

Vendor Management

Audit Report # 20-118

December 7, 2020



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

"Committed to Service, Independence and Quality"



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Office of Auditing and Consulting Services

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December 7, 2020

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

Dear Dr. Wilson:

The Office of Auditing and Consulting Services has completed a limited-scope audit of Vendor Management. During the audit, we identified opportunities for improvement and offered the corresponding recommendations in the audit report. We intend the recommendations 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

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EXECUTIVE SUMMARY

The Office of Auditing and Consulting Services has completed a limited scope audit of vendor management. The objective of the audit was to:

- Document the current process of onboarding vendors and identify gaps in segregation of duties between individuals/departments entering suppliers, updating supplier information, and paying a supplier in the procurement system.
- Determine if potential conflicts of interest between vendors and UTEP employees are properly disclosed, authorized, and documented.

During the audit we noted the following:

- A new comprehensive vendor management system, PaymentWorks, is in the implementation stages.
- All potential conflicts of interest with vendors are not disclosed.
- UTEP does not currently use a vendor management workflow approval process in PeopleSoft.
- Employees and students are incorrectly paid as vendors.

With the observations noted above, we conclude that the implementation of a new vendor verification system, PaymentWorks will reduce many of the risks related to vendor management. This includes enhanced reporting of potential conflicts of interest, integrated workflow approval, and the correct classification of independent contractors/employees.

BACKGROUND

The University of Texas at El Paso (UTEP) is in the process of implementing a new vendor verification system, PaymentWorks,

PaymentWorks is a third party business identity platform that interfaces with PeopleSoft (PS) when payees (suppliers) are added to UTEP's vendor database, eliminating the need for manual entry. Vendors wishing to conduct business with UTEP register with PaymentWorks as a payee (individual or entity) and identifiable information is collected such as name, tax ID, address, and banking information. Any updates/changes to vendor information are initiated by the vendor through the PaymentWorks network. PaymentWorks verifies and continuously validates the information provided by the supplier across various networks, and an approval work flow routing system enables the designated UTEP approvers to add, accept an update, or reject a vendor record in the PeopleSoft procurement system.

Currently, vendor verification and approval varies and none require vendors to disclose any potential conflicts of interest (COI). Verification of the vendor management process and access is important because there is increased risk of fraud when there is a lack of segregation of duties or when vendors/businesses are not verified for validity before adding them to the vendor listing.

In addition, COIs between vendor and employee may exist, creating additional risks when an employee is also the vendor or related to a potential vendor of the University. University of Texas System (UTS) 159 requires employees to disclose these relationships and have prior approval from the President or Chancellor, if applicable. The disclosures and potential COIs must be updated as needed, but no less than annually.

PaymentWorks can provide verification of all vendors seeking to do business with UTEP and can include a vendor COI questionnaire and PeopleSoft work flow approval, thereby reducing some of the risks related to vendor management.

AUDIT OBJECTIVES

The objective of this audit was to:

- Determine if potential conflicts of interest between vendors and UTEP employees are properly disclosed, authorized, and documented.
- Document the current process of onboarding vendors, and identify gaps in segregation of duties between individuals/departments entering suppliers, updating supplier information, and paying a supplier in the procurement system.

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 scope of the audit included voucher transactions paid to potential employee/vendors September 1, 2018 through May 31, 2020, and vendor access security roles run on August 20, 2020.

Audit methodology included research of PaymentWorks, management and UT Share interviews, obtaining and reviewing vendor access security roles and potential vendor/employee vouchers (P.O. and non-P.O.), and data analytics.

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 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 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 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. Conflict of Interest

Regents' Rule 30104 permits U.T. employees to engage in outside work activities, and UTEP HOP Section V, Chapter 29: Conflicts of Interest (COI) policy outlines the requirements that employees must follow in order to maintain those activities. University policy requires that possible conflicts be disclosed and department supervisors should have a plan to manage such conflicts, if the activity is approved. An electronic approval of outside activities is required prior to the start of the activity with annual approval thereafter. All full-time employees must disclose, while part-time employees should disclose if a potential COI exists.

We found 216 employees whose bank accounts and/or addresses matched current vendor information in PeopleSoft's (PS) vendor database. We selected 30 employees to determine if the employees reported a possible conflict of interest with the vendor.

