

RIVERSIDE PUBLIC UTILITIES

Financial Review of Expenditures

June 17, 2016



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RIVERSIDE PUBLIC UTILITIES

Financial Review of Expenditures

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EXECUTIVE SUMMARY

0.0 EXECUTIVE SUMMARY

0.1 – Background

The City of Riverside (City) engaged Baker Tilly to perform a review of Riverside Public Utilities (RPU) expenditures over the three year period of Fiscal Years ending June 30, 2015, 2014 and 2013. The purpose of this project was to determine whether City policies and procedures over expenditures were followed. The project also was designed to review business processes and internal controls around the expenditure process to determine any gaps in design or performance and make recommendations for improvements.

0.2 – Audit Scope and Approach

The scope of this review included analyzing the processes and internal controls around the procure-to-pay functions as well as detailed transaction testing of RPU expenditures during the fiscal years ended June 30, 2015, 2014, and 2013. The objectives of this expenditure review were to ensure that RPU was in compliance with City procurement policies, key controls were in place and designed/operating effectively, and transactions were accurately paid, properly supported, and had an appropriate business purpose.

Our approach was based on sampling and testing methods used in Generally Accepted Auditing Standards of the American Institute of Certified Public Accountants (AICPA) and the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors.

Our approach consisted of the following:

- a. Reviewing existing policies and procedure documentation
- b. Performing interviews and process walkthroughs
- c. Identifying key risk areas in which to focus our testing efforts
- d. Designing tests of attributes aligned with key risk areas
- e. Selecting a statistically valid sample of transactions for testing
- f. Reviewing supporting documentation for sampled transactions
- g. Concluding on compliance with policies and appropriateness of payments
- h. Identifying gaps in internal controls and processes and providing corresponding recommendations
- i. Flowcharting processes and controls

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Throughout the expenditure review Baker Tilly conducted interviews with key personnel and process owners within RPU and City Finance who have specific knowledge of operations and policies. The individuals interviewed during the project include the following:

Individual	Department	Position
Edward Enriquez	City Finance	Accounting Manager/Controller
Nancy Garcia	City Finance	Assistant Controller
Cyndi Johnson	City Finance	AP Supervisor
Dave Dewey	City Finance	Purchasing Supervisor
Laura Chavez-Nomura	RPU Finance	Assistant GM - Finance
Aileen Ma	RPU Finance	Utilities Fiscal Manager
Mary Helen Montjoy	RPU Finance	RPU Administrative Assistant

Overall, we selected a sample consisting of 600 transactions, 200 each from fiscal years ended June 30, 2015, 2014, and 2013. The table below summarizes the transactions selected:

Fiscal Year	Total Number of Transactions Tested	Wires Transactions (% of total)	Non-Wires (% of total)	Amount Tested	Population Amount Total	% of Total Tested
FY13	200	186 (93%)	14 (7%)	\$8,423,991	\$322,409,298	2.6%
FY14	200	188 (94%)	12 (6%)	\$9,063,609	\$319,319,168	2.8%
FY15	200	182 (91%)	18 (9%)	\$7,996,276	\$307,915,724	2.6%

The following attributes were tested for wire and non-wire transactions:

Non-Wires

- The invoice amount per system reconciles with the amount on the invoice.
- The expenditure has an appropriate business purpose.
- The invoice was approved by authorized personnel in accordance with approval limits.
- The requisition was approved by authorized personnel in accordance with approval limits.
- There was proper Board/City Council approval for purchases over \$50,000.
- There were three bids received for purchase orders over \$2,500.
- There was a three way match of Purchase Order (PO), receipt, and invoice prior to payment.
- The check register was reviewed by an authorized check signer.
- Request for Payment (RFP):*
 - The RFP was approved by Finance.
 - The invoice amount per RFP reconciles with the amount on the invoice.
 - The expenditure has an appropriate business purpose.
 - The invoice was approved by authorized personnel in accordance with approval limits.
 - The check register was reviewed by an authorized check signer.

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Wires

The Request for Wire Transfer (RFWT) was approved by an authorized Department Approver in accordance with approval limits.
The RFWT was approved by Finance.
The amount per invoice agrees with the amount paid.
The amount paid agrees with the wire confirmation.
The expenditure has an appropriate business purpose
The wire was initiated by Treasury.
The wire was released by an authorized individual.

In this report, Baker Tilly discusses four (4) general recommendations related to policy, process, and internal controls and notes six (6) observations resulting from our sample-based testing. These are discussed in greater detail in Section 1.2 Observations and Recommendations for details.

0.3 – Observations and Recommendations

Overall findings related to policy, process, and internal controls are listed in the table below, followed by a second table with findings and observations identified during sample-based testing.

Although the scope of our review is focused on RPU expenditures, our recommendations also include those related to City Finance, since we reviewed RPU transactions from requisition through to payment, which encompasses processes and responsibilities of both RPU and the City. In addition, it is City policies which dictate the procurement practices across all departments within the City, including RPU.

General Process and Control Observations

#	Observation	Recommendation	Cost Estimate	Priority
1	<p>The City's policies for processes covered under the scope of this expenditure review are located in the following documents:</p> <ul style="list-style-type: none"> ➤ Purchasing Policies (Administrative Handbook) ➤ Accounts Payable Policies (Administrative Handbook) ➤ Purchasing Resolution R-22576 ➤ Internal Audit Reports <p>It was also noted that there is currently no formal documented policy for wire transfers.</p> <p>Additionally, two discrepancies are noted between documented policies and practice, including the following:</p> <ul style="list-style-type: none"> ➤ The RFP policy in the Administrative Handbook requires a RFP or Rebate Form to be issued, regardless of value. In practice, Finance review of RFPs and Rebates under \$1,000 is by exception only. This practice is based on a recommendation in Internal Audit Report AU 06-07 to reduce the manual 100% verification and improve efficiencies. 	<p>The City is currently in the process of updating its policies and procedures. Baker Tilly recommends that this includes a comprehensive policy covering the various purchasing processes, including:</p> <ul style="list-style-type: none"> ➤ Purchase Requisition / Purchase Order ➤ Competitive Bidding Procedures & Exceptions ➤ Contracting & Legal Review ➤ Receipt of Goods & Services ➤ Invoice Processing & 3-Way Match ➤ Request for Payments & Rebates ➤ Wire Transfers ➤ Check Approvals ➤ Use of the SPL and IFAS systems in the purchasing process ➤ Authorization Limits <p>The Policy should be distributed to City personnel across all departments and reviewed, and updated as necessary annually.</p> <p><i>Note: The City anticipates completion of the policy and procedure updates by the end of calendar year 2016.</i></p>	Existing Resources	High

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#	Observation	Recommendation	Cost Estimate	Priority
	<p>➤ The RFP policy in the Administrative Handbook indicates that refunds and utility rebates paid by the City to customers fall under a request for payment. In practice, a RFP form is not used for rebates, the Rebate Application Form is utilized instead.</p>			
2	<p>Invoices are received at the department level instead of by Accounts Payable, which leaves Accounts Payable unaware of invoices that have been received but not yet entered/approved by the departments. This process is a material weakness in internal controls as it puts the City and RPU at risk for materially misstating outstanding liabilities at year-end, as well as late penalties or loss of potential discounts. <i>Refer also to recommendation #5 in the City Internal Audit report "AU 06-07 Accounts Payable."</i></p>	<p>Baker Tilly recommends that the City require a purchase order for all invoiced expenditures, and that a request be made to have vendors send a second invoice copy to Accounts Payable.</p> <p>In addition, Accounts Payable should monitor the status of invoices and follow up with RPU as necessary to ensure timely processing and payment of invoices.</p>	Existing Resources	Medium
3	<p>Invoice payments are required to be entered against an existing PO. Policy prohibits processing of invoice amounts that differ from the PO by more than 10% and states that a change order should be processed.</p> <p>Currently, SPL will produce an error message to notify that there is a variance above this threshold; however, it does not restrict the user from entering and approving the invoice.</p>	<p>The City should review capabilities for enforcing system controls to restrict users from entering invoice payments when a variance greater than 10% of the PO exists. Controls should be implemented to not allow processing of payments for invoices that are over a stated percentage of the original PO without higher level manager approval.</p>	Under \$75,000	Medium
4	<p>Baker Tilly noted at the time of the audit that there is no formally established numbering convention for entering invoices that do not have invoice numbers from the vendor.</p>	<p>Baker Tilly recommends that the City begin to use automated number functionality, if available within the system, and/or establish and document a policy for invoice numbering conventions for consistency and to avoid the risk of duplicate payments. Although the current system, SPL, does not allow an invoice to be entered when the same invoice number exists, without a defined numbering convention there is greater risk for duplicate entry potentially resulting in duplicate payment.</p> <p>City Finance is currently in the process of procuring a new system to replace SPL. This automated numbering capability should be explored with the new system and implemented at that time.</p>	Existing Resources	Low

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Transaction Testing – Exceptions and Observations

