Internal Audit Department

July 13, 2022

Dr. Kirk Calhoun
President
The University of Texas at Tyler
3900 University Blvd.
Tyler, TX 75799

Dr. Calhoun,

We have completed the Accounts Payable Audit as part of the University of Texas at Tyler's (UTT) Fiscal Year (FY) 2022 Audit Plan. The objective of this audit was to review the Institution's processes and controls within Accounts Payable to ensure there are no duplicate payments submitted or duplicate vendors set up in the vendor master file. This audit consisted of testing for the UTT Main campus only. The scope of the audit is from September 1, 2019, through March 3, 2022.

This audit was conducted in accordance with guidelines set forth in The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and *Generally Accepted Government Auditing Standards*. We appreciate the assistance provided by management and other personnel and hope the information presented in our report is helpful.

Sincerely,

Stephen Ford
Vice President, Chief Audit Executive

Enclosure
cc:
Dr. Amir Mirmiran, Executive Vice President, Academic Affairs, Provost
Ms. Kris Kavasch, Senior Vice President, Finance, Chief Financial Officer / Interim Chief Business Officer
Dr. Kimberly Laird, Senior Vice President, Business Affairs, Chief Operating Officer
Ms. Cindy Troyer, Director Financial Services
Dr. Archie Holmes, UT System Executive Vice Chancellor for Academic Affairs
Dr. John Zerwas, UT System Executive Vice Chancellor for Health Affairs
Mr. Patrick Francis, UT System Associate Vice Chancellor for Health Affairs
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Accounts Payable Audit

July 13, 2022

INTERNAL AUDIT DEPARTMENT
3900 UNIVERSITY BOULEVARD
TYLER, TEXAS 75799

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AUDIT OBJECTIVE

The objective of the audit was to assess the current processes and controls within Accounts Payable on the UT Tyler Main campus to ensure there were no duplicate payments or active duplicate vendors in the Vendor Master File.

CONCLUSION

The audit revealed opportunities to strengthen policies and procedures as well as monitoring for duplicate payments and accurate vendor data in the Vendor Master File.

OBSERVATIONS

This audit identified opportunities for improvement related to the following:		
1	Medium	_Policy Review and Updates_
2	Medium	_Duplicate Payments_
3	Medium	_Possible Duplicates in Vendor Master File_
4	Medium	_Vendors with Active Status with No Recent Payments_

#1: Policy Review and Updates

Medium: Outdated policies increases the risk of incorrect payment processing.

HOP Policy 4.6.3, "Payments - Accounts Payable" states the policy should be reviewed every five (5) years. The last review date noted is April 15, 2016.

Opportunity for Improvement: As part of the Institution's policy integration efforts, leadership should perform a detailed review of the Main Campus and HSC campus policies currently in place related to vendor files and accounts payable.

Management Response –Title of Responsible Person: Director of Financial Services.

HOP Policy 4.6.3, "Payments – Accounts Payable" has been revised and approved by the HOP committee as recommended and is in the queue to be posted to the HOP.

Anticipated Implementation Date: November 30, 2022

#2: Duplicate Payments

Medium: Duplicate payments can occur and be unresolved without monitoring.

A review of the 26,758 vouchers totaling over $119 million paid during the scope of the audit utilizing data analytics identified 12 potential duplicate payments. Further review of these 12 identified items revealed that 9 were not duplicate payments, 2 were duplicate payments identified and resolved by the department prior to the audit, and 1 was an unresolved duplicate payment. The unresolved duplicate payment was in the amount of $250 originating from 1 UT Tyler Main Campus department to another UT Tyler Main Campus department. This represented less than 0.004% of the transactions and 0.0002% of the payment amount during the period under review. This was caused by

the paying department erroneously paying an invoice twice and not noting the error during the account reconciliation process.

Opportunity for Improvement: Departments should carefully monitor payments and account reconciliations to assure duplicate payments are not made or are corrected if made in error. Financial Services should consider using data analytics to review for duplicate payments in the future on a continuing basis.

Management Response –Title of Responsible Person: Director of Financial Services.

Financial Services agrees that using a data analytics tool in the future will allow for current corrections if needed. Financial Services is committed to implementing consistent monitoring and reviewing processes and will coordinate running such reports with the Internal Audit team.

Anticipated Implementation Date: All identified possible duplicate payments were researched and resolved by May 31, 2022.

#3: Possible Duplicates in Vendor Master File

Medium: Vendors with multiple files in the Vendor Master File increases the risk of duplicate payments and the risk of using outdated vendor information for a payment.

