



**FLORIDA
INTERNATIONAL
UNIVERSITY**

Office of Internal Audit

**Audit of the University's Purchasing Services
for Commodities and Services**

Report No. 13/14-13

April 9, 2014



Date: April 9, 2014

To: Cecilia Hamilton, Associate Vice President and Controller
Kelly Loll, Director, Purchasing Services

From: Allen Vann, Audit Director 

Subject: **Audit of the University's Purchasing Services for Commodities and Services, Report No. 13/14-13**

Pursuant to our approved annual plan, we have completed an audit of the University's Purchasing Services for Commodities and Services for the fiscal year ended June 30, 2013. The primary objective of our audit was to determine whether financial controls over the purchase of commodities and services through the University's Purchase Order (PO) system are: a) adequate and effective; b) being adhered to; and c) in accordance with University policies and procedures, applicable laws, rules and regulations. During FY 2013 the Purchasing Services Department processed 13,318 purchase orders valued at \$183,056,585.

Overall, our audit disclosed that the University's controls and procedures over the processing of purchases for commodities and services were satisfactory. However, there were areas where internal controls need strengthening. Improvements can be made to: (a) user departments' requisitioning approval hierarchy and requisitioning of goods and services outside the PO system; (b) identify competitively solicited POs and vendors reaching the applicable \$75,000 threshold; (c) identify exempted POs and the processing of certain exempt POs; and (d) provide better guidance for employees' daily functions. Existing IT Identity Access Controls' policies, user account management and audit trails adequately and timely documented employee on-boarding and off-boarding process. However, access privileges need to be better aligned to individual user job functions to mitigate risk. The audit resulted in nine recommendations which management agreed to implement.

We would like to take this opportunity to express our appreciation for the cooperation and courtesies extended to us during this audit.

Attachment

C: Sukrit Agrawal, Chair, BOT Finance and Audit Committee and Committee Members
Mark B. Rosenberg, University President
Kenneth A. Jessell, Chief Financial Officer and Senior Vice President
Javier I. Marques, Chief of Staff, Office of the President

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OBJECTIVES, SCOPE AND METHODOLOGY

Pursuant to our approved annual plan, we have completed an audit of the University's Purchasing Services for Commodities and Services for the fiscal year ended June 30, 2013. The primary objective of our audit was to determine whether financial controls over the purchase of commodities and services through the University's Purchase Order (PO) system are: a) adequate and effective; b) being adhered to; and c) in accordance with University policies and procedures, applicable laws, rules and regulations. Specifically, we focused on the following:

- Compliance with State and University procurement regulations and procedures
- Purchase competition, including basis for exemptions
- Administration, management, and analysis of purchasing activity

The audit primarily examined encumbered purchases (requiring a purchase order), and excluded other methods such as University purchasing cards and travel related purchases, which have been addressed in recent audits. Unencumbered purchases were examined only to the extent necessary to determine their compliance with the University's unencumbered purchase procedures. The audit also excluded the payment process for such purchases.

Our audit was conducted in accordance with *the International Standards for the Professional Practice of Internal Auditing*, and included test of the accounting records and such other auditing procedures as we considered necessary under the circumstances. Audit fieldwork was conducted from September 2013 to January 2014.

During the audit, we reviewed University policies and procedures, Florida statutes, and University rules, observed current practices and processing techniques, interviewed responsible personnel, and tested selected transactions. Sample sizes and transactions selected for testing were determined on a judgmental basis.

We also reviewed internal and external audit reports issued during the last three years to determine whether there were any prior recommendations related to the scope and objectives of this audit and whether management had effectively addressed prior audit concerns. Past audits contain findings related to the purchasing practices of individual units. This audit examines the process more holistically as described above. However, the Florida Auditor General in their Report Nos. 2012-092 and 2010-096 found "...transactions for which orders of goods and services made from the same vendor were not combined or monitored to ensure compliance with the competitive solicitation requirements." This report addresses a similar issue in Finding No. 2.