#	Observation	Occurrences	Recommendation	Cost Estimate	Priority
5	<p>During check printing, signatures are automatically printed on the checks. Outgoing checks are not consistently reviewed by authorized check signers. During the expenditure review period, the check register was being reviewed by a few designated individuals, one of whom is an authorized check signer, however not for all check registers reviewed.</p> <p>A total of 75 samples and 26 check registers were not reviewed by an authorized signer.</p>	<p>FY 2013:</p> <ul style="list-style-type: none"> - 39 of 200 transactions (19.5%) - 39 of 186 transactions paid via check (21%) <p>FY 2014:</p> <ul style="list-style-type: none"> - 32 of 200 total transactions (16%) - 32 of 188 transactions paid via check (17%) <p>FY 2015:</p> <ul style="list-style-type: none"> - 4 of 200 transactions (2%) - 4 of 182 transactions paid via check (2.2%) 	Baker Tilly recommends that the check register be reviewed and signed by an authorized check signer for every check run.	Existing Resources	High
6	<p>Per the Request for Payment (RFP) policy in the Administrative Manual, Finance approval is required for all RFP transactions. Baker Tilly noted several RFP forms under \$1,000 that were not approved by the Finance Department.</p> <p>Per City Finance, the current procedure is to review RFP forms under \$1,000 by exception only, implemented as a result of a City Internal Audit recommendation from report AU 06-07 Accounts Payable.</p> <p><i>Process improvement opportunity noted.</i></p>	<p>FY 2013:</p> <ul style="list-style-type: none"> - 28 of 200 total transactions sampled for FY 2013 (14%) - 28 of 51 requests for payment less than \$1,000 (55%) <p>FY 2014:</p> <ul style="list-style-type: none"> - 20 of 200 total transactions (10%) - 20 of 45 requests for payment (44%) <p>FY 2015:</p> <ul style="list-style-type: none"> - 21 of 200 total transactions (10.5%) - 21 of 42 requests for payment (50%) 	<p>The City provided Internal Audit Report AU 06-07, in which the Internal Audit function recommended review of RFPs under \$1,000 by exception only, in order to reduce the manual 100% verification and improve efficiencies.</p> <p>Baker Tilly recommends that this practice be formally documented and updated in the Request for Payment policy.</p> <p><i>Refer also to recommendation #3 above.</i></p>	Existing Resources	Medium
7	<p>A Request for Payment (RFP) form greater than \$1,000 was not approved by the Finance Department, as required.</p> <p><i>One exception noted.</i></p>	<p>FY 2014:</p> <ul style="list-style-type: none"> - 1 of 45 requests for payments (2.2%) 	Baker Tilly recommends that the City explore options within SharePoint or similar systems to move RFP and RFWT processes away from a manual paper process and implement an electronic form utilizing workflow-for approvals.	Existing Resources	Low

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#	Observation	Occurrences	Recommendation	Cost Estimate	Priority
8	In one (1) instance, the department approver for a Request for Payment (RFP) was not an authorized signer. <i>One finding noted.</i>	FY 2013: - 1 of 200 total transactions (.5%) - 1 of 35 requests for payment (2.9%)	Baker Tilly recommends that the City explore options within SharePoint or similar systems to move RFP and RFWT processes away from a manual paper process and implement an electronic from utilizing workflow for approvals.	Already covered under observation #7	Low
9	In one (1) instance, the vendor invoice pre-dated a purchase order. The transaction did not relate to an annual purchase order, meaning that the invoice should not have pre-dated purchase order approval. Specifically, invoice #14958 from Hilltop Geotechnical was dated on April 30, 2015. The purchase order was approved in SPL on June 1, 2015. <i>One exception noted.</i>	FY 2015: - 1 of 200 transactions (.5%)	The individual who made the purchase did not follow City policy. The City should implement stronger monitoring controls to ensure that the City personnel do not enter into purchasing agreements until proper approval has been obtained as required in the City's policies and procedures. An example of a monitoring control would be for SPL to not allow payment of invoices whose date precedes the purchase order date without supervisory override and approval.	Existing Resources	Low
10	For one (1) transaction, Treasury could not provide documentation indicating which individual initiated and released the wire transfer. As a result, Baker Tilly was unable to verify that the wire was initiated and released by two different individuals with proper authority. <i>One exception noted.</i>	FY 2013: - 1 of 200 total transactions (0.5%) - 1 of 12 wire transfers (8%)	Baker Tilly recommends that Treasury ensure wire transfer reports are consistently retained and filed in a designated location.	Existing Resources	Low

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BACKGROUND AND CURRENT PROCESS

1.0 – BACKGROUND AND CURRENT PROCESS

The procurement process for RPU is performed by RPU Divisions with direction from the Purchasing Division of the City Finance Department. The Accounts Payable and Accounting departments within City Finance process vendor payments. The Purchasing Division manages the bid process and oversight and approval of purchases. The City Finance's role centers around invoice payment, verification of proper approvals, and review of invoice coding to the correct general ledger accounts.

RPU is responsible for the following tasks related to procuring goods and services:

- Obtaining bids for goods/services and/or provide input to formal bid process
- Initiation and approval of a purchase requisition
- Documentation of specifications (where necessary)
- Management of competitive procurements (i.e., obtaining bids or quotes)
- Receipt of goods and services, both physically and within the system
- Review and approval of vendor invoices

The City Policies that dictate the procure-to-pay processes include the following:

- City Administrative Manual (multiple policies)
- Purchasing Resolution R-22576 (previously R-21182¹)

The City Administrative Manual, maintained on the intranet and accessible to all employees, outlines policies and procedures over various City functions and departments, including procurement, purchasing, and accounts payable. City Purchasing Resolution No. 22576 outlines policy requirements related to the main purchasing processes and now serves as the Purchasing department's key handbook reference. Lastly, it was noted that recommendations from Internal Audit Report AU 06-07 have been adopted in accounts payable but are not formally documented in a policy at this time.

Competitive Procurement

For procurements exceeding \$2,500, the requester is required to obtain three (3) quotes or bid. Exceptions to this practice, including sole and single source, are outlined in the City's Purchasing Policy, Resolution No. 22576. Depending on the nature of the transaction, the requester may obtain quotes verbally, electronically through email, or through formal competitive procedures.

All procurements exceeding \$50,000 require the City to conduct formal procurement, which includes public notice of the opportunity and transparent tabulation of bids. In addition, RPU Board approval is required. Certain exceptions to this formal procurement requirement exist for specific utility equipment such as meters, circuit breakers, pipes and pipe fittings, transformers, and several other items.

Policies regarding the issuance of a Change Order against an existing contract are defined within Article 4 of the City's Purchasing Policy, Resolution No. 22576.

Policies regarding Emergency Procurements are outlined in Article 3 of the City's Purchasing Policy, Resolution No. 22576.

¹ Purchasing Resolution No. 22576 went into effect on September 10, 2013 and overrides Purchasing Resolution No. 21182 which applied to purchasing transactions prior to that date.

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BACKGROUND AND CURRENT PROCESS

Purchase Requisition & Purchase Order

Purchase requisitions are issued when a department or division within the City, including RPU, intends to purchase a good or service for which funds exist in the City budget.

To initiate the process, a member of the department completes a purchase requisition within SPL and routes to the department head or another individual with authority for approval, also providing them with the bids and any other related documentation. Approval authority is dictated by established authorization limits, which are reviewed by each department on an annual basis. The SPL system workflow settings are also updated to reflect changes in approval authority.

Following department approval, purchase requisitions are routed to Purchasing for review and approval, at which point purchase orders are generated and sent to the vendor.

The City also issues blanket type annual purchase orders for goods and services which are used on a frequent basis and required as part of daily operations. This excludes equipment and tools over \$2,500 and items carried in inventory. The total dollar amount for these types of purchase orders is estimated annually. The maximum amount allowed per transaction against an annual purchase order is \$2,500. Any transaction over \$2,500 would require three bids and are usually placed on a separate purchase order. When a purchase is made against an annual purchase order, it is considered to be a 'release purchase order.' The release enables the City to pay invoices against the annual purchase order without having to undergo the entire purchase requisitioning process each time an item or service is purchased from the given vendor.

Receipt of Goods and Invoice Approval

Upon receipt of goods and services, the original requestor or other designated individual must mark the line item as received in the SPL system. Once the invoice is received, it is entered into SPL, scanned in, and attached to the purchase order record. The invoice approver receives notification that the invoice has been received and needs approval. Invoice batches are run and the invoice batch report and corresponding invoices and support are provided to Accounts Payable for processing.

Vendor Payment

Purchase order transactions require a three way match in the system for payment to be processed. This includes a matching of purchase order, vendor invoice, and receipt of the goods or services. Check runs take place Thursday of each week by Accounts Payable. Check batches are reviewed for accuracy and appropriateness by the Controller or designee prior to check printing, and checks are printed and submitted by Treasury. See section below for other types of payments and transactions.

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BACKGROUND AND CURRENT PROCESS

Non-Purchase Order Transactions

In addition to traditional purchase order transactions, the City also has separate processes for Request for Payment (RFP) transactions and wire transfers.

For recurring transactions such as utility and phone bills, the City processes payments through an RFP process. An RFP form must be completed for each such transaction, and proper approvals obtained before payment can be processed. The requestor completes the RFP form and sends the hard copy to the Department Head or another individual with authority for approval along with the invoice and supporting documentation. Approval is indicated via signature on the RFP form, and then sent to Finance for verification of available funds and payment processing. Controller or designee approval is required as well, and indicated via signature on the RFP form. Checks issued through the RFP process follow the same check process described in the section above.

RPU issues rebates to its customers for making certain energy efficient upgrades. When this occurs, a rebate form is completed that includes a calculation of the rebate to be issued. The Request for Payment policy dictates the rebate process, and thus the same approvals that are required for the RFP form are required for the rebate form – department head or another individual with authority for approval and finance department approvals.

