

Audit Of Accounts Payable

By: Brian Bigger, Auditor General
On: May 4, 2011
To: Audit committee

Scope

- Our findings and conclusions are based on Accounts Payable data specifically extracted for this audit, and a comparison of the conditions, as they existed at the time the auditors initiated this audit on October 4, 2010.
- This comparison was made against pre-established audit criteria and as identified in the scope of the audit, for the audit period of January 1, 2008 to September 30, 2010.
- This audit was conducted in accordance with Generally Accepted Government Auditing Standards

Payment Summary

- Transactions totaled \$1.1 billion dollars over almost 3 years
- The Auditor Generals Office conducted tests on 100% of those transactions (January 2008 to September 2010)

Payment Type	Amount	\$%	Count	Count %
Progress Payments	\$ 201,310,589	18%	1,087	0.47%
Receiver General	\$ 115,896,069	10%	303	0.13%
Tax Levy	\$ 64,230,173	6%	22	0.01%
Remittances	\$ 70,872,139	6%	119	0.05%
Subsidy Payments	\$ 21,917,835	2%	37	0.02%
Invoices, employee expenses, grants, payroll	\$ 644,905,748	56%	227,229	98.63%
Total Payments	\$ 1,119,132,552	97.5%	228,797	99.31%
Voided Payments	\$ 29,223,379	2.5%	1,592	0.69%
Total ACL (January 1st, 2008-September 30th, 2010)	\$ 1,148,355,931	100.0%	230,389	100.00%

Objectives

- The audit was conducted as a cross-functional audit from the approved annual audit plan which provides audit resources to review Payables and Receivables related activities
- The primary objectives of this audit were to evaluate the adequacy and effectiveness of internal controls related to accounts payable and vendor management.
- Our audit included a review of the following topics within the Accounts Payable department:
 - Supervision and authorization procedures
 - Segregation of duties within Accounts Payable
 - Analysis of payment transactions to identify potential payment errors
 - Vendor Master file management

How Audits Add Value To The City

- The role of the Auditor General is not only to identify cost savings
- When selecting audit projects, the Auditor General attempts to balance audit work that will identify opportunities for:
 - cost reductions, loss avoidance
 - increased revenues, revenue collection
 - enhanced efficiency and effectiveness of municipal services, and
 - improvements in major control systems

How Does This Audit Add Value?

Audit Planning

- Audit Meeting The Auditor General met with Finance Management in the summer of 2009
 - Discussed Accounts Payable and methods to identify waste and/or recover funds eg. duplicates processes, revenue recovery specialists

Finance Management's Ongoing Improvements

- 2009 Finance implemented a duplicate payment detection process
 - For the period under review, Finance Staff detected and corrected **\$59,943 (18%)** of duplicate payments through this process
 - This was in addition to the \$188,167 and \$67,619 of duplicate payments detected through other accounts payable processes.
- 2010 Finance continued on with their review the entire procurement to payment process
- The current manager responsible for Accounts Payable was hired in the summer of 2010

How Does This Audit Add Value?

Audit

- The accounts payable audit was initiated October 04, 2010
 - Audit findings surrounding controls around the ability to change **Vendor Master file data**, ie. the name of a payee on cheques issued by the City were of concern to the Auditor General.
 - The audit made management aware of weaknesses in controls, and made recommendations regarding the **segregation of duties, sharing of passwords and user ids, documentation and approval of changes to vendor data**
 - A recommendation for **Supervisory review of voided cheques** will increase awareness, and understanding of problem areas and root causes, in support of continuous future improvement of policies, procedures and controls
 - The Auditors did identify approximately **\$1.3 million** of Cheques that had been generated, then voided and not reissued for various reasons (other than duplicate payments)
 - For the period under review, the Auditor Generals Office detected an additional **\$17,143 (5%)** of duplicate payments

Recommendations

1) Accounts Payable Policies and Procedures Manual

- Management needs to establish written policies and procedures that incorporate business processes in addition to existing directions on how to use the People Soft system. (HIGH)

2) Voided Cheques

- The supervisor should review all voided cheques . (HIGH)

3) Duplicate Invoices

- Finance should expedite the implementation of purchase orders in People Soft. (HIGH)

4) Vendor Management

- Accountability for vendor master file management should be clearly identified. (HIGH)
- Formally document changes to the vendor master file for vendor set up and maintenance . (MEDIUM)
- Critical data standards for vendor set up should be established. (MEDIUM)
- Management should establish a policy regarding maintenance of the vendor master file. (MEDIUM)

Recommendations

5) Segregation of Duties and People Soft Access

- Segregation of duties within accounts payable processing and vendor management needs to be reviewed by management. (HIGH)
- PeopleSoft access should be reviewed regularly by all department managers. All changes should be sent to FIS for processing (HIGH)
- Unique User IDs and passwords should be assigned to each employee (HIGH)

