# RIVERSIDE: AUDIT & ADVISORY SERVICES

December 18, 2020

To: Bobbi McCracken, Associate Vice Chancellor-Business & Financial Services, Accounting

Josh Bright, Interim Associate Vice Chancellor and Chief Information Officer

Subject: Financial Analytical Review – Disbursements Cycle

Ref: R2019-05

We have completed our Financial Analytical Review of the Disbursements Cycle in accordance with the University of California, Riverside Internal Audit Plan. Our report is attached for your review. We will perform follow-up procedures in the future to review the status of management action. This follow-up may take the form of a discussion or perhaps a limited review. R2019-05 will remain open until we have evaluated the actions taken.

Should you have any questions regarding the report, please do not hesitate to contact me.

Gregory Moore

Director

cc: Ethics & Compliance Risk and Audit Controls (ECRAC) Committee

Assistant Controller Librenjak

Accounts Payable/Travel Supervisor Smith

UNIVERSITY OF CALIFORNIA AT RIVERSIDE

AUDIT & ADVISORY SERVICES

MEMBER OF ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS

REPORT R2019-05

FINANCIAL ANALYTICAL REVIEW – DISBURSEMENTS CYCLE

DECEMBER 2020

Approved by:

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Laura Bishin Toffee Jeturian

Principal Auditor Assistant Director

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Gregory Moore

Director

**UC RIVERSIDE**

**FINANCIAL ANALYTICAL REVIEW – DISBURSEMENTS CYCLE**

**REPORT R2019-05**

**DECEMBER 2020**

**I. MANAGEMENT SUMMARY**

Based upon the results of work performed within the scope of the review, we observed several areas of opportunity to strengthen internal controls and improve the efficiency and effectiveness of the campus disbursements cycle in the following areas:

* Vendor Maintenance (Observation III.A)
* Other Segregation of Duties Issues (Observation III.B)
* Invoice Controls (Observation III.C)
* W-9 Controls (Observation III.D)
* Use of Data Editor Utilities by Information Technology Services (Observation III.E)

These are explained in greater detail in Section III of this report.

For many of the observations above, there are existing functionalities and features in PeopleSoft Financials/Supply Chain Management (FSCM) that are not presently utilized that can improve internal controls and enhance efficiency.  However, our current version of PeopleSoft (V8.8 upgraded in 2005) is heavily customized and no longer supported.  Implementing these features in the present environment is risky and not cost effective.  Many feeder systems (including in-house developed systems) would have to be remediated and we would still forego other features that would be available in the current version release such as WorkCenters and Dashboards, Supplier 360, Project Costing and Analytics, and Fluid Mobile Technician (mobile work order system), just to name a few.

Prior to COVID-19, the campus approved proceeding with plans to replace the current unsupported financial system and related internally developed components and interfaces; however, the project is now on hold pending budget decisions. As such, Business & Financial Services (BFS) believes utilization of enhanced functionalities should be deferred for consideration until a full system replacement can resume and UCPath[[1]](#footnote-2) related remediation has been completed.

Minor items not of the magnitude to warrant inclusion in this report were discussed verbally with management.

**II. INTRODUCTION**

**A. PURPOSE**

University of California, Riverside (UCR) Audit & Advisory Services (A&AS), as part of its Audit Plan, performed an analysis and evaluation of the UCR campus disbursements data. This Financial Analytical review included procedures to evaluate and compare relationships among various data on a campus-wide basis in order to identify unexpected fluctuations, trends, discrepancies or activities, the absence of expected fluctuations, trends or activities, and other unusual items.

In addition, the review was also conducted to determine if activities in selected areas included significant errors or questionable transactions that warranted further review. Accounts Payable (AP) and purchasing data were extracted to evaluate high-risk transactions.

**B. BACKGROUND**

UCR utilizes PeopleSoft’s the FSCM system, a Tier 1 Enterprise Resource Planning (ERP) solution, for General Ledger, Accounts Payable and some Purchasing functions. This system is referred to as UCR Financial System (UCRFS). Other applications such as iTravel (UCR’s Travel Planning and Expense Reporting System), ePay (UCR’s Online Payment Request System), and eBuy (UCR’s Purchase Order and Requisition System), and the Vendor Request System (VRS) are in-house developed and interface with PeopleSoft Accounts Payable.

