



Accounts Payable

Office of the City Auditor

10/1/20

Description of Audit Project

Why we did this audit

The City Auditor's Office plans to review all financial modules to ensure financial controls remain strong. We selected the Accounts Payable module to review early in the process based on the importance, volume and dollar amount of the transactions in this module.

Scope:

This project included examination of internal controls and processes in the Accounts Payable module. Transactions occurring between January 1, 2019 and October 31, 2019 were included in the examination scope. Automated controls and steps completed manually to facilitate Account Payable tasks were evaluated.

Objectives:

- Review Accounts Payable processes and procedures to ensure appropriate, accurate and timely processes
- Verify Munis roles are appropriate
- Confirm changes to the Vendor Master File are appropriate and supported
- Verify payments are timely, accurate and properly approved
- Ensure assets are properly safeguarded
- Determine if appropriate discounts are taken
- Review the completeness and accuracy of Treasury Division's process of transferring transaction information to the bank

Audit Methodology:

- Reviewed segregation of duties to ensure role permissions and activities are appropriate
- Reviewed controls over transactions submitted to the bank
- Reviewed vendor information to determine if employees were vendors and all changes to the Vendor Master File were properly approved and supported
- Reviewed payment information to ensure payments were timely and not duplicated
- Reviewed a selection of invoices to ensure payments were accurate and properly approved

Significant Results:

1. The number of users with permission to add vendors to the Vendor Master File needs to be reduced.

The Principle of Least Privilege states all users should only be able to access information necessary to do their assigned duties. We identified eleven individuals who should not create vendor records.

Based on our conversations with Finance Department staff, it was unclear who owns the Vendor Master File. No one has been designated to review who has permissions and determine if there is a need for these people to have permissions. The result is several people can create vendors, including people who can both create vendors and generate checks. This increases the risk of fraudulent payments.

Recommendations:

- Establish criteria for who should have permission to add vendors to the Vendor Master File. Use data analytics to monitor when there is a violation of the criteria.
- Remove vendor creation permission for eleven individuals identified in our audit.

Response:

Enterprise Systems Management agrees with the audit finding that vendor record maintenance is not properly segregated. We will work with the user departments to identify tasks in the payables, payroll and retiree payroll processes that require vendor maintenance permissions and facilitate reassignment as needed. Where permission is required outside of the purchasing division, we will coordinate with software support and our functional area leads to design and implement satisfactory controls to prevent or detect fraudulent activity. ESM will update progress by October 30, 2020.

2. Changes to Vendor Master File were not properly supported.

Vendor changes should be verified to supporting documents to improve accuracy and prevent fraudulent vendor creation. In our random selection of changes to the Vendor Master File, which included bank account information and vendor names, we found eleven changes with no supporting documents.

A review of Accounts Payable processing procedures indicated there is no requirement to attach documentation. As a result, employees are less likely to have compared data entered to supporting documents. In addition, review by a second person in workflow is more difficult because there is no supporting documentation for comparison.

Recommendation:

Procedures should be updated to require attaching the original vendor add form or other change documents to Munis so that proper support and approval can be verified, and an audit trail is maintained.

Response:

Purchasing agrees with the audit finding. Over the past six months, a new procedure of calling the vendor phone number on file has been adopted to ensure that changes to bank information is only completed with confirmation from the vendor. Purchasing will write up a Standard Operating Guideline for vendor changes that ensures documentation procedures are performed consistently. Purchasing will update progress by October 30, 2020.

3. Some Vendor Master File changes do not go through workflow.

Workflow helps ensure transactions do not have errors and have proper review and approval. When only the vendor bank account field is changed, workflow is not triggered. When bank changes are initiated along with other changes, workflow is triggered. While fraud was not found in the population we tested, this gap could make fraudulent changes easier.

Recommendation:

Review and close gaps in workflow.

Response:

The Enterprise Systems Manager agreed to complete recommended corrective action. Update as of 9/21/2020: Enterprise Systems Management identified a gap in workflow and added workflow rules to require review and approval of vendor bank account records.