Wire transfer transactions are processed through a Request for Wire Transfer (RFWT) process. These transactions generally are not associated with a purchase order and therefore require documented approvals outside of the system. To submit payment to vendors via wire transfer, a RFWT form must be completed, and Department and Finance approvals must be obtained, similar to the RFP process. Treasury initiates wire transfers, and the Finance Administrative Assistant, Controller, or Assistant Controller releases wires.

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PROCEDURES PERFORMED

2.0 – PROCEDURES PERFORMED

Baker Tilly performed the following procedures in its expenditure review of RPU:

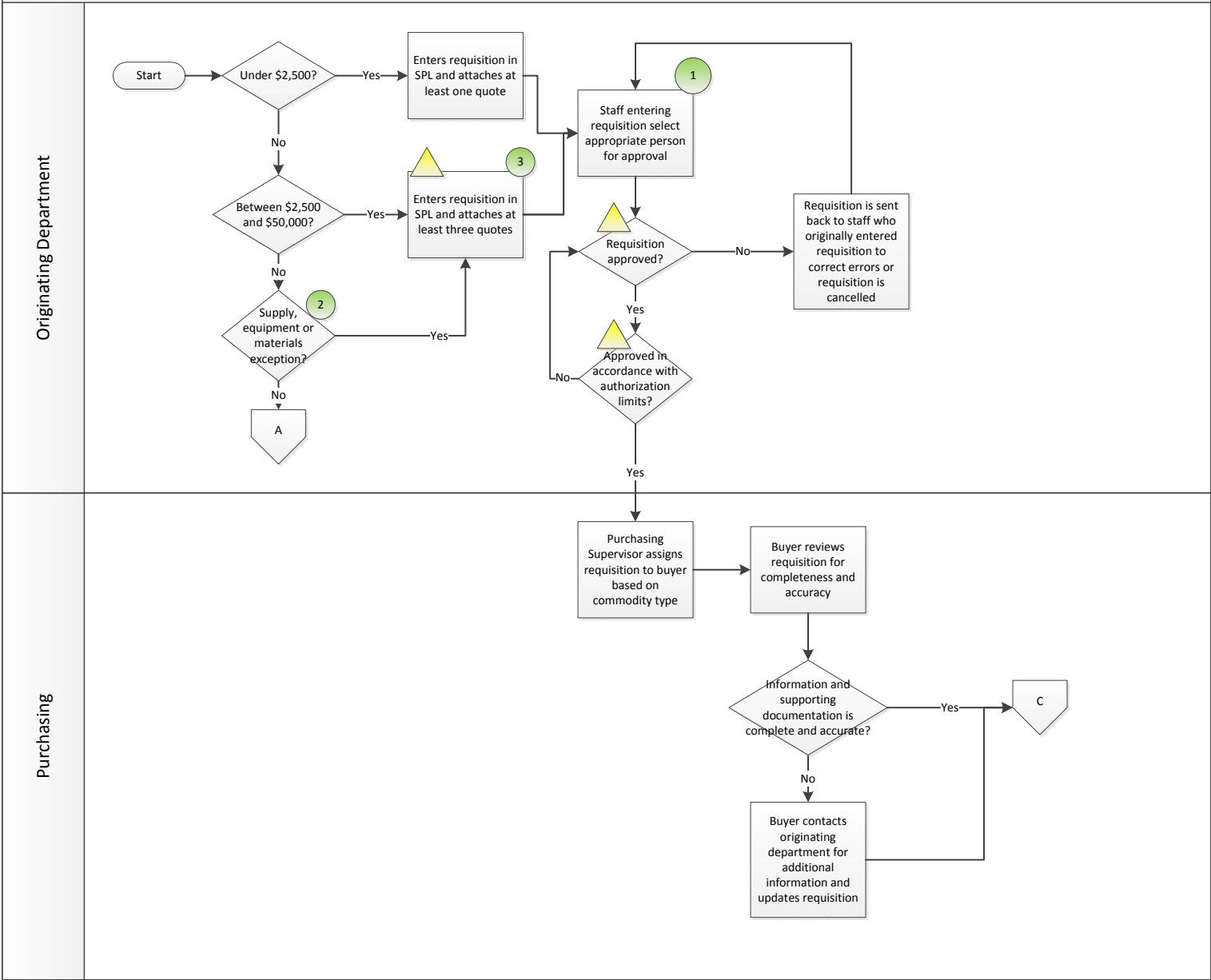
Procedures
1. Selected a statistically valid sample of transactions for detailed testing.
2. Tested the sampled transactions for the following: <ul style="list-style-type: none">a. Ensured key controls are in place relating to the specific transactionb. Verified that the City and Utilities were in compliance with its procurement practicesc. Ensured amounts paid were adequately documented and supportedd. Confirmed that the transaction had a valid business purpose
3. Reviewed Internal Audit reports performed of RPU during 2013, 2014, and 2015.
4. Performed process walkthroughs with key individuals involved in procurement and the processing of transactions.
5. Reviewed policy and procedure documentation related to procurement.
6. Created process maps to document the procurement process and the key controls in that process.

RIVERSIDE PUBLIC UTILITIES

Financial and Performance Audit

APPENDIX A – PROCESS MAPS

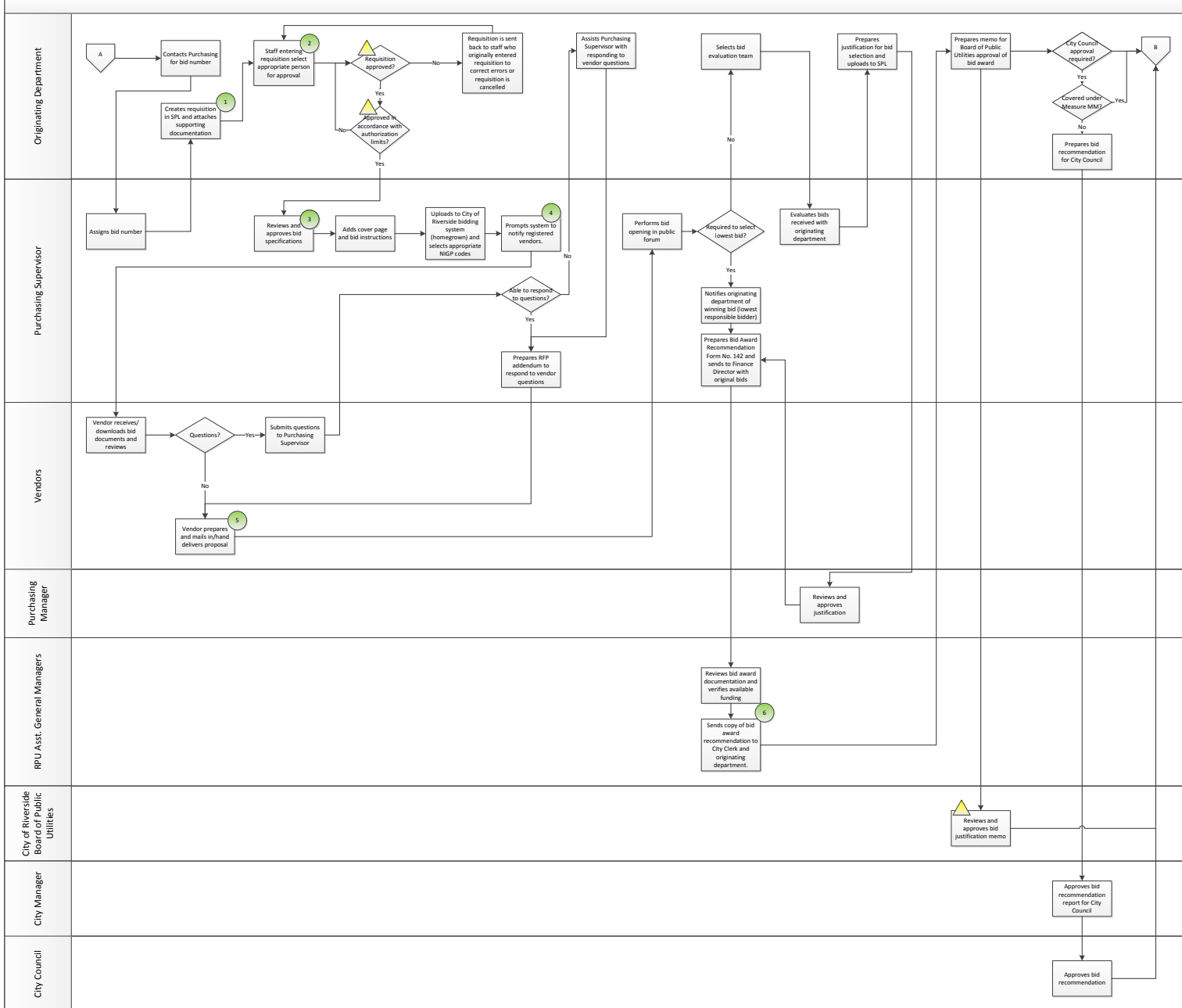
APPENDIX A – PROCESS MAPS



Process Notes

- 1. Approval requirements vary by division and who is entering the requisition as well as signature authorities. Department approval is required before being processed by Purchasing.
- 2. Under Section 602 of the City of Riverside Purchasing Resolution No. 22576, select supplies, equipment and materials are excepted from formal procurement and are allowable under Open Market Procurement. Refer to Resolution No. 22576 for a list of excepted items.
- 3. Some goods and services may be so specialized that obtaining quotes from three vendors is not possible. When this occurs requesting departments will document this information in the requisition for approval by Purchasing.

