



UNIVERSITY OF  
**TEXAS**  
ARLINGTON

**Internal Audit Report**  
**UTShare Process Review of Accounts Payable and Procurement**  
**January 2019**

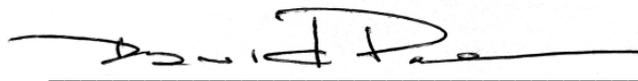
# Distribution – UTShare Process Review of Accounts Payable and Procurement

**To:** Vistasp Karbhari *President*  
Randal Rose *Audit Committee Chairman, Managing Director, JP Morgan Private Bank*

## **Audit Committee:**

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Bill Carroll *Professor of Engineering, UTA*  
Kelly Davis *Chief Financial Officer and Vice President, UTA*  
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Teik Lim *Provost and Vice President for Academic Affairs, UTA*  
Jairo Orea *Chief Information Security Officer, Kimberly-Clark Corporation*

**From:** David Price *Chief Audit Executive, Office of Internal Audit, UTA*



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# Background, Objective And Scope

## Background

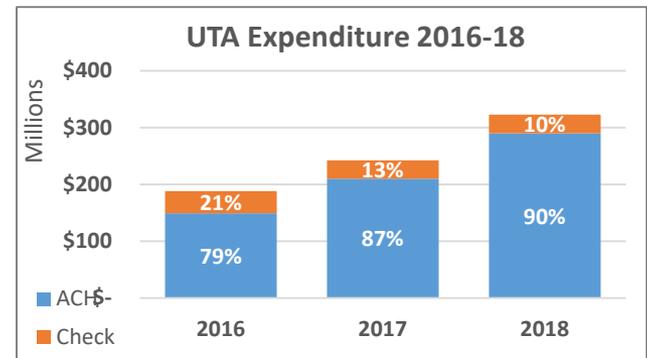
UTShare is a campus wide software system utilized at UT Arlington (UTA) for procurement activities including purchasing, vendor maintenance and accounts payable. UTShare is accessible by all departments for common purposes such as creating a purchase requisition, with access restrictions to specific tasks and departments such as vendor additions limited to Procurement Services.

*UTShare is a Human Capital Management (HCM) and Financial Management System (FMS) implemented by the University of Texas System in May, 2014 to provide access to accurate, timely and relevant data. UTShare is utilized within a shared environment by 5 Universities<sup>1</sup> and System Administration. Since implementation, there have been multiple concerns regarding the functionality and usability of UTShare.*

For 2018, UTA expenditures totaled approximately \$325m, including 41,113 Purchase Orders (PO) and non-PO vouchers. These amounts were paid to vendors appointed through public bid (if greater than \$50k), quote (between \$15 and \$50k), departmental preference (less than \$15k) and interlocal and group purchasing organization (GPO) agreements, illustrated in the graph to the right<sup>2</sup>.

<sup>1</sup>Shared instance Universities include: UTA, UT Tyler, UTSA, UTEP and UTPB.

<sup>2</sup>Expenditure increases (2016-18) largely driven by major construction projects (West Campus Residence Hall, Dining Hall, Parking Garage and Science & Engineering Innovation & Research Building).



## Audit Objective

To obtain an understanding of the current business processes for Accounts Payable and Purchasing in UTShare, perform an assessment of internal controls, as well as evaluate the timeliness and accuracy of data therein. This COSO-based review focused on identifying potential control gaps, evaluating the effectiveness and efficiency of internal controls that are in place, and determining resulting levels of risk, namely financial and operational.

## Audit Scope

The scope of this audit was September 1, 2017 through August 21, 2018 and involved the assessment of the following processes, in relation to UTShare:

1. Purchasing functions such as requisitions, bidding, interlocal/group purchasing organization agreements, vendor selections, vendor awards, contract negotiations, contract approvals, vendor set up, POs, vendor monitoring and vendor reporting.
2. Accounts payable functions, such as receipt of goods and/or services, invoice receipting, invoice review and approval, invoice recording, monitoring invoices for selection and payment, and vendor payments.

