UTHealth

The University of Texas
Health Science Center at Tyler

Office of Internal Audit

March 4, 2020

Dr. Kirk A. Calhoun, President
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Dr. Calhoun,

We have completed the Accounts Payable Audit that was part of our Fiscal Year (FY) 2020 Audit Plan as a risk-based audit. The objective of this audit was to review the Institution's processes and controls within Accounts Payable to ensure there are no duplicate payments submitted or duplicate vendors set up in the vendor master file. The scope of the audit is for UT Health Science Center at Tyler (UTHSCT) from January 1, 2019 through February 6, 2020.

This audit was conducted in accordance with guidelines set forth in The Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing.* We appreciate the assistance provided by everyone we worked with on this audit and hope the information presented in our report is helpful.

Sincerely,

Stephen Ford
AVP, Chief Audit Executive

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Accounts Payable Audit

March 4, 2020

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Report

Background

The Accounts Payable Audit was completed as part of the Fiscal Year (FY) 2020 Audit Plan as a risk-based audit.

Specific to this audit, the Accounts Payable Department is responsible for the processing of payments for the Institution, which includes payments to vendors, employee travel and expense reimbursements, and patient refunds. The Purchasing Department is responsible for overseeing the proper set up, maintenance, and deactivation of vendors within the vendor master file.

A recent article published by AuditNet estimated that corporations make duplicate payments at the rate of 2% on average. The article indicates that duplicate payments can occur in various ways, some of which include typographical errors on the invoice number, a vendor sending multiple invoices, or an invoice amount being entered incorrectly. The article further states that duplicate vendor numbers for the same vendor is the number one (1) cause of duplicate payments. During the audit period, UT Health Science Center at Tyler (UTHSCT) had comprehensive voucher amounts totaling in excess of $100 million.

For Accounts Payable processing and vendor management at UTHSCT, the Institution converted to PeopleSoft Financials in 1998 and it has been utilized, with periodic version upgrades, since that time. PeopleSoft Financials has a number of automated controls in place around the Accounts Payable and vendor management processes.

Objective

The objective of this audit was to review the Institution's processes and controls within Accounts Payable to ensure there are no duplicate payments submitted or duplicate vendors set up in the vendor master file.

Scope and Methodology

The scope of the audit was from January 1, 2019 through February 6, 2020 for UTHSCT.

To achieve the audit objective, we:

- Reviewed applicable regulations, guidance, policies and procedures;
- Reviewed procedures for key departments involved in the Accounts Payable and vendor management processes;

- Utilized data analytics software, in collaboration with a data analytics software expert at the UT System Audit Office, to identify potential duplicate payments and duplicate vendors;
- Performed a walkthrough of vendor payment processes;
- Performed a walkthrough of vendor set-up and maintenance processes within the vendor master file;
- Reviewed supporting documentation for all duplicate payment returns identified by the data analytics software; and
- Selected a sample of duplicate vendor returns identified by the data analytics software, by analyzing Tax Identification Number, and tested for return accuracy and existence.

* It is noted that this audit focused on reviewing duplicate payments to vendors, excluding employees, based on the risk assessment.

The audit was conducted in accordance with the guidelines set forth in The Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*.

Audit Results

Overall, our audit revealed quality controls in place for preventing duplicate payments and a strong team overseeing this area; however, our audit did reveal that UTHSCT does not have an Institutional policy and/or standard operating procedures that addresses detecting duplicate payments or detecting duplicate vendors set up in the vendor master file. Accordingly, we performed our testing against identified best practices.

The search for duplicate payments identified 20 potential duplicate payments, 14 to vendors and 6 to individuals for patient refunds. Upon testing 100% of the 14 potential duplicate payments to vendors, it was noted that these flagged items were not duplicate payments. Upon testing 100% of the potential duplicate payments to individuals for patient refunds, all of which were for a small dollar value, it was noted that the six (6) flagged items were confirmed to be duplicate payments. It should be noted that the patient refund process involves a third-party revenue cycle contractor and is outside the normal Accounts Payable voucher process.

The search for duplicate vendors set up in the vendor master file identified 643 vendors (used within the past five (5) years) as potential duplicate vendors. IAD selected a sample of 25 Tax Identification Numbers (associated with 58 of the identified vendors) for testing.

Findings and Recommendations

Issue #1: Currently, UTHSCT does not have an Institutional policy and/or standard operating procedures on vendor management processes that addresses duplicate payments or duplicate vendors set up in the vendor master file.

Recommendation #1: Finance Management develop and implement an Institutional policy and/or written procedures on vendor management processes to address duplicate payments and duplicate vendors set up in the vendor master file.