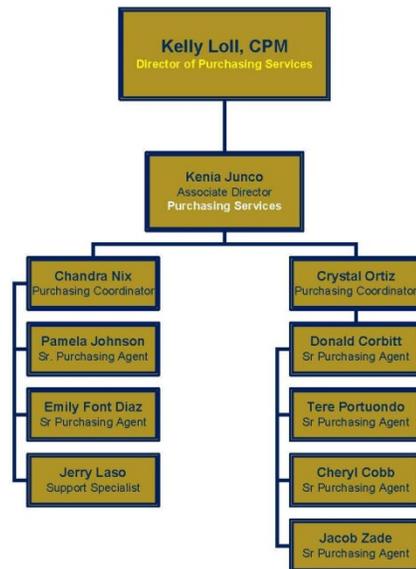
BACKGROUND

The volume of purchase order activity processed by the Purchasing Services Department, particularly in dollar volume, has grown significantly over the past three years:

Fiscal Year	No. of Purchase Orders	Annual % Increase	Dollar Volume	Annual % Increase
2010-2011	10,459		\$126,148,604	
2011-2012	12,947	+ 24%	\$159,557,044	+ 27%
2012-2013	13,318	+ 3%	\$183,056,585	+ 15%

The Department consists of a Purchasing Director, who reports to the Associate Vice President & Controller, an Associate Purchasing Director, four employees in the competitive solicitation and contracts area, four separate commodity buyers and a coordinator. The Purchasing Services' mission is to provide centralized procurement services and, as such, the Purchasing Services Department typically:

Division of Finance Office of the Controller Purchasing Services



- Canvasses sources of supply and contracts for the purchase or lease of all commodities and services;
- Plans and coordinates purchases in volume and negotiates and executes contracts for commodities and services;
- Evaluates and approves the use of contracts awarded by any State of Florida agency or department, the Federal Government, other states, etc., for the procurement of commodities and services, when it is determined to be cost-effective and in the University's best interest;
- Issues competitive solicitations and requests to the public for information and oversees and facilitates the selection and award process pursuant to competitive solicitation requirements; and
- Issues multiple award contracts for commodities and services when determined to be in the best interest of the University.

The University Board of Trustees' (BOT) Regulation 2201 requires competitive solicitation for purchase transactions of \$75,000 and above. For competitive solicitations, the

University uses: Invitation to Bid (ITB); Request for Proposal (RFP); or Invitation to Negotiate (ITN).

The University has also developed the following procedures for competitive purchases under \$75,000, in which individual departments select vendors and Purchasing Services monitors.

Amount	Bid/Quotation Requirements
Less than \$15,000	An informal verbal quotation is recommended.
\$15,000 - \$24,999	At least two written or verbal quotes must be documented.
\$25,000 - \$74,999	Two or more written quotations must be obtained unless waived by the Director of Purchasing Services when deemed in the best interest of the University.

BOT Regulation 2201 provides circumstances/exemptions from competitive purchasing requirements. Some examples include:

- Sole source – commodities or contractual services only available from a single source.
- Emergency – the President or his/her designee determines, in writing, that the delay due to the competitive solicitation process is an immediate danger to the public health or safety or the welfare of the University.
- Specific exemption under Board of Governors’ Regulation 18.001(6)(d) – Examples of such categories of commodities or contractual services exempted include: artistic services; auditing and legal services; certain health services; training and education services; advertising; services provided by governmental agencies, another university in the State of Florida or other independent colleges and universities; and purchases of materials, supplies, equipment, or services for instructional or sponsored research purposes, among others.

Procurement of goods and services are facilitated through the use of the PantherSoft Financials System (PantherSoft), which provides for web-based processing and 'real-time' access to data providing self-service capabilities for the end users, and quick and timely processing of transactions. PantherSoft’s Purchasing module allows department users to use an online requisition process to initiate a purchasing request. The online requisition process requires the identification of where the expense would be charged to; also, it allows for online approval instead of a manual signature approval. Once the requisition is approved, PantherSoft will forward it online to the appropriate purchasing agent to generate and dispatch the purchase order. In PantherSoft, requesters have the ability to monitor the status of their requisition and to know when a purchase order has been generated.