City of Riverside Purchase Requisition Process – Formal Procurement



Process Notes

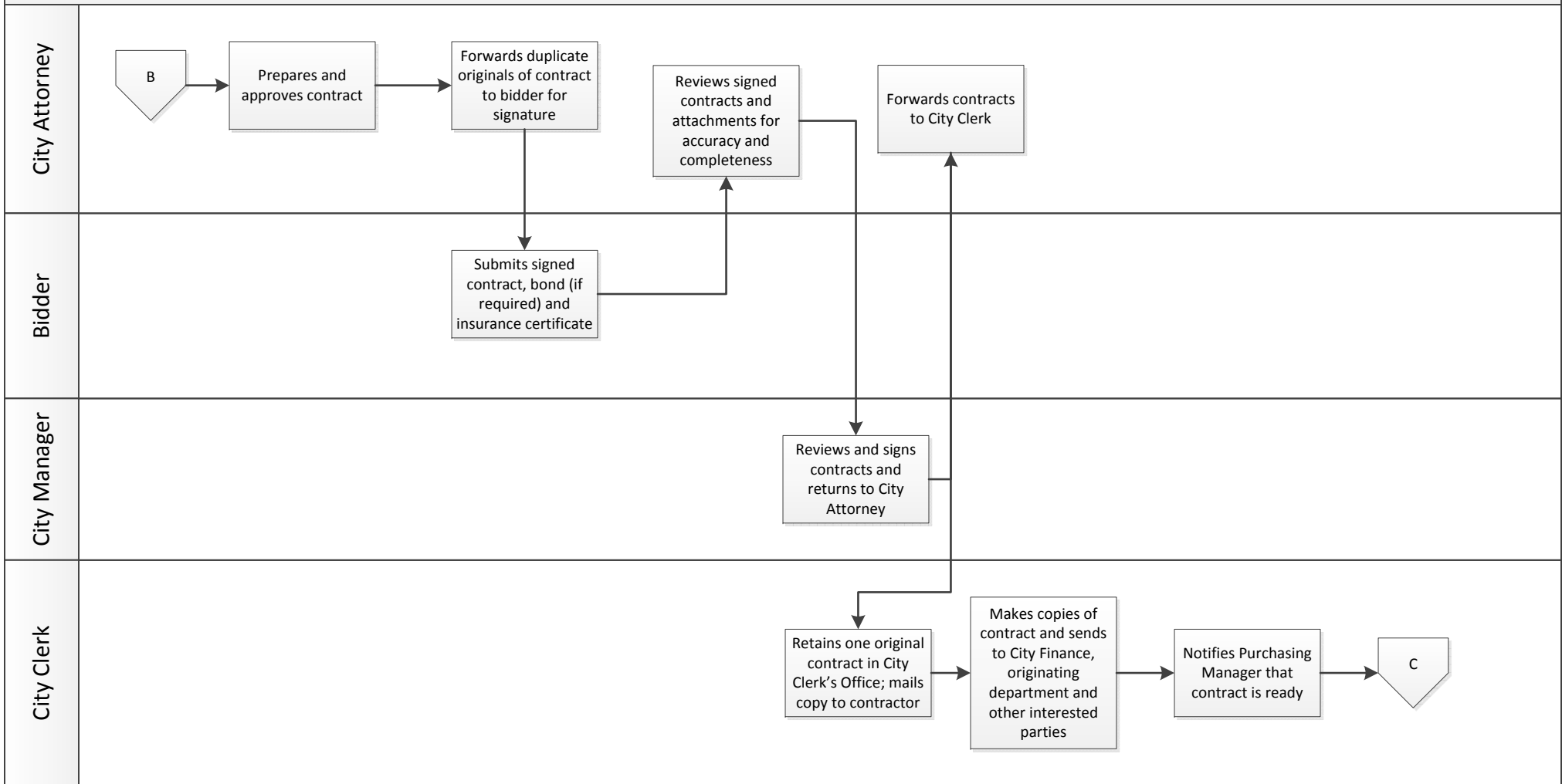
- Supporting documentation may include estimated cost, specifications, drawings, list of potential bidders, etc.
- Approval requirements vary by division and who is entering the requisition as well as signature authorities. Department approval is required before being processed by Purchasing.
- Public Works and the City Attorney may also review specifications if necessary
- Vendors may also log in to the City's bidding system and download the bid documents
- At this time the City's bidding system does not have the capability to allow vendors to submit bids electronically. This functionality is being developed.
- Original bid documents are sent to the City Clerk

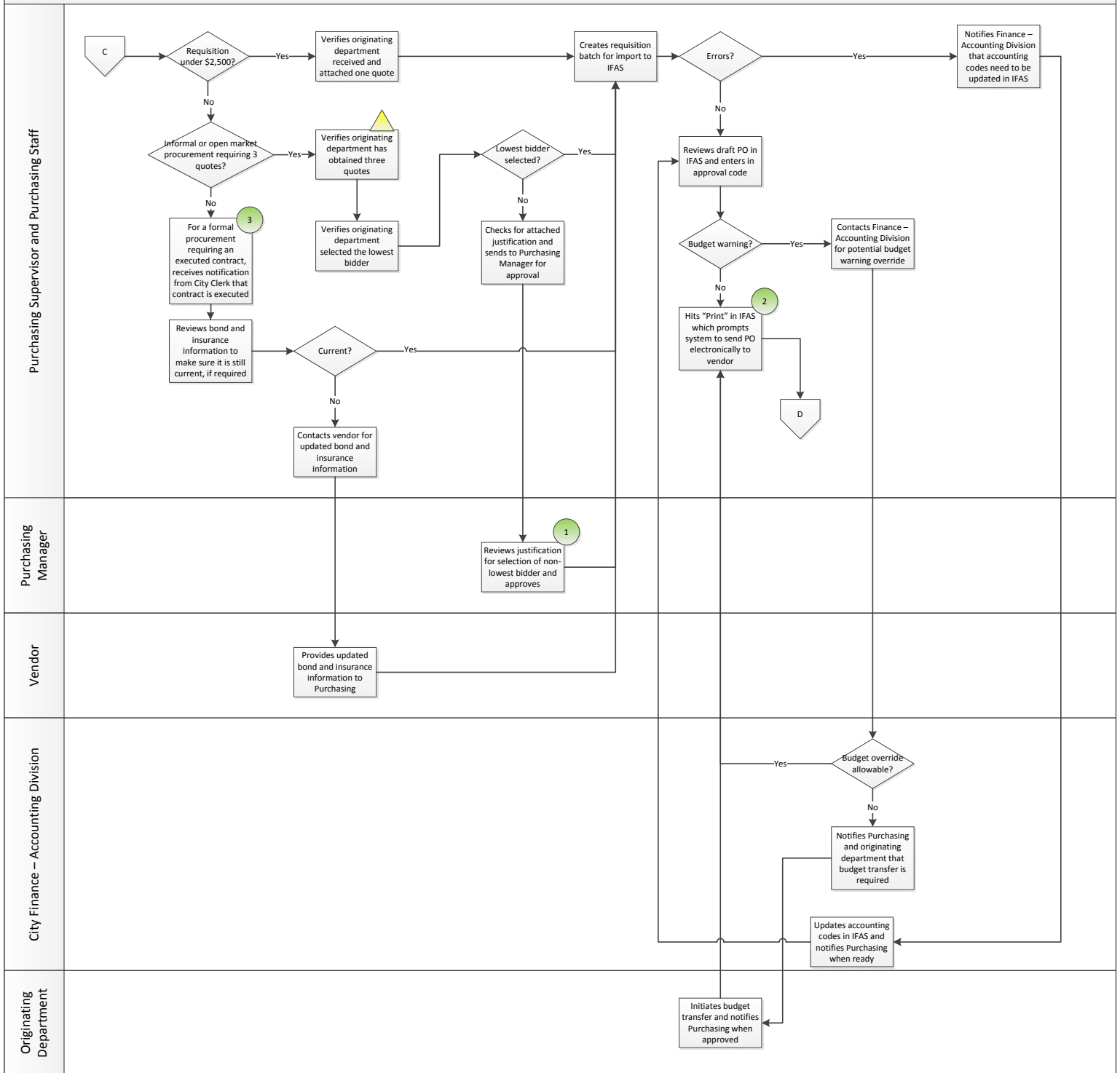
City of Riverside Contract Administration Process



