



**Report to the Audit and
Compliance Committee of the UHS Board
of Regents on:**

**The University of Houston System's Accounts Payable Function
FY 2016 – FY 2020**

AR-2021-05

Department of Internal Auditing

BOARD EXECUTIVE SUMMARY

Overview and Scope Summary

The accounts payable process is one of the accounting process cycles and is important in the concept that this is a frequently manipulated cycle. Having an adequate control structure over this accounting cycle is necessary to safeguard assets. The scope for this audit was FY16 – FY20. In addition, special emphasis and testing was given to duplicate payments, duplicate vendors, and data analysis of associated processes.

Observations:

The University of Houston System's accounts payable process is a decentralized process with the elements of the control system (authorization, recordkeeping, custody) taking place at various entities along the process line. A central system (PeopleSoft) is deployed for management of the process. Numerous elements of the process still rely on manual entry, authorization and recordkeeping.

During the Accounts Payable audit, the Department of Internal Auditing reviewed approximately \$3 Billion in spend across more than 500,000 vouchers. This was a full population review that encompassed a period of FY16 – FY20. A total of \$297,000 in duplicate spend was identified, of which \$197,000 was previously identified and recovered. A total of \$100,000 was recovered or is currently in the process of being recovered by the units.

Overall Audit Opinion

There were no material or significant findings. There were four areas of opportunity for enhancement to the efficiency, effectiveness, and consistency of the process:

1. Vendor management
2. Transaction and process controls
3. Duplicate payments
4. Compliance with the Texas prompt payment law

Recommendations:

The University of Houston System, Department of Internal Auditing recommends the following actions:

1. UHS implement an artificial intelligence logic system that contains support of the following:
 - Automated risk management that supports exception resolution.
 - Anti-fraud controls utilizing the standard tests but is also tunable to the specific needs of the university/universities.
 - Automated supplier risk profiling that supports identification of exceptions in supplier data.
 - Automatic systematic hygiene and maintenance of the master vendor file.
 - Actionable reporting and dashboards so trending issues may be identified quickly.
2. UHS implement logic safeguards to ensure duplicate invoices cannot be entered and controls not circumvented to allow replica information into the PeopleSoft Finance System and allow potential loss.
3. UHS develop and implement policies and procedures to ensure proper recording of refunds and credits in the PeopleSoft Finance System to help ensure accounting records are accurate and complete.

TABLE OF CONTENTS AND SUMMARY

BOARD EXECUTIVE SUMMARY	2
INTRODUCTION.....	4
BACKGROUND	4
Issue 1 – Vendor Management.....	5
Objective	5
Criteria.....	5
Risk.....	5
Observation.....	5
Conclusion.....	7
Cause	7
Issue 2 - Transaction Processes and Controls.....	7
Objective:.....	7
Criteria.....	7
Risk.....	7
Observation.....	7
Conclusion.....	10
Issue 3 - Duplicate Payments.....	10
Objective	10
Criteria.....	11
Risk.....	11
Observation.....	11
Conclusion.....	13
Cause	13
Issue 4 – Compliance with the Prompt Payment Law	13
Objective	13
Criteria.....	14
Risk.....	14
Observation.....	14
Conclusion.....	15
Recommendations	15
Management Response:	16

ANALYSIS OF THE UNIVERSITY OF HOUSTON SYSTEM ACCOUNTS PAYABLE

INTRODUCTION

The Department of Internal Auditing developed an annual audit plan based upon a system-wide risk assessment to identify significant areas of risk facing the System. All the audits on the plan are conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) and International Standards for the Professional Practice of Internal Audit, published by the Institute of Internal Auditors (IIA).

BACKGROUND

The Department of Internal Auditing (IAD) performed a review of Accounts Payable of the University of Houston System (UHS) comprised of University of Houston (UH), University of Houston-Clear Lake (UHCL), University of Houston-Downtown (UHD) and University of Houston-Victoria (UHV).

The accounts payable process includes two separate but equally important components:

- Set-up and maintenance of the vendor master file
- Approval and payment of invoices in the PeopleSoft Finance System

Vendor set-up and maintenance is a centralized functional responsibility for the System Universities and is the functional responsibility of the UH Finance, Accounts Payable Department.

Processing invoices for approval and payment is a decentralized function for the System Universities. Each department at each University is responsible for entering and obtaining appropriate approval in the PeopleSoft Finance System. The invoices are electronically routed to each University's Accounts Payable Department where each voucher is reviewed for compliance with policies, procedures and approval.

OBJECTIVE AND SCOPE

The primary areas of focus for the Accounts Payable audit were:

- Vendor Management
- Compliance with Prompt Payment Law
- Unrecorded Liabilities
- Transaction Processes and Controls
- Duplicate Payments

Areas excluded from the scope of this audit include:

- Procurement Process
- Procurement and Travel Card
- Bank administration and reconciliation
- Travel Management and Processes

The objective of our analysis was to examine each of these areas for:

- Strength of controls for appropriate risk mitigation over transactions and vendor management
- Compliance with Texas Government Code 2251 (prompt or early discounts are taken and interest on overdue payments is avoided)
- Accuracy and proper supporting documentation
- Accounts payable balances accurately reflect the obligations of the University.

Information relevant to this audit was obtained through:

- Interviewing Accounts Payable and departmental personnel.
- Reviewing statutes, policies, and procedures; and
- Data obtained from the PeopleSoft Finance System queries.

Issue 1 – Vendor Management

Objective: To ensure the integrity and protection of vendor data and to determine if processes, procedures, and controls exist to validate vendors, minimize opportunities for malfeasance, duplication of vendors, and duplicate payments.

Criteria: Requirements and best businesses practices suggest that appropriate vetting of vendors before inclusion to the vendor master file and regular maintenance of the vendor master file helps to ensure the integrity and protection of the information contained within the vendor master file for the entire purchase cycle -- from procurement to payment. Specific criteria utilized included the State of Texas Comptroller's policies, procedures, and guidelines.

Risk: If the vendor information is not validated and the vendor master file is not regularly maintained, the University is susceptible to fraud, inaccurate 1099 tax reporting and compliance issues, and duplicate payments. Duplicate/similar/inaccurate vendors in the vendor master file increases the risk for duplicate payments and complicates the selection of the correct vendor when creating a purchase order or voucher.