# Ranking Criteria

## 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 these rankings are as follows:

<b>Priority</b>	An issue identified by an internal audit that, if not addressed on a timely basis, could directly impact achievement of a strategic or important operational objective of UTA or the UT System as a whole.
<b>High</b>	A finding identified by an internal audit that is considered to have a medium to high probability of adverse effects to UTA either as a whole or to a significant college/school/unit level.
<b>Medium</b>	A finding identified by an internal audit that is considered to have a low to medium probability of adverse effects to UTA either as a whole or to a college/school/unit level.
<b>Low</b>	A finding identified by an internal audit that is considered to have minimal probability of adverse effects to UTA either as a whole or to a college/school/unit level.

*We did not identify findings considered to be "Priority" within this internal audit engagement.*

# Summary – UTShare – Accounts Payable & Purchasing

## Summary

Overall, our design assessment determined that UTShare is configured and utilized for the performance of most procurement and accounts payable activities. Additionally, UTShare’s facilitation of these activities includes a number of key controls such as segregation of duties, inability to receipt an invoice without a voucher, and automated functionality (ie. approval routing and prompt pay calculating). However, UTShare operates upon a highly configurable system with improvement opportunities available to better support staff and procurement processes. These opportunities include, absence of bidding functionality, limitations in vendor onboarding and review controls, under utilized training resources, and data capture limitations inhibiting monitoring and reporting. Additionally, we identified an operational opportunity relating to goods receipting support used for three way matching.

To address these opportunities, several recommendations were raised within this report. These include: incorporation of a centralized bid management system, system configured vendor onboarding and review controls, mandatory training, updates to data captured by UTShare to enable insightful monitoring and reporting, and retaining goods receipts for three way matching purposes.

*We appreciate the courtesy and cooperation received from the Procurement Services and other departmental staff involved throughout this audit.*

**7**  
Observations

1 High
5 Medium
1 Low

### Notable System Controls:



- Required budget checking of purchase requisitions.
- Preparation and approval of purchase requisitions is segregated.
- Invoices may not be paid without an active PO/payment voucher.

### Functions facilitated by UTShare:

Facilitated ✓	Partially facilitated ●	Not Facilitated X
Purchasing Requisition & Purchase Order		✓
Bidding		X
Interlocal/Group Purchasing Org. Maintenance		X
Vendor Management		✓
Vendor Monitoring & Reporting	●	
Goods Receipting		✓
Invoice Receipting/Processing		✓
Three Way Matching		✓
Vendor Payment		✓
Vendor Discounting and Prompt Payment	●	
Records Management	●	
Exception Reporting	●	

## Control deficiencies exist related to the manual review process over vendor additions and changes

The following UTShare deficiencies were observed within the current review and approval process over vendor additions:

### 1. Segregation of Duties

Both the Assistant Director of Disbursements and Accountant II have system maintenance administrator privileges which allows for single person creation and approval of vendor additions, as well as altering existing vendor information. While these two positions review each others submissions (where applicable), this is not system enforced.

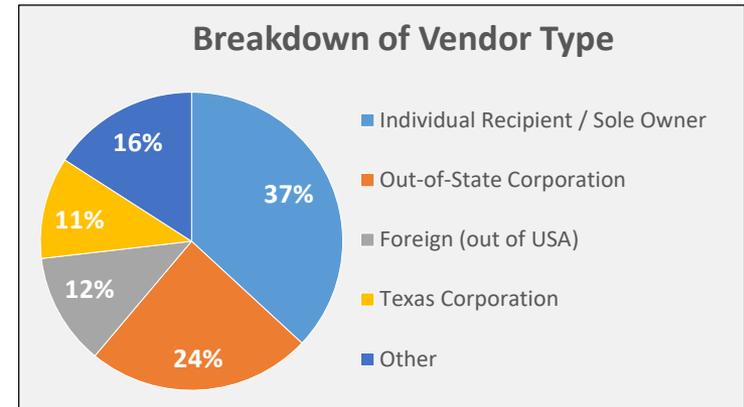
### 2. Vendor Matching

UTShare does not perform vendor attribute matching such as checking vendor details against existing employee records, or compliance sites, such as the Office of Inspector General (OIG). *Expanded at Observation 3.*

### 3. Absence of Verifying Support

Supporting documentation is not attached to vendor addition/change requests (e.g. vendor letterhead stating bank account number) relating to Payroll (sole owners/individual recipients) or the *TRiO* programs. This inhibits Procurement Services from effectively verifying change request submissions.

