

Accounts Payable Audit



Audit Report # 15-11
November 12, 2015

Office of Auditing and Consulting Services

"Committed to Service, Independence and Quality"

THE UNIVERSITY OF TEXAS AT ELPASO



Office of Auditing and
Consulting Services

November 12, 2015

Dr. Diana Natalicio
President, University of Texas at El Paso
Administration Building, Suite 500
El Paso, Texas 79968

Dear Dr. Natalicio:

The Office of Auditing and Consulting Services has completed a limited-scope audit of the Accounts Payable Department.

The objectives of this audit were to evaluate the internal control processes, review and evaluate transactions for accuracy, and determine compliance with applicable laws, regulations, policies, and procedures. Transactions were selected for review from the period of May 1, 2014 through February 28, 2015.

We appreciate the cooperation and assistance provided by Accounting and Business Services during our audit.

Sincerely,

A handwritten signature in blue ink that reads 'Lori Wertz'. The signature is fluid and cursive, with the first name 'Lori' being more prominent than the last name 'Wertz'.

Lori Wertz, CPA
Chief Audit Executive

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EXECUTIVE SUMMARY

The Office of Auditing and Consulting Services has completed a limited scope audit of Accounts Payable (AP) operations. The scope of the audit included AP transactions processed between May 1, 2014 and February 28, 2015. The scope of our work specifically excluded employee payroll, employee travel reimbursements, and ProCard transactions, as those have been or will be tested in other engagements. The objective of the audit was to evaluate AP internal controls and determine whether their operations are in compliance with applicable laws, regulations, and policies and procedures.

During the audit we noted the following:

- Seven of twelve vendor payments tested were overdue according to Government Code Subchapter B. Sec. 2251.021 *Time for Payment by Governmental Entity*,
- AP did not have written policies and procedures which addressed IRS requirements for 1099/1042 vendor payments,
- inaccuracies regarding identification of 1099/1042 vendors and vouchers, and
- AP was unable to provide support documentation for some vendors opting-out of direct deposit payments.

Except for the items noted above, we conclude that the AP procedures are in general compliance with state and University guidelines.

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BACKGROUND

The Accounts Payable (AP) function of The University of Texas at El Paso's (UTEP) Accounting and Business Services is responsible for ensuring timely and accurate payments to internal and external customers of the University. Duties within the department include:

- verifying payments are properly approved and authorized,
- ensuring payments are properly recorded, and
- monitoring for duplicate or erroneous payments to vendors.

The recent implementation of PeopleSoft in Fiscal Year 14-15 presented challenges not previously experienced by the University and AP. Efficient and effective coordination between AP and various University departments is required in order to process vendor payments accurately and timely. AP works closely with the Purchasing and General Services Department, as purchase order (PO) vouchers are processed through Miner Mall (e-procurement system) and interfaced with PeopleSoft.

Within the scope of this audit, AP processed 17,365 PO vouchers totaling \$36,912,699 and 11,218 non-PO vouchers totaling \$63,987,624. The non-PO vouchers included construction payments for the Campus Transformation Project authorized by The University of Texas System (UT System), inter-departmental transfers, and ProCard payments.

AUDIT OBJECTIVES

The objectives of this audit were to:

- A. evaluate internal controls over AP,
- B. verify vendor payments were made timely, accurately, and properly supported, and
- C. assess compliance with applicable laws, regulations, policies and procedures of the State of Texas, UT System and UTEP.