4. A manual portion of the automated clearing house (“ACH”) transfer creates a condition where payment changes could be undetected.

The City’s financial system cannot directly communicate payments to the bank; therefore, a manual process has been adopted. Information is transferred two times in this manual process. No detailed reconciliation at the transaction level is completed.

Recommendation:

A reconciliation should be performed to ensure accounting records and bank records match. A reconciliation helps ensure any differences between accounting and bank records can be detected and corrections made.

Response:

The Treasury Division has agreed to do a transaction level reconciliation until a planned financial system update is complete. Once the update is complete, a transaction level reconciliation will be enabled through the Cash Management module in Munis

5. Invoices were not paid within the payment target date.

25% of invoices we reviewed were not paid in the time frame stated on invoices. The average number of days between the invoice date and the date the invoice entered into the system by Accounts Payable was 20 days. This only leaves 10 days for the invoice to receive Munis approvals and checks to be remitted to the vendor. Invoices not paid timely were usually the result of the invoice being held up either in the department prior to being submitted to Accounts Payable or taking too long in workflow approvals.

Late payment of invoices can result in higher costs due to missed payment discounts, late payment penalties, and increased pricing by vendors to recover detrimental effects on their cash flow.

Recommendation:

Invoices should be remitted directly by vendors to Accounts Payable. Accounts Payable can input invoices timely and provide a scanned copy of the invoice routed to departments for approvals.

Response:

The Finance Department rejects this comment at this time.

The concept of submitting invoices directly to Accounts Payable (A/P) was evaluated when implementing the A/P module as part of the MUNIS ERP system. MUNIS has automated workflow processes in A/P for invoice approval. These workflows are designed around org codes in MUNIS to route the invoice appropriately for approval.

If all invoices come to the A/P department first, the A/P staff would have to research what org to charge the invoice to so that the correct automated workflow could be used. This would create a highly inefficient process within the A/P area causing invoices to be paid even slower than currently paid. The exception to this is if the vendor has the contract/PO number in advance and provides it on the invoice submitted.

Sending invoices to A/P directly will not solve the issue of invoices be held up in workflow for approval. The solution to this problem lies with each approver in the workflow process. Until approving invoices is made a higher priority, A/P staff must rely on the approvers to manage their own workflows accordingly.

Other reasons for late payment of invoices stem from the Contracts module and the Purchase Orders modules in MUNIS. If there are circumstances that one of the modules causes the invoice to be held up in workflow, A/P staff must work with the divisions to

resolve the issue before the invoice can be moved on through workflow. The problem may be legitimate funds checking halt or may be a system error that requires assistance from Tyler Technologies to correct. A specific number of each instance cannot be listed without reviewing each invoice in the sample selected.

6. Purchasing cards were used to make purchases from an employee-owned business

In comparing employee bank accounts to vendor bank accounts, we found a match. We examined transactions with this vendor and found purchases had been made from an employee-owned business. All these purchases were made using purchasing cards. None of the purchases were made by the employee who owns the business. It appears employees who made the purchases were not aware this was an employee-owned business.

Section 1000.1 of the Purchasing Cards Policies and Procedures manual states, “A cardholder is prohibited from using the p-card to make a purchase from any city employee for any purpose.” Allowing employees to purchase goods and services from an employee-owned company may result in improper purchases and higher costs.

Recommendation:

Purchasing should adopt a data analytic designed to identify when employee bank accounts match a vendor bank account and review any transactions with the employee-owned business.

Response:

We agree with this recommendation. This is one of the more helpful analytics that’s been developed as part of the dashboards created by the Auditor’s office. Once this has been made available for managers to use, we can monitor this regularly. One potential shortcoming of this approach is that usually employee personal bank accounts and business bank accounts will not be the same. To mitigate this, employees could be required to submit information about businesses they own, including a Tax ID number. James Wagner will follow up with HR to see if this could be explored as a personnel policy to ensure that we have a registry of employee-owned businesses. We will follow up with a status update by October 30, 2020.