THE UNIVERSITY OF TEXAS-PAN AMERICAN
OFFICE OF AUDITS & CONSULTING SERVICES

Accounts Payable Department

Report No. 13-04
November 14, 2012

Dr. Robert S. Nelsen, President
The University of Texas-Pan American
1201 W. University Drive
Edinburg, TX 78539

Dear Dr. Nelsen,

As part of our fiscal year 2012 Audit Plan, we completed an operational audit of the Accounts Payable Department (AP). The audit objective was to evaluate the adequacy and effectiveness of the AP’s system of internal controls over operations and compliance with the Texas Prompt Payment Act. The scope of the audit was FY 2011, which included accounts payable transactions from September 1, 2010 through August 31, 2011.

In performing this engagement, we interviewed AP personnel, reviewed AP processes and procedures, and sampled vendor payment vouchers to evaluate compliance with Texas Government Code, Chapter 2251. The sample excluded financial aid payments to students, reimbursements to students, employee travel reimbursements, and payroll checks.

Overall, we concluded that the Accounts Payable Department established an adequate system of internal controls over operations. However, we identified opportunities to further strengthen controls for University processes in areas such as information security controls, safeguarding assets, and control conscious environment. In addition, while AP is performing at a high-level with limited resources, we determined that improvements are warranted in payment processing to fully comply with the Texas Prompt Payment Act.

We appreciate the courtesy and cooperation received from management and staff during our audit.

Sincerely,

Eloy R. Alaniz, Jr., CPA, CIA, CISA
Executive Director of Audits, Compliance & Consulting Services
Table of Contents

EXECUTIVE SUMMARY ............................................................. 1

BACKGROUND ................................................................. 2

AUDIT OBJECTIVE ............................................................ 3

AUDIT SCOPE AND METHODOLOGY ...................................... 3

AUDIT RESULTS .............................................................. 3

CONCLUSION ........................................................................ 10
EXECUTIVE SUMMARY

The Accounts Payable (AP) department creates, reviews, and approves documents that generate payments to all University customers. In fiscal year (FY) 2011, AP processed 89,406 payment vouchers to vendors totaling $137.6 million. These payments require accuracy and promptness. State institutions are governed by the Texas Government Code, Chapter 2251 Payment for Goods and Services, also known as the “Texas Prompt Payment Act”. This law states that “a payment by a governmental entity… is overdue on the 31st day after the later of:

(1) the date the governmental entity receives the goods under the contract;
(2) the date the performance of the service under the contract is completed; or
(3) the date the governmental entity receives an invoice for the goods or service.”

AP interacts with all the departments of the University and makes payments on behalf of the departments who initiate purchases for a variety of goods and services. In addition to generating payment vouchers to vendors, AP generates student financial aid payments, student reimbursements, employee travel reimbursements, and payroll checks for those employees not enrolled in direct deposit.

The audit objective was to evaluate the adequacy and effectiveness of the department’s system of internal controls over operations and compliance with the Texas Prompt Payment Act. The scope of the audit was FY 2011, which included accounts payable transactions from September 1, 2010 through August 31, 2011. In performing this engagement, we interviewed AP personnel, reviewed AP processes and procedures, and sampled vendor payment vouchers to evaluate timeliness.

Based on our audit, we determined that AP had established adequate internal controls over operations; however, we identified opportunities for improvement. In addition, while the AP department is performing at a high-level with limited resources, we determined that improvements are warranted in payment processing to fully comply with the Texas Prompt Payment Act. We observed the following:

- The AP workload was distributed among employees based on a strategy that included types of payments, employee experience and knowledge. We noted one vendor on the verge of suspending our University account due to late payment.
- Two employees, not part of the Accounts Payable Office, have access to Oracle AP responsibilities.
- The AP department used a flash drive to electronically store authorized check signatures. This flash drive must be attached to a computer used in the check printing process.
- The AP employees were not required to sign a conflict of interest statement.
- The AP procedures manual was not updated and not comprehensive.
BACKGROUND

Accounts Payable is an integral function within the Comptroller’s Office under the Division of Business Affairs. The main function of the Accounts Payable Department is to make timely and accurate payments to vendors in accordance with the Texas Prompt Payment Act.

During FY 2011, the AP department had a total of nine (9) positions as follows:
- (1) AP manager,
- (1) accountant,
- (6) accounting clerks, and
- (1) accounting technician.

Three positions were vacant, which included the accountant and two (2) accounting clerks. The three vacant positions were not filled as a result of the University’s strategies to address the state’s instructions to state agencies to reduce their budgets in anticipation for the fiscal year 2012 operating budget.