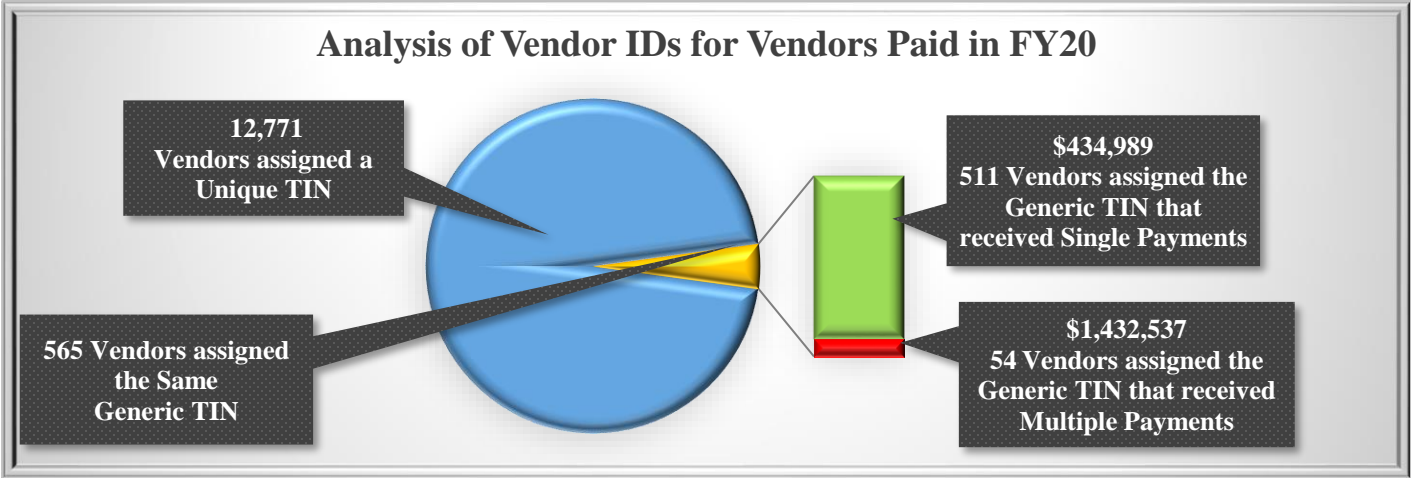
Observation: Prior to the implementation of the new vendor management system, the process of vetting vendors was entirely manual and extremely labor intensive. Due to the volume of requests for changes and new vendor additions, identifying an existing vendor in the vendor master file may be further complicated by inconsistent data provided by the vendor on the vendor set-up form and it is difficult for a departmental user to identify a vendor in the vendor master file. As such, vendors may appear in the system as two different entities in the vendor master file. This often occurs when vendor standard naming guidelines are not established. For example, the company name in the system is listed in one instance as Cardinal Health (truncating Inc.) and a second similar instance as Cardinal Health Inc. Additionally, many organizations have an acronym that is commonly used and accepted as the entity name.

In addition, due to various business organizational structures, vendors may have the same or similar names but different Tax Identification Numbers and be entered into the vendor master file multiple times. When entering voucher payment information (i.e., invoices) the department is unable to see the difference between the vendors and this information is not usually contained on the invoice provided by the vendor.

IAD used data analytics tools to perform a review of the vendor master file to identify vendors that had similar records based on the name, address, both name and address, bank accounts, and/or IRS tax identification number. Vendors with matching Tax IDs totaled 36, vendors with matching bank account numbers totaled 154, vendors with matching addresses totaled 462, and vendors with matching names and addresses totaled 3,112. Once the similar vendor records were determined, an analysis was performed based on whether those similar vendors were involved in transactions with the University of Houston System during our testing period.

Vendor Master File Analysis			
Vendors with Matching:	Without Spend	With Spend	Total Similar Vendors
Names	293	74	367
Addresses	341	121	462
Names and Addresses	2,461	651	3,112
Bank Accounts	0	154	154
Tax ID	32	4	36

For a vendor to receive payments from the state (i.e., UHS), a vendor must be set up in the Texas Identification Number System (TINS) and assigned a unique Texas Identification Number (TIN). UHS assigns a generic TIN to single payment vendors or foreign vendors who do not have a social security number. Additionally, changes to the name of a vendor, including a change in type of business, will necessitate the creation of a new vendor account. The TIN in the old vendor account will be replaced with the generic TIN and subsequently inactivated. IAD analyzed 13,336 vendor payments made by all UHS Universities for FY20. The UHS vendor master file contained multiple vendors (businesses and individuals) assigned the same generic TIN. We identified 54 vendors assigned the same generic TIN that received more than one payment from the UHS.¹



¹ In August 2019, a change to a vendor bank account resulted in a preventable loss of approximately \$600,000. The incident was reported to the Houston Police Department (report number 1116799-19). The incident shows as a duplicate payment but was a theft and has already been addressed by management.

Conclusion: Management has recognized the vendor master file as an issue and has implemented a system which will tighten controls over the process. We believe further improvements resulting in decreased risk can be made to the vendor master file management.

Cause: Factors that may have contributed to similar vendor records with the vendor master file are:

- Inconsistent information provided by the vendor who initiates the request for a vendor record.
- Vendors entered in our systems having different legal structures, but similar attributes (address, name, location, etc.), can cause confusion during data entry.

Issue 2 - Transaction Processes and Controls

Objective: To determine if processes, procedures, and controls are effective in ensuring compliance with University policies and Texas Government Code Sec. 2251.

Criteria: S.A.M. 03.A.01 (Expenditure and Use of all Funds Administered by the University of Houston System) and Texas Government Code Sec. 2251 (Payment for Goods and Services).

Risk: If errors are made and go undetected, the University could be exposed to inaccurate financial records, financial loss, legal liability, loss of public trust and adverse publicity.

