AUDIT OF

PURCHASING/CASH DISBURSEMENTS/
ACCOUNTS PAYABLE

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August 24, 2012
Report No. 12-10
DATE: August 24, 2012

TO: Dr. Ann Stuart, Chancellor and President
    Members of the Board of Regents

FROM: Andrew S. Groover, M.Ed., CPA, CIA, CICA, CISA, CFE
       Director of Internal Audits

RE: Audit Report of Purchasing/Cash Disbursements/Accounts Payable

Our internal audit report of Purchasing/Cash Disbursements/Accounts Payable follows. We appreciate the cooperation and assistance provided to us by Pam Wilson, Kelly McCullar, and their staff during the audit.

A follow-up audit will be conducted in approximately six months.

C: Dr. Brenda Floyd
   Pam Wilson
   Kelly McCullar
   Governor’s Office of Budget and Planning
   Legislative Budget Board
   State Auditor’s Office
   Sunset Advisory Commission
Executive Summary
An audit was conducted of Texas Woman’s University’s (TWU) Purchasing/Cash Disbursements/Accounts Payable. Our audit revealed that overall; Purchasing/Cash Disbursement/Accounts Payable processes and procedures are effective and have proper controls and in compliance with applicable laws, regulations, policies, and contracts; however, we have made recommendations to improve processes, procedures and compliance.

Overview
TWU Procurement Services was established to serve and support the university departments in the procuring of goods and services, information technology, consultant services and construction.

Payments to suppliers for goods and services for fiscal year end 2011 were $31,884,851. Procurement Services is staffed with a Procurement Services Director, a Procurement Services Manager, a Supervisor of Disbursements, a Procurement Analyst, two Buyer I, a Procurement Card Coordinator, two Procurement Specialists, a Disbursements Coordinator, and USAS Coordinator/Business Specialist. Procurement Services reports to the Associate Vice President for Budget and Procurement and ultimately to the Vice President for Finance and Administration.

Reconciliations of the disbursement bank account and accounts payable balances are performed by the Controller’s Office. The balance of Accounts Payable at 8/31/2011 was $2,582,412. The Controller’s Office also reports to the Vice President for Finance and Administration.

Audit Objective
The objective of our audit was to review the processes and procedures of Purchasing/Cash Disbursements/Accounts Payable to determine they are effective, have proper controls, and in compliance with applicable laws, regulations, policies, and contracts.

Scope
The scope of our audit was fiscal year 2011 and fiscal year 2012 through May. We performed our testing on a sample basis.

Methodology
We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing and Government Auditing Standards, where applicable.

Primarily, we reviewed to determine the following:
• Purchasing procedures are being followed, payments are made accurately and supported by appropriate documentation.
• Required trainings are being completed.
• Compliance with TWU Authentication Policy - 9.09.
• Compliance with Texas Property Code Section 74.101, 74.102, 74.103, 74.301, and 74.1011.
• Compliance with Texas Government Code Section 2161.003, 2161.122, 2161.123, 2161.124.
• Compliance with Texas Education Code Section 51.9741.
• Access to web based applications, SQL Reports, and GMedia is appropriate.
• Compliance with the TWU Staff Employee Performance Management & Evaluations Policy – 3.30.
• 1099 forms are completed and mailed out by the required deadline.
• Amounts reported to vendors on Form 1099 for Tax Year 2011 agree to the vendor payment amounts in Oracle.
• Data is properly backed up and safeguarded.
• Accounts are being properly reconciled.
• Controls over vendor set up are appropriate.
• Controls over duplicate payments are appropriate.
• Accounts Payable reported in the fiscal year 2011 annual financial report is fairly stated and agrees to Oracle.

Summary of Results
We have made recommendations related to
➢ Compliance with TWU Authentication Policy 9.09.
➢ Compliance with TWU Staff Employee Performance Management & Evaluations Policy 3.30.
➢ Migrating Procurement Services network files to an independent network drive for better access control. Also periodically reviewing the access control listings of GMedia - Controller Vendor and Electronic State Business Daily.
➢ Ensuring that tax information on form 1099 is processed accurately.
➢ Ensuring that Procurement Services departmental account activity is reconciled to the activity in Oracle.
➢ Compliance with Texas Education Code section 51.9741.
➢ Compliance with Texas Property Code section 74.1011.
➢ Compliance with Texas Government Code section 2161.123 and 2161.124.
➢ Ensuring that outstanding checks on the disbursement bank account are researched and cleared more timely.

The detail audit results and management’s responses follow.

Andrew S. Groover, M.Ed., CPA, CIA, CICA, CISA, CFE
Director of Internal Audits
Audit Results and Management’s Responses

1) We recommend that management comply with TWU Policy 9.09-Authentication Policy.

The TWU Authentication Policy states:

"Creating complex passwords is the single most important piece to safeguarding resources. When creating TWU passwords, use the Password Construction Guidelines"

We reviewed compliance with the TWU Authentication Policy. We determined that four employees had passwords that are considered weak and easily compromised.

