comply with laws and regulations.

### Recommendation

UT Arlington should take steps to ensure that its control environment promotes cardholder, department, and central administration compliance with requirements and prohibitions regarding procurement card use and administration. Implementing the structures and procedures of a comprehensive control environment can help UT Arlington reduce the institution's and the State's risks associated with a procurement card program.

### Management's Response

*UT Arlington. Management understands and supports the necessity of strong internal controls. The University will emphasize that the transactions must be reviewed and verified by the cardholder's supervisor prior to the approval of the transaction log.*

*Responsible Person: Assistant Vice President for Procurement Services*

*Implementation Date: March 7, 2005*

# Improving Preventive Controls Will Help the Institutions Reduce the Risk of Procurement Card Misuse

Opportunities exist for each of the institutions to improve the preventive controls within their procurement card programs. As discussed in Chapter 1, testing of a random sample of transactions identified inappropriate and potentially unreasonable purchases. While a substantial portion of the random sample of transactions tested for each institution was in compliance, the institutions can improve their preventive controls to reduce the risk of misuse in the future. (See Appendix 2 for the results of the tests of random samples of transactions.)

One of the most effective preventive controls is general awareness among all cardholders that detective controls are working as intended to identify and address all violations, abuse, and fraud with prompt, appropriate measures, including card cancellation and legal action. (See Chapter 3 for a discussion of opportunities to improve detective controls identified during this audit.)

In addition, Appendix 3 contains a list of preventive controls that extends beyond the ones discussed in this chapter. It is included as a resource for the audited institutions as well as for other entities with procurement card programs.

### Chapter 2-A
## UT Arlington, the Health Sciences Center, and Texas Tech Should Consider Modifying Their Policies and Procedures to Address Exceptions to the Prohibition on Purchasing Restricted Items

At the Health Sciences Center, Texas Tech, and UT Arlington, members of management allowed cardholders to use their procurement cards to purchase restricted items. While exceptions to procurement card restrictions may be necessary from time to time, these three institutions' procurement card policies and procedures either do not allow exceptions or do not address the process for granting them. As a result, the reasons for granting exceptions were not sufficiently documented, which decreases the institutions' ability to ensure that the exceptions were appropriate. Specifically, state auditors noted the following:

- At UT Arlington, management approved the use of procurement cards to purchase gift certificates. The *Fiscal Regulations and Procedures 4-11-Purchasing Card Program* manual prohibits the purchase of gift certificates with procurement cards and does not allow exceptions. Furthermore, management allowed a faculty member to make travel charges using his procurement card and to exceed the per-transaction spending limit. While UT Arlington's fiscal regulations and procedures allow for one-time exceptions to the per-transaction spending limit, they do not allow procurement cards to be used for travel. The faculty member

was not able to provide adequate documentation to support all of his charges in the audit sample, which totaled $7,291.14.

▪ The Health Sciences Center's policies and procedures do not address granting exceptions. However, management granted exceptions for certain restricted items, including vaccines and items the Health Sciences Center purchased by contract, such as paper. These exceptions were not formally documented.

▪ Texas Tech's *Procurement Card Guide* states that exceptions may be granted at the discretion of the procurement card administrator or the director of purchasing. However, it does not address how exceptions should be documented. Testing identified several purchases of prohibited items for which exceptions had been granted. While Texas Tech was able to explain the reasons for the exceptions, the reasons were not documented at the time the decisions were made.

## Recommendations

UT Arlington and the Health Sciences Center should consider modifying their procurement card policies and procedures to address circumstances in which it might be appropriate to grant exceptions, who has authority to grant them, and how they should be documented.

Texas Tech should amend its policies and procedures to address the documentation required for exceptions to purchasing prohibited and restricted goods or services.

## Managements' Responses

*Health Sciences Center. The Health Sciences Center has modified the procurement card policies to clarify documentation required for exceptions.*

*Texas Tech. As noted earlier in* Subsequent Events, *Texas Tech is currently requiring written approval for all exception requests of restricted items. Texas Tech will amend its policies and procedures to require this documentation.*

*UT Arlington. Management believes that exceptions to established procedures are required in certain special situations to support University business. There were forty-eight (48) exceptions granted among the tens of thousands of transactions processed during the period 9/6/00 to 4/2/04. Those exceptions were justified, documented, and maintained in a written exception log, and were available during that time for inspection. Exceptions after that date have been documented electronically in an on line exception file. The University's procurement card policies and procedures have been updated to address exceptions, including who has authority to grant exceptions and how they will be documented.*

*Responsible Person: Assistant Vice President for Procurement Services*

*Implementation Date: March 7, 2005*

Chapter 2-B
## All Four Institutions Should Ensure that Cardholders Are Aware of and Comply with Per-Transaction and Monthly Spending Limits

Targeted judgmental queries of each institution's procurement card transactions identified purchases that had been split between transactions and cardholders to circumvent per-transaction spending limits. Judgmental testing also identified a small number of cardholders who exceeded their per-transaction and monthly spending limits. These limits help ensure that large-dollar purchases comply with institution and state requirements for competitive bids.

Each institution's policies and procedures explicitly prohibit the splitting of purchases; however, our data analysis identified purchases at each that had been split. For example:

- Multiple cardholders in the same department or related departments split purchases.

- Some cardholders split purchases to cover the cost of construction jobs.

- Purchases were divided into two or three separate transactions and processed minutes apart.

In some cases, cardholders exceeded their per-transaction spending limits without splitting purchases. Some cardholders also exceeded their monthly spending limits. While these limits are coded into the actual procurement cards by the bank, it is possible for cardholders to exceed them.

The Health Sciences Center has procedures for identifying and actively addressing split purchases and had disciplined a cardholder who split a transaction, found during audit work. However, random sample testing identified additional split purchases over the audit period that administration had not identified. Texas Tech has addressed some of the split purchases identified through audit testing by re-evaluating some cardholders' spending limits.