**C. SCOPE**

In large part, due to an increase in instances of fraud in the disbursements cycle at all campuses, the scope of the Analytic Review for the disbursements cycle was focused more on these issues noted across the system.

This review analyzed selected data from Fiscal Years (FY) 2018-19 through February 2019 and in some cases FY 2017-18 and FY 2016-17. We designed the methodology to provide sufficient, competent, and relevant evidence to achieve the objectives of the review. Due to the extensive range of financial activities and the vast volume of financial data, not all identifiable activities were reviewed. Further, because of the nature of this review’s global perspective and other limitations, the review procedures could not ensure that errors and irregularities were detected, especially minor or isolated incidents.

The review included, but was not limited to the following areas:

* 1. Reviewed duplicate vendor addresses within AP.
  2. Analyzed vendor invoices entered/modified by the Transactor for any unusual activity including UCR’s Online Payment Request Application (ePay) check requests.
  3. Reviewed vouchers/invoices/Procurement Card (ProCard) for invoice splitting.
  4. Reviewed voucher and payment trends (count and amount).
  5. Reviewed changes to the vendor master file and procedures including data and functionality in the UCR Vendor Request System[[2]](#footnote-3).
  6. Reviewed the W-9 process.
  7. Reviewed to determine if different vendors used the same Direct Deposit account in AP.
  8. Reviewed to determine if payments and vouchers were created by the same individual (test for proper segregation of duties).

Our substantive audit procedures were performed from July 2018 to June 2019. Accordingly, this evaluation of internal controls is based on our knowledge as of that time and should be read with that understanding.

**III. OBSERVATIONS, COMMENTS AND MANAGEMENT CORRECTIVE ACTION**

1. **Vendor Maintenance**

We noted that two employees, including the Accounts Payable Supervisor, had access to the Vendor Master File and to enter invoices during the first seven months in FY 2018-19. This observation was addressed in R2015-16 Analytic Review Audit Report issued December 18, 2015. Also, one employee who handles the invoices can also make changes to the Vendor Master. Ideally, an individual who handles or enters invoices should not have access to make changes to the Vendor Master File. However, BFS indicated that there is a need for some individuals to have both functions to serve as backup and that the Accounts Payable department is not large enough to enforce strict segregation of duties. We note that for small to medium sized businesses that cannot achieve proper segregation of duties, it becomes more important to have enhanced management oversight to achieve the control objective. One such control is requiring review/approval of all manual vendor adds/changes. This requires availability of an audit report of such changes to the Vendor Master.

We noted that the delivered functions for tracking changes to the Vendor Master in PeopleSoft were not enabled at the time of the review, and there was no review of manual changes to the PeopleSoft Vendor Master[[3]](#footnote-4). BFS noted that a tracking feature delivered as part of PeopleSoft called Field Level Auditing was subsequently enabled to log changes to certain key fields. While most changes come from an interface from the in-house developed VRS, not all the manual edits are tracked nor reviewed. BFS notes that there are many manual changes to the vendor master file required related to 1099 reporting and specifying default ordering and remittance addresses and the VRS was not designed to mimic all vendor maintenance functionality. For this reason, we believe that we can achieve the control objective by performing a review of manual changes to key fields on the vendor master. Key fields should include vendor name, address and direct deposit account number.

In addition, those charged with Vendor Master File Maintenance use PeopleSoft Correction Mode. Correction Mode essentially can erase the audit trail of changes to the Vendor Master unless the fields are included under Field Level Auditing. BFS explained that Correction Mode cannot change the payment history. While this is correct, Correction Mode in this case, does *not* leave an audit trail of certain changes to Vendor Master data. The use of this mode should be extremely limited. However, BFS stated that the in-house developed system VRS interface requires the use of correction mode and that this can be revisited with the implementation of a new financial system. We agree that it would not be efficient to remediate the current system. The mitigating control is that UCR now has Field Level Auditing for changes to certain key fields in the Vendor Master.

