# RIVERSIDE: AUDIT & ADVISORY SERVICES

June 30, 2018

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

Subject: Financial Analytical Review – Disbursements Cycle

Ref: R2017-11a

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. R2017-11a will remain open until we have evaluated the actions taken.

We appreciate the cooperation and assistance provided by your staff. Should you have any questions regarding the report, please do not hesitate to contact me.

 Gregory Moore

 Director

cc: Assistant Controller Librenjak

 Director of Procurement Services, Business Contracts, AP & Travel Triche

 Accounts Payable/Travel Supervisor Smith

UNIVERSITY OF CALIFORNIA AT RIVERSIDE

AUDIT & ADVISORY SERVICES

MEMBER OF ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS

REPORT R2017-11a

FINANCIAL ANALYTICAL REVIEW – DISBURSEMENTS CYCLE

JUNE 2018

Approved by:

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 Gregory Moore

 Director

**UC RIVERSIDE**

**FINANCIAL ANALYTICAL REVIEW – DISBURSEMENTS CYCLE**

**REPORT R2017-11a**

**JUNE 2018**

**I. MANAGEMENT SUMMARY**

Based upon the results of work performed within the scope of the review, we did not detect any significant unusual items that could not be explained in the disbursements cycle.

However, we observed several areas of opportunity to improve the efficiency, effectiveness of the campus disbursement cycle, strengthen internal controls as follows:

* Electronic Data Interface (EDI) Utilization (Observation III.A)
* Consolidation of Invoices across Purchase Orders (Observation III.B)
* Late Payments and Discounts Lost (Observation III.C)
* Electronic Fund Transfers (EFT) Utilization (Observation III.D)
* Separation of Duties (Observation III.E)
* Vendor Maintenance (Observation III.F)
* Preventive Controls and Data Integrity (Observation III.G)
* Purchasing Card (PCard) (Observation III.H)

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.

Business Financial Services (BFS) and Information Technology Services (ITS) are currently in the process of exploring options to upgrade our financial system. They will evaluate whether they can implement a vanilla Enterprise Resource Planning (ERP) system and replace the in-house/customized applications, where possible.  As such, they believe utilization of enhanced functionalities should be deferred for consideration until a full system replacement decision has been reached 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), purchasing, and purchasing card data were extracted to evaluate high-risk transactions

**B. BACKGROUND**

UCR utilizes PeopleSoft’s Financials and Supply Chain Management (FSCM) system, a Tier 1 Enterprise Resource Planning (ERP) solution, for Accounts Payable and some Purchasing functions. 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) are in-house developed and interface with PeopleSoft Accounts Payable. PCard transactions are interfaced to the PeopleSoft General Ledger (GL), and were included in this analysis as they represent disbursements.

In past years, the Financial Analytic Review covered additional areas (e.g. General Ledger, Asset Management) in a single consolidated report. This year, A&AS separated the Analytic Review into reports by area as follows:

* Disbursements (R2017-11a)
* General Ledger (R2017-11b)
* Low Value/Theft Sensitive Computing Equipment (R2017-11c)
* Cash and Cash Equivalent Collection (R2017-J)

**C. SCOPE**

This review analyzed selected data from Fiscal Years (FY) 2015-16 and in some cases FY 2014-15 and FY 2013-14. 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 top 25 cumulative vendor payments and unusual fluctuations in vendor activity.
	2. Reviewed duplicate vendor addresses within AP.
	3. Evaluated multiple vendor identification (ID) for the same vendor name and vice versa.
	4. Searched for duplicate vendor invoices.
	5. Analyzed vendor invoices entered/modified by the Transactor for any unusual activity including UCR’s Online Payment Request Application (ePay) check requests.
	6. Reviewed for payments to different vendors on the same Purchase Order (PO).
	7. Reviewed vouchers/invoices/Procurement Card (ProCard) for invoice splitting.
	8. Reviewed voucher and payment trends (count and amount).
	9. Reviewed changes to the vendor master file and procedures.
	10. Reviewed for different vendors using the same direct deposit account in AP.
	11. Examined ProCard payments for unusual trends and transactions.
	12. Reviewed Travel and ePay trends.
	13. Evaluated invoice/PO relationships.
	14. Reviewed for payments and vouchers created by the same individual (test for separation of duties).
	15. Evaluated Void/Stop activity.
	16. Evaluated utilization of Electronic Data Interchange (EDI) and Electronic Funds Transfers (EFT).
	17. Reviewed vendor discounts lost.