Transaction processing within PantherSoft is controlled through assigned roles. Purchasing transactions are mainly initiated by a requestor within a particular unit and approved by unit's designated approver. The transaction is budget checked by the System and then routed to Purchasing Services where a purchase order is created and routed to a designated buyer for review and approval.

FINDINGS AND RECOMMENDATIONS

Overall, our audit disclosed that the University’s controls and procedures over the processing of purchases for commodities and services were satisfactory. However, there were areas where internal controls need strengthening. We found exceptions as it pertained to the: (a) user departments’ requisitioning approval hierarchy and their requisitioning of goods and services outside the PO system; (b) inability to identify competitively solicited POs within PantherSoft or vendors reaching the \$75,000 threshold; (c) inability to identify exempted POs within PantherSoft and the processing of certain exempt POs; and (d) limited guidance for employees’ daily functions. Existing Identity Access Controls’ policies, user account management and audit trails adequately and timely documented the on-boarding and off-boarding process. However, “Least Privileged” and “Segregation of Duties” access privileges need to be better aligned to the user’s job function to mitigate the risk of an individual having the ability to create, modify and approve purchase orders.

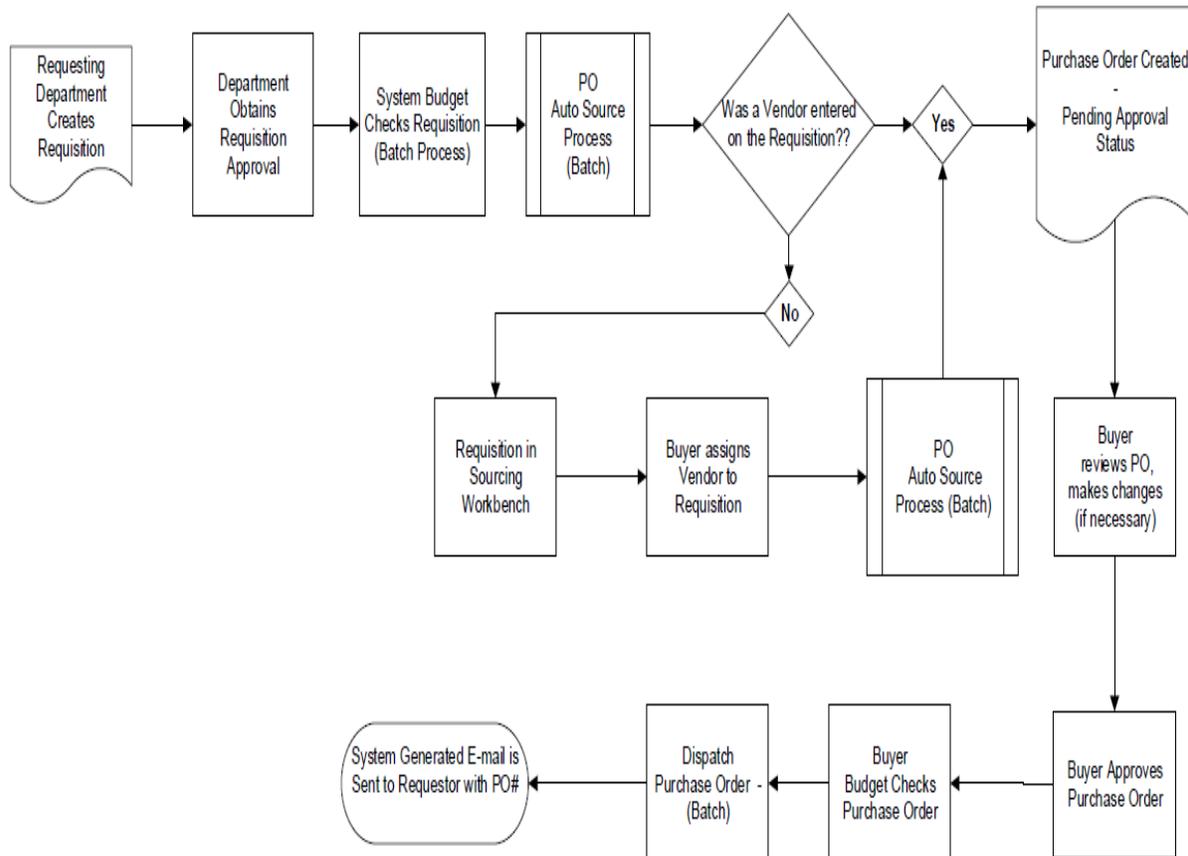
Our overall evaluation of internal controls is summarized in the table below.