There was no documentation at UT Arlington indicating that management had followed up on 18 of 20 split purchases identified during audit testing. However, management has implemented a procedure for reviewing statements for possible split purchases and following up with the cardholders.

## Recommendation

All four institutions should ensure that cardholders are aware of and comply with their per-transaction spending limits and monthly limits.

## Managements' Responses

*A&M International. Texas A&M International University will ensure cardholders are aware of single and monthly transaction limits through training. Limits will be reviewed each month during review by Purchasing Department. Cardholders exceeding limits will be reported to appropriate VP. The Procard manual will more effectively address these limits.*

*Health Sciences Center. The Health Sciences Center has actively addressed split purchases since the inception of the procurement card program through daily transaction monitoring. We will immediately improve training and monitoring to insure that transactions are not split and limits are enforced.*

*Texas Tech. Texas Tech requires all cardholders to attend training prior to the issuance of the procurement card. All cardholders are advised in training of their per-transaction spending limits and monthly limits. Cardholders are also advised in training that the splitting of transactions is prohibited. As noted earlier in* Subsequent Events, *Texas Tech is generating reports to identify split and other questionable transactions by departments and individual cardholders. Texas Tech is now generating these reports daily.*

*UT Arlington. All cardholders currently have a $2,000 single purchase limit and a $20,000 cycle limit as published in the University's procedures. Procurement Services discovered in early March 2004 that some cards did not have a single purchase limit. This occurred when the state changed banks for the procurement card program. The bank corrected the error on March 12, 2004. The University's procurement card procedures have always contained limits, including single purchase limits. The single purchase limit was increased from $1,000 to $2,000 in October 2001. Additionally, Procurement Services will periodically review all our cardholders to make sure the limits are correct.*

*Responsible Person: Assistant Vice President for Procurement Services*

*Implementation Date: March 7, 2005*

## All Four Institutions Can Strengthen Controls Related to the Sharing of Procurement Cards

A&M International's, Texas Tech's, and UT Arlington's policies and procedures state that only the person whose name is on the card may use the card. However, our testing identified instances of card sharing at each:

▪ All three institutions prohibit card sharing, but we identified transactions at all three that were initiated or executed by someone other than the cardholder. Some of these transactions may have been legitimate. For example, a supervisor may ask an employee to order items online using the supervisor's card, or a department employee may sign for the delivery of an item purchased by another cardholder. However, without management's ability to distinguish between legitimate and inappropriate card sharing, there is no way to ensure that cards are not inappropriately shared.

▪ At UT Arlington, a cardholder loaned her card to a student so that he could buy gas when he ran an errand for her.

▪ The Health Sciences Center's policies allow cardholders to share cards, even though procurement cards are issued to individuals, not departments. Controls over these "shared cards" are not standardized. For example, only employees who actually have cards in their names receive training, not the employees who may be using cards that are not in their names.

When someone other than the cardholder uses a procurement card, there is an increased risk that the card may be used inappropriately. Sharing cards also makes it difficult to determine who is accountable for purchases. However, there are legitimate instances when card sharing is necessary. These legitimate situations should be documented, approved, and maintained on file for use during central monitoring of transactions to identify violations and possible abuse or fraud.

### Recommendations

A&M International, Texas Tech, and UT Arlington should strengthen their controls to ensure that cards are not used by employees other than the cardholders, except in instances where clearly defined and published exceptions to this rule apply, and they should emphasize in cardholder training that the cardholders are accountable for all purchases made with the cards.

The Health Sciences Center should establish controls to minimize the risks associated with allowing cardholders to share cards. It should also ensure that departments and cardholders are aware of the controls and include procedures in its monitoring to detect noncompliance.

## Managements' Responses

*A&M International. Texas A&M International University will strengthen control to ensure cards are not used by employees other than the cardholder. Efforts will include increased emphasis placed on importance of the cardholder's responsibility for the security of the card and transactions made with it. This information will be stressed during training and in the Procard manual.*

*Health Sciences Center. The Health Sciences Center has modified its policies to include required training for all employees that use the procurement card.*

*Texas Tech. Texas Tech will amend existing policy to clearly define legitimate and appropriate card sharing and strengthen controls to ensure departments and cardholders are in compliance with established policy.*

*UT Arlington. ProCard procedures have always prohibited the sharing of cards. The University will increase the emphasis on sharing during cardholder training. Additionally, information will be sent to each cardholder emphasizing that the 1) cardholder is accountable for all purchases made with the card, and 2) cards should not be shared. However, the University recognizes that there are legitimate instances when sharing is necessary. The procurement card procedures will be updated to address instances when sharing is appropriate.*

*Responsible Person: Assistant Vice President for Procurement Services*

*Implementation Date: March 7, 2005*

### Chapter 2-D
## A&M International, Texas Tech, and UT Arlington Can Better Limit Cards' Availability

A&M International and Texas Tech do not cancel unused cards, and audit testing at Texas Tech and UT Arlington identified current employees using terminated employees' cards. These situations increase the risk that cards will be used inappropriately. The specific situations identified are as follows:

- A&M International's policies and procedures require that cards be reviewed and possibly revoked if they are not used for three consecutive months. However, audit tests identified 29 active cards that had not been used in four months. Twenty-seven of those had never been used.

- Testing identified two issues related to card availability at Texas Tech:

  - Twenty-six active cards had not been used for at least five months. Another 38 cards had not been used since their issuance, which ranged from 5 ½ to 10 months earlier. Texas Tech did not have formal policies concerning unused cards.

- One instance of a current employee making a purchase with a terminated employee's card was identified.

■ At the time of the audit, although UT Arlington screened for and canceled some inactive cards, it had no formal policies or procedures to ensure that card use was routinely reviewed to identify and cancel cards that were inactive or no longer needed. Testing identified 82 inactive cards. Thirty-seven cards had been issued to one cardholder and four to another for use in managing multiple grants. Testing also identified two instances of a current employee making purchases using former employees' cards. As mentioned previously, management reports that it has now formalized and implemented procedures for semiannual screening of cards to determine need.