Ranking: Medium

Management's Response: The Director of Purchasing and the Accounts Payable Supervisor, in collaboration with the VP, Finance, CFO will work together to establish written procedures on vendor management process to address duplicate payments and duplicate vendors. A number of controls are in place in both areas, but they have not been formally documented. For example, in Accounts Payable, the department uses a three-way match process, involving the purchase order, receiver, and invoice. The system will not process vouchers that have match exceptions into a payment, and then Accounts Payable staff review these exceptions. In Purchasing, an automated warning message displays that notifies the user when a duplicate supplier identification number has been detected. Both of these examples represent active controls that can readily be captured in operating procedures, among others. Finally, the VP, Finance, CFO will work with the UTHSCT Office of Internal Audit to engage in a continuous monitoring process of these two areas, using data analysis tools already at hand, with the support of expertise available from the UT System Office of Internal Audit. Using these tools, tests will be performed semi-annually, at a minimum, to detect duplicate vendors and payments, until a point in time when additional confidence in the processes is gained. For duplicate payments, use of continuous monitoring may continue indefinitely as a best practice as a fraud prevention tool in today's fast-moving environment of e-commerce.

Implementation Date: April 30, 2020

Issue #2: The review of the vendor master file revealed duplicate vendors, based on Tax Identification Number, set up in the vendor master file.

Recommendation #2: Finance Management address each of the duplicate vendor returns to reduce the risk to the Institution.

Ranking: Medium

Management's Response: The Director of Purchasing has reviewed the duplicate vendors identified during the audit and has taken appropriate action on each of them. As a result, some of the duplicate vendors were deactivated. Others were intentionally maintained, such as those that have distinct names and account numbers that have been established to foster efficient procurement processes, or foreign vendors that flag when the tax identification number is used as the key field for data analysis, making them appear as possible duplicates when in fact they are not. In order to prevent the unintentional establishment of duplicate vendors going forward, Purchasing will rely on the duplicate supplier warning functionality in PeopleSoft, add a distinct address to an existing

vendor rather than establish a new vendor, and associate name changes or different divisions with the address field to avoid a new vendor being established with the same tax identification number.

Implementation Date: February 28, 2020 (Implemented)

Issue #3: The review of the vendor master file revealed many outdated vendors (e.g., had not had any activity in five (5) years or longer) still classified as "Active" that could be moved to an "Inactive" status.

Recommendation #3: Finance Management, in collaboration with Information Technology, work to move these outdated vendors from an "Active" classification to "Inactive".

Ranking: Medium

Management's Response: The Director of Purchasing is collaborating with an IT Software Systems Specialist to perform a batch inactivation process for vendors without activity for five years or more. This batch inactivation process is being conducted in the test environment first, to ensure there are no unintended consequences in the production environment. Some of these vendors were created prior to establishment by the Director of Purchasing in more recent years of an ongoing deactivation process. Once this batch process is performed to deactivate these legacy vendors, the department has a routine process and tools in place to maintain the vendor master file going forward, as outlined above.

Implementation Date: March 31, 2020

Issue #4: The search for duplicate payments identified six (6) potential duplicate payments to individuals for patient refunds. Our testing of the six (6) flagged items, all of which were for a small dollar value, confirmed that these were in fact duplicate payments.

Recommendation #4: Finance Management, in collaboration with the Institution's third-party revenue cycle contractor, develop a review procedure to help prevent duplicate payments for patient refunds and to ensure any duplicate payments made to patients for refunds are detected and remediated.

Ranking: Medium

Management's Response: The UTHSCT VP, Finance, CFO and the UT Health East Texas Division CFO will collaborate to ensure that the contracted Business Office Director, who is responsible for reviewing back up documentation prepared by her team prior to requesting that Accounts Payable issues a patient refund, reinforces provisions of the Refunds Policy designed to prevent duplicate refunds to patients.

Specifically, the UTHSCT CFO and the UT Health East Texas Division CFO will collaborate to:

- Gain a greater understanding of the automated QA check required by the Refunds Policy prior to refund approval by the Business Office Director
- Ensure that the Business Office Director distributes results of the monthly retrospective documentation review required by the Refunds Policy to the UTHSCT CFO and the UT Health East Texas Division CFO, and that both indicate their review of the results. Once the North Campus CFO vacancy is filled, the North Campus CFO will replace the UT Health East Texas Division CFO in carrying out this function.

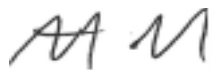**Implementation Date:** March 31, 2020 and ongoing

Additionally, the UTHSCT CFO will:
- Request the Refunds Policy be revised to temporarily lower the threshold for which approval by the UTHSCT CFO is required, until an improved confidence level in the patient refund process is achieved
- Require that the Accounts Payable employee responsible for processing patient refund checks reviews and documents indication of approval by the North Campus CFO and the UTHSCT CFO for refunds that exceed certain approval thresholds, as outlined in the Refunds Policy.

Implementation Date: March 5, 2020 and ongoing

Conclusion

Our audit identified areas where controls and processes in place within Accounts Payable and Purchasing for addressing duplicate payments and duplicate vendors set up in the vendor master file at UTHSCT can be improved. The above recommendations have been made to improve these areas.

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Stephen Ford
AVP, Chief Audit Executive