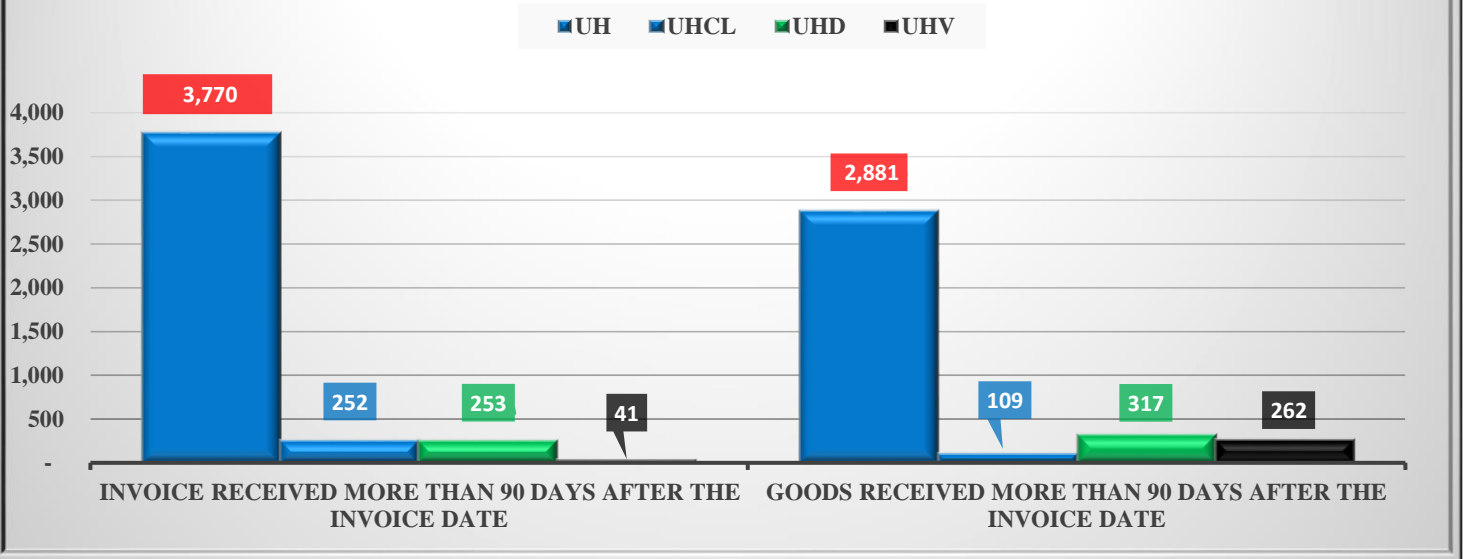
Observation: IAD performed an analysis of the quantity of vouchers and dollar value of payment vouchers processed by each University for fiscal years 2016 through 2020

Year	UH and UHS		UHCL		UHD		UHV		All Universities Combined	
	Voucher Qty	Dollar Value of Vouchers	Voucher Qty	Dollar Value of Vouchers	Voucher Qty	Dollar Value of Vouchers	Voucher Qty	Dollar Value of Vouchers	Voucher Qty	Dollar Value of Vouchers
2016	95,155	\$410,135,394	13,446	\$23,116,484	13,445	\$37,302,296	4,655	\$13,179,141	126,701	\$483,733,315
2017	94,461	\$397,109,894	12,069	\$46,335,196	12,819	\$34,793,607	4,898	\$20,743,899	124,247	\$498,982,596
2018	90,899	\$488,431,160	10,602	\$82,421,121	14,065	\$72,906,912	4,276	\$17,137,712	119,842	\$660,896,905
2019	97,712	\$595,890,074	11,568	\$63,765,586	12,796	\$79,561,552	4,647	\$24,811,667	126,723	\$764,028,878
2020	76,910	\$500,503,544	8,941	\$27,592,220	9,154	\$41,464,364	3,612	\$31,628,777	98,617	\$601,188,904
Total									596,130	\$3,008,830,598

We performed an analysis of accounts payable voucher transactions for all universities posted for payment during September 1, 2019 through June 30, 2020. The data was analyzed to identify anomalies such as dates entered incorrectly. Multiple date inconsistencies, such as dates outside of a reasonable timeframe for processing, were identified during the course of the audit, indicating that additional date controls and explanations should be required within the finance system.

The data also yielded invoices received prior to the invoice date, and invoices received more than 90 days after the invoice date. The invoice date, invoice receipt date and the goods receipt dates are the three key dates the PeopleSoft Finance System uses to calculate the net due date of an invoice to ensure compliance with SAM 03.A.01 (Expenditure and Use of all Funds Administered by the University of Houston System) and Texas Government Code Sec. 2251 (i.e., the Prompt Payment Statute).

Voucher Data Analysis September 1, 2019 - June 30, 2020



Multiple invoices were received more than 60 days after the invoice date at all Universities of the System. Many vendors, especially considering the recent pandemic, are sending their invoices electronically to avoid mail delays which generates documentation to support the invoice receipt date. However, our testing identified difficulty in verifying the accuracy of the invoice receipt date entered the PeopleSoft Finance System for all Universities.

According to the Texas Government Code Sec. 2251.021 payments are considered overdue on the 31st day after the later of (1) date goods received (2) date performance of the service under the contract is completed or (3) date the invoice is received. Overdue payments accrue interest from the 31st day until the payment is made. The analysis of the voucher data identified late interest payments made by the System totaling \$6,825.26 out of approximately \$3 Billion.

IAD also reviewed a sample of voucher transactions from each University for the items bulleted for the time period September 1, 2019 through June 30, 2020. The results are represented for each University.

- Information in the PeopleSoft Finance System agrees with the invoice.
- Invoice was authorized by management.
- Associated voucher purchase order/requisition was processed timely, authorized by management and information agrees with invoice.
- Goods or services purchased are allowable for funds used to pay for goods or services.
- Prompt payment interest paid if payment was untimely.
- Contract payments are in accordance with contract terms and the contract is properly authorized.

University of Houston System/University of Houston:

- 43 transactions were reviewed for the accuracy of dates entered in the PeopleSoft Finance System. One transaction (2%) contained an incorrect Invoice Received Date and Good Received Date.
- 43 invoices were reviewed for proper authorization by management for payment. All the transactions were properly authorized by management.
- 43 transactions were reviewed to ensure the proper vendor was selected for payment. The proper vendor was selected for all vouchers.
- We identified 33 transactions requiring a purchase order. Four transactions (12%) were not in compliance with purchase order policies. A purchase order was not processed for one of the transactions; two transactions with purchase orders processed between 200 and 221 days after the invoice date and one purchase order was processed 58 days after the invoice date.
- We reviewed the 33 transactions that required a requisition/purchase order to ensure the requisition/purchase order was properly authorized by management. All the transactions were properly authorized by management.
- 43 transactions were reviewed to ensure transactions were processed timely. Four transactions (9%) were processed between 4 and 59 days after the Net Due Date.
- We reviewed the invoice receipt date for 43 transactions. Ten invoices (23%) were received at least 60 days after the invoice date.