## Recommendations

A&M International should follow its established policy concerning unused cards and implement procedures for the periodic review of card activity.

Texas Tech should establish a policy concerning unused cards and implement procedures to periodically review card activity. It should also ensure that only employees are issued cards and that cards are deactivated and returned to the procurement card administrator when a cardholder terminates employment or transfers to a different department.

UT Arlington should follow its recently established policy concerning deactivation of unused cards. It should also ensure that cards are deactivated and returned to the procurement card administrator when a cardholder terminates employment or transfers to a different department.

## Managements' Responses

*A&M International. Texas A&M International University will follow established policy concerning unused cards and implement procedures for the periodic review of card activity. Cards that have not been used for three consecutive months will be reviewed and possibly revoked.*

*Texas Tech. Texas Tech will establish a policy to inactivate unused cards. Texas Tech currently reviews 100% of all procurement card activity every billing cycle. Texas Tech currently receives an employee termination/status change report on a weekly basis. As noted in Subsequent Events, Texas Tech reviews card activity for all terminating employees and for cardholders whose cards are canceled.*

*UT Arlington. The cardholder with 37 cards used them to manage multiple grant accounts. Currently the cardholder has 14.*

*Procurement Services will continue to follow the written policy of deactivation of inactive cards. Every six months Procurement Services receives a list of cards from BankOne that have been inactive for six months. Cardholders are notified that the cards have been inactive. If the cardholder wishes to retain an inactive card they must obtain the written approval of the Provost or appropriate Vice President.*

*Current procedures require cardholders to return their ProCard to the procurement card administrator when terminating employment for any reason. The current procedures also require cardholders who change University departments to advise Procurement Services. Procurement Services has been notified about all employee terminations as well as employee transfers since January 2004. The University will emphasize this requirement during training.*

*Responsible Person: Assistant Vice President for Procurement Services*

Chapter 2-E
## All Four Institutions Should Develop Procedures to Ensure that Cardholders Verify Vendor Warrant Hold Status

Texas Tech and UT Arlington both require cardholders to verify vendors' warrant hold status, and they provide links to the Comptroller of Public Accounts' (Comptroller) list of vendors and their status. Neither A&M International nor the Health Sciences Center has formalized policies relating to verification of vendor status. None of the institutions has a routine procedure to allow management to determine whether cardholders are verifying vendor status before making a purchase. Some of the transaction documentation we reviewed for this audit included a screen print from the Comptroller's Web site showing vendor status. Requiring this screen print to be included in all transaction documentation would give management a way to identify cardholders who are not complying with this requirement.

Statute prohibits state entities from buying from vendors who are in "warrant hold" status. Vendors are placed on warrant hold for reasons such as being in debt to the State, tax delinquency, student loan default, or failure to pay child support. When procurement cards rather than state warrants are used to pay such vendors, the Comptroller is unable to retain payments as part of its efforts to collect debts owed to the State.

### Recommendation

A&M International, Texas Tech, the Health Sciences Center, and UT Arlington should develop processes to help ensure that cardholders verify vendor warrant hold status prior to initiating purchases or payments.

## Managements' Responses

*A&M International. Texas A&M International University will ensure cardholders' awareness of verification of vendor warrant hold status. Efforts will include increased communication during training, amend manual to more effectively describe the State's statute, and include a column on the monthly transaction log for cardholders to certify they have verified vendor warrant status prior to initiating purchases or payments.*

*Health Sciences Center. Notice to State Agencies FM 00-35 allows a $150 threshold for verification of vendor's status. Sixty-five percent of the Health Sciences Center's transactions were less than the threshold and did not require verification. The Health Sciences Center has modified its policies to include the Comptroller's website so cardholders can verify transactions greater than $150.*

*Texas Tech. Texas Tech currently advises all cardholders during training to verify vendors' warrant hold status. A link to the Comptroller of Public Account's (Comptroller) list of vendors and their status is included in the Procurement Card Guidelines. Furthermore, the Texas Tech Financial Accounting System captures vendors' warrant hold status on a daily basis. Texas Tech will send frequent reminders to all cardholders advising them of their responsibility to verify vendors' warrant hold status.*

*UT Arlington. The University's procurement card procedures currently require verification of vendor warrant hold status. This requirement will be emphasized during cardholder training. Additionally, Procurement Services is revising the transaction log to require verification that the Comptroller of Public Accounts web site has been checked.*

*Responsible Person: Assistant Vice President for Procurement Services*

*Implementation Date: March 7, 2005*

Each institution can improve the controls within its procurement card program that are designed to detect misuse. Strong detective controls are important to a procurement card program:

- Procurement card programs cost less for small, routine purchases than traditional procurement methods because they require less paperwork and fewer approvals before the purchases are made.

- When cardholders are aware that their transactions are likely to be reviewed, they are less likely to use their cards inappropriately. In this way, a strong detective control also serves to help prevent misuse.

In addition, Appendix 3 contains a list of detective controls that extends beyond the ones discussed in this chapter. It is included as a resource for the audited institutions as well as for other entities with procurement card programs.

Chapter 3-A
### All Four Institutions Should Improve Their Independent Monitoring Functions

Having an independent monitoring function is an important control in the administration of a procurement card program. However, we found the following weaknesses that reduce the effectiveness of the institutions' monitoring:

- A&M International's, Texas Tech's, and UT Arlington's monitoring procedures are either not complete or not documented. Having up-to-date formal procedures that have been approved by management helps ensure that the monitoring function consistently meets management's expectations for identifying and responding to misuse of procurement cards. UT Arlington's monitoring procedures do not sufficiently cover when and how to initiate or finalize a review. Some of the review steps lack sufficient detail to be effective. For example, they do not identify who is to perform the review or how departments are selected for review. Texas Tech's and A&M International's procedures are not documented, and they do not address the steps monitors should take when they identify capital or controlled items.