The former AP manager was hired as the director of financial information systems, and the former accountant became the interim AP manager while continuing to fulfill the accountant duties. During most of FY 2010, the AP department was fully staffed.

In addition to having fewer members on the AP staff, the interim AP manager was also involved in the implementation of a new purchasing system, which required the interim AP manager to be away from the Accounts Payable Office at least half a day for approximately six months. In January 2012, the University went “live” with the iShop purchasing system. This system automates purchases and may have a future impact on AP processes.

The following tables present a comparison of AP vouchers paid between FY 2011 and FY 2010. Based on these tables, the AP department processed 6% less vouchers in FY 2011 compared to FY 2010.

<table>
<thead>
<tr>
<th>Voucher Amount</th>
<th>Fiscal Year 2011</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Vouchers</td>
<td>Dollar Value</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Count</td>
<td>Percent</td>
<td>Dollars</td>
</tr>
<tr>
<td>Under $5,000</td>
<td>86,619</td>
<td>96.89%</td>
<td>$88,501,045.81</td>
</tr>
<tr>
<td>$5,000 - $9,999</td>
<td>1,881</td>
<td>2.10%</td>
<td>$12,037,737.97</td>
</tr>
<tr>
<td>$10,000 - $24,999</td>
<td>549</td>
<td>0.61%</td>
<td>$8,245,218.21</td>
</tr>
<tr>
<td>$25,000 - $99,999</td>
<td>302</td>
<td>0.34%</td>
<td>$13,360,432.74</td>
</tr>
<tr>
<td>$100,000 - $500,000</td>
<td>48</td>
<td>0.05%</td>
<td>$11,487,407.07</td>
</tr>
<tr>
<td>Over $500,000</td>
<td>7</td>
<td>0.01%</td>
<td>$3,984,102.07</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>89,406</strong></td>
<td><strong>100%</strong></td>
<td><strong>$137,615,943.87</strong></td>
</tr>
</tbody>
</table>
Fiscal Year 2010

<table>
<thead>
<tr>
<th>Voucher Amount</th>
<th>Number of Vouchers</th>
<th>Dollar Value</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Count</td>
<td>Percent</td>
<td>Dollars</td>
</tr>
<tr>
<td>Under $5,000</td>
<td>92,057</td>
<td>97.16%</td>
<td>$80,335,850.44</td>
</tr>
<tr>
<td>$5,000 - $9,999</td>
<td>1,791</td>
<td>1.89%</td>
<td>$11,366,631.17</td>
</tr>
<tr>
<td>$10,000 - $24,999</td>
<td>514</td>
<td>0.54%</td>
<td>$8,038,018.71</td>
</tr>
<tr>
<td>$25,000 - $99,999</td>
<td>299</td>
<td>0.32%</td>
<td>$13,473,819.40</td>
</tr>
<tr>
<td>$100,000 - $500,000</td>
<td>77</td>
<td>0.08%</td>
<td>$16,625,025.96</td>
</tr>
<tr>
<td>Over $500,000</td>
<td>10</td>
<td>0.01%</td>
<td>$6,066,538.20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>94,748</strong></td>
<td><strong>100%</strong></td>
<td><strong>$135,905,883.88</strong></td>
</tr>
</tbody>
</table>

**AUDIT OBJECTIVE**

The audit objective was to evaluate the adequacy and effectiveness of the department’s system of internal controls over operations and compliance with the Texas Prompt Payment Act.

**AUDIT SCOPE & METHODOLOGY**

The scope of the audit was FY 2011, which included accounts payable transactions from September 1, 2010 through August 31, 2011. In performing this engagement, we interviewed AP personnel, reviewed AP processes and procedures, and sampled vendor payment vouchers to evaluate compliance with Texas Government Code, Chapter 2251. The sample excluded financial aid payments to students, reimbursements to students, employee travel reimbursements, and payroll checks.

Our audit was conducted in accordance with guidelines set forth in The University of Texas System’s Policy 129 and The Institute of Internal Auditor’s International Standards for the Professional Practice of Internal Auditing. The audit was conducted during the months of January through July 2012.

**AUDIT RESULTS**

**Texas Prompt Payment Act Compliance**

According to the Texas Prompt Payment Act, “a payment by a governmental entity… is overdue on the 31st day after the later of: (1) the date the governmental entity receives the goods under the contract; (2) the date the performance of the service under the contract is completed; or (3) the date the governmental entity receives an invoice for the goods or service.”