University of Houston-Clear Lake:

- 31 transactions were reviewed for the accuracy of dates entered in the PeopleSoft Finance System. All the dates were entered into the PeopleSoft Finance System accurately.
- 31 invoices were reviewed for proper authorization by management for payment. All the transactions were properly authorized by management.
- 31 transactions were reviewed to ensure the proper vendor was selected for payment. The proper vendor was selected for all vouchers.
- We identified 30 transactions requiring a purchase order. One purchase order (3%) was processed 69 days after the invoice date.
- We reviewed the 30 transactions that required a requisition/purchase order to ensure the requisition/purchase order was properly authorized by management. All the transactions were properly authorized by management.
- 31 transactions were reviewed to ensure transactions were processed timely. Three transactions (10%) were processed after the Net Due Date. One transaction was processed 67 days after the Net Due Date. Two transactions were processed between 2 and 17 days after the Net Due Date.
- We reviewed the invoice receipt date for 31 transactions. Four invoices (13%) were received at least 60 days after the invoice date.

University of Houston-Downtown:

- 30 transactions were reviewed for the accuracy of dates entered in the PeopleSoft Finance System. All the dates were entered into the PeopleSoft Finance System accurately.

- 30 invoices were reviewed for proper authorization by management for payment. All the transactions were properly authorized by management.
- 30 transactions were reviewed to ensure the proper vendor was selected for payment. The proper vendor was selected for all vouchers.
- We identified 25 transactions requiring a purchase order. Four transactions (16%) were not in compliance with purchase order policies because a copy of the purchase order was not uploaded in the PeopleSoft Finance System.
- We reviewed the 25 transactions that required a requisition/purchase order to ensure the requisition/purchase order was properly authorized by management. All the transactions were properly authorized by management.
- 55 transactions were reviewed to ensure transactions were processed timely. Five transactions (9%) were processed after the Net Due Date. One transaction was processed 24 days after the Net Due Date. Four transactions were processed between 2 and 8 days after the Net Due Date.
- We reviewed the invoice receipt date for 55 transactions. Eight invoices (15%) were received at least 60 days after the invoice date.

University of Houston-Victoria:

- 30 transactions were reviewed for the accuracy of dates entered in the PeopleSoft Finance System All of the dates were entered into the PeopleSoft Finance System accurately.
- 30 invoices were reviewed for proper authorization by management for payment. All the transactions were properly authorized by management.
- 30 transactions were reviewed to ensure the proper vendor was selected for payment. The proper vendor was selected for all invoices.
- We identified 25 of the transactions requiring a purchase order. Four transactions (16%) were not in compliance with purchase order policies. Two purchase orders were processed between 23 and 44 days after the invoice date. Two purchase orders were processed 3 and 5 days after the invoice date.
- We reviewed the 25 transactions that required a requisition/purchase order to ensure the requisition/purchase order was properly authorized by management. All the transactions were properly authorized by management.
- 54 transactions were reviewed to ensure transactions were processed timely. Two transactions (4%) were processed after the Net Due Date.
- We reviewed the invoice receipt date for 54 transactions. Four invoices (7%) were received at least 60 days after the invoice date.

Conclusion: There is opportunity to enhance the procedures for invoice data element entry and voucher supporting documentation upload.

Issue 3 - Duplicate Payments

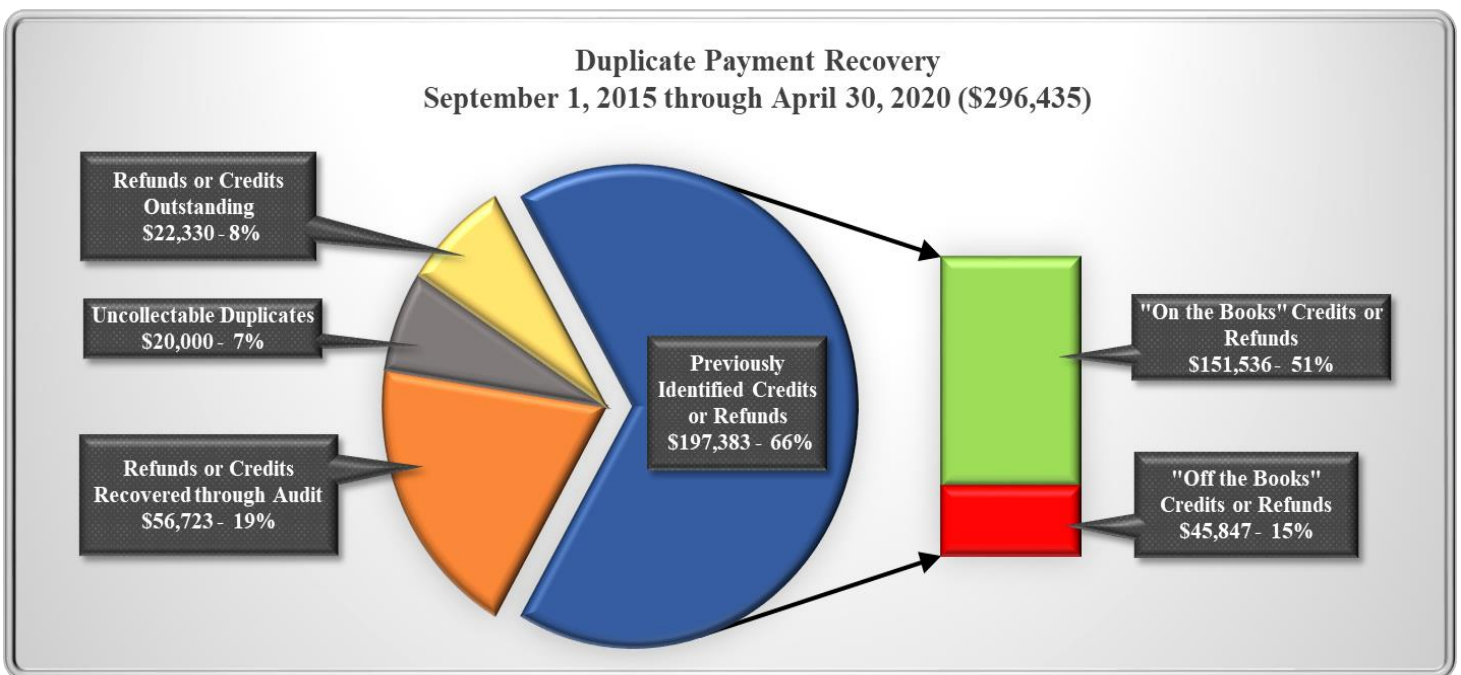
Objective: To assess the strength of procedures in place to ensure payables, to include refunds and credits, are being properly accounted for, paid, and recorded in the System's records.