6) Payment Terms

- Management should ensure invoice payments adhere to formal payment terms established in each PeopleSoft vendor record, and any departures from these terms should be authorized. (MEDIUM)

7) Low Dollar Transactions

- Evaluate the opportunity to increase the use of P-Cards in order to decrease the number of small dollar invoices currently being processed in Accounts Payable. (MEDIUM)
- Evaluate the opportunity to have vendors consolidate smaller dollar invoices into one larger dollar invoice. (MEDIUM)

8) Invoice Approval

- Accounts Payable needs to establish a policy for updating the authority listing. (HIGH)

Voided Cheques

- Awareness - Understanding - Change
- Analysis of voided payments provides Auditors with an understanding of more common root causes that have generated payment errors in the past

Reason	Amount	%	No. of Cheques	%
Cheques Not Reissued:				
Not required by department	\$ 325,526	1.2%	83	9.5%
Product/Service not received	\$ 52,502	0.2%	74	8.4%
Duplicate payment	\$ 188,167	0.7%	107	12.2%
Payment also made on Visa/P-Card	\$ 10,842	0.0%	16	1.8%
Tax department cheques (outside AP)	\$ 41,360	0.2%	40	4.6%
Other Reasons - Cheques not reissued	\$ 902,270	3.4%	127	14.5%
Subtotal of Cheques Not Reissued	\$ 1,520,667		447	
Cheques Reissued:				
To correct payment to wrong vendor (keying issues)	\$ 1,212,361	4.5%	98	11.2%
To correct vendor information	\$ 595,115	2.2%	101	11.5%
Keyed incorrectly by AP	\$ 7,302,566	27.3%	42	4.8%
Wrong amount authorized by department	\$ 15,218,228	57.0%	41	4.7%
Stale dated/ Did not receive cheque	\$ 461,462	1.7%	103	11.7%
Other Reasons - Cheques reissued	\$ 408,729	1.5%	45	5.1%
Subtotal of Cheques Reissued	\$ 25,198,461		430	
Detailed Review of Supporting Documentation	\$ 26,719,128	100.0%	877	100.0%
Supporting Documentation Not Reviewed	\$ 2,504,271			
Total Voids Relating to Payment Transactions From Jan 2008 to Sept 2010	\$ 29,223,399			
Note 1: Total amount includes a cheque for \$12 million (included in the "Wrong amount authorized by department" category) that was cancelled and reissued for a smaller amount. Error was detected immediately and cheque cancelled was not issued to vendor or funds transferred to bank.				

Duplicate Payments

- Evaluated the effectiveness of the City's existing controls in identifying duplicate payments
- Existing controls tended to be detective in nature, as opposed to preventive

Source	Amount	S%	Recovered
Duplicate Payments Identified By Auditors Testing	\$ 17,143	5.2%	\$ -
Duplicate Payments Identified By A/P Report	\$ 59,943	18.0%	\$ 59,943.00
Duplicate Payments Identified In The Voided Cheques	\$ 188,167	56.5%	\$ 188,167.00
Duplicate Payments Identified by Vendor	\$ 67,619	20.3%	\$ 67,619.31
Total	\$ 332,872	100.0%	\$ 315,729

Invoice Amounts

- Number of invoices processed with an average amount less than \$350 over the period reviewed (January 2008 to September 2010)
- To put this into perspective, in all of 2009, the City processed 86,000 invoices
- If the City were able to decrease the number of invoices under \$350 by 10%, there would have been a potential cost saving of \$33,223 for the sample period

Average Invoice Amount	# Of Invoices
\$0.00 - \$49.99	8,114
\$50.00 - \$99.99	13,969
\$100.00 - \$149.99	11,807
\$150.00 - \$199.99	8,862
\$200.00 - \$249.99	7,152
\$250.00 - \$299.99	8,488
\$300.00 - \$350.00	14,305
Totals	72,697

How Management Responded

- Everyone recognizes that with today's demanding workloads and limited resources, there will always be opportunities for improvement or risks to be managed in any organization.
- How management chooses to respond, makes all the difference.
- I believe that the business like approach of the City's Finance staff, as well as the quality and sincerity of their management responses have greatly contributed to the confidence and trust that the Council, and the public should have in reading and interpreting the opportunities and risks identified in this audit report.

Conclusion

- This report contains fourteen key recommendations related to improvements in Accounts Payable processes and controls.
- Although cost savings are often a direct result of the work conducted by the Office, of equal importance is the work conducted to safeguard City resources and ensure proper use of public funds.
- Recommendations relating to the improvement of internal controls and the quality of stewardship over public funds are an important part of the Auditor General's work but are not easily quantifiable.
- It is important to appreciate that reports which have no apparent immediate financial benefit nevertheless have significant other long-term benefits to the City.
- Implementing the recommendations contained in this report will strengthen controls, and result in operational efficiencies.