We analyzed the total number of AP vouchers paid to vendors between FY 2011 and FY 2010. For FY 2011, there were approximately 20,800 AP vendor vouchers processed for a total of $51,199,908, and in FY 2010, there were approximately 25,046 AP vendor vouchers processed for a total of $60,149,863, excluding student financial aid payments and travel reimbursements.
We tested 816 AP vouchers out of a total of 20,800 AP vendor vouchers for compliance with the Texas Prompt Payment Act, representing the largest sample ever tested during an AP audit.

The following table provides an analysis of the results of our test:

<table>
<thead>
<tr>
<th>Days to pay Invoice</th>
<th>Number of Vouchers Tested</th>
<th>Percentage of Total Vouchers Tested</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 or fewer</td>
<td>693</td>
<td>84.93%</td>
</tr>
<tr>
<td>31 - 60</td>
<td>64</td>
<td>7.85%</td>
</tr>
<tr>
<td>61 - 90</td>
<td>28</td>
<td>3.44%</td>
</tr>
<tr>
<td>over 90</td>
<td>22</td>
<td>2.70%</td>
</tr>
<tr>
<td>Total</td>
<td>816</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

After reviewing the invoice batch, we determined that out of approximately 816 invoices, 114 (14%) AP vouchers did not comply with the Texas Prompt Payment Act. Factors affecting the timeliness of payments included staffing levels, timely routing of invoices by departments to AP, and obtaining appropriate supporting documentation. Two of the most frequent reasons for payment delays were miscommunication and misunderstandings. Most of the late vouchers were a result of University departments receiving the invoices directly and not forwarding them to the AP department for payment, or departments not responding timely to inquiries from the AP department, thus delaying payment. In addition, the late vouchers were accompanied by several pages of back and forth email communications going from the AP department to several University departments. However, mismatched purchase orders with invoices were usually resolved within a reasonably short period of time.

The process for generating a payment voucher after receipt of invoice was as follows: Invoices are stamped received and the interim AP manager/accountant III reviews and distributes invoices among AP staff for processing. Two accounting clerks are responsible for processing all invoices except invoices related to travel expenses. A different accounting clerk is in charge of processing travel expenses. After receiving the invoices, accounting clerks review each invoice ensuring there is a corresponding purchase order, proper authorization of purchase, and verifying that purchase order and invoice amounts agree. When a mismatch of purchase order and invoice occurs, the accounting clerks contact the departments to clear the discrepancy. Once all reviews are completed, the invoices are entered into Oracle and are put on hold or a payment request is made. The interim AP manager/accountant III validates the invoices with supporting documentation. Checks over $10,000 must be approved by the interim AP manager and the associate comptroller or the comptroller in the absence of the associate comptroller.

We determined that a few vendors were on the verge of suspending University accounts due to overdue payments. The AP management stated that vendors that could suspend goods/services to the University because of consistent late payments have always been a focus of the Accounts Payable Office. Because vendor payments were sometimes not processed in a timely manner due to issues beyond the control of the Accounts Payable Office, these payments were assigned
to specific accounting clerks for processing to expedite payment. Any notice of suspension of goods/services to the University is handled personally by the interim AP manager. AP has identified departments who have not followed proper purchasing processes resulting in payment delays.

**Recommendation:**

1. The interim AP manager should increase efficiency in timely processing of payments by:
   a. Cross training all accounting clerks in processing all types of payment requests to facilitate even distribution of workloads,
   b. Generating a payment aging report and focus on those vendors that are consistently paid late,
   c. Providing continuous mass emails to departments on common solutions to invoicing problems, and
   d. Identifying those departments that continuously do not assist with timely processing of payments and then providing this list to the vice presidents for action.

   a. Management concurs with the recommendation and will explore cross training options among all A/P accounting clerks so that they can become familiar with the processing of various types of payments, including travel and business expense reimbursements and utilities. Under the current setting, all clerks are familiar with the overall payment process; furthermore, there is a backup for each individual in the department in addition to the interim AP manager who is knowledgeable on how to process all types of payments. The interim AP manager will also work with the Director of Payables and Business Services to update existing manuals, which is scheduled to begin in 2013 (see Recommendation and Management’s Response #5). Additionally, as a result of the Oracle R12 upgrade, we anticipate all AP staff to engage in cross-training efforts. Tentatively, we expect this to occur in April/May 2013.

   b. The AP department is currently undergoing a reorganization to be effective 9/1/12; as a result, we will be requesting additional resources for AP to be able to operate efficiently and effectively. With this change the interim AP Manager will be able to review the payment aging report. Contingent on the reinstatement of the Accountant II position in AP, we anticipate implementing this recommendation within six months of hiring this. Ideally, considering that this new employee will begin in December 2012 or January 2013, we expect this initiative to occur by the summer of 2013.

