September 19, 2013

Dr. Daniel,

We have completed an audit of Purchasing as part of our fiscal year 2014 Audit Plan, and the report is attached for your review. The audit was conducted in accordance with the Institute of Internal Auditors’ *International Standards for the Professional Practice of Internal Auditing*. The objectives of the audit were to ensure controls over SciQuest are adequate to ensure a proper segregation of duties including access, authorization, and receiving and the reliability and integrity of financial and operational information.

Overall, we found that controls can be strengthened by implementing procedures, segregating duties, ensuring proper access is given, and ensuring documentation for vendor tax information is maintained. The attached report details recommendations that will enhance compliance and internal controls.

Management has reviewed the recommendations and has provided responses and anticipated implementation dates. Though management is responsible for implementing the course of action outlined in the response, we will follow up on the status of implementation subsequent to the anticipated implementation dates. We appreciate the courtesies and considerations extended to us during our engagement. Please let me know if you have any questions or comments regarding this audit.

Toni Stephens  
Executive Director of Audit and Compliance

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**UT Dallas Responsible Parties:**  
Mr. Terry Pankratz, Vice President for Budget and Finance  
Mr. Pete Bond, Assistant Vice President for Procurement Management

**Members of the UT Dallas Audit and Compliance Committee:**  
Dr. Hobson Wildenthal, Executive Vice President and Provost  
Dr. Calvin Jamison, Vice President for Administration  
Mr. Terry Pankratz, Vice President for Budget and Finance  
Dr. Andrew Blanchard, Vice President for Information Resources and Chief Information Officer  
Dr. Bruce Gnade, Vice President for Research  
Dr. Darrelene Rachavong, Vice President for Student Affairs  
Mr. Curt Eley, Vice Provost for Enrollment Management  
Dr. James Marquart, Vice Provost  
Dr. Sue Taylor, Acting Chief Information Security Officer  
Mr. Timothy Shaw, University Attorney  
Ms. Lisa Choate, Partner, Ultimate Health Resources

**The University of Texas System:**  
Dr. Pedro Reyes, Executive Vice Chancellor for Academic Affairs  
Alan Marks, Attorney  
Mr. J. Michael Peppers, CIA, CRMA, CPA, FACHE, Chief Audit Executive  
Ms. Moshmee Kalamkar, CPA, CIA, Audit Manager

**State of Texas Agencies:**  
Legislative Budget Board  
Governor’s Office  
State Auditor’s Office  
Sunset Advisory Commission

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AN EQUAL OPPORTUNITY/AFFIRMATIVE ACTION UNIVERSITY
Executive Summary

Purchasing, Report No. 1401

Audit Objective and Scope: To ensure controls over SciQuest are adequate to ensure a proper segregation of duties including access, authorization, and receiving and the reliability and integrity of financial and operational information.

Audit Results:
The audit resulted in no recommendations considered significant to University operations. However, we offer the following recommendations to enhance compliance and internal controls over purchasing:

<table>
<thead>
<tr>
<th>Recommendations</th>
<th>Estimated Implementation Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Implement Procedures to Monitor Active Vendors</td>
<td>March 1, 2014</td>
</tr>
<tr>
<td>(2) Enhance Segregation of Duties</td>
<td>November 1, 2013</td>
</tr>
<tr>
<td>(3) Remove Administrative Rights to SciQuest in a Timely Manner</td>
<td>December 31, 2013</td>
</tr>
<tr>
<td>(4) Establish Policies over Purchase Orders</td>
<td>November 15, 2013</td>
</tr>
<tr>
<td>(5) Ensure Active Vendors have a Valid Taxpayer Identification Number and W9 on File</td>
<td>May 31, 2014</td>
</tr>
</tbody>
</table>

Conclusion: Controls over purchasing should be strengthened to ensure the controls that exist over SciQuest are adequate to ensure a proper segregation of duties including access, authorization, and receiving and the reliability and integrity of financial and operational information.

Responsible Vice President: Terry Pankratz, Vice President, Budget and Finance
Responsible Party: Pete Bond, Assistant Vice President, Procurement Management

Staff Assigned to Audit:
Ali Subhani, CIA, CISA, IT Audit Manager
Dylan Becker, CPA, Senior Auditor
## Table of Contents

Background ........................................................................................................................................... 4

Audit Objective ...................................................................................................................................... 4

Scope and Methodology ...................................................................................................................... 4

Audit Results and Management’s Responses ....................................................................................... 5

Audit Recommendations ..................................................................................................................... 5

1. Implement Procedures to Periodically Monitor Active Vendors .................................................. 5

2. Enhance Segregation of Duties ....................................................................................................... 6

3. Remove Administrative Rights in Sciquest in a Timely Manner .................................................. 7

4. Establish Policies over Purchase Orders ......................................................................................... 8

5. Ensure Active Vendors Have a Valid Taxpayer Identification Number and W9 on File ............... 8

Conclusion ............................................................................................................................................. 9
Background

The purchasing department, within Procurement Management, is responsible for overseeing the purchases of goods and services made by the University, either directly or via the delegated purchasing methods. The process to purchase goods or services can be made with an authorized purchasing card, or through eProcurement which is the University’s online resource to place orders to vendors. All purchase orders issued to vendors must be reviewed and approved by purchasing prior to the completion of the purchasing process. In addition, only state certified buyers are authorized to conduct bids or request for proposals, and sign contracts on behalf of the University.