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

1. **EDI Utilization**

In our analysis, we noted that 9,984 of 10,775 (93%) vouchers and 11,321 of 11,648 (97%) vouchers of our EDI vouchers paid (FY 2014-15 and FY 2015-16 respectively) are with two vendors: Fisher Scientific and Sigma Aldrich. In FY 2014-15 we noted the expansion of the use of the EDI voucher source code to 160 vendors starting August 2014. However, the volume decreased to between two and six vendors between January 2015 and February 2016, then increased to 114 vendors in March 2016, then decreased to four vendors in June 2016. See chart below.

*Note: the spikes in EDI utilization pertain to vendor scanned invoices, not EDI.*

Accounting Services indicated that those spikes in EDI voucher source code in August 2014 and March 2016 really do not pertain to EDI vendors. The increase pertains to an invoice scanning project that was launched, rolled back and relaunched. Scanned invoices were coded with the EDI voucher source code of EDI rather than a more customary voucher source code like SCN (commonly used for scanned invoices). Accounting Services indicated that there has been issues with the invoice scanning and that technical resources to advance the project have been temporarily redirected to the UCPath project. Invoice scanning solutions can eliminate a high percentage of manual data entry and can reduce entry errors. However, it can be a high cost, low return endeavor compared to other solutions like EDI[[2]](#footnote-3).

EDI has been around since the 1960s, but in 1982, companies like GM, Ford and several large retailers began to demand EDI from their suppliers. Currently over 90% of the Fortune 500 companies use EDI. EDI, when implemented well, lowers costs, improves speed, reduces errors, can lead to better discount capture, and reduces the use of paper and transportation costs associated with mail. A major electronics manufacturer calculates the cost of processing an order manually at $38 compared to $1.35 for an EDI order.

EDI is a feature of PeopleSoft, but has not been widely implemented to date. After adjusting the figures above to remove the scanned invoices from the EDI counts, we really only have two vendors on EDI.

Accounting Services indicated that they have attempted to increase the use of EDI, but notes that UCR ITS will only accept files in a specific format that vendors are not able/willing to provide (e.g. VWR has refused our requests). PeopleSoft has this functionality and many vendors (both PeopleSoft and non-PeopleSoft) use EDI with customers. Being on an older version of PeopleSoft and/or having many unique requirements could contribute to difficulties in securing EDI with our trading partners.

While the underutilization of EDI or other tools to automate invoice entry is not a policy violation, it is an efficiency and effectiveness issue. Automated solutions can improve controls end reduce risk.

**Management Response/Corrective Action –** Business & Financial Services will be implementing a UC sourced third party vendor scanning solution in FY2019.

1. **Consolidation of Invoices across Purchase Orders**

UCR discourages vendors from consolidating multiple PO purchases in one invoice. PeopleSoft provides the functionality that can process an invoice that relates to multiple POs for the same vendor and this is a common industry standard/best practice. This would result in fewer invoices that need to be keyed. We calculated that we could have possibly eliminated the manual keying of up to 37K invoices in FY 2015-16 if we allowed vendors to consolidate multiple POs in one invoice. However, if we expand the use of EDI, then this may be irrelevant.

**Management Response/Corrective Action -** Business & Financial Services will be implementing a UC sourced third party vendor scanning solution in FY2019.

1. **Late Payments and Discounts Lost**
	1. **Late Payments**

The campus pays on average 11% of total invoices over two months late in FY 2015-16 (vs 9% in the prior year). This could have resulted in lost discounts, and vendor holds.

* 1. **Discounts Lost**

Discounts Lost tracking and reports are delivered functionalities in PeopleSoft. We requested the discounts lost report, but were unable to obtain the report. It appears that UCR has not setup the AP and GL modules to be able to capture and report discounts lost. As a result, we utilized the data we downloaded from the PeopleSoft Query tool to create our own analysis.