INTERNAL CONTROLS RATING			
CRITERIA	SATISFACTORY	FAIR	INADEQUATE
Process Controls		x	
Policy & Procedures Compliance	x		
Effect		x	
Information Technology Risk		x	
External Risk	x		
INTERNAL CONTROLS LEGEND			
CRITERIA	SATISFACTORY	FAIR	INADEQUATE
Process Controls	Effective	Opportunities exist to improve effectiveness	Do not exist or are not reliable
Policy & Procedures Compliance	Non-compliance issues are minor	Non-Compliance Issues may be systemic	Non-compliance issues are pervasive, significant, or have severe consequences
Effect	Not likely to impact operations or program outcomes	Impact on outcomes contained	Negative impact on outcomes
Information Technology Risk	System controls are effective in mitigating identified data risks	System controls are moderately effective in mitigating identified data risks	System controls are ineffective in mitigating identified data risks
External Risk	None or low	Medium	High

Detailed below are the areas identified by our audit testing where opportunities for improvement exist.

1. Purchase Order Processing

A purchasing cycle has been established for requisitioning goods and services. Below find the workflow from requisition to purchase order. A purchase order is issued approximately five working days from the time a completed requisition is received by the Purchasing Services Department.



We selected 30 purchase orders (POs) to test totaling \$11.5 million from a population of 13,318 dispatched POs, totaling \$183 million, to ensure they were properly processed in accordance with Purchasing Services' guidelines.

Of the 30 POs tested, 27 were processed correctly. However, we found exceptions related to 3 POs as it pertained to: segregation of duties; POs being created after-the-fact; and a PO improperly exempt from competitive solicitation, as follows:

- a) A \$74,030 requisition for construction services was both requisitioned and approved by two Senior Accountants at the same management level instead of a higher level supervisor performing the review and approval. This appeared to have been an isolated instance but was indicative of an approval hierarchy not being reviewed within PantherSoft.
- b) A vendor providing parking services issued a \$3,094 invoice 76 days prior to the preparation of a PO.

- c) A vendor provided staging and lighting services for a few events at the University, including the homecoming event, which required them to cover the field for a concert. The PO, which totaled \$85,000, was processed six days after the vendor presented an invoice as an exemption citing “programs and events offered to the general public for which fees need to be collected to pay for all expenses.” However, the Student Government Association never collected or intended to collect fees to cover the expenses associated with the event(s).

Recommendation

Purchasing Services should:	
1.1	Remind departments of the importance of establishing appropriate chain of command PO approval processes and the requirements for preparing purchase orders in advance of their requisitioning goods and services.

Management Response/Action Plan:

- 1.1 Purchasing Services will remind departments of the importance of establishing an appropriate chain of command for the PO approval process by sending an email to the Finance Managers and posting a reminder in the PantherPost. During the November 2013 finance managers' meeting Purchasing Services announced that "requesters" who are identified as processing 3 or more POs after the goods and/or services have been received during a fiscal year will be denied the access to process requisitions. Training with a test will be required to regain access. In order to remind departments of this requirement Purchasing Services will send out emails reminding the departments that confirming purchase orders are in violation of FIU Policy as defined in the Purchasing Services Procedures Manual, Section 3.4, “Departments are not authorized to place orders directly with vendors for goods or services.”