Criteria: Best business practices and SAM 03.A.01 (Expenditure and Use of all Funds Administered by the University of Houston System).

Risk: If errors are made and go undetected, the University could be exposed to financial loss, adverse publicity, and loss of fiduciary trust from the public.

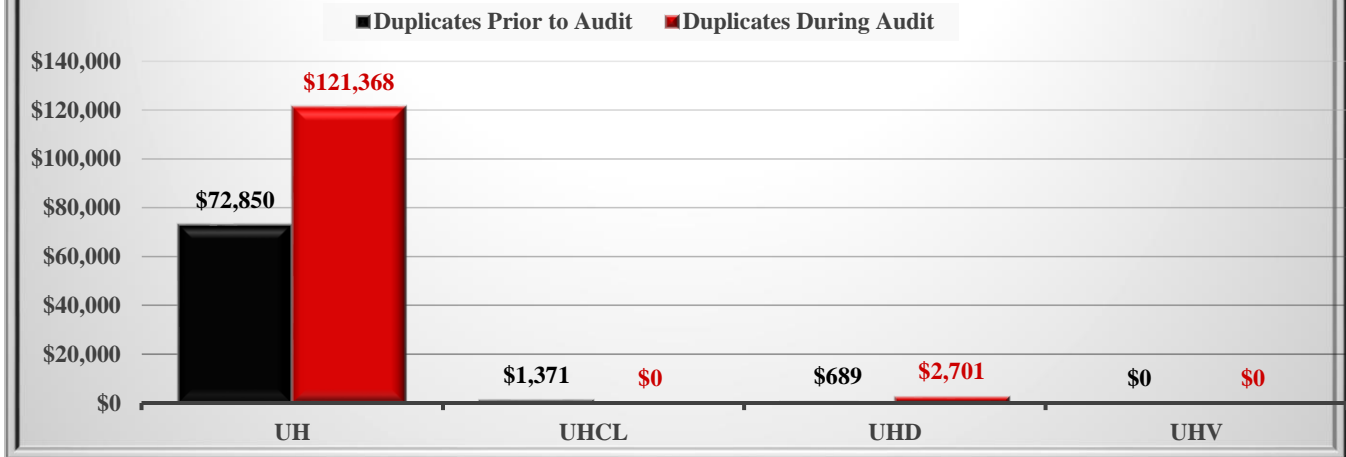
Observation:

IAD used Data Analytics to perform duplicate payment testing on a population of approximately \$3 Billion. Duplicate payment testing was performed on voucher payments made during fiscal years 2016 through 2020 (September 1, 2015 through April 30, 2020). We noted UHV had no duplicate payments. Duplicate payments identified for UH, UHCL, and UHD, combined, totaled \$296,435. The UHS received \$56,723 (19%) in refunds from vendors during the audit. The UHS had recovered approximately \$197,383 (66%) of the duplicate payments prior to the start of the audit. We noted that \$45,847 (15%) of the duplicate payments recovered prior to the audit were “off the books” credits or refunds and could only be discovered upon contacting the department and/or vendor (most records had to be researched by the vendor to provide documentation that previous credits and/or refunds had been provided). The records for these duplicate payments were maintained solely by the department or vendor. Of the \$197,383 previously identified duplicate credits or refunds, \$151,536 (51%) were “on the books” in the PeopleSoft Finance System. However, the process for booking these credits or refunds made it extremely difficult to locate the documentation indicating the credit or refund had been booked in the PeopleSoft Finance System. Extensive research had to be performed on the part of each department to determine the credit or refund had been booked and locate the documentation. It was undeterminable or unauditible by internal audit.



While the chart above provides a visual representation of total duplicates identified during the audit, the chart below provides an analysis of duplicate payments by University for the time reviewed.

Duplicate Payments by University September 1, 2015 through April 30, 2020

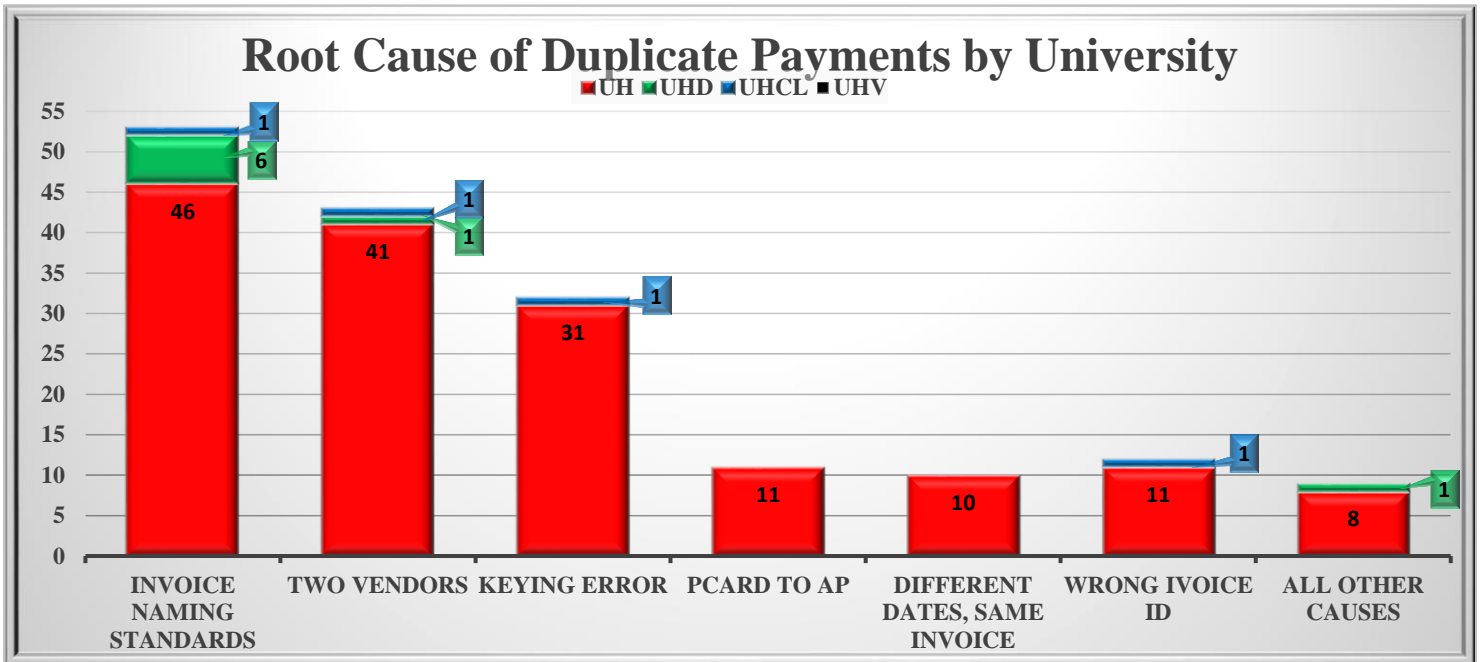


Factors contributing to duplicate payments include:

- The vendor master file contains vendors that appear to be similar in name and having similar addresses; however, each vendor may be represented by a different Tax Identification Number due to the nature of their business organization (ex. Cardinal Health vs. Cardinal Health Inc.). Departments order their supplies, materials, etc. and are the responsible party for receiving and creating vouchers from the invoices for payment in the financial system. This includes the selection of the proper vendor from the vendor master file. The department cannot see the information (Tax Identification Numbers are protected information) within the vendor master file that contains the vendor Tax Identification Number and/or it may not be provided on the invoice to be used to select the vendor when paying an invoice. Thus, the department must rely upon choosing a vendor based on the name and/or address. It can be difficult to choose the proper vendor when multiple vendors have the same and/or similar names/address within the vendor master file.
- Automated controls within the PeopleSoft Finance System and Concur (travel management system) may be ignored or circumvented and allow for duplication of payments. Both the PeopleSoft Finance System and Concur have a warning prompt to let the user know that a duplicate invoice or travel voucher is being entered and/or processed. Simply adding an additional character such as a period or a blank space to the invoice will prevent the duplicate invoice number control in PeopleSoft from functioning properly. Ignoring the prompt for the duplicate travel voucher in Concur will allow the duplicate to process and will prevent the controls from functioning properly. There is currently no policy that instructs the person entering an invoice to follow a standard protocol for data entry of an invoice System-wide.
- Insufficient invoice number data entry standards for entering data in the PeopleSoft Finance System. The invoice number field in the PeopleSoft Finance System allows for entry of

spaces and erroneous characters. For example, adding additional identifying information in the invoice number field such as date, account number or identifying cost center.

- Creating vouchers from multiple types of document (i.e., invoices vs. statements)
- Typographical errors



Additionally, our duplicate payment testing identified the following process and control weaknesses:

- Vendors issued credits for duplicate payments that were not recorded in the PeopleSoft Finance System
- Departmental record keeping procedures for vendor issued credits made it difficult to determine if duplicates had been previously identified and resolved.
- Vendor credits for duplicate payments were not appropriately applied to the initial cost center.

Conclusion: There are opportunities for improvement regarding the prevention, identification, resolution of duplication payments, and procedures for recording vendor refunds and credits.

Cause: Factors contributing to duplicate payments include:

- Similar vendor records in the vendor master file.
- Invoice number data entry standards and controls were insufficient to ensure duplicate invoices were not entered into the PeopleSoft Finance System.
- Creating vouchers from multiple types of document (i.e., invoices vs. statements).

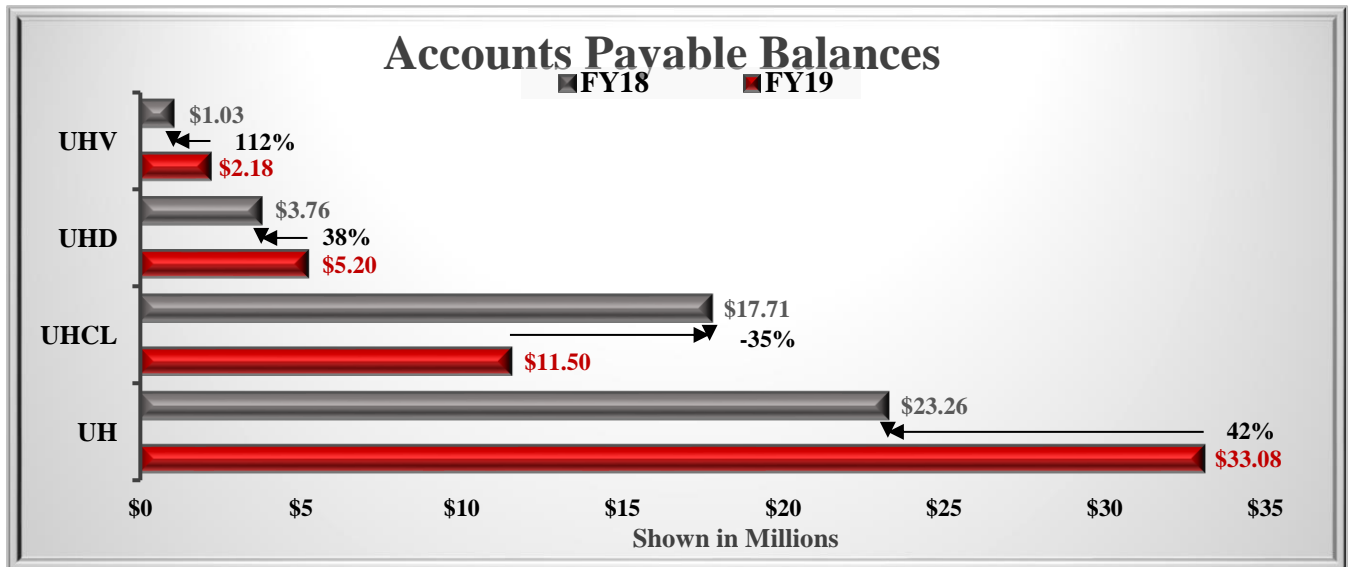
Issue 4 – Compliance with the Prompt Payment Law

Objective: To compare line-item data from each University’s financial statements to reveal insights regarding balances, liquidity, compliance, and performance.

Criteria: Texas Government Code Sec. 2251 (i.e., the Prompt Payment Statute) and best business practices.

Risk: Severe fluctuations in accounts payable financial statement ratios could indicate underlying issues with the ability to timely pay creditors.

Observation: IAD performed a comparative analysis of the FY18 to FY19 Accounts Payable Balances for all Universities in the System. The accounts payable balances for FY19 increased for all universities except for the UHCL which decreased by 35%.