SCOPE AND METHODOLOGY

The scope of the audit included AP transactions processed between May 1, 2014 and February 28, 2015. The scope of our work specifically excludes employee payroll, employee travel reimbursements, and ProCard transactions, as those have been or will be tested in other engagements.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

AUDIT RESULTS

A. Late Vendor Payments

We judgmentally selected 12 voucher payments that appeared to be late based on the comparison of invoice date to payment date. After further review, it was identified that 7 (58%) payments were actually overdue according to Government Code Subchapter B, Sec. 2251.021 *Time for Payment by Governmental Entity*:

(a) *Except as provided by Subsection (b), a payment by a governmental entity under a contract executed on or after September 1, 1987, 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.*

For payments to be approved and processed in PeopleSoft, the receipt of goods or services date must be entered into the system and then matched to a properly approved PO (if applicable) and vendor invoice. If any one of these items is missing or incorrectly entered, PeopleSoft identifies them as exceptions and the payment cannot be processed until resolved. Due to the transition to PeopleSoft, AP experienced new issues that required follow-up efforts from personnel, thereby delaying the processing of payments to vendors.

Late payments to vendors can result in late fees and negatively impact the institution's relationships with vendors.

Recommendation: *Senior management should convey to end user departments the importance of executing their purchasing responsibilities in a timely and accurate manner.*

AP personnel should continue to monitor open invoices and outstanding exceptions so they can be addressed promptly and paid in a timely manner according to the Government Code and Prompt Payment Act.

Management's Response: *Monitoring the timeliness of payments and ensuring that our vendors receive their payments within the timeline set by the Prompt Payment Act has always been a priority for the Accounts Payable (AP) office. During the PeopleSoft conversion, system constraints precluded the efforts of AP to make payments timely. As we progressed with the transition to PeopleSoft we have developed a collaborative effort with our cross-functional partners, Budget, Purchasing, and Contracts and Grants Accounting, to monitor, evaluate and correct issues that hinder the timeliness of payments. In addition, the Accounts Payable Office has proposed new procedures that, given certain conditions, streamline efforts to obtain the receipt of goods and/or services which frequently causes payment delays.*

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Responsible Party: Rene Rayon

Implementation Date: November 1, 2015

B. Identification of 1099/1042 Vendors and Vouchers

AP does not have written policies and procedures for the identification and processing of 1099/1042 vendor payments.

In PeopleSoft, both the vendor and the voucher must be correctly identified for a 1099-MISC form to be generated. After running a comparison between all 1099/1042 vouchers and 1099/1042 vendors we identified the following:

- 3 vendors were missing appropriate withholding identification, and
- 6 vouchers were incorrectly marked as 1099/1042 payments.

The University is required by the Internal Revenue Service (IRS) to issue a 1099-MISC form to applicable vendors. It is the responsibility of AP to review the information in the vendor and voucher tables to determine the accuracy of the data and correct any errors.

AP should develop and adhere to written policies that reflect IRS requirements for 1099/1042 vendor payments. Developing clear guidance can promote compliance with IRS regulations and reduce the likelihood of errors occurring. By not correctly identifying 1099/1042 vendors and payments, reports to the IRS could potentially be misstated and the University could incur economic penalties for late filing and/or failure to file Form 1099-MISC. Additionally, misclassification of 1099/1042 payments could have adverse tax consequences for the vendor.

***Recommendation:** To provide guidance to employees, AP should develop policies and procedures which address IRS 1099/1042 requirements. Once the policies and procedures are in place, they should be reviewed annually to help ensure continued compliance with IRS requirements.*

Training should be provided to AP personnel to make them aware of IRS requirements so they will correctly identify 1099/1042 vendors and payments.

Develop a process to monitor and review information in the PeopleSoft voucher and payment tables to determine the accuracy of the data and correct any errors prior to the issuance of the 1099/1042.

***Management's Response:** 1099/1042 information is partially compiled from description lines contained in vendor profiles. The profiles are entered into PeopleSoft by the Purchasing Office with the Supplier Information Form (SIF) being the source of data collection. The description of vendor services is voluntarily completed by the vendor. Unfortunately, the information lines are either left blank, or were filled out with information not adequate for tax monitoring purposes.*

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Another concern is that some vendors may provide multiple services which are both tax reportable and not reportable.

Accounts Payable continues to advocate for implementation of workflow in PeopleSoft for vendor creation that would shift the data entry of vendor information to the department and allow for final approval in the AP office. This would ensure that the individual with the appropriate skill set would review and flag the tax status. Until this process can be placed into production AP runs monthly queries that identify 1099/1042 vendor payments and continually process clean-up to ensure payments are reported correctly.