Implementation date: June 15, 2014

2. Competitive Solicitations

Competitive solicitations are required when the purchase amount exceeds \$75,000. However, since PantherSoft is unable to identify vendors selected competitively or their respective POs, we selected 10 POs to test from a list of 27 vendors competitively solicited by the University during the audit period which were listed on Purchasing Services' website. Our testing reflected that all 10 competitive solicitations were processed properly.

In addition, Purchasing Services should ensure that vendors do not exceed the \$75,000 threshold without being competitively solicited. Since no mechanism exists within PantherSoft to identify such occurrences, management had created a query that was intended to be run periodically to help identify vendors reaching or exceeding the \$75,000 threshold. However, we found that such process was not in place. Thus, we examined vendors with aggregate business with the University that exceeded \$75,000.

From a population totaling \$148.5 million we tested ten vendors with total purchases over \$75,000, totaling almost \$3 million to ensure they were properly processed under the Purchasing Services' guidelines. Of the ten vendors tested, seven were determined to have been processed properly. However, we found the following three vendors who had exceeded the \$75,000 threshold without being competitively solicited or being exempt from such.

- A competitive solicitation for signage is currently in progress. However, during our scope period total purchases awarded to a single vendor totaled \$256,237 without competitive solicitation and \$146,082 the year before.
- A vendor for minor construction projects, which has not gone through the competitive solicitation process, had been awarded \$183,555 in work during our scope period and \$251,969 the year before.
- A vendor providing painting services is also currently going through a rebid of small trades for competitive solicitation. However, during our scope period total purchases amounted to \$198,715, without any competitive solicitation, and \$191,334 the year before.

As part of our audit, we also examined the evaluation process over an Invitation to Negotiate (ITN) issued for the Biscayne Bay Campus (BBC) Housing project. The ITN involves the development of a new residential facility containing a minimum of 300 beds in which the chosen entity will, at a minimum, plan, program, design, and construct the facility at its own expense. In turn, "the successful vendor will be responsible for paying rent in an amount at least equal to the appraised fair market value rental rate of the leased land on which the facility is built..." Eight vendors submitted responses and were evaluated based on the initial evaluation criteria and awarded points based on a consensus of the Evaluation Committee members. The top two vendors selected continued in two rounds of negotiations and the Best and Final Offer (BAFO) evaluation process, based on the criteria set forth. The Evaluation Committee recommended one of the two vendors based on set criteria. The financial criteria involved certain assumptions, including 30-year financing terms. The total 30-year benefit to the University from the recommended vendor reflects a

total of \$53 million (or \$18 million discounted at 6% present value) for Phase I and \$30 million (or \$11 million, net present value) for Phase II. While the contract was awarded subsequent to our audit the process used satisfactorily complied with Purchasing Services' guidelines.

Recommendations

Purchasing Services should:	
2.1	Review the cost and benefits of developing a mechanism to identify competitively solicited vendors and their respective POs within PantherSoft.
2.2	Develop a mechanism to identify when vendors are close to or have exceeded the \$75,000 threshold in order to be competitively solicited before the fact.

Management Response/Action Plan:

2.1 Purchasing Services will meet with the Financial Systems and Support Services and the PantherSoft Team to determine what action and what resources would be needed to develop such a mechanism.

Implementation date: June 30, 2014

2.2 The query used for spend analysis does not automatically list vendors that are close to or have exceeded the \$75,000 threshold. This is a manual process; however, the Coordinator is monitoring this list. Purchasing Services will work with the Financial Systems and Support Services and PantherSoft Team to develop a query that would list the sum of all Requisitions per PO per Vendor. When the sum of the Requisitions are exceeding a PO of \$75,000, it will indicate an overspend.

Implementation date: October 30, 2014

3. Exempt Purchase Transactions

As discussed in the Background section of this report, purchases may be exempt from competitive solicitation as a result of being sole source, emergency or sponsored research, amongst other exemptions. However, such exemptions are not systematically identifiable within PantherSoft’s Purchasing module. As a result, we examined the Purchasing Services website for listed exempt purchases during our scope period and identified at least 41 sole source purchases and 2 sponsored research purchases.