The purchasing department, reporting to the Assistant Vice President of Procurement Management, is comprised of a director and five staff members. Procurement Management reports to the Vice President of Budget and Finance. The following table depicts the number of purchase orders processed and suppliers handled during the past two fiscal years.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Purchase Orders</th>
<th>Suppliers</th>
<th>PO Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>18,559</td>
<td>2,107</td>
<td>$ 72,061,199</td>
</tr>
<tr>
<td>2013</td>
<td>17,289</td>
<td>1,928</td>
<td>$ 71,212,524</td>
</tr>
<tr>
<td>TOTAL</td>
<td>35,848</td>
<td></td>
<td>$ 143,273,723</td>
</tr>
</tbody>
</table>

Audit Objective

The objective of this audit was to ensure controls over SciQuest are adequate to ensure a proper segregation of duties including access, authorization, and receiving and the reliability and integrity of financial and operational information.

Scope and Methodology

The scope of this audit was Fiscal Year 2013 to date, and our fieldwork concluded on July 3, 2013. To satisfy our objectives, we performed the following:

- Interviewed personnel to gain an understanding of purchasing processes.
- Obtained an understanding of applications used to ensure accuracy and reliability in PeopleSoft.
- Reviewed policies and procedures relating to purchasing and the bidding process.
- Reviewed the vendor set-up process.
• Performed analytical procedures to ensure the prescribed purchasing process was followed.
• Examined the roles of UTD Employees and contractors to ensure proper access was granted and maintained in SciQuest.

Where applicable, we conducted our examination in accordance with the guidelines set forth in The Institute of Internal Auditor’s International Standards for the Professional Practice of Internal Auditing. The Standards set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance or audit work, and management of the internal auditing department.

Audit Results and Management’s Responses

Overall, we found that controls can be strengthened. Our audit work indicated that the following controls currently exist:

• An established purchasing workflow process through SciQuest
• A review process for Purchase Orders prior to payments
• An approval process exists for vendors

A significant recommendation is defined as one that may be material to operations, financial reporting, or legal compliance. This would include an internal control weakness that does not reduce the risk of irregularities, illegal acts, errors, inefficiencies, waste, ineffectiveness, or conflicts of interest to a reasonable low level. We have no significant recommendations resulting from this audit; however, the following recommendations will help enhance compliance and internal controls over purchasing.

Audit Recommendations

(1) Implement Procedures to Periodically Monitor Active Vendors

There is currently no established process to periodically review active vendors for recent activities to ensure they should be maintained in the procurement system.

A master vendor file should be maintained and the specified timeline and reviews over active vendors should be documented. Best practices suggest that maintaining an active vendor file that only includes vendors eligible for payment enhances controls over the accounts payable process and minimizes the risk of inaccurate or fraudulent payments as well as risks to the University’s reputation. This helps enhance internal controls and minimizes the risk of erroneous or fraudulent payments made to vendors.
**Recommendation:** Procurement Management should establish appropriate timelines for removing vendors with an active status in PeopleSoft after a specified time period has elapsed with no activities. The specified timeline and reviews over active vendors should be documented, and the responsibilities for ensuring reviews are completed should be clearly delegated.

**Management’s Response:**
The vendor file has been reviewed periodically to delete duplicate or inactive vendors, and those on “payment hold” by the state. In addition, a process was recently run to inactivate any vendors with no activity in the past 12 months. Procurement Management will establish formal procedures to ensure the vendor file is monitored on a consistent basis.

**Estimated Date of Implementation:** Already in progress, to be completed by March 1, 2014.

**Person Responsible for Implementation:** Gina Niemann Director, Procurement Management

(2) **Enhance Segregation of Duties**

Five employees in Procurement Management who do not have an executive role have the ability to set up and approve vendors in PeopleSoft. Additionally, two individual and two service accounts were assigned excessive user preferences. Those accounts had the ability to approve and update vendors through user preferences; however, they currently do not have update access on the page. If someone ever accidentally changes their role, they would be able to set up and approve vendors.

Best practices suggest the same employee should not be permitted to create, set up, and approve vendors. Ensuring a proper segregation of duties minimizes the risk of fraudulent or erroneous vendors from being approved, and enhances the internal control environment.