Responsible Party: *Purchasing and Accounts Payable Staff*

Implementation Date: *November 1, 2015*

C. Electronic (ACH) Payments

Due to a PeopleSoft issue with ACH and vendors' ability to apply payments, AP clerks were instructed by management to process all payments via check. Due to this issue, the scope for this audit procedure was limited to May and June of 2014. AP resumed processing vouchers via ACH in April of 2015.

We selected a sample of 5 vendors over \$10,000 that were not processed via ACH. For 3 of the 5 vendors selected, AP was unable to provide back-up documentation of the vendor opting out of the electronic payment option, which are shown below:

- Vendor #1- 2 payments totaling \$127,364
- Vendor #2- 1 payment totaling \$28,539
- Vendor #3- 4 payments totaling \$62,019

According to UT System Policy 166, Section 9.5, "All payments over \$10,000 shall be made by ACH or other electronic means where possible, provided it does not impact the ability for the institution to procure competitive bids from qualified vendors."

Processing payments via ACH reduces administrative costs, missed or late payments, and the risk of possible fraud.

Recommendation: *AP should have a documented process in place to identify all payments over \$10,000 and process them by ACH or other electronic means whenever possible.*

AP should retain documentation of vendors opting out of electronic payments.

Management's Response: *Vendors may elect to enroll in direct deposit when completing the Supplier Information Form (SIF), previously known as the Payee Information Form. Within the*

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SIF, vendors are offered the option to elect payment via direct deposit; however, requiring vendors to elect payment through direct deposit is not required under either state law or UT System regulations. Although both the AP and Purchasing Offices encourage participation in direct deposit, vendors may still choose otherwise. In many instances vendors have explained that unless they receive a hardcopy check they are unable to apply payments correctly and prefer this method to ensure receipt and posting of payments.

SIF (and formerly PIF) forms are maintained by the University, but many vendors that have provided goods and services to the University for numerous years have been assigned identification either prior to the use of the forms, or the forms may have been either archived or destroyed under retention requirements. We will ensure that all vendor election forms received since the Go-Live of PeopleSoft have been retained and will continue to be retained.

We believe that we are registering vendors as required, and are attempting in good faith to notify vendors of the benefits of utilizing electronic means of payment. Until there are changes in laws or regulations requiring use of ACH for any type of payment by the University, we cannot unilaterally make the decision to pay by ACH only.

Responsible Party: VPBA Office

Implementation Date: November 2, 2015

D. Data Analytics

Various data analytics techniques were applied to the AP transactions file to identify potential fraud, conflict of interest, or non-compliance with University policy.

A comparison of all employees' social security numbers and vendors' tax identification numbers was performed. Voucher payments for all employee/vendor matches were identified, and a sample of 8 vouchers was selected. The support documentation was requested and reviewed to determine any potential conflict of interest. No exceptions were found.

A comparison of all employees and vendors' addresses was conducted for potential matches. Voucher payments for all employee/vendor matches were then identified. Criteria of \$5,000 was set in order to eliminate employee travel reimbursements or immaterial payments. After applying this criteria, no exceptions were found.

The AP transaction file was analyzed to identify potential duplicate payments to vendors. From the transactions identified, 6 transactions for 2 vendors were selected and support documentation was reviewed. No exceptions were found.

Using data analytics techniques, a sample of 10 of 11,218 non-PO vouchers totaling \$1,052,627.22 were chosen to determine compliance with University policy. The support documentation was reviewed and no exceptions were found.

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CONCLUSION

Based on the results of audit procedures performed, we conclude AP Department procedures are in general compliance with state and university guidelines. Although weaknesses were identified, we believe they can be strengthened by implementing the recommendations detailed in this report.

We wish to thank the management and staff of AP for their assistance and cooperation provided throughout the audit.