   c. The accounts payable office will continue to provide continuous mass emails to departments on common solutions to invoicing problems.
The interim AP manager will work with the Director of Payables and Business Services to address and improve accounts payable services. Additionally, we are aware that many of the late payments are the result of vendor invoices being sent directly to the department and not to Accounts Payable. To alleviate some of these problems, we intend to do the following:

i. Continue to work with Procurement Management to ensure that purchase orders reflect the correct remit to address for all invoices, and to communicate closely with vendors to ensure that invoices are submitted to the correct UTPA address. Effective September 2012, we have started working with Procurement Management to address these and other situations with vendors regarding invoicing issues.

ii. Attend the Business Coordinator Group and/or ASO meetings on a regular or on an as-needed basis to communicate common problems with college representatives and other divisional liaisons and ask for their support to determine feasible solutions for these common issues. The interim AP manager and the Director of Payables and Business Services will present at the October 2012 Business Coordinator Group meeting. During the meeting, we intend on addressing common problems related to the invoicing process in iShop. Additionally, in early October the AP department met with the Library to address issues related to late payments. This department makes up a significant amount of the invoices processed in AP. During the meeting, we developed working solutions that can also be utilized with the rest of the campus community; additionally, we anticipate on having more one-to-one meetings with other departments moving forward throughout FY13.

iii. Create an Accounts Payable e-mail address so that all campus departments can send scanned copies of invoices for payment processing; this will also alleviate the issue of having invoices misplaced through campus mail. The new e-mail address was created in September 2012 and is currently being utilized by campus departments; we will communicate the new initiative at the next Business Coordinator Group meeting scheduled for late October.

d. The accounts payable office will identify those departments that continuously do not assist with timely processing of payments and then provide this information to the vice presidents for action. In order to avoid future instances where the University can be in danger of having vendor accounts suspended, the AP Office will seek support from upper management to suspend services/privileges to those departments that do not comply with University procedures. The interim AP manager will also work with the Director of Payables and Business Services to address and improve accounts payable services.
Again, contingent on the reinstatement of the Accountant II position in AP, we will track instances of noncompliance throughout FY13 and present these results to the Vice President for Business Affairs tentatively during the summer of 2013 for further action.

**Implementation Date:** During FY13 once the AP department obtains more resources

**Information Security**

The associate comptroller reviews and approves all AP access requests. Oracle responsibilities are disabled when an employee goes through the exit process upon termination. Employees who transfer from one department to another also complete the employee exit process. All responsibilities, except UTPA Employee Self Service, are disabled for terminated employees. However, we found two employees, not part of the Accounts Payable Office, with access to Oracle AP responsibilities. The former AP manager transferred within the Business Affairs Division to begin serving as director of financial information systems. This employee remains housed in the AP area and kept the UTPA Payables Super User Oracle responsibility. The UTPA Payables Super User Oracle responsibility is the highest level of access and allows the user to create, modify, and delete records. Although the director of financial information systems has been assigned back-up responsibilities in the absence of the current AP manager and the associate comptroller, a potential risk remains. The other employee serves as backfill for AP and maintains UTPA Payables Invoice Processor Oracle responsibility.

**Recommendation:**

2. The interim AP manager should consider removing back-up responsibilities from the former AP manager.

**Management’s Response:**

2. The former AP Manager will no longer have backup responsibilities effective 09/01/12.

**Implementation Date:** 09/01/12

**Approval & Authorization**

We selected a sample of 816 AP vouchers for FY 2011 and tested for the following attributes: (1) a properly authorized accounts payable voucher, (2) adequate supporting documentation maintained, (3) compared amounts and terms of invoice to voucher for agreement, and (4) recalculated for mathematical accuracy.
The AP vouchers tested were properly authorized with adequate supporting documentation. The invoices were recalculated and were mathematically accurate. Amounts and terms of the invoices agreed to the vouchers. No exceptions were noted.

**Safeguarding of Assets**

Tangible assets must be safeguarded against unauthorized acquisition, use, or disposal. AP employs several levels of security for University checks. AP also maintains payroll and AP checks in five (5) locked cabinets. All cabinets inside the vault have the same key. These cabinets are kept in a vault located in the AP department. The vault is secured by a code only known by the associate comptroller and interim AP manager/accountant III, and it includes a second door. The second door is an iron screen that requires a key to open it. The interim AP manager and the associate comptroller have a key to the gate door. An emergency key is also kept in a lock box in the Office of the Comptroller accessible only by authorized personnel.