Process Notes

Key Control



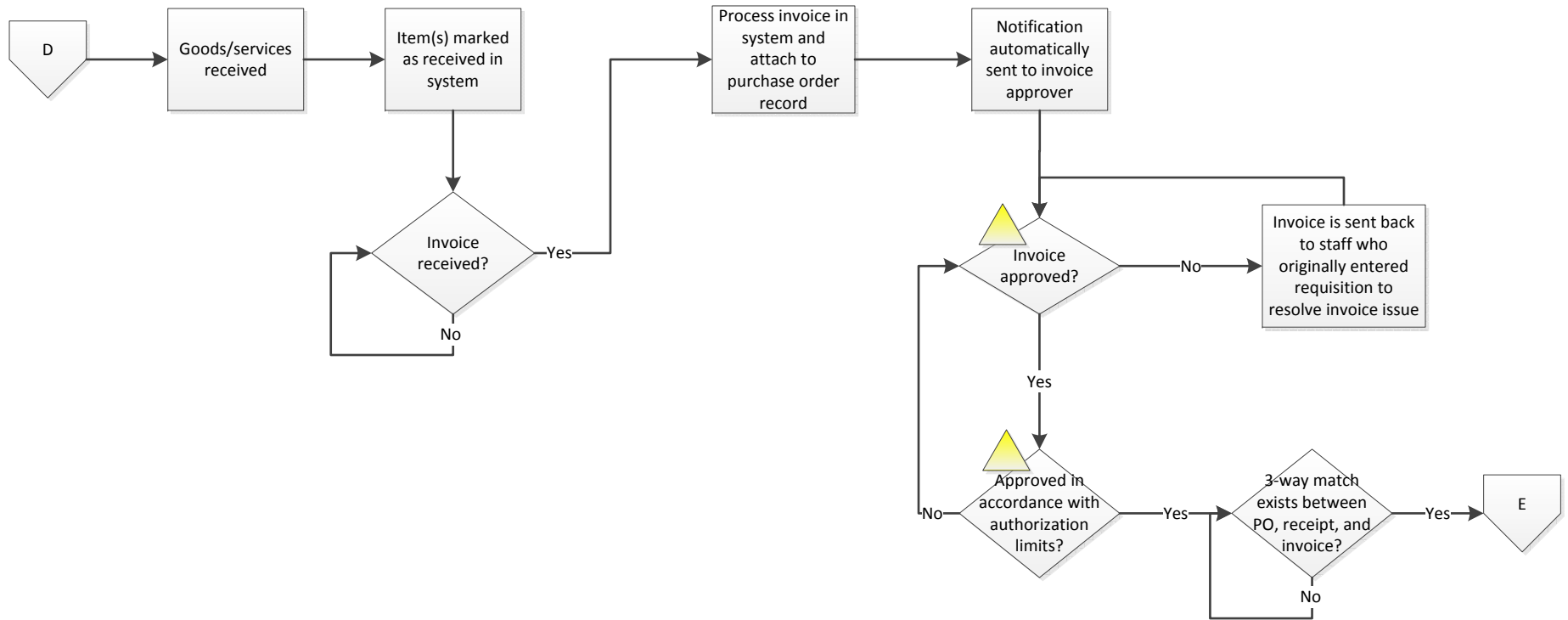


Process Notes

1. Purchasing Manager may also discuss justification with the originating Department Director
2. The requisitioner and buyer also get notified via e-mail that the PO has been sent to the vendor
3. Some requisitions under \$50,000 may also require a contract if the majority of fees are for a service. Purchasing will check with the City Clerk in these instances to see if a contract is required. If so, the contract administration process would be followed.

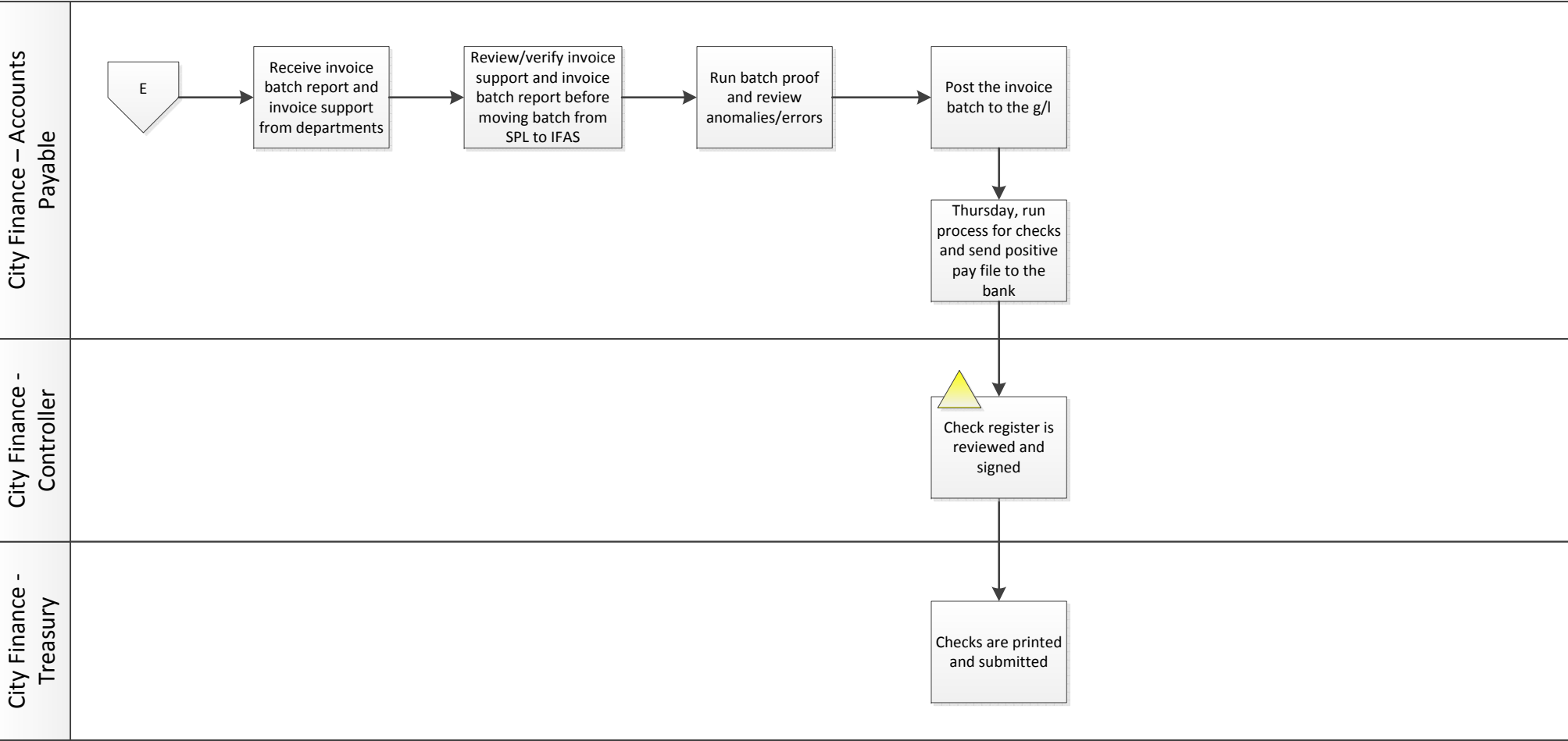
City of Riverside Receiving and Invoice Approval Process

Originating Department

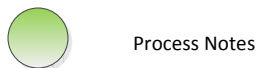
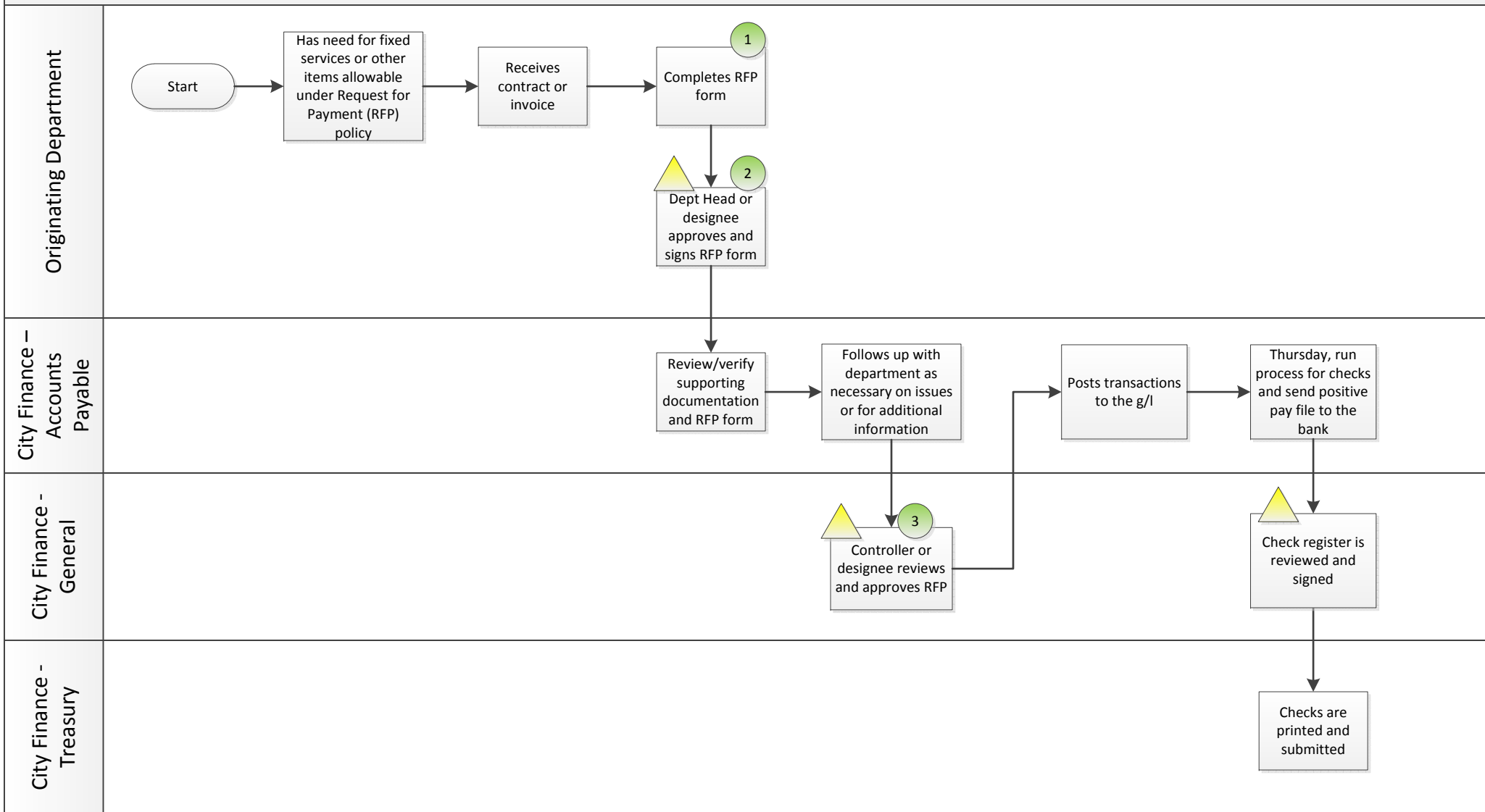
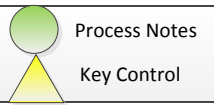