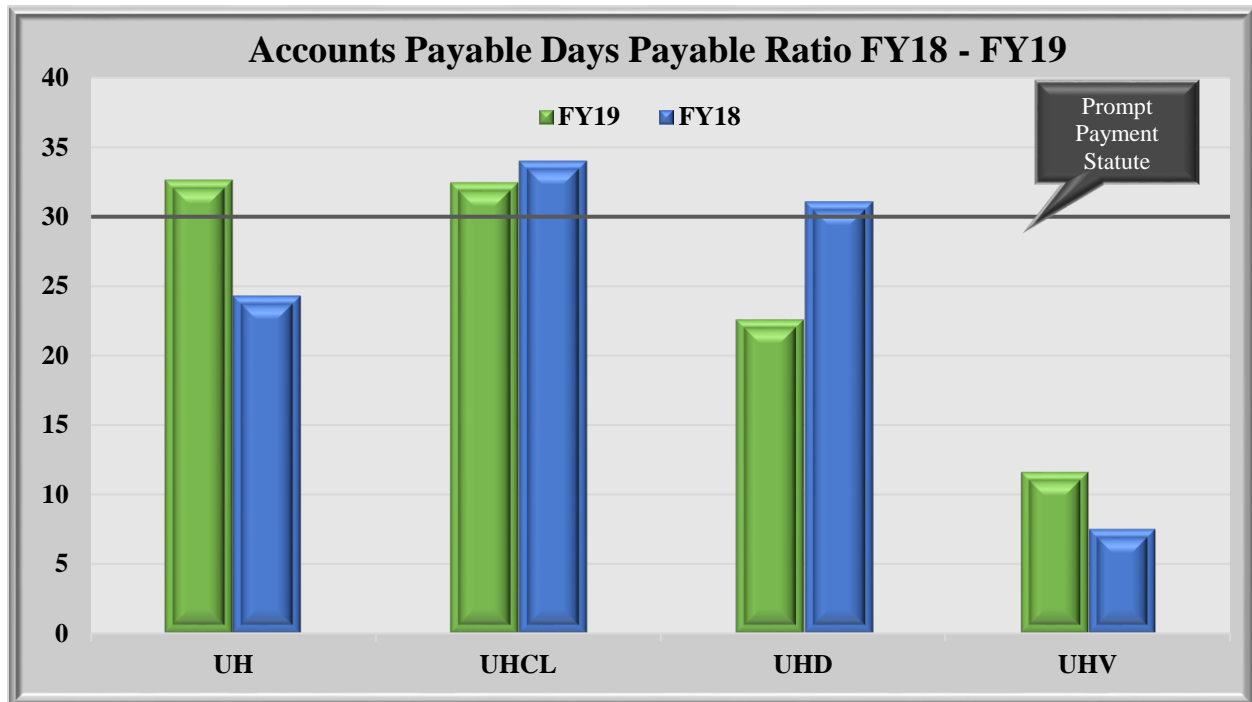


The accounts payable turnover ratio in days was calculated to provide high level analysis of the days it takes each University to pay its vendors to identify potential issues with the Texas Government Code Prompt Payment Statute

IAD calculated the Days Payable and Turnover ratio for all Universities in the System. The initial calculation of UHCL's days payable outstanding was 278 days for FY18 and 348 days for FY19. This ratio did not appear reasonable because (1) it exceeded compliance with the Texas Government Code Prompt Payment Statute to pay invoices within 30 days and (2) the ratio far exceeded the ratio of other Universities in the System that are similar in size. Further investigation was necessary to identify the reason the ratio was an outlier. IAD's investigation identified UHCL was the only University that included Title IV Credit Balance Refunds (FY18 \$6,581,159.48 and FY19 \$6,033,024.93) and Student Financial Clearing funds (FY18 \$2,333,332.64 and FY19 \$1,687,382.80) in their yearend accounts payable balance. This anomaly was presented to UHCL Financial Management and they have agreed to collaborate with the other Universities regarding the handling of the Title IV Credit Balance Refunds and Student Financial Clearing amounts. The investigation also identified repair expenditures that were re-classified as capital assets that did not have a corresponding offsetting expense (FY18 \$7,098,036 and FY19 \$1,578,994). The ending accounts payable balance was adjusted accordingly, and the new ratio calculation appeared to be in line with the other component Universities of similar size.

Our analysis indicated the average across all Universities in the System for FY18 and FY19 was 24 and 25 days respectfully. The number of days to pay vendors in FY19 for UH and UHV increased slightly. The number of days to pay vendors in FY19 decreased slightly for UHCL and UHD. The day's payable outstanding for all component Universities were closely aligned or exceeded the requirement of the 30

day to pay requirement of Texas Government Code Sec. 2251. This is further supported by the insignificant amount of late interest paid by all component Universities in the System.



Conclusion: There are consistency opportunities for improvement regarding the process for recording liabilities at year end. The controls related to Texas Government Code Sec. 2251 (Prompt Payment Law) are reasonably strong to ensure compliance with the law.

Recommendations

All four issues mentioned in this report reflect only moderate to minor issues in the overall Accounts Payable process as it is now. However, the continued growth of each University of Houston System's University will cause these areas to become unstable elements to the process and may have disruptive effects. To ensure a growth profile, relieve manual strain, improve efficiency, and reduce costs, the Department of Internal Auditing recommends the following:

1. UHS implement an artificial intelligence logic system that contains support of the following:
 - Automated risk management that supports exception resolution.
 - Anti-fraud controls utilizing the standard tests but is also tunable to the specific needs of the university/universities.
 - Automated supplier-risk profiling that supports identification of exceptions in supplier data.
 - Automatic systematic hygiene and maintenance of the master vendor file.
 - Actionable reporting and dashboards so trending issues may be identified quickly.
2. UHS implement logic safeguards to ensure duplicate invoices cannot be entered and controls not circumvented to allow replica information into the PeopleSoft Finance System and allow potential loss.

3. UHS develop and implement policies and procedures to ensure proper recording of refunds and credits in the PeopleSoft Finance System to help ensure accounting records are accurate and complete.

Management Response:

Issue 1 – Artificial Intelligence Logic System

The University of Houston System agrees that it will benefit from an automated system that supports vendor management and payment processes.