A.1. All potential conflicts of interest with vendors are not disclosed.	Medium Risk
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One of 30 vendors (3%), was immediately related to a full time UTEP employee and received \$4,535 in P.O. voucher payments. This vendor conducted business with a related UTEP department, potentially creating a conflict of interest. The employee did not report outside activity or a potential COI to the Office of Institutional Compliance.

Two of 30 vendors (6%) classified as Persons of Interest (POI)¹, earning \$36,611, did not report a COI as either a vendor or employee. POIs are not currently required to disclose or report to the University.

Although the University requires employees to disclose outside activity and potential COIs, the University does not currently require vendors or POIs to disclose potential conflicts. As a result, vendors may not always be appropriately vetted during the vendor approval process.

¹ Person of Interest (POI) is a PeopleSoft classification that allows active relationships with non-employees, non-students through the request of a PS ID to access limited temporary campus services, including parking and email. Although the PS ID is similar to that of an employee, POIs are not actual employees of the University.

UTEP is in the process of implementing PaymentWorks, a vendor verification system, and will include a vendor COI questionnaire as part of the verification process and PeopleSoft work flow approval; thereby reducing some of the risks related to vendor management.

B. Vendor Access Observation

We reviewed the current process of onboarding vendors to identify gaps in segregation of duties between individuals/departments who enter suppliers into the system, update supplier information, and process payments to suppliers.

B.1. UTEP does not currently use a vendor management workflow approval process in PeopleSoft.	Medium Risk
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Purchasing has taken proactive action to review their current access and implement additional segregation of duties within the department during the implementation of PaymentWorks.

After the implementation of PaymentWorks and approver workflow is complete, additional controls will be available to reduce the risk of potential fraud from inappropriate employee/vendor relationships.

C. Non-P.O. Observation

Handbook of Operating Procedures (HOP) Section 5, Chapter 33: Additional Pay allows non-UTEP employees to engage with the University to provide consulting or independent contractor services through an Authorized Personal Service (APS) form, and payments are processed through a non-P.O. voucher. UTEP employees performing additional services outside of their normal duties are required to submit a Supplemental Authorization Request (SAR) form and additional pay is processed through Payroll; however, "APS or SAR forms are never appropriate to obtain approval to compensate student employees for participation on projects or other types of work performed".

C.1 Employees and students are incorrectly paid as vendors.²	Medium Risk
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Eight of 30 employees/students in our vendor sample were incorrectly paid using non-P.O. vouchers generally used for independent contractor services.

Non-P.O. Observations			
No. of Observations	Observation Amounts	Vendor Type	Observation
3	\$ 20,598.00	Vendor/Employee	Independent contractor forms are incomplete and/or employees are incorrectly classified as independent contractors.
5	\$ 13,542.00	Student Employees	Student employees were paid for research, research participation, and/or stipends using a non-P.O. voucher.
8	\$ 34,140.00		

Payments to independent contractors are not always appropriately reviewed to prevent unallowable independent contractor payments to employees and students. Incorrectly classifying independent contractors could lead to incorrect tax reporting and underpayment of retirement benefits for employees. Student employees receiving payments from non-P.O. vouchers may result in under reporting financial aid. Using non-P.O. vouchers inappropriately to pay vendors increases the risk for vendor payment misuse or fraud, creating potential financial losses to the University.

Non-P.O. vouchers are outside the control of Purchasing and the discussion provided above are observations made during the COI review. A non-P.O. voucher audit was performed in 2018, Audit #18-104 Non-P.O Purchases, and Internal Audit will follow up on similar findings when the independent contractor process update has been completed.

² Vendors such as independent contractors/consultants require processing through an Authorized Personal Service (APS) form which is generally used to process singular non-P.O. vouchers for independent services meeting various minimal criteria. The APS form includes a checklist and instructions to determine employee/independent contractor classification.

CONCLUSION

Based on the results of audit procedures performed, we conclude that the University may strengthen its vendor management process and established conflict of interest policies by:

- Requiring vendors and POIs to disclose potential conflicts of interest.
- Verifying potential conflicts of interest between vendors and UTEP employees. If applicable, collaborate with corresponding departments to ensure they are properly disclosed, authorized, and documented.

The implementation of PaymentWorks and Purchasing's proactive involvement should reduce many of the risks related to vendor management, including user access and vendor/employee conflicts of interest. Audit will collaborate with Purchasing post-implementation to determine if these observations have been resolved.

We wish to thank the management and staff of Purchasing and General Services for their assistance and cooperation provided throughout the audit. OACS has offered its consultation services in preparation of the new system.