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**The Health Sciences Center's Monitoring Function Differs from the Other Institutions'**

- The independent monitoring function's processes include daily prepayment reviews of transactions posted by the bank. Approximately 250 transactions are checked each day for split purchases and for purchases of controlled, personal, or prohibited items. Monitors follow up with cardholders as needed.

- The independent monitoring function conducts post-payment reviews of each cardholder at least once a year. The reviews include 100 percent of transactions. Some cardholders are reviewed as frequently as every three months depending on results of prior reviews.

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- The institutions had not adequately specified consequences for cardholder noncompliance, which can range from additional training to termination of employment. Without specifying consequences for all types of misuse, there is a risk that noncompliance will not be appropriately addressed or that discipline will be inconsistent. These situations could in turn lead to persistent noncompliance by cardholders.

  A&M International's monitoring function provides executive management with information about noncompliant cardholders each month. However, at the time of the audit, no official disciplinary process was in place to address noncompliance. Texas Tech does not produce formal reports to communicate to management the results of monitoring in regard to noncompliance and misuse of the cards by cardholders and departments. UT Arlington's procedures indicate that each review report is to be approved, but they do not describe the approval process. Similarly, the procedures mention following up on issues identified but do not describe the process.

The Health Sciences Center's independent monitoring function is generally strong. All procurement card transactions posted by the bank are reviewed each day prior to payment of charges in place of the transaction review function typically carried out at the department level at other institutions. These pre-payment reviews are performed in addition to the post-payment reviews that the independent monitoring function conducts of each cardholder at least annually.


### Recommendations

A&M International should document the procedures its monitors follow, and it should develop procedures for monitors to follow when they identify purchases of capital or controlled items. It should also develop a formal disciplinary process with specific consequences for noncompliance. Management should review and approve the procedures once they are developed and documented.

Texas Tech should document the procedures its monitors follow, including the process for addressing purchases of capital or controlled items made with procurement cards. Texas Tech should begin formally communicating the results of monitoring to management and develop a formal disciplinary process with specific consequences for noncompliance. Management should review and approve the procedures once they are developed and documented.

UT Arlington should develop complete and sufficiently detailed procedures for reviewing procurement card transactions. The procedures should specify when and how to initiate, conduct, and finalize a review. They should also describe the management approval process for the reports of the formal reviews and the process for addressing issues identified, including a formal

disciplinary process with specific consequences for each type of noncompliance. Management should review and approve the procedures once they are complete.

## Managements' Responses

*A&M International. Texas A&M International University will formally document and include in training current established procedures to monitor card transactions. Procedures will require all instances of noncompliance to be reported to the appropriate vice president for corrective action.*

*Texas Tech. Texas Tech will formalize procedures for monitors to follow during the review and approval process. All transactions are reviewed and approved by the Purchasing Office and/or Sponsored Projects for Accounting and Reporting on a monthly basis to ensure compliance. Texas Tech will formally communicate the results of monitoring to management. Texas Tech management will develop a formal disciplinary process with specific consequences for noncompliance.*

*UT Arlington. The University will expand the written procedures for monitoring to include more detail about the review and approval process of procurement card monitoring results. Procedures will be developed to address specific instances of noncompliance.*

*Additionally, the monthly cardholder statements are also reviewed for areas of noncompliance with ProCard procedures. Instances of non-compliance are identified and sent via e-mail to the cardholder and the cardholder's supervisor. The University's procurement card procedures will be revised to address administrative and/or disciplinary action as appropriate. Procurement Services currently obtains a monthly report that lists sales taxes paid. Notification is sent to the cardholders, and copied to their supervisors, asking the cardholder to contact the vendor and obtain credit for taxes paid. The University does not contact the cardholder if the tax paid is less than $5. The University does not feel it is economically feasible to spend the time necessary to obtain tax credit for amounts less than $5.00.*

*Responsible Person: Assistant Vice President for Procurement Services*

*Implementation Date: March 7, 2005*

*Responsible Person: Director of Accounting (written procedures for monitoring)*

*Implementation Date: March 7, 2005*

## Department-Level Reviewers at A&M International and UT Arlington Should Improve Their Reviews of Transaction Logs

The procurement card guides for A&M International, Texas Tech, and UT Arlington require that the department manager, the department-level account manager, or the cardholder's supervisor review and approve cardholders' logs of transactions. However, testing of transaction logs identified the following:

- At A&M International and Texas Tech, it is possible for the cardholder and the department manager/account manager to be the same person, which results in some cardholders' reviewing and approving their own logs. The procurement card guide for A&M International does not address this situation, but Texas Tech's guide gives the account managers full responsibility for all purchases in the accounts they manage, including their own purchases. The risk at Texas Tech of having account managers approve their own purchases is compensated for by the monthly review conducted by procurement card administrators of all transactions and their supporting documentation and by the reconciliation of all credit card statements to the approved transaction logs.

- At UT Arlington, some of the transaction logs were not signed by the cardholders or by the supervising reviewers. Some logs were missing, and some approvals were as many as four months late. Additionally, some transaction logs had been stamped with the supervisor's signature or pre-printed with the reconciler's name but lacked handwritten initials and dates. Stamps and pre-printed signatures with no handwritten initials and dates do not provide sufficient assurance that the transaction log was properly reviewed or reconciled.

- The Health Sciences Center requires cardholders to keep documentation supporting their purchases, but it does not require transaction logs. Rather, the cardholder and account manager review and sign the cardholder's monthly statement indicating that the purchases are valid business expenses and that the costs were reasonable. This process provides the same type of assurance as a transaction log. Transaction logs are optional at the Health Sciences Center because when they were required, the procurement card administrators found that the logs were being created after the fact, and sometimes not at all.

As an added control, the Health Sciences Center's procurement card administrator conducts daily reviews of approximately 250 transactions using data from the bank. These daily reviews occur before the credit card statements are approved for payment.