As of December 2018, UTA held 12,797 active vendors within the UTShare vendor masterfile - a breakdown of vendor type is illustrated in the chart to the right:



### Recommendation

1. Where possible, in UTShare, restrict functionality for a single user to prepare/submit *and* approve a vendor addition/change to enforce segregation of duties between preparation and approval activities.
2. To strengthen review over vendor additions/changes, include a check of vendor attributes against compliance directories and employee details prior to approving the addition/change.
3. To improve document retention, supporting documentation should be required for all instances of vendor masterfile changes irrespective of the type of vendor.

*Office of Internal Audit recognizes third party vendor management software is currently being evaluated. In performing this evaluation, the above functionality/integration should be considered.*

### Management Response

Procurement and Payment Services will submit a change request in Cherwell (intermediary step between final approval and mid-level approval) to segregate editing and review/approval. Procurement and Payment Services is currently investigating a new tool that will check vendor attributes against compliance directories and employee details as well as the ability to retain supporting documentation.

### Target Implementation Date:

August 1, 2019

### Responsible Party:

Sr. Director of Procurement and Payment Services

### Continuous audit activities over the vendor masterfile are limited

#### 1. Inability to self prepare

While vendor attribute matching is performed by the UT System Audit Office and provided monthly to UTA Internal Audit for departmental distribution, this reporting cannot be generated independently by Procurement Services responsible for vendor additions/changes. Vendor attribute matching checks whether payments to vendors were made using bank accounts, tax ID's or and/or addresses held by UTA staff.

#### 2. Limitations of current matching

While attribute matching activities performed between payment and employee data serves as an effective detective control, matching using vendor masterfile data as a preventative control is not performed. As a result, payments must first be made to vendors in order to identify data matches to employee records.

#### 3. Absence of exception reporting

The UTA vendor masterfile is not currently reviewed on a regular basis and we were not able to evidence performance of a formal review having occurred. Specifically, UTA vendor masterfile exception reporting identifying all vendor additions and changes within a defined period, is not prepared for review.

The absence of ongoing, formal monitoring of vendors may increase the likelihood of incorrect vendor details being maintained within the masterfile, as well as failure to detect inappropriate vendor changes/additions. Maintaining integrity of the vendor masterfile is important to help ensure appropriate and timely compensation to legitimate vendors and minimize dormancy.

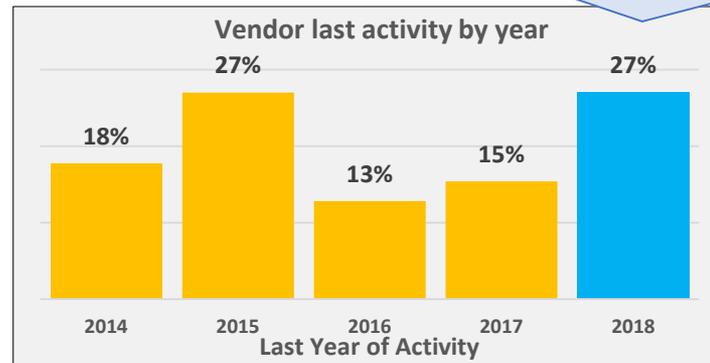
## Observation 2 – UTA Vendor Masterfile Controls & Reporting (cont.)

Medium

The graphs below illustrate:

1. A large percentage of vendors in the masterfile are dormant. Based on last vendor activity, 73% of vendors maintained within UTA masterfile since 2014 (12,797 vendors), represent more than 12 months of inactivity.
2. A break down of the number of addresses held by vendors.

Any vendor action will trigger last activity date (e.g. change to vendor name)



As of Dec-2018

Addresses held by Vendor	Vendors	Proportion
1	8,818	69%
2-5	3,204	25%
6-15	572	4%
16-25	88	1%
26-50	80	1%
51-75	22	0.17%
75+	13	0.10%
<b>Total</b>	<b>12,797</b>	<b>1</b>

## Recommendation

1. UTShare functionality should be investigated to determine whether the following can be conducted:
  - To strengthen preventative controls over the vendor masterfile, automatically perform vendor attribute matching at vendor onboarding/editing, and alert or restrict additions/changes that result in an attribute match.
  - To improve vendor monitoring enable vendor attribute match reporting and exception reporting to be performed by UTA (*this may require involvement of a PeopleSoft Analyst to prepare a report query*).
2. Until the implementation of the recommendation in item 1, monthly attribute reporting prepared by UT System Audit Office should be shared between UTA Office of Internal Audit and Procurement Services. This reporting should be expanded to include both vendor attribute matching over payments data *and* vendor masterfile data<sup>1</sup>, as well as exception reporting.