In addition, the Effective Dating of addresses feature in PeopleSoft is not used as designed. This feature can help reduce the number of payments to the wrong address as an address can be set to expire as of a certain date and be replaced with a new address as of a future date (effectively inactivating the old address). Currently, the VRS (or in rare cases the individuals assigned to vendor maintenance) adds additional vendor addresses and relies on the invoice clerks to select the correct address as of a point in time. Superseded addresses are manually inactivated. We note there are review steps in place when checks are printed to verify the remit address, however, this is a detective rather than a preventive control. Generally, detective controls have a higher risk of failure and are more costly to correct as errors are identified and corrected “after the fact” and later in the transaction’s lifecycle. This was noted in R2017-11a Analytic Review report issued June 30, 2018. BFS responded that this and other functionalities noted in the report would be evaluated with the implementation of a new financial system.

We also note that UCR does not use all the features of PeopleSoft Accounts Payable, nor do we use the Treasury and Cash Management module functionalities. As a result, vendors who pay via wire transfers are transacted outside the UCRFS PeopleSoft Financial System and a payment cycle is subsequently run in PeopleSoft to record the payment. The monthly bank reconciliation should reveal if there are discrepancies between what was paid on the bank and what was recorded. Changes to banking information for Wire information do not reside in PeopleSoft, thus we cannot take advantage of PeopleSoft vendor master file controls and other system features that ensure completeness, accuracy, and authorization of transactions. BFS stated that this software was implemented in 2005 without the use of a consultant to take advantage of all available features, and the current version of the software is no longer supported. It is our understanding that when UCR evaluates and implements a new financial system, that available vendor functionality will be considered.

**Recommendations to BFS:**

1. Ensure proper segregation of duties for individuals with access to change the Vendor Master File (i.e. those that can change the Vendor Master File should not have access to handle or enter invoices).
2. Implement a review process for manual changes to key fields in the Vendor Master (i.e. vendor name, address, direct deposit account number, etc.).

**Management Response/Corrective Action - BFS**

With the existing BFS staffing levels, perfect separation of the vendor management function is not possible. However, in response to the current remote work environment, impending budget cuts and internal control considerations, the Accounting Office will be encouraging the use of UC Agreement vendors, promoting the use of ProCard, reducing limits on eBuy miscellaneous agreements, and potentially restricting departmental requests for new eBuy vendors. These actions should reduce the volume of new vendors. Additionally, enhancements to the internal control process over vendor maintenance and wires will be evaluated as part of a new integrated financial system project and related data migration. It is important to note that Supplier Management is a challenge for all UC campuses; Office of the President’s Procurement group has hired a consultant to evaluate options for a common UC supplier management portal.

**Audit Response:** Management indicated it is not possible at this time to implement the recommended segregation of duties and monitoring of changes to the vendor master file. They are encouraging the use of ProCard to reduce volume of vendor changes. These items will be considered with the implementation of a new financial system.

1. **Other Segregation of Duties Issues**

Segregation of duties is important because it ensures that there is oversight and review to catch errors. It helps to prevent fraud or theft because it requires two people to collude in order to hide a transaction. There can be many different roles that require segregation of duties in a disbursement function. One, for example, is that the individuals handling the check write process should be separate from those entering invoices. At UCR, this segregation of duties is in place.

However, in addition to the segregation of duties observations noted in III.A, we noted that one employee has what appears to be incompatible duties. One employee who researches discrepancies in the payment process[[4]](#footnote-5) can also enter invoices.

BFS indicated that although this employee researches discrepancies identified by another individual in the check audit, she does not make the final determination regarding payment of the check. However, we note that this individual performs the research, which informs the decision on how to proceed.

While it is a mitigating control that someone else makes a final determination, the concern is that the research informing the decision may not be complete or accurate. It is highly unusual for someone to research their own error and provide that research for a final determination.

**Recommendation to BFS:**

We recommend separation of these incompatible functions (the individual who researches invoice discrepancies also enters invoices).

**Management Response/Corrective Action – BFS**

All invoice errors are documented by the individual performing the payment audit. The errors are now reviewed by this individual’s supervisor before information is provided directly to the Accounts Payable Supervisor to review and initiation/coordination of required actions. Any vouchering errors involving the individual primarily responsible for gathering supporting documentation are handled by the Accounts Payable supervisor.