Management’s Response: Procurement Services management was unable to obtain a listing of employees with weak passwords from the Office of Technology. Subsequently, a work order requesting the Office of Technology to advise all Procurement Services personnel that passwords identified as weak should be changed was submitted. Management will encourage and remind staff to utilize complex passwords in order to comply with the TWU Authentication Policy.

2) We recommend that management comply with TWU Policy 3.30 – Staff Employee Performance Management and Evaluations Policy.

The TWU Staff Employee Performance Management and Evaluations Policy states:

“The performance of each non-faculty employee of Texas Woman’s University, except graduate assistants and temporary employees, and employees hired after October 1 will be evaluated each year by the department supervisor, manager, or designee. This annual evaluation shall be completed between November 15 and December 31, and in accordance with Performance Evaluation Guidelines and Instructions.”

We reviewed compliance with the TWU Staff Employee Performance Management and Evaluations Policy. We determined that performance evaluations have not been completed for eight employees of Procurement Services.
Management’s Response: Agreed – fiscal year 2011 was a busy year with new staff, retiring staff and departmental reorganization. It was determined that our efforts should involve redefinition of individual job duties and performance measures during this year of transition rather than evaluation of duties that would be reassigned. All employee evaluations will be performed by 31 December 2012.

3) We recommend that management consider migrating Procurement Services network files to an independent network drive for better access control. We also recommend that the access listings of GMedia - Controller Vendor and the Electronic State Business Daily be periodically reviewed.

Good computer security includes granting access to users only when necessary to carry out their job functions as well as periodically reviewing access listings. If these controls are not utilized, it increases the risk that unnecessary access could exist perpetually which increases the risk of data integrity loss.

We reviewed and determined that Procurement Services does not have an independent network drive. Procurement Services network files are contained in a subfolder within the Controller’s Office network drive; therefore, Procurement Services does not have direct control over access to its network files.

We obtained and reviewed the access listing for GMedia - Controller Vendor (GMedia - Controller Vendor houses scans of W-9’s and Electronic Funds Transfer Agreement Forms). It was determined that one employee had access to GMedia - Controller Vendor that is not necessary for their job function. We also determined that the access listing for GMedia - Controller Vendor is not periodically reviewed to ensure appropriate access.

We obtained and reviewed the access listing for Electronic State Business Daily (an electronic bulletin board used by all state agencies to post procurement opportunities of $25,000 or more and provide notice of awards). We determined that two terminated employees still had access to the Electronic State Business Daily.

Management’s Response: Management has input a Footprints work order asking the Office of Technology to migrate Procurement Services network files to an independent network drive.

Management will request, from the Office of Technology, a quarterly review of all individuals with access to Gmedia Controller Vendor to ensure there is no improper access.

ESBD access has been corrected and will be monitored bi-annually.
4) We recommend that management ensure that tax information on form 1099 is processed accurately.

Accurate reporting of 1099 tax information is important to ensure the recipient has an accurate accounting of payments made from customers.

We performed testing of 50 form 1099’s that were reported for tax year 2011 to determine that they were processed accurately and the amounts agree to the amounts reported in Oracle. We determined that one 1099 was sent to a vendor with a reported amount of $52,462.55; however, the amount in Oracle was $90,190.55. We also determined that a 1099 for $1,661.12 was sent to an employee in error. The employee expense was for travel reimbursement and is not subject to 1099 reporting.

**Management’s Response:** Procurement Services has performed extensive work in an effort to fully and completely update the supplier base prior to the Oracle R12 upgrade. In the above noted findings both are over-reporting errors. In scenario one – the vendor should not have received a 1099 for any amount. That field has now been updated for CY2012 reporting.
In scenario two – the current version of Oracle allows an employee to be treated as a supplier as well as an employee – (Oracle version 12 does not allow such). The employee received a scholarship from the TWU Foundation which is a miscellaneous 3 reportable payment – however, Oracle 11 does not differentiate despite site delineations so it flagged all subsequent payments as 1099-able even though those payments were not from the Foundation account nor did they use the site flagged for 1099. Additional scrutiny will be performed for CY12 reporting and this issue will be systematically controlled with CY13 reporting.

5) We recommend that Procurement Services reconcile departmental account activity to the activity recorded in Oracle.

Proper reconciliation of accounts at regular intervals is an essential element of good internal controls. This ensures that account activity is authentic, accurate, and verified. If accounts are not reconciled, it could lead to inaccurate account activity, budgets being overspent as well as the potential for account impropriety.

We inquired of management about their process to reconcile departmental account activity. We determined that there is no reconciliation of the monthly activity of the Procurement Services departmental accounts to the activity that is recorded in Oracle.
**Management’s Response:** Procurement Services departmental account is reconciled monthly. Management reviews transactions for accuracy, completeness, and constant monitoring of funds available and funds expended. There is, however, no formal documentation outlining the steps taken for said reconciliation.

6) We recommend that management comply with Texas Education Code section 51.9741.