### Recommendations

A&M International should strengthen the department-level review and approval process for cardholders' transaction logs. Additionally, it should develop detailed guidance for inclusion in its procurement card guide regarding who is responsible for reviewing department managers'/account managers' transactions.

UT Arlington should enforce the use of a consistent process for reviewing and approving transaction logs, including requiring that approvals be signed and dated by the reviewer at the time of review.

### Managements' Responses

**A&M International.** *Texas A&M International University's department level review and approval process for cardholders' transaction logs will require the cardholder's signature and the department head's signature. Transaction logs will be returned to cardholders should appropriate signatures be missing. The ProCard training manual will be amended to clearly outline who is responsible for reviewing department manager/account manager's transactions. This outline will include approval procedures to follow in instances where the department manager is the individual making the transaction.*

**UT Arlington.** *Procurement Services will emphasize to department level reviewers the importance of timely review and approval of transaction logs. The University will emphasize this requirement at individual cardholder training, at departmental training, and during compliance monitoring.*

*Responsible Person: Assistant Vice President for Procurement Services*

*Implementation Date: March 7, 2005*

Chapter 3-C
## A&M International and UT Arlington Can Strengthen Their Department-Level Review Processes Related to Ensuring that Transactions Are Adequately Supported

The procurement card guides for A&M International and UT Arlington require that cardholders keep supporting documentation for their purchases with their transaction logs. However, a number of transactions tested in our queries from both did not have sufficient documentation, such as receipts or invoices, to determine what was purchased and whether the purchase was business related. Inadequate documentation decreases the institutions' ability to detect improper or potentially fraudulent purchases.

For example, UT Arlington had the least stringent documentation requirements of the four institutions. As a result, support for purchases was not always complete or readily available. Management does not require that documentation be retained consistently from department to department. In some cases, cardholders retain their own documentation; in others, the department keeps all documentation for its cardholders.

Conversely, the Health Sciences Center had the most stringent documentation requirements. Cardholders are required to retain all receipts and packing slips in binders with their monthly statements. If original receipts are missing, cardholders are to document three attempts to obtain a receipt using a Missing Receipts form. This form must be signed by an account manager or supervisor.

### Recommendation

A&M International and UT Arlington should strengthen the department-level review and approval process to help ensure that transactions are adequately supported and that when departmental and central monitoring discover instances of inadequate documentation, appropriate actions are taken to ensure cardholder compliance with documentation requirements.

### Managements' Responses

*A&M International. Texas A&M International University will require cardholders to include all supporting documentation for their purchases with their transaction logs. If transactions are not adequately supported or inadequate documentation is provided, a letter of certification from the department head must be included to ensure compliance with the documentation requirements.*

*UT Arlington. The University will emphasize to cardholders and reviewers the importance of maintaining adequate supporting documentation. The University will emphasize this requirement at individual cardholder training, at departmental training, and during compliance monitoring. The University's procurement card procedures will be amended to require that the logs and supporting documentation be maintained in a central location in each department.*

*Responsible Person: Assistant Vice President for Procurement Services*

*Implementation Date: March 7, 2005*

## All Four Institutions Can Improve Their Monitoring for Split Purchases, and Three Institutions Should Establish Procedures to Monitor Cardholders' Compliance with Per-Transaction and Monthly Spending Limits

As discussed in Chapter 2-B, the institutions need to ensure that cardholders are aware of and follow controls designed to limit the amount they can spend per transaction and during each month.

In addition to improving the preventive side of this control, the institutions can improve their processes for detecting cardholders who split purchases. The State Auditor's Office is providing the institutions with some of the queries that the auditors used to identify split purchases.

Furthermore, A&M International, Texas Tech, and the Health Sciences Center indicated that they rely on their banks' controls to prevent cardholders from exceeding their single-transaction and monthly spending limits. These limits are coded into the cards to deny at the point of sale any transaction that exceeds the per-transaction limit or that causes a cardholder's balance to exceed the monthly spending limit. However, transactions occasionally post even if they exceed a limit.

At UT Arlington, there was documentation in our audit testing to support monitoring compliance with single purchase spending limits by one department. In addition, the compliance monitor attests to screening for transactions that exceed cardholder limits in her departmental reviews.

### Recommendations

All four institutions should improve their review procedures to more effectively identify split purchases when they occur, provide additional training to cardholders who split purchases, and consider limiting or revoking privileges for those cardholders who persistently bypass transaction limits.

All four institutions should establish procedures for monitoring cardholder compliance with per-transaction and monthly spending limits. When limits are exceeded, management should review the cause and take appropriate action. This could include additional cardholder guidance on limits or a review of the appropriateness of the limits.

### Managements' Responses

*A&M International. Texas A&M International University will ensure cardholders are aware of signature and monthly transaction limits as well as the provision of not splitting purchases to by-pass these limits. These requirements will be addressed through training and stressed in the Procard manual. Monthly*

*review by the Purchasing Department will include review for these items. Transactions found to be out of compliance will be reported to the appropriate Vice President. Cardholders will be made aware that failure to follow purchasing card guidelines could result in corrective action to include additional required training and/or termination.*

Health Sciences Center*. As stated in Chapter 2-B management response, the Health Sciences Center will immediately improve training and monitoring to insure that transactions are not split and limits are enforced.*

Texas Tech*. Texas Tech requires all cardholders to attend training prior to the issuance of the procurement card. All cardholders are advised of their per-transaction spending limits and monthly limits. Cardholders are also advised in training that the splitting of transactions is prohibited. As noted earlier in* Subsequent Events*, Texas Tech is generating reports to identify split and other questionable transactions by departments and individual cardholders. Texas Tech has limited and revoked the privileges of cardholders that consistently misuse the procurement card.*

