University of California, Santa Barbara

AUDIT AND ADVISORY SERVICES
SANTA BARBARA, CALIFORNIA 93106-5140
Tel: (805) 893-2829
Fax: (805) 893-5423

October 29, 2021

To: Jim Corkill, Associate Vice Chancellor and Controller
        Business & Financial Services

        Distribution

Re: **Vendor Evaluation – eProcurement Data Integrity**
        Audit Report No. 08-21-0015

We have completed a limited review of vendor evaluation as part of the 2020-21 annual audit services plan. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Enclosed is the report detailing the results of our work.

We sincerely appreciate the cooperation and assistance provided by Procurement Services and Accounting Services personnel during the review. If you have any questions, please contact me.

Respectfully submitted,

Ashley Andersen
Director
Audit and Advisory Services

Enclosure

Distribution

Business and Financial Services
Jacob Godfrey, Associate Director & Chief Procurement Officer
Steve Kriz, Assistant Director, Accounting Services

cc: Chancellor Henry Yang
        Chuck Haines, Associate Chancellor
        UCSB Audit Committee
        Alexander Bustamante, Senior Vice President and Chief Compliance and Audit Officer

This page intentionally left blank.

UC SANTA BARBARA
Audit & Advisory Services

Audit Report

Vendor Evaluation – eProcurement Data Integrity

October 29, 2021

Performed by:

Antonio Mañas-Melendez, Associate Director

Irene Camargo, Senior Auditor

Approved by:

Ashley Andersen, Audit Director

Report No. 08-21-0015

EXECUTIVE SUMMARY

OBJECTIVE

The primary purpose of the audit was to evaluate internal controls and procedures established by Business and Financial Services related to vendor management to ensure best practices are in place to support operational effectiveness and efficiency, including compliance with University policies.

The objective of our audit was to determine whether:

- Documented procedures are in place to ensure operational effectiveness
- Adequate separation of duties exists for vendor approvals
- Vendors without activity are properly inactivated in the system
- Vendor data fields are properly populated
- System interface between PeopleSoft and Gateway is adequate
- Changes to critical fields are documented to justify the business need for the change
- Restricted party screening is performed on vendors

CONCLUSION

Based on the results of the work performed within the scope of the audit, we found the vendor management process has effective internal controls over separation of duties and restricted party screening. In addition, we found that other processes such as the vendor approval process, justification of changes, and the vendor inactivation process controls are working as intended. However, our work identified opportunities to:

- Document procedures
- Improve vendor data completeness
- Enhance the tracking mechanism of vendor data changes, including justification of these changes

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. DOCUMENTATED PROCEDURES

OBSERVATION

Processes to manage vendor data are not fully documented. Specifically, we found the approval process for new vendors, change management processes of the vendor master file[1], and the vendor inactivation process were not documented.

Business and Financial Services has detailed instructions for entering vendor data into the campus financial system (PeopleSoft)[2]. Additionally, Business and Financial Services has documented procedures for performing Restricted Party Screening[3] (RPS) prior to engaging in business with new vendors.

However, we found that the following processes do not include procedures to ensure vendor data is complete, consistent, and accurate. Specifically,

- Approval process for new vendors: Procedures should describe the verifications approvers should perform to ensure that the data has been completely, consistently, and accurately entered in the system, and what data is reviewed by the approver before a new vendor is initiated.

- Change management process: Changes made to the vendor master file should document the process of initiating changes requested by the vendor, notes of changes added in the system, and attachments included in the system of record in order for the approver to efficiently verify the changes made to the vendor master files.

- Vendor inactivation process: The vendor inactivation process needs to describe the workflow process from Procurement Services identifying inactive vendors, the system analyst developing a SQL to remove inactive vendors, the inactivation deployment process performed by Enterprise Technology Services (ETS), and a verification process to ensure that the list of active vendors in Gateway[4] match PeopleSoft.

It is imperative that procedures are documented to ensure critical processes are in place to guarantee adequate vendor data management. Essentially, vendor data needs to be as complete, consistent, and accurate as possible when it is first created in PeopleSoft.