*Consideration should be given toward involving University Compliance Services for continuous audit/monitoring of these reports and close out of exceptions identified therein.*

Exception reporting should be reviewed (or spot checked as appropriate) by an appropriate staff that is restricted from approving vendor changes/additions. Specifically, exception reporting should identify:

- Vendor additions performed within the period;
- Vendor changes performed within the period (with previous and new value); and
- Vendors without activity for more than 18 months for deactivation<sup>2</sup>.

<sup>1</sup>UTA System Audit Office has advised that due to queued requests, this reporting can only be prepared on a quarterly basis for the short term and more frequently thereafter.

<sup>2</sup>As changes to a vendor information (such as addresses) will inappropriately alter all associated transactional records (e.g. all purchases to that vendor) we recommend **deactivating** dormant information, to maintain data integrity, rather than deleting this information.

### Management Response

Procurement and Payment Services is currently investigating a new tool that will check vendor attributes against compliance directories and employee details as well as the ability to retain supporting documentation. Until the implementation of this tool, management will continue to work with UTA Office of Internal Audit to obtain vendor Masterfile data.

Procurement and Payment Services will work with University Compliance Services to develop a monitoring plan.

Procurement and Payment Services will coordinate with Business Technology Services to obtain vendor queries from UTShare in order for Procurement Management to review vendor additions, vendor changes and remove vendors with long periods of inactivity.

### Target Implementation Date:

August 1, 2020

### Responsible Party:

Sr. Director of Procurement and Payment Services

## Observation 3 – Absence of Bidding Functionality

Medium

### UTShare does not support bidding functionality that allows UTA to manage, monitor and maintain bid activities and records

Currently, public bidding activities are performed outside of UTShare utilizing MS Office based tools (such as MS Excel), and maintained within restricted departmental share drives.

As a result, the following vulnerabilities were identified:

- a. Vendor bids may only be received physically (via hard mail and/or fax). This may increase risk of sensitive bid information being manipulated or shared with other bidders. Additionally, this relies on manual control over bid deadline cutoff and bid security.
- b. Bid information received is manually tabulated and evaluated. While evaluations are conducted formally and maintained, manual preparation of bid inputs may increase risk of error and/or manipulation.

#### Recommendation

To support documentation retention and transparency of award determinations, we recommend implementation of a centralized and digital bid management system. The bid management system functionality should include capability to prepare and post Request for Proposals (RFP's), capture and maintain bid submissions, as well as capture and calculate evaluation criteria.

*Internal Audit recognizes Procurement Services are currently coordinating the acquisition and implementation of electronic bid management software.*

#### Management Response

Procurement and Payment Services is currently working on a contract with a third-party vendor to utilize a centralized and digital bid management system.

#### Target Implementation Date:

February 1, 2020

#### Responsible Party:

Sr. Director of Procurement and Payment Services

## Observation 4 – Recording Available Early Payment Discounts

Medium

Early payment discounts must be manually captured on an individual Purchase Order(PO) basis

Discounts that are recorded in UTShare through *10net30* or similar functionality are received through the UTA *Prompt Pay* account by the Accounting Department. This creates difficulty identifying the appropriate department to redistribute project discounts. As a result, available early payment discounts must be manually captured within UTShare on an individual PO basis, using a non-PO *Vendor Voluntary Lowest Price* voucher to value the discount. Moreover, discounts captured in this way cannot be recognized and reported by UTShare, limiting the ability to identify discounts achieved and foregone for a given period.

The table to the right presents UTShare purchasing data for FY2018.

As per above, this data is likely excluding actual discounts achieved via manual entry, representing the inability to accurately monitor performance in achieving available discounts.

	\$	% of Total
Total Paid Amount	323,334,676	100%
Discounts Achieved	0	-
Discounts Foregone	3,239	<1%
Prompt Pay Fees	25,158	<1%

Late payment prompt pay fees are paid from the UTA prompt pay account and not passed on to the requisitioning department. As a result, the requisitioning department is not penalized for, or incentivized to avoid late payment fees.