The results are as follows:

* The total discount opportunity for FY 2015-16 was $126K.
* UCR availed of $68K (54%) of discounts offered.
* UCR lost $58K (46%) of discounts offered.

Additionally, we noted instances wherein we lost the discount (i.e. paid several days after due date to receive the discount), but we paid well before the final due date. It is generally desirable to avail of the discount, but if not, then the payment should be made as close to the final due date as possible.

We note that there may be many reasons for lost discounts. In some cases, we note that invoices have been sent to the departments and there was delay in forwarding to Accounting. Another reason can be due to the departments marking invoices ‘OK to Pay’ late (i.e. days or more after receiving/inspecting goods or services). Accounting constantly reminds departments that invoices need to go directly to Accounts Payable and that goods/services should be marked ‘OK to Pay’ when received and verified. There could be other reasons, such as if the vendor is on hold. There may even be strategic cash management reasons for missing discounts. However, without reporting of the discounts lost, it would seem difficult to determine the root cause of lost discounts or if losing the discounts was part of a cash management strategy.

**Management Response/Corrective Action –** Given the dollar amounts involved, these options will be explored with a new financial system.

1. **EFT**

Historically, UCR has offered EFT to employees. In FY 2015-16, there were 16K employee payments in AP. Exclusive of wire transfers, 38K physical check payments were made to non-employee vendors. In April 2015, Accounting Services began EFT payments with one vendor (12 payments) and expanded to four vendors (280 payments) by FY ended 2015-16. There is a tremendous opportunity to expand utilization of EFT, which can reduce cost), improve timeliness of payment, and perhaps increase discounts taken. Paper checks cost more in processing time, labor, paper, and transportation costs.

**Management Response/Corrective Action –** Business and Financial Services is evaluating a UC sourced third party vendor payment processor in FY2019.

1. **Separation of Duties**

In FY 2015-16, we noted the following observations:

* + 1. Two ePay transactors processed vouchers payable to themselves. Although amounts were immaterial, systems generally are designed to prevent self-dealing transactions.
		2. Some invoices were entered by individuals who also processed the checks to pay those invoices. These functions should be separated.

We noted that there is a review and approval process involving other individuals that reduces the risk of misappropriating funds.

In FY 2015-16, we noted that an individual who entered invoices also had access to change the vendor master file and there is no overall review of changes to the vendor master which is a standard internal control. This has been an observation in past Analytic Review audits. There is a report to identify this activity for review, but Accounting indicated that the report has too many transactions to review effectively. Accounting indicated that it would be helpful to have a report or query that reports instances where an individual created/modified an invoice and the corresponding vendor for their review. We ran our own analysis noting that the individual in question did not enter/modify invoices pertaining to any vendors they also entered/modified.

**Management Response/Corrective Action –** Although ePay transactors are not restricted from requesting a reimbursement to themselves, there is a separate approval process to ensure the appropriateness of the transaction.

1. **Vendor Maintenance**

In several tests, we noted instances wherein vendors were not inactivated or merged, allowing additional payments to be made on the wrong vendor and/or to the wrong address. PeopleSoft has the functionality to “effective date” vendor, location, address, and terms records which allows these items to be setup for use or changed as of a future date, or changed with version tracking at specified ‘as of dates’. PeopleSoft also has a vendor merge option which facilitates the merging of transactions and master file records. The use of these features can improve accuracy and timeliness; and reduce voids/reissues, and losses. Following were some of the tests and results:

* 1. **Multiple Vendors on Same PO –** In our judgmental sample of five sets of vouchers paid to multiple vendors on the same PO, we noted that in all instances the payments and vouchers were voided and reissued under the correct vendor. While the detective controls may be in place to identify the payment before disbursement, the controls should be effective enough to prevent or detect the error sooner. In all five cases, it appears that a vendor should have been inactivated, but was not. This issue can also result in late payments and discounts lost.
	2. **Same Vendor Address/Different Vendor Number** – In our judgmental sample of 10 sets of vouchers paid to the same vendor address for different vendor number, we noted five exceptions which some resulted in check voids and in some cases reissues. In cases where it is the same vendor that have been assigned these multiple vendor numbers, vendors should be merged.
	3. **Duplicate Vendor Name/Different Vendor Numbers** – In our judgmental sample of five sets of duplicate vendor names with different vendor numbers, we noted three exceptions, two resulting in check void/reissues. These are cases where the same vendor has been assigned multiple vendor numbers. These vendors should be merged.