In addition to the cabinets, the vault has two printers used to print checks. One printer is used to print payroll checks and the other printer is used to print all other checks. The payroll printer prints checks automatically, while the other printer is manually triggered. AP uses a flash drive containing the electronic signatures of those individuals authorized to sign University checks, including the president. Originally, the use of the flash drive was devised as a security measure and detached from the computer USB slot every time printing was completed, and the flash drive was properly stored. However, payroll checks are now printed automatically and require the flash drive to be attached at all times. The flash drive has now become a risk.

An additional measure of safety is the restricted access to the Oracle AP systems and to the JBM Systems printing software. Oracle sends the check information to JBM for check printing. Software access is limited to certain individuals in the AP department.

**Recommendation:**

3. The authorized electronic check signatures should be removed from the flash drives and stored in the computer’s hard drive.

**Management’s Response:**

3. Management concurs with the audit findings and recommendations. The authorized electronic check signatures will be removed from the flash drives and stored in the computer’s hard drive.

**Implementation Date:** 08/31/12
Segregation of Duties

Adequate segregation of duties should be maintained between the employees who authorize transactions, record transactions, and have custody of assets. As previously mentioned, AP receives and processes all University invoices for payment. When AP was fully staffed, invoices were distributed daily even on those occasions when there were minimal invoices to distribute. When AP was understaffed, the invoices were distributed among employees based on a strategy that included types of payments, employee experience and knowledge.

Every morning, student workers stamp invoices with a date and time stamp. After invoices are stamped, the interim AP manager/accountant III reviews and distributes invoices among AP staff for processing. The invoices are then distributed to various accounting clerks for processing depending on the types of payments (i.e., vendor payments, travel, students). After reviewing the invoices for accuracy, accounting clerks enter the invoices into Oracle and are either placed on hold or processed for payment. The interim AP manager/accountant III validates all invoices and supporting documentation. Checks over $10,000 must also be reviewed and approved by the interim AP manager and the associate comptroller or comptroller in the absence of the associate comptroller. The accountant III then conducts a cursory review of the printed batch of checks before sending an electronic listing of checks printed to the bank (positive pay file). Payment documentation is perforated with the date paid.

Access to the vault is limited to appropriate personnel. The associate comptroller, interim AP manager/accountant III, the director of financial information systems, and the business analyst II assigned to the AP module all have access to the Oracle responsibility that allows the printing of checks. The director of financial information systems and the business analyst II assigned to the AP module do not have access to the vault.

The AP department maintains adequate segregation of duties.

Control Conscious Environment

A control conscious environment encompasses technical competence and ethical commitment, and is an important factor for the establishment of effective internal controls. In order to establish an adequate control conscious environment, an office should have an updated comprehensive policies and procedures manual, and employees should be adequately trained. Additionally, conflicts of interest should be identified and addressed.

The interim AP manager completed the supervisor training provided by the Human Resources Office. The AP employees are up-to-date on their annual compliance certifications. The AP employees are not required to sign a conflict of interest statement. The AP department has a procedures manual; however, the manual is not comprehensive. As indicated by AP employees during interviews, the manual does not assist them with detailed instruction in performing daily activities and does not include new duties. As a result, the employees have to write down instructions to remember every step on any assigned new procedure.
Recommendations:

4. The AP employees should disclose any conflicts of interest with vendors by signing a conflict of interest statement.

5. The interim AP manager should update the current AP procedures manual to include detailed steps for all processes within the department and should provide all AP employees with an electronic copy for reference.

Management’s Responses:

4. Management concurs with the audit findings and recommendations. The interim AP manager will provide a disclosure form to sign where AP employees will disclose any conflicts of interests with vendors.

   Implementation Date: 10/01/12

5. Management concurs with the audit findings and recommendations. The current AP procedures manual will be updated to include detailed steps for all processes within the department and will provide an electronic copy to all AP employees.

   Implementation Date: The interim AP manager and the Director of Payables and Business Services will begin updating AP procedures in FY13; development of training manuals is an ongoing process and we will continue to update these as needed after the Oracle R12 upgrade.

CONCLUSION

Overall, we concluded that the Accounts Payable department established an adequate system of internal controls over operations. However, we identified opportunities to further strengthen controls for University processes in areas such as information security controls, safeguarding assets, and control conscious environment. In addition, while the AP department is performing at a high-level with limited resources, we determined that improvements are warranted in payment processing to fully comply with the Texas Prompt Payment Act.

Eloy R. Alaniz, Jr., CPA, CIA, CISA
Exec., Dir., Audits, Compliance & Consulting Services