City of Riverside Accounts Payable Process

Note: This process flowchart does not cover Wire Transfer or Request for Payment transactions. Refer to the "Wire Transfer and Request for Payment" process flowchart.

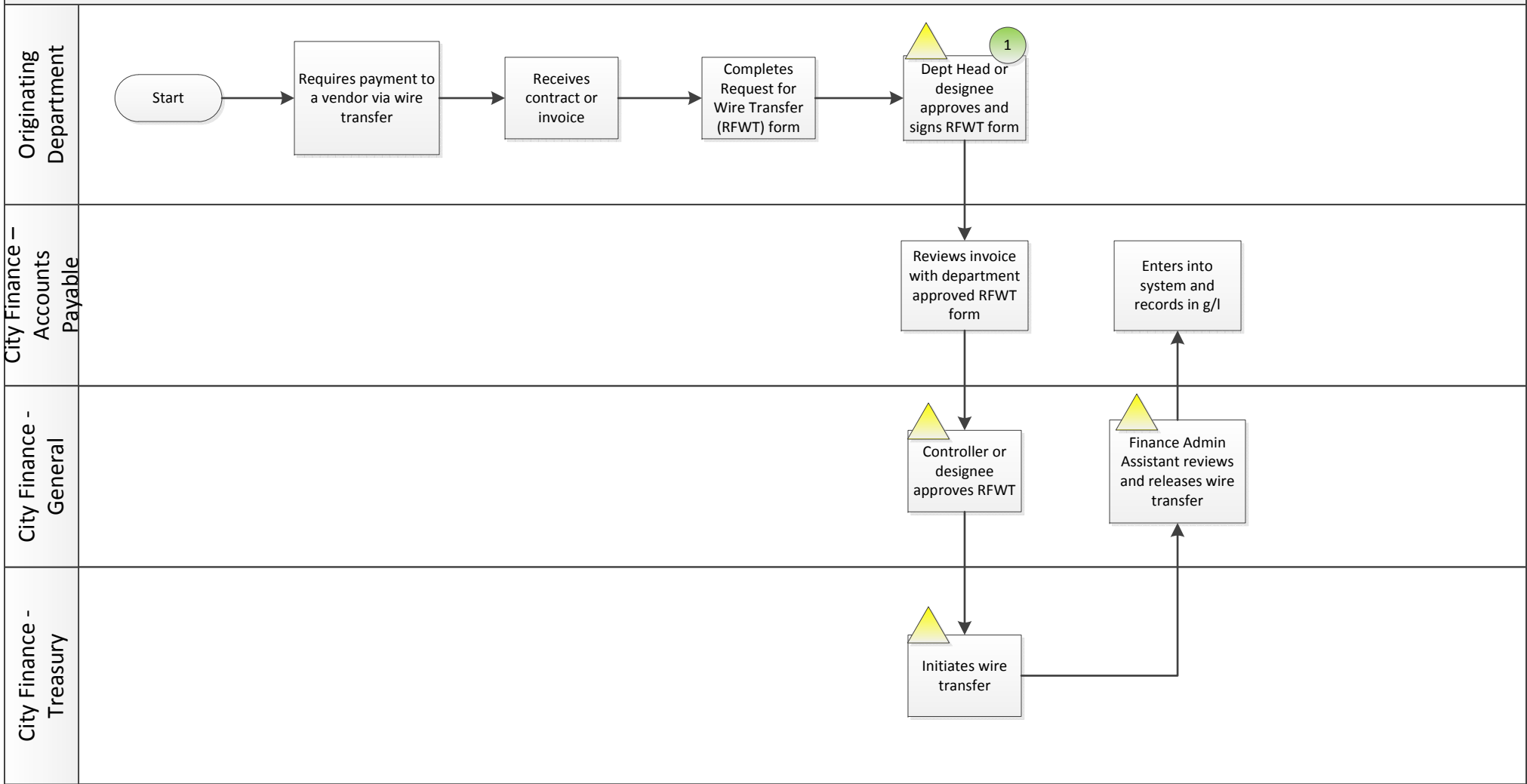


City of Riverside Request for Payment Process



- Process Notes
1. If payment is for a new vendor, a New Vendor Form must also be completed and provided to City Finance.
 2. Department approval must be in accordance with established authorization limits.
 3. For special exceptions outside of those listed in the Request for Payment policy, Finance Director, Asst. Finance Director, or Controller approval is required.

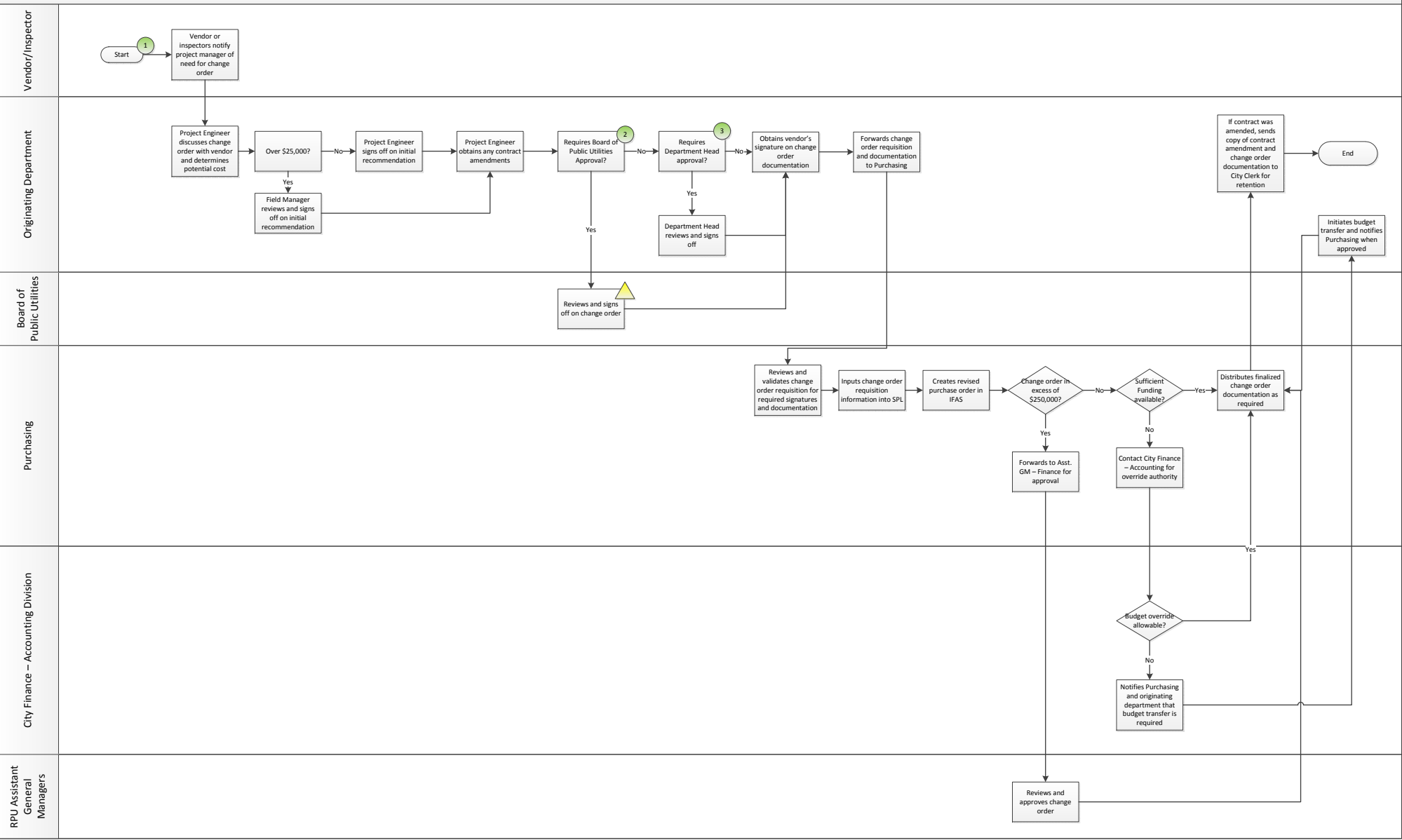
City of Riverside Request for Wire Transfer Process



