

The logo for UCIrvine, featuring the letters 'UCI' in a large, bold, serif font, followed by 'RVINE' in a smaller, all-caps, serif font. A vertical line separates the 'UCI' and 'RVINE' parts.

UCIRVINE

The text 'INTERNAL AUDIT SERVICES' in a serif font, arranged in two lines. A vertical line is positioned to the left of the text.

INTERNAL
AUDIT SERVICES

Vendor Master File

Internal Audit Report No. I2017-109

March 23, 2017

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INTERNAL AUDIT SERVICES
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March 23, 2017

**KAREN MILLER
ACCOUNTS PAYABLE MANAGER
ACCOUNTING AND FISCAL SERVICES**

**RE: Vendor Master File Audit
Report No. I2017-109**

Internal Audit Services has completed the review of the Vendor Master File and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. If you have any questions or require additional assistance, please do not hesitate to contact me.

Mike Bathke

Mike Bathke
Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee
Emma Cecilio, Quali Vendor Onboarding Coordinator - Accounting & Fiscal Svcs
Elaine Everette, Accounts Payable Manager, Controller's Services – UCI Health

I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2016-2017 audit plan, Internal Audit Services (IAS) reviewed the processes, internal controls, and policy compliance for the vendor master file (VMF) at the University of California, Irvine (UCI). In general, the VMF appears to be functioning as intended. However, IAS identified two internal control and compliance weaknesses that should be improved to minimize business risks and ensure compliance with University policies and procedures and/or best business practices. Noted below are the following concerns.

Dormant vendors are not deactivated – There is no established process or procedure to deactivate dormant vendor records. This observation is discussed in section V.1.

Duplicate purchase order vendor records - There were no established processes to check domestic and foreign vendor records for duplications; however, this has been corrected. This observation is discussed in section V.2.

II. BACKGROUND

The VMF is the central repository of vendor information which is used to issue purchase orders and to pay five different types of payees: purchase order, disbursement voucher, revolving fund (i.e.: Petty Cash Custodians), payroll (i.e.: dues/initiation payments to unions), and “No tax ID required” (usually State agencies, mostly related to payroll). The financial system was upgraded to the Kuali Financial System (KFS) in July of 2014 which has enhanced the current controls regarding the VMF. While the purchasing function is decentralized to Purchasing & Risk Services and authorized departmental purchasers, vendor onboarding is centralized to campus Accounts Payable (AP). For FY 2015-16, 7,301 vendor invitations were sent, 4,730 vendor records were completed, averaging about a 65 percent completion rate. 2,571 invitations were either cancelled or had expired. As expected, the amount of vendor invitations and vendor completed records per month appears to be consistent - averaging approximately 680 requests to 440 completed records.

During FY 2015-16, for both the campus and medical center, approximately \$629,860,699 was disbursed to 15,213 purchase order vendors.

III. PURPOSE, SCOPE AND OBJECTIVES

The purpose of the audit was to review the processes, internal controls, and compliance with University policies and procedures and best business practices of the VMF. The review was designed to evaluate the effectiveness of internal controls in place over vendor validation, set up, modification, and maintenance processes to prevent or detect unauthorized, erroneous, duplicate, or fraudulent transactions.

Utilizing data analytics, IAS reviewed the VMF for purchase order vendors from FY 2014-2015 through FY 2015-2016. IAS established the following objectives:

1. Obtain an understanding of vendor onboarding processes and related maintenance procedures;
2. Review existing procedures and documentation for new vendor file set up and changes to the VMF database;
3. Review, using data analytics, vendors to test for potential employee-vendor conflicts;
4. Review, using data analytics, vendor records for consistency in naming conventions, check for any duplications, and check for data integrity;
5. Review age and activity of vendors. Determine whether there are any inactive vendors on file and whether these records are archived;
6. Verify that any changes to the vendor record have the appropriate approvals and documentation on file;
7. Determine access privileges to the vendor master file;
8. Verify that adequate separation of duties exist and that access is compatible to job duties;
9. Determine whether there are data backup and recovery procedures; and
10. Assess whether procedures are adequate for full restoration of the VMF.