UT Arlington*. All credit card statements have been reviewed monthly for split purchases, amounts exceeding the single purchase, and charges in excess of the monthly credit limit since the April 6-May 5, 2004 billing cycle. Those that appear to be split purchases are identified and notification is sent to the cardholder. The University will establish procedures that require additional training, limiting or revoking privileges for those cardholders who violate the established limits.*

*All cardholders currently have a $2,000 single purchase limit and a $20,000 cycle limit as published in the University's procedures. Procurement Services discovered in early March 2004 that some cards did not have a single purchase limit when a bank change occurred as a result of a new state contract. The new bank failed to include the limit. The bank corrected their error on March 12, 2004. The University's procedures have carried the current $2,000/$20,000 limits since October 2001. Additionally, Procurement Services will periodically verify with the bank that all cardholders have these limits. Procurement Services will also review all procurement card statements for charges exceeding the stated limits.*

*Responsible Person: Assistant Vice President for Procurement Services*

*Implementation Date: March 7, 2005*

# Appendices

## Objectives, Scope, and Methodology

### Objectives

The objectives of this audit were to determine the following:

- Whether procurement cards are being used in accordance with state procurement laws and/or institutional policies and procedures.

- Whether universities and medical institutions have adequate processes and controls in place for the use of procurement cards to ensure that state funds are spent appropriately.

### Scope

The audit included the procurement card program procedures and controls from central administration to individual cardholders at three public universities and one public health sciences center: Texas A&M International University, Texas Tech University Health Sciences Center, Texas Tech University, and the University of Texas at Arlington. We audited procurement card management and transactions for fiscal years 2002 and 2003 and for the first six months of fiscal year 2004.

### Methodology

We obtained the records of procurement card expenditures at each of the four institutions to be audited. The Texas Building and Procurement Commission manages the statewide program and statewide procurement card contract with a credit-issuing bank. We conducted fieldwork at each institution to audit the procedures and controls in place at executive, central administration, departmental, and individual cardholder levels. Fieldwork included testing at each institution of both random and judgmental samples of transactions to evaluate compliance with state and institutional laws and regulations in the management and use of procurement cards.

### Project Information

We conducted fieldwork from April 2004 to December 2004. This audit was conducted in accordance with generally accepted auditing standards. The following members of the State Auditor's staff performed the audit:

- Virginia Carmichael, Ph.D., MPAff (Project Manager)

- Randy Ray, CIA, CFGM (Project Manager)

- Rob Bollinger, CPA, CFE

- Jaime Contreras, MBA, CISA

- Ron Franke, CISA, CFE (Audit Manager)

- Carla Kleinwachter, CIA

- Carmelita Lacar, MBA, Ph.D.

- Jacqueline Shelby

- Patrick Warren, MBA, CIA, CGAP

- Charles P. Dunlap, Jr., CPA (Quality Control Reviewer)

- Carol A. Smith, CPA, CIA (Audit Manager)

The following tables present the results of our random samples of transactions tested at each institution. They are arranged by type of attribute:

- Those testing whether established controls worked

- Those testing whether cardholders and reviewers complied with controls designed to prevent misuse

- Those testing whether cardholders and reviewers complied with controls designed to detect misuse

For this audit, we established the following scale for determining levels of compliance:

- Compliance rate of 90 to 100 percent – full compliance

- Compliance rate of 80 to 89 percent – substantial compliance

- Compliance rate of 70 to 79 percent – minimal compliance

- Compliance rate of 69 percent or less – noncompliance

Table 1

| Texas A&M International University | | | | | |
|---|---|---|---|---|---|
| **Attributes** | **No. Tested from Sample/ No. of Errors** | **Total No. of Transactions (2.5 years) / Estimated Total Errors** | **Estimated Average Total Errors/Year** | **Compliance Rate** | **Level of Compliance** |
| Did the controls work? | | | | | |
| Was the purchase allowable, reasonable, and appropriate? | 70/4 | 11,424/653 | 261 | 94.29% | Full |
| Were goods/services received prior to payment? | 66/0 | 11,424/0 | 0 | 100% | Full |
| Did cardholders and reviewers comply with controls designed to prevent misuse? | | | | | |
| Did the cardholder initiate the transaction? | 52/14 | 11,424/3,076 | 1,230 | 73.08% | Minimal |
| Was the purchase within the transaction limit? | 73/0 | 11,424/0 | 0 | 100% | Full |
| Did cardholders and reviewers comply with controls designed to detect misuse? | | | | | |
| Was the transaction adequately supported? | 73/9 | 11,424/1,408 | 563 | 87.67% | Substantial |
| Was the transaction in the transaction log? | 72/0 | 11,424/0 | 0 | 100% | Full |
| Was the transaction log properly reviewed and approved? | 73/18 | 11,424/2,817 | 1,127 | 75.34% | Minimal |

Table 2

| Texas Tech University Health Sciences Center | | | | | |
|---|---|---|---|---|---|
| Attributes | No. Tested from Sample/ No. of Errors | Total No. of Transactions (2.5 years) / Estimated Total Errors | Estimated Average Total Errors/Year | Compliance Rate | Level of Compliance |
| Did the controls work? | | | | | |
| Was the purchase allowable, reasonable, and appropriate? | 58/4 | 118,925/8,202 | 3,281 | 93.10% | Full |
| Were goods/services received prior to payment? | 58/0 | 118,925/0 | 0 | 100% | Full |
| Did cardholders and reviewers comply with controls designed to prevent misuse? | | | | | |
| Did the cardholder initiate the transaction? | Not Tested [a] | NA | NA | NA | NA |
| Was the purchase within the transaction limit? | 58/0 | 118,925/0 | 0 | 100% | Full |
| Did cardholders and reviewers comply with controls designed to detect misuse? | | | | | |
| Was the transaction adequately supported? | 58/0 | 118,925/0 | 0 | 100% | Full |
| Was the transaction in the transaction log? | Not Tested [a] | NA | NA | NA | NA |
| Was the transaction log properly reviewed and approved? | Not Tested [a] | NA | NA | NA | NA |
| [a] These controls were not tested at the Health Sciences Center because they are not required by its policies and procedures. The Health Sciences Center has compensating controls in place, which are discussed in Chapter 3. | | | | | |