The Texas Education Code section 51.9741 states:

“(a) Each institution of higher education, as defined by Section 61.003, shall post on the institution’s Internet website a copy of the institution's financial transactions to the extent necessary to provide, for each payment drawn from money appropriated from the state general revenue fund or received as student tuition or fee payments:

(1) the amount of the payment;
(2) the date of the payment;
(3) a brief description of the purpose of the payment; and
(4) the name of the payee.

(b) An institution of higher education may comply with this section by providing on the institution’s Internet website an easily noticeable direct link, the purpose of which is clearly identifiable, to an Internet website maintained by the comptroller that provides information concerning the institution that is similar to the information required under Subsection (a).”

We reviewed the University’s internet website and determined that financial transactions are not posted on the University's internet website and the University is not providing on its Internet website an easily noticeable direct link, the purpose of which is clearly identifiable, to an Internet website maintained by the comptroller that provides information concerning the institution that is similar to the information required under Subsection (a).

**Management’s Response:** Procurement Services has input a Footprints work order asking the Office of Technology to perform an extract from the Oracle Financial System that will post to the website for all payments drawn from money appropriated from the state general fund or received as student tuition or fee payments.
7) We recommend that management comply with Texas Property Code section 74.1011.

Texas Property Code section 74.1011 states:

“(a) Except as provided by Subsection (b), a holder who on June 30 holds property valued at more than $250 that is presumed abandoned under Chapter 72, 73, or 75 of this code or Chapter 154, Finance Code, shall, on or before the following August 1, mail to the last known address of the known owner written notice stating that:
   (1) the holder is holding the property; and
   (2) the holder may be required to deliver the property to the comptroller on or before November 1 if the property is not claimed.

We determined that the notice to the known owner does not contain the required statement that "the holder may be required to deliver the property to the comptroller on or before November 1 if the property is not claimed."

Management’s Response: TWU will add the following statement to the end of the letter sent to the Payee for unclaimed checks:

“Be advised that TWU may be required to deliver the property to the Texas Comptroller of Public Accounts on or before November 1 if the property is not claimed.”

8) We recommend that management comply with Texas Government Code, Section 2161.123 and Section 2161.124.

Texas Government Code section 2161.123 states:

“(a) Each state agency, including the commission, that is required to have a strategic plan under Chapter 2056 shall include in its strategic plan a written plan for increasing the agency’s use of historically underutilized businesses in purchasing and public works contracting. The governing board of each university system or institution of higher education not included in a university system, other than a public junior college, shall prepare a written plan for increasing the use of historically underutilized businesses in purchasing and public works contracting by the system or institution.
(b) The plan must include:
(1) a policy or mission statement relating to increasing the use of historically underutilized businesses by the state agency;
(2) goals to be met by the agency in carrying out the policy or mission; and
(3) specific programs to be conducted by the agency to meet the goals stated in the plan, including a specific program to encourage contractors to use historically underutilized businesses as partners and subcontractors.

We reviewed to determine compliance with Texas Government Code section 2161.123. We determined that the Historically Underutilized Businesses plan includes a policy relating to increasing the use of historically underutilized businesses and includes the goals to meet; however, the plan does not include specific programs to be conducted by the agency to meet the goals stated in the plan and specific programs to encourage contractors to use historically underutilized businesses as partners and subcontractors.

Texas Government Code section 2161.124 states:

“(a) Each state agency, including the commission, shall prepare a report for each fiscal year documenting progress under its plan for increasing use of historically underutilized businesses.
(b) The commission shall develop a standard form for the report.
(c) The state agency shall file the report with the governor, lieutenant governor, and the speaker of the house of representatives not later than December 31 of each year.”

We reviewed to determine compliance with Texas Government Code 2161.124. We determined that a progress report has not been prepared and filed with the governor, lieutenant governor, and the speaker of the House of Representatives.

Management’s Response: Management will amend the HUB policy/plan to include specific programs that encourage contractors to use historically underutilized businesses as partners and subcontractors. A progress report will be filed with the governor, lieutenant governor, and the speaker of the House of Representatives by December 31, 2012.

9) We recommend that outstanding checks on the disbursement bank account be researched and cleared more timely.
Reconciliation of outstanding items is an essential element of strong internal controls. Researching and clearing reconciling items in a timely manner provides for more accurate records and also promotes a more efficient and effective reconciliation process.

We reviewed the outstanding check listing as of 8/31/11. We determined that there were outstanding checks dating back to 2007 that have not been researched and cleared.

**Management’s Response:** The items dating back to 2007 have been researched. They will be cleared this month (July, 2012) as part of the process for filing the Unclaimed Property List for FY12.

Management realizes the need for timely correction of reconciliation items, and has determined that the cause for delays has been eliminated. Historically, the process for final clearing of checks was relegated a secondary priority because the deadline for the Unclaimed Property list was nearly concurrent with the deadline for the Annual Financial Report. Beginning in 2013, the deadline for the Unclaimed Property List has been moved to July 1st, so there will no longer be a conflicting priority, and the unclaimed checks will be cleared more promptly.