**Management Response/Corrective Action –**  The functionality noted above will be evaluated with the implementation of a new financial system.

1. **Preventive Controls and Data Integrity**

We noted an EFT was issued in PeopleSoft for $2,285, but the voucher could not be located in the system. These discrepancies can be caused due to program error, which in some cases may be due to not applying vendor patches. In some cases, a data integrity issue such as this may occur if a programmer or other individuals with access to data editor utilities is trying to resolve a problem and does not update all the relevant tables correctly. We received information from Accounts payable that this payment was related to a travel advance from the iTravel system. They indicated that the travel voucher had an issue so ITS deleted the voucher and ‘put the reimbursement back in the Accounting queue to be re-approved’. However, we note that the travel advance was already processed and paid and the associated voucher in UCRFS should not have been deleted (the GL was not in balance with the AP subledger). Also, we noticed that although the related travel voucher was deleted in UCRFS and reentered manually, both posted to the GL meaning that the GL was not in balance with the AP subledger in for one of the vouchers. As of December 2015, we had a remaining residual credit to the Travel Advance Receivable, and duplicate expenses on the traveler’s accountability structure. This was corrected in June 2016.

We also noted a duplicate invoice number on a vendor. PeopleSoft has controls that can be activated to ensure that this does not occur. We understand that the controls are in place, however were unable to determine how this situation occurred. The amount in this case was immaterial, however when controls can be circumvented, it creates opportunities for fraud and larger amounts could be misappropriated without detection.

AP should run data integrity/validation reports to identify and investigate and resolve these issues.

**Management Response/Corrective Action –**  Management was aware of the travel voucher issue and requested ITS involvement. The transactions were monitored and after repeated attempts to resolve through the system, a manual journal was created to correct the ledger.

1. **PCard**

PCard Activity has increased from year to year ($7M and 32K transactions in FY 2015-16).

**Electronic Commerce (eCommerce) and Online Payment Processors** - The expenditure amounts for online payment vendors like PayPal and eCommerce sites like Amazon are increasing (148K from FY 2014-15 to 288K in FY 2015-16 for PayPal; and 638K in FY 2014-15 to 833K in FY 2015-16 for Amazon). Visibility into the vendor is obfuscated, making analysis difficult.

**Auditability** – Even for PCard purchases on named vendors (i.e. Best Buy), the transaction details are not available in the financial system. Supporting documentation is decentralized at each department making audit in this area difficult. To improve auditability, A&AS has received access to Level 3[[3]](#footnote-4) data, which provides more information. However, Level 3 data is only available for merchants that have opted to provide more detail.

We note that the staffing administering PCard has not increased and improved analytic tools have not been deployed to account for these increases in volume and higher risk transactions. The Controller indicated that approval was obtained to increase PCard staffing by two full time positions.

**PCard Master File** - There were 246 active PCards as of November 2016. The listing is maintained in an Excel spreadsheet on a periodic basis, not perpetually. Because it is maintained in Excel it also has been noted to have errors (in some cases due to departments not self-reporting changes) and omissions. For example, we were unable to determine the cardholder for $1.6M in transactions (on $7M total activity) when querying transactions against the PCard Master File. We note that PeopleSoft has a Procurement Card Business Process that would provide enhanced functionality, improved efficiency and controls. This is included as part of the Financials and Supply Chain Management package that we currently run, known as UCR Financial System (UCRFS).

**Management Response/Corrective Action -** The functionality noted above will be evaluated with the implementation of a new financial system.

1. The University of California (UC) initiated the system-wide UCPath program in Fall 2011 to implement a single payroll, benefits, human resources and academic personnel solution for all UC employees. [↑](#footnote-ref-2)
2. https://www.coupa.com/blog/why-using-ocr-for-invoice-management-is-like-hitching-a-buggy-to-your-horse [↑](#footnote-ref-3)
3. Line item data in credit card transactions including merchant name, address, invoice number, line item details such as item description, quantity, unit of measure, freight amount, and commodity and product codes. [↑](#footnote-ref-4)