Office of the Auditor General
Bureau du vérificateur général

Brian Bigger
Auditor General
Vérificateur général

705.671.2489 ext./poste 4402
brian.bigger@greatersudbury.ca

Greater | Grand Sudbury™

Audit Follow Up Report

September 23, 2013

To: Pre Audit Sub Committee
From: Brian Bigger, Auditor General

Re: Accounts Payable

Audit Report Released	May 2011
Original # Of Recommendations	19
# Of Action Plans Previously Completed	13
# Of Action Plans Now Completed	18
# Of Action Plans On Next Follow Up	1
Status As Of June 30, 2013	On Track

Recommendation and Summary Of Progress (Note: Self assessment conducted by the Finance Department)	Self-assessed Status

Recommendation (a)

Management needs to establish written policies and procedures that incorporate business processes in addition to existing directions on how to use the PeopleSoft system. The manual should include policies and procedures regarding Vendor Setup and Management, Vendor Invoices (Invoice Processing Policy), Disbursements (Cheque disbursement policy and payment policy) and Month End Reporting requirements. In addition to the PeopleSoft policies manual, specific standards for entering an invoice should be implemented. This should include standards for leading zeros, alpha-numeric characters, etc. Furthermore, a standard process for creating an invoice number where one does not exist should create the same unique number no matter who processes the invoice. If invoice numbers are entered in a standard convention, the PeopleSoft duplicate check would increase the likelihood that the duplicate invoice would be detected at the invoice entry stage, since the majority of duplicate errors were due to two variations of the same invoice number.	Fully or Substantially Implemented

<u>Original Management Response</u>

Accounts Payable currently has procedures documented, and Accounts Payable can access these online, for: Invoice processing, vendor maintenance, invoice look-up, EFT instructions, Vendor look-up, And many others including cheque runs, bank transfers, etc. Management agrees with the auditor's conclusion regarding the need to establish written policies and procedures that incorporate both business processes as well as PeopleSoft system processing procedures. Management agrees with the auditor's comments regarding invoice entering and will ensure that the policies and procedures manual (as documented in 1 a) above will include specific standards for entering invoices. Accounts Payable policies and procedures will be expanded to incorporate business processes as well as system processes. The policies and procedures are targeted to be updated by October 31, 2011.

<u>Actions Taken, Results and /or Actions Planned</u>

Finance has been updating and developing written policies over the past few years.   Examples include, Purchasing Authority Policy (Completed May 2011) , Vendor Master Policy (Completed Q1 2013); Invoice Processing Policy (Completed Q2 2013) and Payment Processing Policy (Completed Q3 2013).

Recommendation (d)

There was a high volume of cheques that were voided for reimbursement for training due to the employee requesting funds prior to attending an event, but then not attending. There is a cost to the City for both processing the cheque request, following up on the travel advances, and also for voiding the printed cheque. Consideration should be given to reimbursing employees for training once the training has been completed, and not prior to the session.

Fully or Substantially Implemented

<u>Original Management Response</u>

During the 33 months audited there were 70 cheques voided for this reason. Travel advances and travel reimbursement are administered in accordance with the most recently (April 1, 2010) approved Travel Policy. The Travel Policy encourages employees who do not have travel procurement cards to use personal credit cards to pay for expenses and then seek reimbursement after the travel has occurred. Where an employee does not wish to use a personal credit card, the City will provide a travel advance on the request and approval of the supervisor. Travel advances are not immediately expensed but reside as an asset (advance receivable) on the balance sheet awaiting completion of the course/conference and the filing of a travel expense claim form. Finance staff follow up on all travel advances to ensure they are properly removed from the balance sheet through cancellation of the cheque or through final expense claims.

<u>Actions Taken, Results and /or Actions Planned</u>

Risk is mitigated by monthly reconciliation of Travel Advance acct and by implementation of "open items" (part of the FIS upgrade).

Recommendation (e)

It is recommended that Management review the functionality of ACL and consider implementing this or similar detective controls in order to monitor transactions on a daily basis and identify duplicate payments.

Alternative Action Taken

<u>Original Management Response</u>

Accounts Payable does have both preventive and detective controls in place and the key controls are highlighted in the overall management response at the beginning of this report. There is a system control in PeopleSoft that will not allow an invoice to be processed if the invoice number has previously been processed. In addition, Accounts Payable does have a business process in place for identifying duplicate payments. Quarterly, a duplicate payment query from PeopleSoft is run and followed up. Accounts Payable does have both preventive and detective controls in place and the key controls are highlighted in the overall management response at the beginning of this report. There is a system control in PeopleSoft that will not allow an invoice to

be processed if the invoice number has previously been processed. In addition, Accounts Payable does have a business process in place for identifying duplicate payments. Quarterly, a duplicate payment query from PeopleSoft is run and followed up.

Accounts Payable does have both preventive and detective controls in place and the key controls are highlighted in the overall management response at the beginning of this report. There is a system control in PeopleSoft that will not allow an invoice to be processed if the invoice number has previously been processed. In addition, Accounts Payable does have a business process in place for identifying duplicate payments. Quarterly, a duplicate payment query from PeopleSoft is run and followed up.