### Recommendation

1. Investigate with Shared Information Services (SIS) if functionality can be enabled to:
  - Capture vendor discount offers by vendor within the vendor masterfile (at vendor onboarding); and
  - Automatically calculate and deduct discounts captured in the above manner during invoice processing, to retain discounted amounts within departments encumbered funds (as per a short pay).

*If this functionality is not available, consideration should be given to recording payment discount offers by vendor within a central register. This register may be referred to during the review of invoices to verify discounts have been correctly applied to PO's, where available.*
2. To help discourage late payment and reduce prompt pay fees, recoup prompt pay fees from department budgets where applicable.

## Observation 4 – Recording Available Early Payment Discounts

Medium

### Management Response

Procurement and Payment Services will submit a change request in Cherwell for UTShare functionality as follows:

- Allow early payment discounts to be assessed to requisitioning department and not UTA prompt pay account.
- Automatically calculate and deduct discounts captured in the above manner during invoice processing.

*Currently there is a Cherwell change request to allow prompt payment be charged to the Department of origin. We will follow-up on this change request status.*

### Target Implementation Date:

August 1, 2019

### Responsible Party:

Sr. Director of Procurement and Payment Services

## Observation 5 – Key Performance Indicator (KPI) limitations

Medium

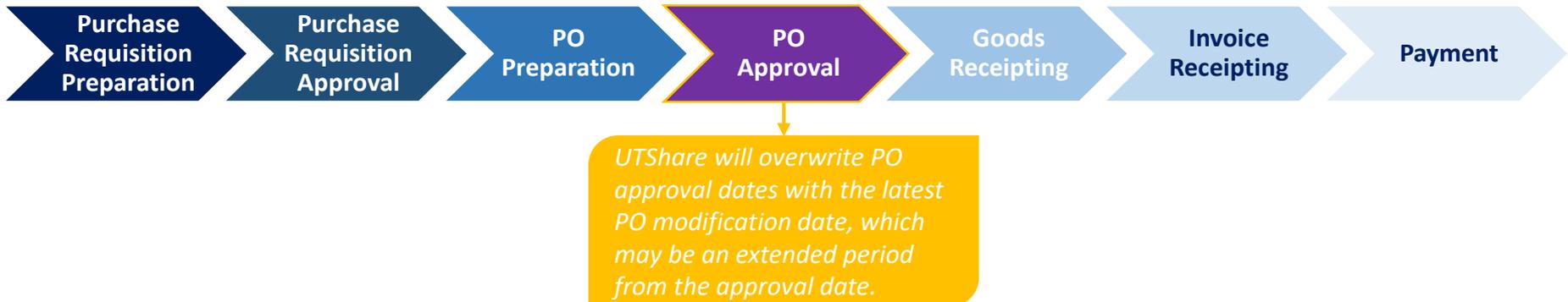
### UTShare data capture limits the ability to report on Key Performance Indicators (KPI's) over the timeliness of the Procurement process

While we recognize monitoring over PO's is performed, UTShare data capture of PO approval dates limits the ability to report on insightful KPIs.

Internal audit was unable to determine average timeframes from purchase requisition to receipt of the goods/service and vendor payment. Similarly, we were unable to determine timeframes related to the commencement of a bid process to vendor award and payment. This was primarily due to UTShare's capture of the PO date. UTShare overwrites the PO approval date with the latest PO modification date (without maintaining prior modification dates). This overwriting of dates inhibits the ability to accurately monitor and understand the PO preparation to PO approval turnaround times. Additionally, UTShare date and reporting does not identify purchases that were bid, sole sourced, group purchased or otherwise, further limiting oversight.

Similarly, we observed gaps in invoice receipting data (such as empty fields), which also inhibits the ability to prepare KPI's relating to invoice turnaround.

A high level flow chart of the procurement steps recorded by UTShare is illustrated below.



### Recommendation

To improve process monitoring and identify potential performance constraints:

1. Investigate with SIS whether UTShare is capable of maintaining and reporting all PO approval and subsequent modification dates.
2. Investigate with SIS UTShare's capability to distinguish between purchase type (e.g. bid purchase) within reporting.
3. Investigate with SIS UTShare's functionality to require correct field completion (e.g. empty field or free text within a date field will prompt an error).
4. Establish a series of KPI's for regular reporting. KPI's may include (but not limited to): procurement time frames, Purchase Requisition's per month, and PO's vs count of Buyers per month.