Data analytics tested for possible duplicates including vendor name, address, bank account number, and identification number. These duplicates can occur when a new vendor is created instead of updating the record for an existing vendor. Data analytics identified 308 possible duplicated active vendors in the Master File. This represents 3% of the total vendors in the Master File.

Opportunity for Improvement #1: Financial Services should review the Vendor Master File and update the vendor status so that only one (1) vendor record is "Active", where appropriate.

Opportunity for Improvement #2: Financial Services should develop and implement policies and procedures to monitor the Vendor Master file for duplicate vendors.

Management Response –Title of Responsible Person: Director of Financial Services.

#1 Financial Services is reviewing the data file provided by Internal Audit in order to verify all records identified which must remain in Approved status and available for active use. All records not needed for active use will be updated to an Unapproved status which prevents further use.

#2 Financial Services agrees that the Vendor database must be monitored for duplicates and will update internal department procedures to incorporate this activity. Financial Services is committed to implementing consistent monitoring and reviewing processes and will coordinate running such reports with the Internal Audit team.

Anticipated Implementation Date: December 31, 2022

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#4: Active Vendors with No Recent Payments

Medium: Active vendors without recent payments increase the risk of inaccurate vendor information and of payments made to an incorrect vendor.

Vendors should only have an "Active" status if there are recent payments or future payments are expected. Currently, the Vendor Master File contains over 2,000 "Active" vendors who have not received a payment during the past 4 years. Maintaining these as "Active" vendors increases the risk that vendor data is not current, and payments may be made to an incorrect vendor.

Opportunity for Improvement: Financial Services Policies should be updated to include deactivating vendors that have not had a payment within a determined time frame. The vendors who have not received a payment during this time frame should be changed to "Unapproved" status, so the vendor is no longer active.

Management Response –Title of Responsible Person: Director of Financial Services.

Financial Services agrees and will update internal department procedures to incorporate this activity and is also collaborating with UT System IT Support (SIS) to Inactivate any unused vendor records and change to an Unapproved status those used records where no Purchase Order or payment Voucher activity exists during the last two years. As discussed, we have elected to keep two years of used records in Approved status and available for active use in order to more fully make use of updating records via the PaymentWorks supplier/payee electronic system.

Anticipated Implementation Date: December 31, 2022

Other Comments
A review of the data identified 28 active employees with an active vendor file. Twenty of these received payment prior to their hire date and 8 received payment after hire date. UT System Policy #159 requires approval by the President for purchases from an employee. Financial Services should review these 28 files to determine if approval is on file as required and change the status to "Unapproved", so the vendor is no longer active, where appropriate.

We sincerely appreciate the assistance of the Financial Services Department during this project.

BACKGROUND

This audit was part of the UTT Fiscal Year (FY) 2022 Annual Audit Plan as a risk-based audit. The Accounts Payable function at UTT is decentralized. This audit consisted of testing for the UTT Main campus only. UTT Main campus departments originate a vendor request when a new vendor is identified, and then process payments based on invoices received. Upon departmental approval, the electronic documents automatically route to the Financial Services Department for review and approval. The PeopleSoft Financial System has automated controls related to Accounts Payable.

STANDARDS

The audit was conducted in accordance with guidelines set forth in *The Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing* and *Generally Accepted Government Auditing Standards*.

SCOPE AND PROCEDURES

The scope of this audit was vouchers paid from September 1, 2019, through March 3, 2022, and the Vendor Master File as of March 2, 2022. Procedures conducted included, but were not limited to:

- Reviewing applicable policies and procedures for key departments involved in the accounts payable and vendor management process;
- Utilizing data analytics software, in collaboration with a data analytics software expert at the UT System Audit Office, to identify potential duplicate payments and duplicate vendors; and
- Reviewing supporting documentation for all identified possible duplicate payments.

IAD will work with Management to verify the implementation status of management responses and target implementation dates to each recommendation noted above. The goal of this process is to help ensure that timely action is taken to address each observation.

OBSERVATION RANKINGS

Internal audit across the UT System uses a consistent process to evaluate audit results based on risk factors and the probability of a negative outcome.

Legend	
Priority	*A finding is defined as an issue that if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of UT Tyler.*
High	*A finding that is considered to have a <u>medium to high probability</u> of adverse effects to UT Tyler as a whole or to a significant college or department.*
Medium	*A finding that is considered to have a <u>low to medium probability</u> of adverse effects to UT Tyler as a whole or to a college or department.*
Low	*A finding that is considered to have a <u>minimal probability</u> of adverse effects to UT Tyler as a whole or to a college or department. These findings are communicated separately to management.*