2. SEPARATION OF DUTIES

OBSERVATION

Business and Financial Services has implemented adequate controls to guarantee the

---

[1] A set of multiple tables storing vendor data in PeopleSoft.
[2] PeopleSoft: Payment and vendor management system.
[3] Restricted Party Screening: A system to mitigate risks of doing business with suppliers whose privileges have been restricted or revoked by the U.S. Departments of Commerce.
[4] Gateway – The UCSB electronic procurement system. This product was developed by SciQuest.

separation of duties in the management of the vendor master files.

Procurement Services and Accounts Payable are charged with entering vendor data in PeopleSoft, and Accounts Payable supervisors are responsible for approving these entries. We verified that only personnel with vendor management responsibilities have assigned accounts with privileges to approve changes made in the vendor master. Specifically:

- 14 accounts were assigned to Accounts Payable or Procurement Services personnel and one account was assigned to an accounting business systems analyst personnel.

- Three accounts assigned to Accounts Payable personnel were granted to approve changes in the vendor master files.

- Two generic accounts, with privileges to make changes in the vendor master files, were restricted to batch sessions.

We reviewed 11,438 modifications of the vendor master files performed during fiscal year 2020-2021 and we found that employees who approved new vendors or changes made in the system were not the same employees that made the request for approval. Additionally, we were informed by ETS that the system does not allow an employee to approve their own changes.

3. VENDOR INACTIVATION

OBSERVATION

Business and Financial Services has implemented a process to identify and request the inactivation of vendors without activity over a two-year period.

We performed a series of tests to confirm that the process to inactivate vendors with no activity in both systems for a period of two years is working as intended. Specifically, we:

- Confirmed that all vendors requested to be inactivated in PeopleSoft on January 12, 2021 were inactive[5] at the time of this audit.

- Verified that a sample of 20 vendors requested to be eliminated by Procurement Services were not active in Gateway.

- Verified a sample of five vendors without activity in PeopleSoft for two years, that were not requested to be inactivated by Procurement Services, have had activity in Gateway during the last two years.

During our review, we inquired about how Procurement Services is inactivating vendors and possible alternatives to automate the process. We found that the current process to inactivate vendors requires an intensive manual effort in order to identify vendors and disable the transfer of information from PeopleSoft to the Gateway system. This process is identified in the background section of the report.

---

[5] Vendors requested to be inactivated with status active but with activity after January 12, 2021 are considered correct.

We determined that it would be beneficial to evaluate an automated inactivation process to remove vendors without activity within a prescribed date range. We were informed that Procurement Services has requested an automated inactivation process to Enterprise Technology Services (ETS) and the plan is to implement this process in the new campus financial system.

4. DATA INTEGRITY

OBSERVATION

Our review[6] of the PeopleSoft vendor master files revealed opportunities to implement data integrity best practices, such as data completeness, for efficiency purposes. Data completeness for the analyzed files is a best practice that could help to increase efficiency, identify potential data integrity issues, and minimize misuse of vendor data.

Data Completeness

We performed a data completeness review in selected fields of the vendor master files for 5,431 vendors. The results are summarized on Table 1. Analyzed fields are not always required to be populated in the system in order to perform regular procurement and payment operations. For example:

- Bank accounts would not be necessary for vendors paid by check.

- Tax identification numbers (TIN) are only required if 1099 forms have to be setup. Additionally, the system has implemented a control to avoid different vendors sharing the same tax identification number. However, this control also does not allow subsidiary companies, with the same TIN number than their parent companies, to have a TIN in the system[7].

However, populating these fields would help Business and Financial Services to implement more efficient initiatives, such as:

- Reducing labor costs by promoting the use of automatic electronic payments instead of checks.

- Promoting the use of electronic communication channels with vendors instead of regular mail.

- Improving vendor identification by documenting tax identification numbers, as is recommended by standards and best practices.

---

[6] We limited our review to active vendors identified in the master vendor files as vendors used in Gateway.

[7] If a large corporation has several offices these can be included under a primary TIN, however, if the offices are separate subsidiaries, different TINs are standard in order to identify the business entity for federal tax purposes.

Table 1	Vendor Data Completeness		
Fields	Vendors with Populated Fields	Vendors with Empty Fields[*]	Total Vendors
Supplier ID	5,431	0	5,431
Supplier name			
Supplier short name			
Address, city, postal	5,429	2	
Email address	2,104	3,327	
Phone numbers	2,159	3,272	
Bank accounts	3,034	2,397	
Tax identification number	4,724	707	

Source: Auditor analysis.
* These fields are not always required to be populated in order to perform procurement and payment operations.