Process Notes

1. Department approval must be in accordance with established authorization limits.

Change Order Process – Construction Contracts



Process Notes

- Change orders are required when the amount adjusts the original purchase order value by +/- 10% or exceeds \$4,999.99 and/or the scope of work is changed significantly as determined by the City Attorney's Office.
- Board of Public Utilities approval is required for change orders which exceed:
 - \$10,000 for contracts between \$50,000 and \$100,000
 - 10% of the original contract price for contract exceeding \$100,000 and not greater than \$1 million
 - For contracts greater than \$1 million, \$100,000 plus 1% of the original contract price, not to exceed \$150,000; or
 - Any change order which causes the contract price to exceed \$50,000, if the contract and/or purchase order was not previously approved by the entity; or
 - If changes are made to scope of the original contract and the original contract was required to be approved
- Department Head approval is required for change orders for more than 10% for contracts that are below \$50,000

RIVERSIDE PUBLIC UTILITIES

Financial and Performance Audit

APPENDIX B – CITY INTERNAL AUDIT REPORT AU 06-07 ACCOUNTS PAYABLE

APPENDIX B – CITY INTERNAL AUDIT REPORT AU 06-07 ACCOUNTS PAYABLE



City Manager - Internal Audit Division

Finance – Accounting/Accounts Payable

AU06-07

April 2006

INTRODUCTION

In accordance with the City's Internal Audit 2005/06 Work Plan, we have completed the audit of the City Manager - Finance – Accounting/Accounts Payable function, to include Travel & Expenditures and Cash Advances.

STATEMENT OF OBJECTIVES

The objectives of this performance audit review were to:

- ❑ Determine if key internal controls exist and are operating effectively;
- ❑ Assess the operating efficiencies of the processes; and
- ❑ Assess compliance with applicable City policies/procedures.

STATEMENT OF SCOPE and METHODOLOGY

To address the audit objectives and as part of our assessment of risk and collection of background information, we:

- Reviewed Accounts Payable (AP) procedures and activities, focusing on the following:
 - Invoice receipt (invoice handling)
 - Vendor database setup, access and maintenance
 - Invoice processing (matching invoice to purchase order/receiving information)
 - Vendor disbursements
 - Duplicate payments
 - Void checks
 - Accruals
 - Sales and Use Tax compliance
 - 1099 information reporting compliance
 - IFAS/AP system security
 - Account reconciliation
 - Year-end close
- Interviewed key personnel regarding the AP processes/procedures and control points;
- Reviewed existing documentation of related policies/procedures;
- Documented the AP process through creation of process flow charts;
- Performed analysis on AP transactions for the period July 2004 through January 2006;
- Performed analysis on T&E transactions and Cash Advances for the period July 2004 through January 2006;
- Conducted tests to determine validity, propriety and correctness of transactions sampled;
- Evaluated the effectiveness and efficiency of the AP processes against best practices; and

- Utilized external resources regarding benchmarks, performance measures, risk assessments and internal controls.

Processing of employee Travel and Expense reimbursements and ensuring Travel Cash Advances are settled timely were reviewed as part of the Accounts Payable audit.

Procurement will be audited in May 2006, per the 2005/06 Audit Work Plan.

STATEMENT OF AUDITING STANDARDS

The audit was conducted between March 1, 2006 and April 6, 2006 in accordance with *Generally Accepted Government Auditing Standards*, and according to the *Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors (IIA). Those standards require that the audit is planned and performed to afford a reasonable basis for judgments and conclusions regarding the department, division, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe our audit provides a reasonable basis for our conclusions.

BACKGROUND

The Accounts Payable (AP) function is entrusted with the responsibility of timely, accurate processing of payments to vendors for the citywide procurement of goods and services by means of requisition/purchase order (including Speedy PO), blanket vendor arrangement (annual PO), non-PO purchases, or by other procurement methods (Office Depot).

The AP Supervisor reports to the Controller, and has one Accounting Technician, two Account Clerk IIs, and one part-time Account Clerk II to process Accounts Payable.

AP PROCESSES

Before a new vendor can be paid, a vendor number must first be established in the Vendor Master database within the City's accounting system, IFAS. A vendor number is used to pay all invoices associated with the vendor. Information about the vendor (remit to address, TIN, etc.) is maintained under the vendor number. If a vendor is to be paid based on a pre-approved purchase order, Purchasing establishes the vendor number in the master file. If a vendor is to be paid from a "Request for Payment" (RFP) voucher or "Request for Wire Transfer" (RFWT), the AP supervisor sets up the vendor and assigns a vendor number in the master database.¹ Once a RFP/RFWT is approved, AP processes the RFP/RFWT and invoice for payment.

AP Transaction Volume				
July 1, 2004 - January 31, 2006				
POs	\$246,971,651	64%	74,183	56%
Non-Pos	\$136,384,705	36%	57,121	44%
TOTAL	\$383,356,356	100%	131,304	100%

Source: IFAS/AP

According to transaction history in IFAS/AP, the City purchases approximately 44% of goods and services using non-POs. The volume and related expenditure dollars on non-PO related purchases however *includes* payments for "services that can be acquired from only one source

¹ A RFP is used to pay for goods/services that were not purchased using a pre-approved PO (refer to the Administrative Manual number 07.006.00 for RFP policy).

for which a fixed charge has been determined, and items for which the City has been previously committed to pay, in an amount already determined.”² Below is a list of vendors of non-PO payment requests totaling over \$200K for the 18-month audit period.

PEID	Vendor	Total \$	# Invoices
0000600	BLUE CROSS OF CALIFORNIA	10,852,906.88	44
0000942	KAISER FOUNDATION HEALTH PLAN	9,675,884.74	135
0015273	ACS ENTERPRISES SOLUTIONS INC	4,040,226.43	77
0000689	GAGE CANAL COMPANY, THE	2,923,891.95	136
0016144	ADECCO EMPLOYMENT SERVICES	2,892,217.80	1,159
0001891	WESTERN MUNICIPAL WATER DISTRICT	2,764,819.84	1,126
0001624	SOUTHERN CALIF EDISON COMPANY	2,490,688.53	1,149
0000897	APPLE ONE EMPLOYMENT SERVICES	1,013,297.36	1,759
0001484	RIVERSIDE POLICE OFFICERS ASSN	991,605.01	57
0003307	STILWELL CONSTRUCTION	861,553.35	272
0010865	PEAK TECHNICAL SERVICES INC	775,251.76	501
0007920	PMI	631,983.08	48
0001626	SOUTHERN CALIF GAS COMPANY	570,646.38	945
0002308	BEST BEST & KRIEGER	552,880.58	204
0011010	SBC/MCI	547,229.58	2,770
0001469	RIVERSIDE DOWNTOWN PARTNERSHIP	527,454.85	61
0001900	GREINES MARTIN STEIN & RICHLAND LLP	504,413.47	60
0001918	BELL ORROCK & WATASE INC	476,870.34	221
0008748	NEXTEL COMMUNICATIONS	344,761.62	632
0004471	VISION SERVICE PLAN CA	300,291.04	96
0011705	BEST TEMPORARY SERVICES	292,675.56	136
0000259	BRODART CO	289,404.00	226
0003161	LEWIS BRISBOIS BISGAARD & SMITH	226,091.07	73
0001337	PRESS ENTERPRISE COMPANY	224,527.06	592
0002557	RIVERSIDE CO DEPARTMENT	223,416.18	189
0003892	MANNING & MARDER	218,671.93	58
0004792	TRAVEL ADVISORS	210,638.56	800
0000895	IBEW	200,758.76	101

Source: IFAS/AP extract where PO = BLANK.

Further analysis of non-PO invoices indicates 84% (over 37,000 vouchers) of the total processed during the audit period were for amounts less than \$1K per transaction record (33,000 or 73% were for amounts less than \$500 per transaction record); a staggering volume of *non-PO transactions* approved, reviewed and processed for payment.

The majority of vendor invoices for PO and non-PO purchases are mailed directly to the department/employee, and are finally received in AP either attached to a PO copy or attached to a RFP/RFWT. For those invoices that are received directly in AP, currently one AP staff member spends ~ 20% of her time opening and re-distributing invoices to the appropriate department.

Invoices are processed for payment through one of two systems (Synergen/SPL or IFAS/AP) depending on department and/or purchasing method. When purchase orders are setup in the SPL system, an “approval path” is designed for review and approval. SPL includes a three-way match that certifies receipt of goods/services to the purchase order *and* invoice information when entered at the department level. SPL invoice payment batches from various departments/divisions are routed to AP for review of supporting documentation, and eventually

² Per Admin Policy 07.006.00

released for integration with IFAS/AP for bi-weekly check processing.³ Inputting invoice information into two systems – IFAS/AP and SPL – adds to the complexity of processing invoices for payment. If there are errors in an SPL batch, the batch must be returned to the department/division for corrections, etc. and re-routed back to AP.

Vendors are to be paid only from an original invoice. All invoices must have a unique invoice reference number entered in the AP system. Invoices without a unique reference number are assigned one, however there is no standard coding, which can lead to duplicate payments. The IFAS/AP system is programmed to detect duplicate invoice numbers.