Table 3

| Texas Tech University | | | | | |
|---|---|---|---|---|---|
| Attributes | No. Tested from Sample/ No. of Errors | Total No. of Transactions (2.5 years) / Estimated Total Errors | Estimated Average Total Errors/Year | Compliance Rate | Level of Compliance |
| Did the controls work? | | | | | |
| Was the purchase allowable, reasonable, and appropriate? | 61/2 | 83,841/2,749 | 1,100 | 96.72% | Full |
| Were goods/services received prior to payment? | 63/0 | 83,841/0 | 0 | 100% | Full |
| Did cardholders and reviewers comply with controls designed to prevent misuse? | | | | | |
| Did the cardholder initiate the transaction? [a] | 45/13 | 83,841/24,221 | 9,688 | 71.11% | Minimal |
| Was the purchase within the transaction limit? | 63/0 | 83,841/0 | 0 | 100% | Full |
| Did cardholders and reviewers comply with controls designed to detect misuse? | | | | | |
| Was the transaction adequately supported? | 63/0 | 83,841/0 | 0 | 100% | Full |
| Was the transaction in the transaction log? | 63/0 | 83,841/0 | 0 | 100% | Full |
| Was the transaction log properly reviewed and approved? | 63/0 | 83,841/0 | 0 | 100% | Full |
| [a] Of the 13 instances of card sharing identified by audit testing, 9 of them were by cardholders for whom several types of misuse, including card sharing, were later detected by Texas Tech University procurement card administrators and addressed in 2004, before audit testing began. | | | | | |

Table 4

| The University of Texas at Arlington | | | | | |
|---|---|---|---|---|---|
| Attributes | No. Tested from Sample/ No. of Errors | Total No. of Transactions (2.5 years) / Estimated Total Errors | Estimated Average Total Errors/Year | Compliance Rate | Level of Compliance |
| Did the controls work? | | | | | |
| Was the purchase allowable, reasonable, and appropriate? | 49/5 | 91,655/9,353 | 3,741 | 89.80% | Substantial |
| Were goods/services received prior to payment? | 50/0 | 91,655/0 | 0 | 100% | Full |
| Did cardholders and reviewers comply with controls designed to prevent misuse? | | | | | |
| Did the cardholder initiate the transaction? | 49/2 | 91,655/3,741 | 1,496 | 95.92% | Full |
| Was the purchase within the transaction limit? | 52/0 | 91,655/0 | 0 | 100% | Full |
| Did cardholders and reviewers comply with controls designed to detect misuse? | | | | | |
| Was the transaction adequately supported? | 51/3 | 91,655/5,391 | 2,157 | 94.12% | Full |
| Was the transaction in the transaction log? | 52/0 | 91,655/0 | 0 | 100% | Full |
| Was the transaction log properly reviewed and approved? | 52/9 | 91,655/15,863 | 6,345 | 82.69% | Substantial |

The controls listed in this appendix can help to further reduce the risks associated with procurement card programs. The appendix is divided into preventive controls and detective controls. The four audited institutions have incorporated many of these controls into their programs. Consideration of the remaining controls can help the institutions—and all entities that issue procurement cards—strengthen their programs.

As shown in Figure 1, controls for a procurement card program exist at four levels within an organization. In addition to listing the controls as either preventive or detective, this appendix also indicates at which level of an organization the control typically resides.
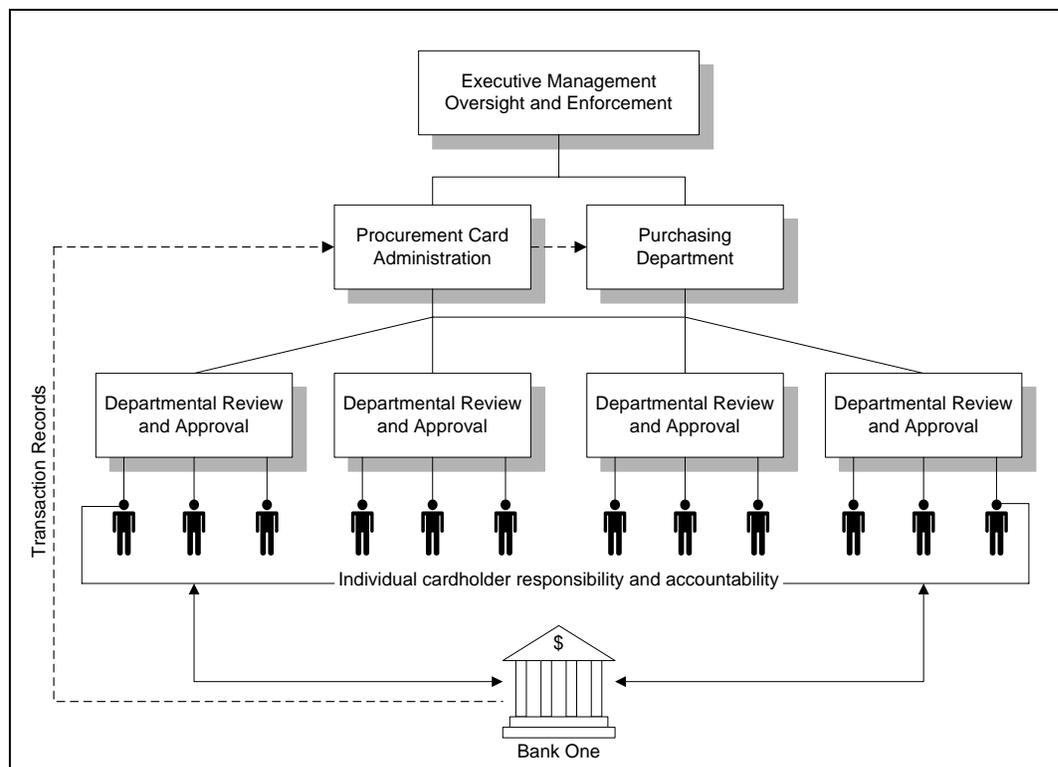


### Preventive Controls

**Establish adequate policies and procedures.**

Executive management establishes policies and procedures to ensure that the procurement card program is established to operate as management intends.