Of these 43 purchases, we tested four of the sole source purchases and the two sponsored research purchases. Three of the six were processed correctly but the following exceptions were noted for the other three transactions:

- An exempt purchase to a software/hardware vendor for \$49,600 was processed as a “re-certification” from a prior year sole source exemption. However, supporting documentation for the original exemption was not evident. During the audit period this vendor received \$113,807 in aggregate orders and another \$94,302 in the prior year.
- A foreign marketing company was engaged under a sponsored research exemption without a requisition or PO. The Purchasing Services Manual requires that the exemption be provided at the time of requisition. Management stated that the exemption was provided in order to avoid interruptions or delay of the research. Subsequent to our audit period, payments totaling \$12,207 have been made.
- A software/hardware vendor had a purchase order totaling \$21,000 that was misclassified as a sole source exemption, rather than exempt under Florida Board of Governors’ Regulation 18.001(6)(d)(23): “Implementation/programming/training services available from owner of copyrighted software or its contracted vendor.” Total purchases from this vendor during the audit period were \$1,120,311. The purchase(s) were exempt, regardless of the misclassification.

Recommendations

Purchasing Services should:	
3.1	Consider developing a mechanism to identify exempt POs within PantherSoft.
3.2	Ensure that exempted POs are properly processed.

Management Response/Action Plan:

- 3.1 Purchasing Services already identifies POs that are exempt per BOG Regulation 18.001(6)(d) by placing a standard comment in the header comment field. Query FIU_FSSS_PO_REPORT_COMMENTS has been created to identify these exempt POs.

Implementation date: Immediately

- 3.2 Purchasing Services will provide more documentation in the comment field in the PO identifying the exemption. Buyers have been instructed to put the proper exemption in the Header Comment and to note when the Sole Source was posted. Purchasing Coordinator will review POs on weekly bases to make sure POs are properly processed.

Implementation date: Immediately

4. Unencumbered Purchase Transactions

Unencumbered transactions are those purchasing transactions processed without issuing a PO, or otherwise encumbering funds prior to their purchase to ensure fund availability. University guidelines allow for the processing of unencumbered payments when they are either for an emergency purchase or are for any of 20 allowable items to be purchased via the unencumbered payment form. (The list of allowable items has grown to 24 items since the end of the audit scope period.)

We tested 20 unencumbered purchase transactions under \$75,000 each, totaling \$242,215, from a population totaling over \$2.4 million to verify that they were properly processed. We found no exceptions.

We also tested vendors with unencumbered purchases greater than \$75,000 to ensure that competitive solicitation or exemption requirements were not being bypassed. There were 19 such vendors tested, totaling almost \$21 million. There was only 1 instance where the transaction was unencumbered but should have been purchased through a PO. It involved a vendor which provided both waste removal and recycling services to the University at a cost of \$371,000 during the scope period. While the purchase was competitively solicited, the transaction did not meet any of the criteria that would qualify it for treatment as unencumbered. Management stated that they had considered the vendor a (public) utility, which would qualify for unencumbered payment. However, neither service provided would qualify as a public utility.

Recommendation

Controller's Office should:	
4.1	Encumber waste removal and recycling purchases.

Management Response/Action Plan:

4.1 The Controller's Office believes these services to qualify as unencumbered transactions as utilities. However, management is willing to change this treatment.

Implementation date: May 1, 2014

5. Other

We noted that there was no Operations Manual to guide employees, particularly new employees, in the daily operating and/or the specific processes within the department. This would have been particularly beneficial as Purchasing Services transitioned to a new Director just prior to the commencement of our audit and the Associate Purchasing Services Director went on leave.

Also, as a result of the change in leadership, we observed that all POs specifically printed for the audit and pertaining to the former director's tenure were actually printed with the name of the current Director on the face of the document. A signature path is created within PantherSoft that provides for a PO signature, but only permits the name of the current Director. While all the POs were properly and timely signed, the actual accountability for the transaction when currently printed is lost. A date sensitive electronic signature path would permit the actual accountable individual's electronic signature to be inscribed on the PO whenever it is printed.