This query will be reviewed to determine if it can be expanded to pick up additional variables that would further refine and improve the identification of duplicate payments. Target date for completion is June, 2011. If the PeopleSoft query cannot be expanded then the functionality of ACL will be reviewed and a cost/benefit of using ACL as an additional tool in AP will be undertaken. Management appreciate the listing of potential unrecovered duplicate payments ($17,143) the auditor has provided and Accounts Payable has commenced collecting this amount and continue to review and collect the remaining amounts.

Actions Taken, Results and /or Actions Planned

Management has decided to rely on existing controls to monitor transactions and identify duplicate payments. ACL will not be evaluated.   City's internal controls further documented in Payment Processing Policy

Recommendation (f)

Policies surrounding paying from copies of invoices should be created and enforced. Faxes or copies should receive enhanced scrutiny before payment. Furthermore, vendors should be officially informed that all invoices should be sent directly to Accounts Payable.	**Fully or Substantially Implemented**

Original Management Response

Policies and procedures will be documented as part of the work done and described in 1 a) of this report. It should be noted that original invoices received by fax or email are stamped "Original invoice received by fax/email" to prevent confusion. Staff have been reminded to apply greater scrutiny to copies of invoices. Management notes your comments on all invoices being sent to Accounts Payable. As Accounts Payable moves forward with functionality that will allow the City to scan and attach the invoice inside of PeopleSoft. Accounts Payable will ensure more vendors forward invoices directly to Accounts Payable. This was one of the recommendations from our internal procure to pay review. This review was discussed in the overall management response.

Actions Taken, Results and /or Actions Planned

Scan and Attach functionality in PeopleSoft was implemented in Q3 2012; Invoice Processing Policy Completed Q2 2013. Payment Processing Policy Completed Q3 2013.

Recommendation (g)

Invoices should reflect a Purchase Order (PO) generated within PeopleSoft. A PO system allows a three way match between invoice, PO and receipt of good. Therefore, all three must match in order to generate a payment. Once a match is made, the PO is closed and no further payments can be processed; thus preventing a duplicate payment. System based controls decrease the risk of an undesirable event, for example duplicate payments. Currently, most duplicate payments are being detected after the payment has been processed. From a control framework perspective, having preventative controls reduces the likelihood of the undesirable event occurring in the first place. Having system based controls rather than a manual check reduces the likelihood of an error, and can decrease processing time of invoices. This in turn, reducing the cost of processing an invoice, as the process becomes more automatic rather than manual. The PeopleSoft System was	**Partially Implemented**

installed in 2001. Although, Finance is in the process of moving more PO's to PeopleSoft, it is understood that full implementation is still a few years away.

Original Management Response

The overall management response at the beginning of this report highlights the key controls in Accounts Payable. At the time that PeopleSoft was implemented, the business process that was established included using PeopleSoft POs for purchases greater than $5,000 as well as blanket POs and contract numbers. For purchases less than $5,000 legacy POs and contract numbers and blanket POs if appropriate were to be used. When purchases are made pursuant to a contract, blanket purchase number or legacy PO, the operating department approves the actual invoice for payment by the appropriate signing authority signing the invoice. The signature is evidence that the operating department has authorized the purchase, received the purchase and confirms that the invoice accurately charges for goods or services that were authorized and received and is in accordance with the contract, blanket order or legacy purchase order and is therefore authorized for payment. We do agree that there is a need to move more purchases to PeopleSoft POs and to this end a project was initiated in the fall of 2009 to review the purchasing and payables cycle. There are many recommendations that have stemmed from this review and staff continues to work to implement these recommendations. A key recommendation was to move more purchases to PeopleSoft POs. Changes to the purchasing cycle involve extensive changes to business processes as well as cultural change and consequently will take some time.

Actions Taken, Results and /or Actions Planned

Finance is encouraging the use of Peoplesoft Purchase orders, where efficient. Finance has implemented additional functionality such as procurement contracts to ease the process. In addition, Commitment Control has been implemented. The City will continue to increase the use of PeopleSoft purchase orders and this will be an on-going process.

Recommendation (n)

Access to PeopleSoft should be revoked within a reasonable time of the employee leaving the department. It has been noted that a 'PeopleSoft Finance Access Request' form is in the process of being implemented. This form is used to grant, modify and revoke PeopleSoft access. It is recommended that once this form is implemented, that it be used by all departments within the City. In addition, on a regular basis, FIS should provide department managers with a listing of employees with their current system access. Each manager should review the listing for appropriateness and notify FIS in writing of any required changes. All changes received by FIS should be made on a timely basis.

Fully or Substantially Implemented

Original Management Response

Accounts Payable will work with FIS to develop forms and a reporting strategy.

Actions Taken, Results and /or Actions Planned

Peoplesoft access security policy and procedures have been completed.

[signature: R Bigger]

Brian Bigger, CGA, CRMA

Auditor General for the City of Greater Sudbury