Duplicate Information

We found potential duplicates in the analysis of the fields presented on Table 1. We determined that most of these potential duplicates could be subsidiary companies sharing information with parent companies. We provided the results of our test to Business and Financial Services for detailed analysis.

During our review, we noted that PeopleSoft does not always prevent entering duplicate information, it only provides a warning when entering the same data for the same field. We found that the system is not set up to reject duplicate information, with the exception of the TIN field, all other fields are set to "warning". This warning can be bypassed which can explain why there are duplicates in the system.

System Interface

We found the interface between PeopleSoft and Gateway is overall properly set up to synchronize vendor data. Vendors are created, updated, and inactivated in the PeopleSoft system. PeopleSoft vendor records are then transferred to Gateway through an interface run by Enterprise Technology Services (ETS) personnel.

We compared active Gateway vendors to vendors in the PeopleSoft system to ensure that the interface was working as intended. We found 10 vendors active in Gateway that were not active in PeopleSoft. All cases were exceptional circumstances and they were justified or addressed by Business and Financial Services during the audit.

RECOMMENDATION

To ensure consistency of data in the vendor master files, we recommend Business and Financial Services review the results of our test regarding duplicate information to determine whether vendor data with potential duplicates needs to be updated.

MANAGEMENT RESPONSE

Business and Financial Services will review the results of our test regarding duplicate information to determine whether vendor data with potential duplicates needs to be updated.

Audit and Advisory Services will follow up on the status of these issues by March 30, 2022.

5. CHANGE MANAGEMENT

OBSERVATION

The audit function is not enabled in PeopleSoft and the system is not recording details of the changes and the user who made those changes. As a compensatory control, Procurement Services documents the justification of these changes in a description field. However, this field is not always documented and notes could be modified without leaving evidences of these changes. Additionally, documentation to support change requests is usually handled in two different systems making the verification process more laborious.

We selected a sample of 20 changes of vendor[8] profiles in PeopleSoft and found that all changes included adequate support documentation. However, the information was partially in PeopleSoft and the rest in the ETS ServiceNow ticketing system. In order to review the information, it was necessary to access both systems and there is no functionality to navigate between the two systems other than opening both applications at the same time.

For efficiency purposes and as a best practice, it would be convenient to have both sources of information integrated in one system or at least easily accessible from one of the systems.

RECOMMENDATION

To ensure completeness, consistency, and adequacy of data in the vendor master files, we recommend Business and Financial Services document procedures to ensure controls are in place for the following processes, including evaluation of guidance to enhance data completeness and data duplicity:

- Approval of new vendors
- Change management
- Vendor inactivation

MANAGEMENT RESPONSE

Business and Financial Services will document procedures to ensure controls are in place for the following processes, including evaluation of guidance to enhance data completeness and data duplicity:

- Approval of new vendors
- Change management
- Vendor inactivation

Audit and Advisory Services will follow up on the status of these issues by March 30, 2022.

---

[8] Active vendors identified in the master vendor files as vendors used in the campus procurement system.

RECOMMENDATION

As best practice, we recommend that Business and Financial Services evaluate:

- Looking into functionalities to identify potential duplicate information.

- Enabling the audit functionality in the PeopleSoft system to ensure changes made are recorded in the system, properly supported, and approved.

- Integrating the support documentation that justifies vendor changes in one system or at least developing a functionality to make this easily accessible from one of the systems.

MANAGEMENT RESPONSE

Business and Financial Services will evaluate:

- Looking into functionalities to identify potential duplicate information.

- Enabling the audit functionality in the PeopleSoft system to ensure changes made are recorded in the system, properly supported, and approved.

- Integrating the support documentation that justifies vendor changes in one system or at least developing a functionality to make this easily accessible from one of the systems.

Audit and Advisory Services will follow up on the status of these issues by March 30, 2022.

6. RESTRICTED PARTY SCREENING

OBSERVATION

We found Procurement Services performs restricted party screening prior to doing business with vendors.

We performed a limited review of 20 vendors to ensure that restricted party screening is performed as part of the vendor evaluation process. Procurement Services performed restricted party screening on the selected vendors prior to doing business.