**Implemented.**

1. **Invoice Controls**

Although Accounts Payable implemented a new process whereby invoices can be emailed directly by vendors to [apinvoices@ucr.edu](mailto:apinvoices@ucr.edu), we note that over 7,500 invoices from over 95,000 inbound emails from January 2018 through February 2019 were sent from the campus departments. This can create opportunities to alter vendor address or other information on the invoice and create fraudulent payments. It gives the departments the opportunity to split purchase orders (PO) and exceed delegated purchasing authority, and to create POs after goods and services were ordered and/or received. These are considered Unauthorized Purchases. Also, having vendors send invoices to departments instead of to apinvoices@ucr.edu can create delays in paying vendors and other opportunities to misappropriate payments.

**Management Response/Corrective Action – BFS**

The Accounting Office implemented an electronic invoice submission and delivery solution (Transcepta) in October 2019 for our high volume PO suppliers. BFS will continue to communicate at eBuy User Group meeting, expectations regarding invoice delivery.

**Implemented.**

1. **W-9 Controls**

W-9s contain Personal Protected Information (PPI), such as Social Security or Tax ID information, and are required by UCR for new vendors and vendor name or address changes. W-9s are to be sent directly by vendors to a secure fax number in Accounts Payable. Although we could not get a log of all the inbound faxes to this number, we noted that in a sample of judgmentally reviewed W-9s received on this number, the departments are sending W-9s to Accounts Payable. We noted cases when vendors sent W-9s with PPI in clear text to individuals in the departments via UCR email (sometimes to several people in the departments). We also noted that these forms containing PPI were sometimes printed and not stored in a secure manner in one department.

**Recommendation to BFS:**

AP should remind department management that vendors need to send W-9s to the dedicated AP fax and that the department should not be receiving completed W-9s.

**Management Response/Corrective Action - BFS**

Instructions were provided at the July 2019 Travel/ePay User Group and the August 2019 eBuy/Accounts Payable User Group meetings.

**Implemented.**

1. **Use of Data Editor Utilities by Information Technology Services (ITS)**

We noted that UCR does not have a system log of all edits to PeopleSoft Financial tables made by ITS using data editor utilities (i.e. SQL updates). While ITS states that such edits are rare, they are performed only upon written request by the Campus Controller. However, there is no ability to ensure all changes were properly requested or approved because there is no system-generated report of changes. ITS intends to implement a logging feature for all enterprise systems in the future (e.g. Oracle’s Fine Grained Auditing).

When we asked ITS for a listing of individuals with access to data editor utilities, they indicated that there is no system-generated report of current or past access. ITS indicated that access is granted to the lead developer and a backup for each system, and database administrators also have such access.

The risk is that changes could be made to production financial data by a number of individuals and there is no system tracking to show the record before and after the changes, who made the changes, and when. Moreover, any change can be changed again, effectively wiping out any audit trail. While ITS tracks the changes in ServiceNow[[5]](#footnote-6), there is no assurance over the completeness or accuracy of that tracking.

This issue was noted in the R2017-11a Analytic Review Audit, Observation III.G. Preventive Controls and Data Integrity audit report issued on June 30, 2018.

**Recommendation to ITS:**

Implement a logging feature that is reviewed against request/approvals to ensure that changes to production data are properly requested and approved.

**Management Response/Corrective Action - ITS**

1) We will be replacing the financial system within the next couple of years.

2) ITS is working to implement an interim logging solution to record manual SQL updates/inserts/deletes. We anticipate having this in place by June 30, 2021.

1. In 2020, the University of California (UC) completed the system-wide implementation of this single payroll, benefits, human resources and academic personnel solution for all UC employees. [↑](#footnote-ref-2)
2. The UCR Vendor Request System is an in-house developed functionality within the in-house developed eBuy system whereby departments can request to add or change vendors and vendor payment addresses. [↑](#footnote-ref-3)
3. BFS also noted that the PeopleSoft system was last updated in 2005 without the use of consultants, therefore all available features were not implemented. [↑](#footnote-ref-4)
4. Researching discrepancies in the payment process includes verifying that the check address agrees to the invoice remit address and that the vendor name on check agrees to the vendor name on the invoice. [↑](#footnote-ref-5)
5. ServiceNow is an enterprise application that provides a robust suite of applications to automate and streamline IT and business unit operations. It is branded as ServiceLink. [↑](#footnote-ref-6)