Recommendations

Purchasing Services should:	
5.1	Develop and disseminate an Operations Manual.
5.2	Work with the Financial System and Support Services Team to determine whether the signature path could be date sensitive.

Management Response/Action Plan:

- 5.1 A detailed Operations Manual is currently under development with the Financial Systems and Support Services Team covering all actions that can be taken in PeopleSoft Purchasing. The Purchasing Coordinator provided guides to the Sr. Purchasing Agents in January as part of the internal training she has been conducting for the Purchasing Staff.

Implementation date: June 30, 2014

- 5.2 This functionality will be available in the 9.2 upgrade.

Implementation date: December 2014

6. Access Controls

Access controls reviewed include policies, user account management, audit logs, least privileged access, segregation of duties, and unique identification. User identity and logical access need to be managed to ensure that all users have information access rights in accordance with their business requirements. Access controls testing focused on roles and privileges for those individuals who have the ability to modify purchase order data after the purchase had been requested (see Figure 1 below).

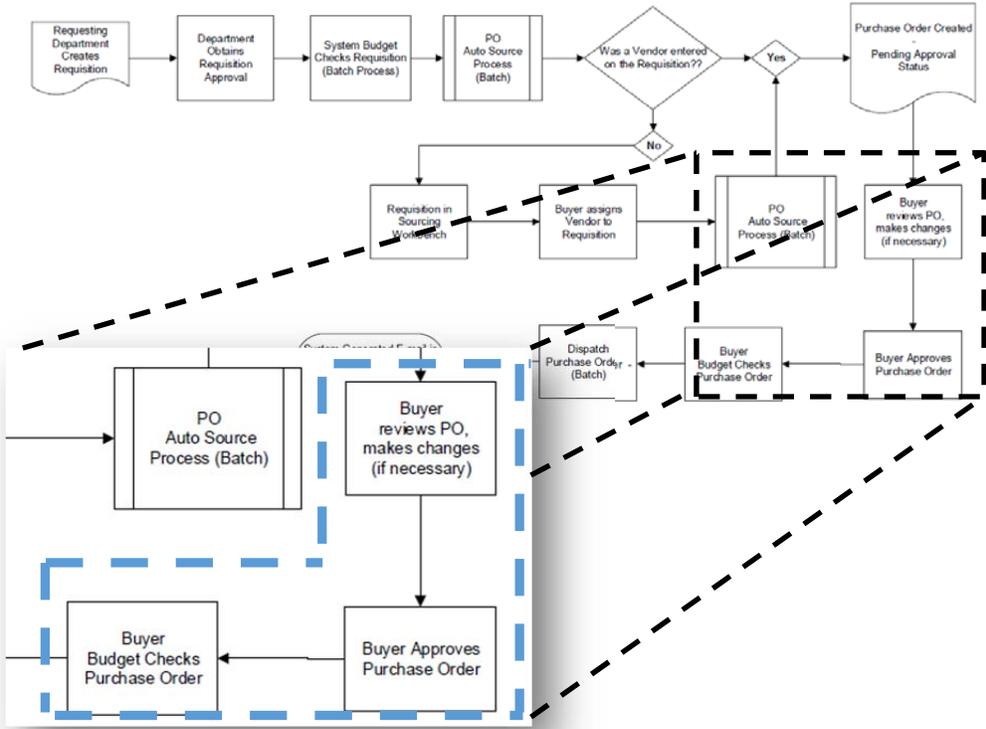


Figure 1 - Focal point for Information Technology Access Controls Testing

a) Access Control Policies

Per the guidance of NIST sp800-53A Rev.1 AC 1.1(i)(ii), an access control policy should be developed and formally documented. Accordingly, user access controls are detailed in the PantherSoft Financials Security Procedure manual. Within the manual, user access controls for employees and contractors, along with roles and responsibilities for access on-boarding and off-boarding are adequately documented. The manual has been updated twice since it was created in 2009. No exceptions were noted.