In addition, we verified that no matching records were found that would indicate non-compliance for export, import, and financial trade compliance. In the case of a positive result, an email is sent to Export Control to perform a review process of positive results and to determine whether Procurement Services should continue to do business or cancel the contract. In our test, all vendor screenings were negative.

GENERAL INFORMATION

BACKGROUND[9]

Gateway
In August 2011, the University of California Santa Barbara (UCSB) contracted with SciQuest[10] to obtain the technology needed to provide the campus with e-procurement services. The technology and services provided by SciQuest resulted in the creation of Gateway, UCSB's official e-procurement system, which allows users to create and submit requisitions online.

Suppliers interested in conducting business on campus must solicit individual departments with which they are interested in doing business. UCSB is a decentralized campus; Procurement Services requires that departments send purchase requests in order for them to be approved and set up in Gateway.

Procurement Services is responsible for adding and updating supplier entries into the PeopleSoft system. There is a detailed process that Procurement Services follows to add a supplier into the Gateway system. Business information must be gathered such as Tax ID/W9, remittance and fulfillment addresses, and business type. Payment terms are also set up in Peoplesoft. An interface between PeopleSoft and Gateway has been set up to adequately transfer vendor information to the Gateway system for monitoring and tracking Gateway vendors.

PeopleSoft Financial System

UCSB converted to a financial and supplier management system July 1, 2015. The PeopleSoft Financials is a financial tracking system of core accounting transactions for Business and Financial Services. The Financial Management system leverages best practices to achieve finance processes, meet financial and statutory requirements, and delivers visibility into business-critical information. The Supplier Management module is used to streamline the data necessary for the procure-to-pay process.

The PeopleSoft supplier management system synchronizes vendor data to the procurement system, Gateway, several times a day. In order to inactivate vendors in the Gateway system, Business and Financial Services works with ETS to disable vendors in Peoplesoft. The interface will inactivate these vendors in Gateway.

Procurement Services extracts a list from the Gateway system of inactive vendors based on no activity for purchase orders, requisitions, or invoice activity for a period of two years. Procurement Services then provides the results to the Business and Financial Services analyst who opens an incident report with ETS with instructions to perform a SQL update to inactivate vendors. The inactivation of Gateway vendors in PeopleSoft is intended to prevent vendors from being active in the procurement system.

Restricted Party Screening

Visual Compliance is a software that is used to reduce the risk of doing business with restricted entities. UCSB performs restricted party screening before entering into relationship with

---

[9] UCSB Business and Financial Services vendor management tools.
[10] SciQuest: Digital procurement software and solutions.

persons, entities, or countries. Visual Compliance is a UC-wide third-party tool that checks all federal lists simultaneously for restrictions.

SCOPE

The scope of our review was focused on administrative processes for vendor management during fiscal year 2020-21. The scope of the audit was limited to Gateway vendors. To accomplish our objectives, our work included interviews, direct observations, review of documentation, testing, and other steps. Specifically, we:

- Researched UC and UCSB policies, best practices, and other guidance concerning vendor management.

- Conducted interviews with Procurement Services and Accounts Payable to gain an understanding of department processes, policies, and procedures.

- Evaluated vendor management business practices to determine whether they incorporate adequate internal controls and reviewed for opportunities to enhance operational efficiency.

- Performed a risk analysis that considered business related policy and procedures, roles and responsibilities, separation of duty, data integrity, and monitoring audit logs.

- Tested a sample of approvals to determine whether there is adequate separation of duty in the vendor approval process in PeopleSoft.

- Tested PeopleSoft data integrity to determine whether:

  o Business and Financial Services has implemented a process to identify and request the inactivation of vendors without activity over a two-year period.

  o Selected fields are properly populated in PeopleSoft to avoid potential misuse or data integrity issues.

  o The interface between PeopleSoft and Gateway is properly setup to synchronize vendor data.

- Tested a sample of changes in the system to determine whether changes to critical fields are properly documented.

- Tested whether restricted party screening is performed on vendors.

CRITERIA

Our audit was based upon standards as set forth in the UC and UCSB policies, best practices, and other guidance relevant to the scope of the audit. This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing.*

AUDIT TEAM

Ashley Andersen, Audit Director
Antonio Mañas-Melendez, Associate Director
Irene Camargo, Senior Auditor