### Management Response

Procurement and Payment Services will submit a change request in Cherwell to request UTShare have the functionality recommended and work with the functional committee to prioritize the request.

Future Action Dependent upon above: Once the functionality is approved and implemented in UTShare, Procurement and Payment Services will establish KPIs for regular reporting.

### Target Implementation Date:

August 1, 2019

### Responsible Party:

Sr. Director of Procurement and Payment Services

### UTShare training resources are infrequently referred to and may be negatively perceived

Although user guides and User Productivity Kits (UPK's) are available to guide staff in UTShare procurement activities, familiarity with these materials is not mandatory for requisitioning staff (such as department administrators). While interviews and process walkthrough's with staff indicated an awareness of these materials, they are not often used. We observed this to be due to variations in purchase requisitions prepared by each department and the configurable nature of UTShare.

As a result, staff familiarity with UTShare is often reliant on knowledge passed down from other staff (who have also not received specialized training) and self learning. This may increase potential for error/incorrect processes to be adopted. Additionally, staff may be unaware of potential system efficiencies or benefits that may be utilized (such as reporting).

#### Recommendation

1. Consider requiring completion of key procurement training materials (e.g. purchase requisitions and approvals) as mandatory by all staff actively involved in UTA procurement activities to assist in developing a consistent foundation understanding of UTShare and UTA procurement processes.
2. To better support staff with unique/complicated UTShare activities, availability of a resource containing detailed information over UTShare operations (such as a PeopleSoft champion) should be considered. This resource should include detailed knowledge over (but not limited to) the following:
  - Preparing, reviewing and approving purchase requisitions
  - PO monitoring and reporting
  - Submissions of vendor additions and changes
  - Vendor exception reporting
  - Receipting of goods
  - Invoice recording
  - Other monitoring and reporting functionality available

## Observation 6 – Under Utilized Training Materials

Medium

### Management Response

In the short term, Procurement and Payment Services will coordinate with University Compliance Services to investigate what materials could be incorporated into the mandatory annual Compliance training by August 1, 2019.

In the long term, Procurement and Payment Services will work with Business Technology Services to develop a training solution that includes key procurement activities by February 1, 2020.

### Target Implementation Date:

August 1, 2019 & February 1, 2020

### Responsible Party:

Sr. Director of Procurement and Payment Services and Executive Director of Business Technology Services

## Observation 7 – Three Way Matching Support

Low

### Goods receipts are not attached to vouchers within UTShare to support Three Way Matching

While staff are required to digitally receipt PO goods within UTShare at the time they are received, physical goods receipts that are provided by vendors with delivery are not required to be uploaded to the system as support. This places reliance on the accuracy of staff keying goods receipts within UTShare and may increase the risk of error (i.e. an undelivered item is receipted in UTShare and paid for. The risk of error is increased with large/multi-item PO's which may only be party delivered).

In addition, three way matching between the PO, Vendor Invoice and Goods Receipt is limited. This matching is reliant on the information keyed in by receiving staff, of which may include an error.

#### **Recommendation**

Expand standard goods receipting policy to require obtaining and uploading supplier goods receipts to UTShare. The documentation will serve as support for items submitted as received by UTA staff as well as provide an objective reference in three way matching.

#### **Management Response**

The goods receipts / shipping documents may not accurately reflect the day of arrival based on means of transportation or origin, nor the items shipped. These possible discrepancies render the document to be of little value and not deemed to be reliable as part of the three-way matching process. It is for these reasons that the use of the goods receipts / shipping documents for verification or audit will not be implemented by the Office of Procurement and Payment Services. The Office of Procurement and Payment Services will continue to rely on the physical count entered into UTShare as part of the official three-way match. As a convenience, the departments will have the option of uploading goods receipts / shipping documents to a Receiving Report. This will allow the department to have these documents available electronically, versus paper.

The Office of Procurement and Payment Services will work with Business Technology Services on a campus communication with information on how to attach the goods receipt to the Receiving Report.

#### **Target Implementation Date**

August 1, 2019

#### **Responsible Party**

Sr. Director of Procurement and Payment Services