b) User Account Management

COBIT 5.0 DSS05.04.04 states that all changes to access rights (creation, modification and deletions) should take effect at the appropriate time based on approved and documented authorization by designated individuals. Based on the PantherSoft Financials Access Policy, a PAWS¹ ticket should be entered which specifies the exact security requirements for back-office personnel. A total of 17 privileged user accounts' access additions and deletions tested were timely documented within the PAWS ticketing system. In addition, the selected user accounts had a PAWS ticket that matched the requests for addition and deletion of their privileged access. No exceptions were noted.

c) Audit Trails

Accounts with privileged access have the ability to impact the security or operational functionality of the purchase order system. The PantherSoft audit log captures the individual performing the user access modification, including their Panther ID, name, the date-time stamp when the modification occurred and whether the modification was an addition or deletion of access. The log also captures the individual user's access modified and also includes their Panther ID, name and requisition role that was either added or deleted. Within the audit period, there were 14 privileged roles modified within the Purchasing module and all were adequately captured and documented in the PAWS system. No exceptions were noted.

d) Least Privileged

The objective of least privileged user access is to limit user's access to within the parameters necessary for them to accomplish their assigned tasks. Assigning least privileged access prevents users from incorrectly, accidentally and/or inappropriately changing application data or altering security settings. Within the purchase order process, there are 4 roles that have the ability to modify purchase order data.

- The two administrator roles have the greatest privileged access privileges, which includes the ability to create and update purchase orders, approve purchase orders, administer contracts, add/update receipts and delivery information; create, access and maintain vendors; rollover purchase orders at the end of the year; add and update order item categories. In addition to the Associate Director and Purchasing Coordinator having purchasing administrator privileges, the Director also has administrator privileges. This type of access is not necessary for the Director to perform her normal job function. The Director agreed that it would be a good security practice to limit the administrator role to least privileged access. In addition, the 2 administrator roles have p-card administration privileges, which allow the Administrators to assign P-cards. However, P-card administration no longer reports to Purchasing Services, but rather to the

¹ PAWS is an internal name given by the PantherSoft Financials department to the application that is used to track user requests.

Payment Services Department. Therefore, the Administrators shouldn't be allowed to perform the described activity.

- The purchase buyer role has the ability to source, dispatch and print purchase orders, maintain delivery information, and/update receipts, and approve purchase order less than \$100,000. Seven purchasing agents and a Senior Fiscal Assistant were given this role. The Senior Fiscal Assistant position no longer reports to Purchasing Services, but still has the role.
- There is also a purchase-update role, which gives the ability to create, update and source purchase orders. However the role's functionality was limited to view only and its purpose was to be used for purchase order inquiries. Only one of the six individuals assigned to the purchase-update role, the Associate VP of Research Programs, has the ability to override the suggested vendor, which if used, could bypass the suggested vendor process.

Improvements are needed to the privileged procurement roles to mitigate the risk of users incorrectly, accidentally or intentionally changing purchase order data.

e) Segregation of Duties

The segregation of duties of individual user accounts is necessary to prevent malevolent activity of purchase order data without collusion. In environments where one individual performs multiple roles, duties may be assigned such that no single individual has end-to-end control of the purchase order process without an independent checkpoint. The two administrator roles with super user purchase order privileges are assigned to the Director and Associate Director of Purchasing. Currently, they have the ability to create, modify and approve purchases from \$100,000 to \$1,000,000. Additionally, as mentioned in (d) above, the Senior Fiscal Assistant, who no longer works in Purchasing Services can still approve purchase orders up to \$100,000, which should not be assigned to her in Payment Services.

Segregation of duties should be strengthened to mitigate the risk of an individual having end-to-end access to the procurement cycle.

Recommendation

Purchasing Services should:	
6.1	Work with the Associate Controller of Financial Systems and Support Services to ensure least privileged roles and strengthen controls.

Management Response/Action Plan:

6.1 Purchasing Services had a meeting with the Financial Systems and Support Services and the PantherSoft Team on March 19, 2014. They will work with the Team to ensure least privileged roles and strengthen controls. A quarterly review process of purchasing security access and needed changes will be implemented.

Implementation date: May 30, 2014