IV. CONCLUSION

IAS reviewed the VMF and, in general, the internal controls and processes related to vendor records are functioning as intended. However, there were some vendors who could be considered dormant (no payment activity within the last year) and some vendor records that were duplications.

Observation details and recommendations were discussed with the AP manager. These details are presented below.

V. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Dormant Vendors

Background

AP maintains the central VMF that is used by both the on campus KFS and, by alias, the AMS purchasing system at UCI Health. The Kuali Vendor Onboarding (KVO) Coordinator is responsible for monitoring the vendor documents in KFS, sending the vendor a secured link to upload their information, and verifying the accuracy, appropriateness, and integrity of data. The current VMF consists of over 21,000 vendors, of which over 16,000 are purchase order vendors, so routine review and deactivation of dormant vendors is essential to maintain its efficiency and integrity.

Observation

The current VMF was activated in July 2014 when KFS was implemented. IAS has identified 7,646 transactions (July 2014 - June 2016) that had vendors with only one payment record, of which 1,593 transactions were dated between July 2014 and June 2015. As of December 31, 2016, these 1,593 transactions, which represent about 20.8 percent of the total transaction count for single payments to vendors, range in aging from 540 to 893 days.

Currently, AP does not have a process in place to identify and deactivate potential dormant vendors. However, it has now been two years since KFS

implementation so it is now possible to establish a reasonable dormancy threshold for reporting. AP should deactivate a vendor record once it is no longer in use to avoid inadvertent payments or to provide a potentially fraudulent opportunity.

Management Action Plan

AP will create a process whereby the VMF is reviewed on a regular basis, but at least annually, in order to deactivate dormant vendors. AP will establish guidelines that define a dormant vendor record and will work with Office of Information Technology (OIT) to create an automated process and/or report to identify these potentially dormant vendors and then deactivate them.

IAS will follow up on this corrective action June 30, 2017.

2. Duplicate Purchase Order Vendor Records

Background

The VMF has a combination of domestic and foreign addressed vendors. AP is able to verify those taxpayer identification numbers (TINs) for domestic vendors through the Internal Revenue Service (IRS) TIN system since an error message will appear if the TIN already exists or is invalid. However, foreign vendors do not have TINs, so the IRS TIN system cannot be used to verify against duplication.

Observation

UCI Health AP was not able to review their purchase order vendor records prior to the July 2014 conversion to KFS, so earlier instances of duplicate records from the prior system remained. IAS identified 30 potentially duplicate vendor records. After further research, campus AP determined 13 of these vendor records were duplicates and deactivated them. The current KVO process eliminates domestically-addressed vendor record duplications due to TIN verification through the IRS TIN system. Three duplications were foreign addressed vendors. Since foreign vendors do not have a TIN, AP cannot verify them through the IRS TIN review process. The KVO Coordinator, for vendors without a TIN, runs a report of vendor names to capture potential duplicates. The KVO Coordinator closely scrutinizes these records for any duplication. She also works closely with the Accounting and Fiscal Services Tax

Compliance Analyst, who will run these vendors through the Glacier reporting system.

Maintaining strict, consistent, and accurate data entry of the vendor records ensures the integrity of the VMF and avoids duplications. AP should deactivate duplicate vendor records to eliminate inadvertent double payments and to avoid potentially fraudulent opportunities.

Management Action Plan

A need to review for foreign vendor duplications occurred during the annual 1042S (Foreign Person's US Source Income Subject to Withholding) process. AP, in conjunction with OIT, created a "Duplicate TIN Name Check" solution so that an error dialog box appears should a duplicate name be found in the system in the absence of a TIN. This allows the KVO Coordinator to verify whether a new vendor record needs to be established. This was finalized and implemented in February 2016.