Determine whether an employee needs a card.

Procurement card administration and the individual department use a uniform process to issue cards. The employee's supervisor must request the card; card issuance is not automatic. The decision to issue a card is based on criteria such as the following:

- The entity's goals for its procurement card program

- The employee's job duties

- The number of procurement cards the employee already has

- The supervisor's ability to oversee the use of the card

Set card limits (available through the bank) to help ensure compliance with laws and policies.

- Procurement card administrators and the individual departments work together to set credit limits, single purchase limits, and merchant category code restrictions that are customized for each individual cardholder based on job responsibilities, historical usage data, and anticipated use.

- Procurement card administrators have a process in place to document and approve increased limits if a cardholder has a legitimate need. This process considers what additional training the cardholder would need and whether additional controls need to be put into place at the higher limit.

Cancel cards when an employee no longer has a legitimate need for a card, whether that is a result of promotion, transfer, or separation from the agency.

- Procurement card administrators proactively communicate with the agency human resources department to identify when a cardholder's employment status has changed, rather than relying on notifications from the cardholder's department. A change in employment status includes transferring between departments.

- At the department level, all supervisors are required to review their employees' job duties and card use regularly to determine whether their employees still need their cards and whether the associated limits are still appropriate.

Train cardholders and approving officials to ensure that they understand procurement card laws, policies, and procedures.

- Department-level approving officials are required to attend training to help ensure that they understand the policies and procedures governing card use and their responsibility in the review process. This training includes "red flags" for inappropriate use and data analysis techniques.

- Cardholders are required to attend training, and they are given enough training so that they understand how to use the cards appropriately. They are provided with comprehensive procurement card guides. In addition, they sign agreements to use the cards appropriately.

- Procurement card administrators maintain formal records of cardholders' and approving officials' training.

- Procurement card administrators ensure that higher use limits lead to appropriate additional training on basic procurement issues.

**Respond to problems appropriately and in a timely manner.**

- Procurement card administrators place noncompliant users in a "high-risk" category that is subject to more review in subsequent months.

- At the department level, cardholders' levels of compliance with policies and procurement card responsibilities are addressed in cardholder performance evaluations.

- Procurement card administration department-level reviewers impose sanctions or disciplinary actions if cardholders do not use cards appropriately. These sanctions range from additional training to termination of the cardholders' employment. These sanctions or actions are tied to specific acts of noncompliance so that noncompliance is addressed consistently across the entity.

- Procurement card administrators develop training and offer it to address common areas of noncompliance.

- Procurement card administrators manage and monitor cardholder disputes with vendors.

- Procurement card administrators ensure that problems and disputes are resolved before terminated employees receive their final paychecks.

## Detective Controls

**Ensure that procurement card purchases are business related and are for a reasonable price.**

- Procurement card administrators ensure that cardholders have access to purchasing rules and processes and to assistance in finding appropriate vendors.

- Cardholders obtain approval from a department-level supervisor either before or after making a purchase.

- Department-level supervisor initials and dates transaction logs or the receipts to show that he or she actually saw the items purchased and that

the purchases were business related and complied with applicable laws and policies. The supervisor's approval is for the specific quantity and price for each item purchased.

**Reconcile billing statements from the bank to either the transaction log or receipts.**

▪ Cardholders maintain either a transaction log and receipts or just receipts. Someone at the department level other than the cardholder reconciles the billing statement to the transaction log or to the receipts to ensure that all items on the statement are accounted for in the department and supported with documentation from the cardholder. Any items on the billing statement that are not on the transaction log as approved or that do not have a receipt are investigated.

▪ Procurement card administrators maintain a list of specific individuals with review and approval authority.

▪ Cardholders store their receipts in a central location immediately after the purchase. (They are not retained by the cardholder.) When a transaction is selected for review, the documentation is pulled from the central location. This reduces the possibility that a cardholder could duplicate a receipt or fabricate documentation when receipts are requested.

**Implement a monitoring or review function independent of the cardholders' departments to help ensure that transactions comply with applicable laws and policies.**

▪ A strong monitoring or review function is in place at the program administration level. Cardholders know that routine reviews are likely to detect misuse.

▪ The monitoring function samples transactions for testing to determine compliance with applicable laws and policies:

♦ All transactions have some chance of being reviewed.

♦ High-risk transactions are more likely to be reviewed than low-risk transactions.

♦ High-risk users (new users, users with a history of noncompliance) are sampled more frequently than low-risk users.

▪ The centralized monitoring function performs additional reviews:

♦ The number of cardholders assigned to each department-level approving official is periodically reviewed to help ensure that the number is reasonable.

- ♦ The overall program is reviewed periodically with work concentrated in areas of highest risk, as determined by a risk assessment.

- ♦ A list of active cardholders is periodically compared with employment records to ensure that cardholders are current employees in good standing.

**Look for fraud indicators during reviews.**

- Unusual vendor names

- Same vendor address and employee address

- Only one employee ever uses a specific vendor

- Unusual activity for a given cardholder

- Repeated misuse by cardholder

- Round number purchases (could be gift cards, etc.)

- Transactions with missing receipts or altered documentation

- Transaction that is on statement but missing from transaction log

- Sequential or unnumbered receipts

- Duplicate charges

- Purchases made outside of regular business hours

- Activity by non-cardholders and terminated employees

- Cardholder approving his or her own transactions

Copies of this report have been distributed to the following:

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The Honorable Tom Craddick, Speaker of the House, Joint Chair
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