**Recommendation:** Procurement Management should enhance controls to ensure a proper segregation of duties is maintained by all Procurement employees to prevent the creation, set-up, and approval of vendors by the same employee. Additionally, a proper segregation of duties should exist that would prevent the same employee from approving and authorizing payments to vendors.
Management’s Response:
The five employees were given these roles to ensure daily procurement processes are as efficient as possible. However, an established control exists to help ensure a proper segregation occurs. Each payment entered by an employee is reviewed by a second employee, who initials the payment voucher. In addition, all payments are posted to cost centers that are reconciled and approved by additional employees. We will open a JIRA to request a report that will provide an audit trail of vendors set up, approved, and paid by the same individual. The report will be reviewed periodically by the AVP and Directors of Procurement Management to ensure transparency and verification that a proper segregation of duties does exist.

Estimated Implementation Date: November 1, 2013

Responsible Person: Pete Bond, Assistant Vice President for Procurement Management

(3) Remove Administrative Rights to SciQuest in a Timely Manner

We found 15 employees, two former contractors, and two service accounts that had administrative rights in SciQuest. Best practices suggest providing minimum access to systems that allow employees to carry out their daily responsibilities minimizes the risks of erroneous changes being made to process flows. Additionally, contractors whose agreements have expired should have their access removed in a timely manner to prevent unauthorized access to sensitive information.

Recommendation: The SciQuest process that keeps user roles in synch with PeopleSoft should be enhanced to remove the user role from SciQuest once a user has terminated. Additionally, a process should be put in place in Procurement Management to periodically review the access privileges that have been assigned to employees within the SciQuest application.

Management’s Response:
Agreed. We will work with Information Resources for this enhancement of the system to auto-terminate all system rights of terminated employees or contractors. In the meantime, we will have IT Security create a separate SciQuest Admin Role. Only those that work in that capacity will be assigned this. This would be Pete Bond, Paul Watson, Jené Janich and Katie Simpson. These are all Procurement Management employees. Two other IT staff, Richard Marler and Diane Rozek need to keep this role since it gives them the access in test. They are the integration broker specialists that handle this integration and should be the only ones with this admin right.

Estimated Implementation Date: 09/30/2013 to set up the separate SciQuest Administrative Role; 12/31/2013 for the enhancement to the system to automate the removal of user roles upon termination.
Responsible Person:  Jene Janich, Business Process Analyst, Procurement Management

(4) Establish Policies over Purchase Orders

We found that 50% of invoices tested were received prior to a purchase order being issued. Best practices suggest that purchase orders should be approved prior to receiving an invoice to minimize risks such as duplicate payments, inappropriate purchases, noncompliance with policies and procedures, and lack of funding. Implementation of the new system and inadequate education regarding proper purchasing were contributing factors to these issues.

Recommendation: Procurement Management should establish written policies over purchase orders and enhance education to users on the appropriate ways to make purchases.

Management’s Response:
Agreed. Procurement Management will establish appropriate controls through revision of policies and procedures and additional training. The UT System Office of General Counsel has been invited to provide on campus training this fall, primarily to JSOM and Procurement personnel. The training will reinforce the proper procedures for contracts and purchasing in general.

Estimated Implementation Date: November 15, 2013

Responsible Person: Pete Bond, Assistant Vice President for Procurement Management

(5) Ensure Active Vendors have a Valid Taxpayer Identification Number and W9 on File

A taxpayer identification number (TIN) is a unique number issued by the Internal Revenue Services (IRS) to track taxpaying entities. All businesses that are required to file a tax return are required to have a valid TIN. TIN’s should be input into PeopleSoft using information on a W-9 tax form when vendors are set up to ensure tax compliance and reporting to the IRS.

During our audit, we found the following:

- Five (16%) of 30 active vendors tested did not have a W9 on file with UTD that could be located by Procurement Management. W9’s are required to be submitted as part of the vendor set-up process before vendors are approved to conduct business with UTD. W9’s were not adequately maintained or consistently requested during the vendor set-up process.
Six out of 94 vendors (6%) tested did not have a TIN documented in PeopleSoft, and five out of the six (83%) were active vendors.

**Recommendation:** Procedures over the input of TIN information into PeopleSoft should be enhanced, and Procurement Management should periodically monitor active vendors to ensure all vendors approved to do business with the University have complete information on file including a TIN and a W9.

**Management’s Response:**
Procurement Management will work to update all vendors requiring a TIN or W9 that do not have this information on file. We are currently in the process of imaging the W9’s we have to provide a more efficient method to search and retrieve them. We are also considering a mass W9 mailing with our 1099 outsourcing partner, Thompson Reuters, to update our files after they are scanned. In addition, procedures will be updated to ensure an analysis of missing TIN or W9 information is performed on a periodic basis.

**Estimated Implementation Date:**
In process for imaging the existing W9 information. Mass mailing project to take place spring of 2014 if best practice and IRS requires.

**Responsible Person:** Pete Bond, Assistant Vice President for Procurement Management

**Conclusion**

Based on the audit work performed, we conclude that controls over purchasing should be strengthened to ensure the controls that exist over SciQuest are adequate to ensure a proper segregation of duties including access, authorization, and receiving and the reliability and integrity of financial and operational information.

We appreciate the courtesy and cooperation received from the management and staff of Procurement during this audit.