The University of Houston’s Division of Finance will work with the Information Technology and personnel from UH-Clear Lake, UH-Downtown, and UH-Victoria to solicit and implement a software system that will assist with vendor Master File management and review, provide anti-fraud controls, provide reporting and information on vendor Master File inconsistencies and risk, and provide early detection of potential issues. We estimate that this will be a long-term project, and will issue an RFP August 31, 2021 to solicit such software. We are unable to estimate the timeframe for implementation, so request that we use the selection of a vendor as the measure of substantial completeness.

Responsible Person: Usha Mathew, AVP Finance and Controller

Issue 2 – Finance System Logic Safeguards

The University of Houston System agrees that it will benefit from additional controls regarding invoice data entry in the PeopleSoft Finance and Concur Systems, as well as additional user training.

The University of Houston’s Division of Finance will work with Information Technology and personnel from UH-Clear Lake, UH-Downtown, and UH-Victoria to modify invoice entry standards to: 1) provide edit checks on voucher dates entered and require additional explanation for dates outside of a reasonable time frame; 2) impose invoice number entry restrictions such as the disallowances of spaces or unusual characters and remove differentiation between upper and lower case text. We estimate that these changes can be made by December 31, 2021.

The University of Houston’s Division of Finance will discuss requested changes to invoice entry standards in the Concur Travel Management system with Concur Technologies to see if changes can be made; we estimate that this discussion can occur and we can have a response by May 31, 2021.

Note – Only UH currently uses Concur Travel Management.

The University of Houston’s Division of Finance will work with personnel from UH-Clear Lake, UH-Downtown, and UH-Victoria to develop training materials regarding invoice data entry that addresses the importance of date accuracy as well as invoice number accuracy. We estimate that these materials can be created and disseminated by September 30, 2021.

Responsible Person: Usha Mathew, AVP Finance and Controller

Issue 3 – Refund and Credit Reporting

The University of Houston System agrees that it will benefit from utilization of a central system to track vendor refunds and credits.

The University of Houston’s Division of Finance will work with Information Technology and personnel from UH-Clear Lake, UH-Downtown, and UH-Victoria to review available PeopleSoft Finance options, such as adjustment vouchers, to track vendor credit memos and refunds and implement the specific modules required. We estimate that this will be a long-term process, as it utilizes the same resources as all other findings and the implementation of a logic system and invoice entry controls will take precedence; as such we estimate that this can be substantially completed by December 31, 2022.

* * * * *

The UHS Department of Internal Auditing would like to thank the office of Administration and Finance for their cooperation and assistance during this audit process.

Sincerely,



Phillip W. Hurd
Chief Audit and Compliance Executive
University of Houston System

PWH/pwh/AP Audit

Participating Auditors: Brandee O’Neal, Tamara Davis, Kim Gerry, Elias McClellan, Eric Porter, and Emily Tran

UNIVERSITY of HOUSTON

INTERNAL AUDITING DEPARTMENT

Action Item Number	Audit Area	University	Recommendation Summary	Task	Responsible Person	Targeted Date	Status
1	Vendor Management	UHS	<p>UHS implement an artificial intelligence logic system that contains support of the following:</p> <ul style="list-style-type: none"> • Automated risk management that supports exception resolution. • Anti-fraud controls utilizing the standard tests but is also tunable to the specific needs of the university/universities. • Automated supplier-risk profiling that supports identification of exceptions in supplier data. • Automatic systematic hygiene and maintenance of the master vendor file. • Actionable reporting and dashboards so trending issues may be identified quickly. 	<p>The University of Houston System agrees that it will benefit from an automated system that supports vendor management and payment processes.</p> <p>The University of Houston’s Division of Finance will work with the Information Technology and personnel from UH-Clear Lake, UH-Downtown, and UH-Victoria to solicit and implement a software system that will assist with vendor Master File management and review, provide anti-fraud controls, provide reporting and information on vendor Master File inconsistencies and risk, and provide early detection of potential issues. We estimate that this will be a long-term project, and will issue an RFP by June 30, 2021 to solicit such software. We are unable to estimate the timeframe for implementation, so request that we use the selection of a vendor as the measure of substantial completeness.</p>	Usha Mathew, AVP Finance and Controller	8/30/2021	
2	Duplicate Payments	UHS	<p>All universities implement logic safeguards to ensure duplicate invoices cannot be entered and controls not circumvented to allow replica information into the PeopleSoft Finance System and allow potential loss.</p>	<p>The University of Houston System agrees that it will benefit from additional controls regarding invoice data entry in the PeopleSoft Finance and Concur Systems, as well as additional user training.</p> <p>The University of Houston’s Division of Finance will work with Information Technology and personnel from UH-Clear Lake, UH-Downtown, and UH-Victoria to modify invoice entry standards to: 1) provide edit checks on voucher dates entered and require additional explanation for dates outside of a reasonable timeframe; 2) impose invoice number entry restrictions such as the disallowances of spaces and/or unusual characters and remove differentiation between upper and lower case text. We estimate that these changes can be made by December 31, 2021.</p> <p>The University of Houston’s Division of Finance will discuss requested changes to invoice entry standards in the Concur Travel Management system with Concur Technologies to see if changes can be made; we estimate that this discussion can occur and we can have a response by March 31, 2021. Note – Only UH currently uses Concur Travel Management.</p> <p>The University of Houston’s Division of Finance will work with personnel from UH-Clear Lake, UH-Downtown, and UH-Victoria to develop training materials regarding invoice data entry that addresses the importance of date accuracy as well as invoice number accuracy. We estimate that these materials can be created and disseminated by September 30, 2021.</p>	Usha Mathew, AVP Finance and Controller	12/31/2021	

UNIVERSITY of HOUSTON

INTERNAL AUDITING DEPARTMENT

Action Item Number	Audit Area	University	Recommendation Summary	Task	Responsible Person	Targeted Date	Status
3	Duplicate Payments	UHS	All universities develop and implement policies and procedures to ensure proper recording of refunds and credits in the PeopleSoft Finance System to help ensure accounting records are accurate and complete.	The University of Houston System agrees that it will benefit from utilization of a central system to track vendor refunds and credits. The University of Houston's Division of Finance will work with Information Technology and personnel from UH-Clear Lake, UH-Downtown, and UH-Victoria to review available PeopleSoft Finance options, such as adjustment vouchers, to track vendor credit memos and refunds and implement the specific modules required. We estimate that this will be a long term process, as it utilizes the same resources as all other findings and the implementation of a logic system and invoice entry controls will take precedence; as such we estimate that this can be substantially completed by December 31, 2022.	Usha Mathew, AVP Finance and Controller	12/31/2022	