Invoices are processed into batches that are then reviewed and approved for check printing and disbursement. Management in the Finance Department receives the Accounts Payable bi-weekly check register and signs the register to indicate approval of disbursements. Checks are scheduled to be disbursed bi-weekly (based on Payroll Pay Periods/Dates) with the exception of “emergency” checks. Check serial numbers and amounts of checks issued are transmitted to Bank of America’s positive pay system. The bank generates an exception items report for the City as a check fraud prevention measure.

Accounts Payable checks are drawn against the City’s main checking account with Bank of America. Invoice processing is performed daily through Bi-Tech’s IFAS Accounts Payable (IFAS/AP) system, which was implemented in 1999.

According to data from the IFAS/AP system, 75,628 checks totaling \$249,398,683 were issued in fiscal 2004-05:

Checks Issued FY2004/05		
Bi-Weekly Checks	68,745	\$215,644,132
Off-cycle Checks	6,883	33,754,551
TOTAL	75,628	\$249,398,683

FY2004/05 Off-cycle Checks		
July 2004	2,040	\$7,245,423
June 2005	2,362	\$7,953,016

Of the 6,883 checks issued “off-cycle”, the majority was issued at beginning and end of the fiscal year.

This pattern/trend was also noted at the beginning of FY2005/06, and indicates there is a “push” or “catch up” to process payments and record expenses within the fiscal year against the fiscal year’s budget. Some of this volume is due to invoices disbursed to department staff rather than centralizing receipt of invoices in Accounting and recording in the AP system upon receipt, processed in a timely manner. However, management believes the majority of fiscal year-end expenditure volume can best be characterized as “use it or lose it” spending activity.

- Wire Transfers

Wire transfers (electronic funds transfers) allow large, time-sensitive funds to be rapidly moved to/from the City’s bank account. Sending payments electronically reduces the risk of checks (especially for large amounts) being lost, stolen or delayed by mail. Wire transfers are individual transactions, tracked by a reference number, transmitted through the Federal Reserve and subject to state Uniform Commercial Code. Wire transfers offer expedient, same-day payment delivery. During the audit review period 2,132 wire transfers (\$694,043,173) were processed; the majority of which are to Public Utility vendors. In addition, the City uses wire transfers as a

³ Our AP review did not include a review of Synergen/SPL purchasing processes and controls.

protocol for Treasury investment purchases. There is no protocol for dollar amount of a wire transfer.

To send a wire transfer, the City uses an Internet-based transaction initiation system, provided by Bank America. The bank sends the funds using the Fedwire Funds Transfer Service maintained by the Federal Reserve System. Funds are transferred the same business day within established deadlines.

Accounts Payable receives and coordinates wire transfers with vendors. The Treasury division of Finance processes wire transfers and interfaces with the bank – providing bank routing number, account number, monetary amounts, transaction dates and wire transfer descriptions/references. A dual control system is used to process wire payments – approval/release of wire transfers is performed by an individual other than the person who initiated the wire transfer, minimizing errors such as transposed numbers, and ensuring wire transfers are authorized and valid.

The following depicts the current internal process/approval/release document workflow for wire transfers:

- ❑ Accounts Payable - receives invoice with department approved wire transfer form; confirms availability of budgeted funds; routes to Controller.
- ❑ Controller - reviews and approves wire transfer; forwards documents to Treasury.
- ❑ Treasury - prepares transfer of funds; advises Finance.
- ❑ Finance Admin. Assistant - reviews and directs bank to release funds to vendor account.
- ❑ Accounts Payable - inputs to AP system as wire transfer (no check processed); expense recorded on GL.

- 1099 Reporting to the IRS

The City is required by the Internal Revenue Service (IRS) to issue a *Form 1099* to recipients of payments totaling over \$600 from the City during the calendar year. Certain vendor information must be collected from the vendor, including a completed W-9 form so that the AP system can issue a *Form 1099* to the vendor and the IRS. The W-9 form should be collected at the time the vendor is added to the vendor master file. The classification of a vendor in the City's vendor master database determines whether or not a *Form 1099* will be issued. The W-9 form should be retained to provide evidence of the status of an organization or person and to certify their taxpayer identification number (TIN). 1099 forms are mailed to vendors by January 31.

The City reports 1099 information returns to the IRS electronically, through the *Filing Information Returns Electronically System (FIRE)*, which is accessible via the Internet. The electronic file is generated by IFAS/AP and is delivered before the due date. The City appears to be in compliance with the IRS. Running a report each calendar quarter to review the status and classification of vendors in the database is a recommended "best practice."

- Bank Reconciliation

An Accounting Technician who is not a member of the AP staff reconciles the bank account and researches stale-dated checks.

- Accounts Payable Reconciliation

At fiscal year-end a reconciliation of Accounts Payable (GL account 201000) is prepared by the Assistant Controller, comparing IFAS/AP unpaid open invoices to the general ledger balances by fund. The independent accountant's review the AP reconciliation annually.

- Accruals

Accounting transactions are recorded on a modified accrual basis. At fiscal year-end, expense (liability) accruals are booked to Accounts Payable – Miscellaneous (201010). Only material dollar expenditures incurred in the fiscal year but not yet invoiced/paid are recorded. The process of establishing the amounts to accrue is manual (information is solicited from various departments involved in major construction projects). The accruals are systematically reversed the first month of the new fiscal year.

TRAVEL EXPENSE & CASH ADVANCES PROCESSING

A Statement of Expense report must be completed in order for an employee to be reimbursed for business expenses. Administration Policy 04.001.00 – Travel and Meeting Expenses – provides guidelines and procedures.

Reports are filled out online (using an Excel spreadsheet report that is printed out and functions basically as a paper system), receipts attached, manually submitted to department management for approval, returned, and then submitted by the employee to the Accounting department. City Admin Policy 04.001.00 outlines the per diems for meal expenses while on a business trip. Original receipts for all expenses (airfare, lodging, conference fees, meals unless using the per diem plan, etc.) are to be attached to the Statement of Expense.

Upon receipt in Accounting, the Statement of Expense processing is very labor intense – checking the math, updating spreadsheets, verifying available funds in budgets, routing for various levels of approvals, batch input to systems, etc. The City reimburses funds to the employee through the bi-weekly payroll system.

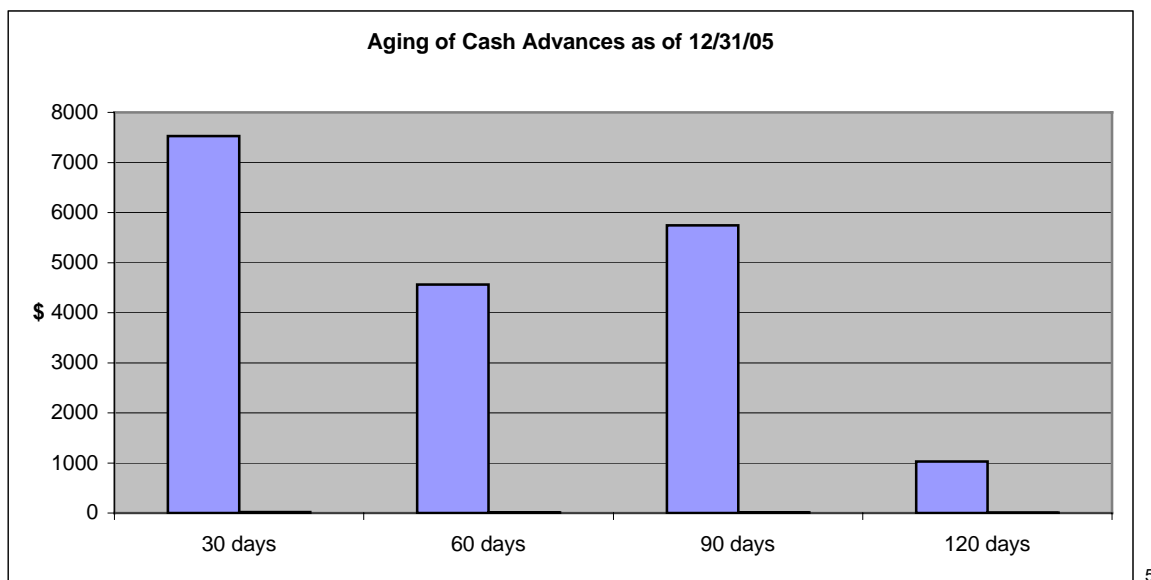
The current Travel and Meeting Expense policy does not indicate how long after a trip or business expense a Statement of Expense should be submitted to Accounting to record the expenses and reimburse the employee.

- Cash Advances

If an employee requests a Cash Advance, the appropriate form must be completed by the employee, approved by the Controller, and presented to Treasury. Advance funds not used are to be returned to Treasury within 30 days from issuance/receipt, per City policy 04.001.00, and recorded on the Statement of Expense report accordingly. An accounting staff member maintains a spreadsheet to record and track Cash Advances by employee and date of event. Another staff member in Accounting is responsible for reconciling the Cash Advance general ledger account (116500). There does not appear to be any formal aging of advances to ensure compliance with City policy 04.001.00. Employee notification is sporadic and not a standard

monthly procedure. In addition, the City is not in compliance with IRS rulings regarding advances treated as income to the employee after a certain period of time.⁴

The following graph reflects the aging of cash advances at the time of our review. During our review, the account reconciliation was updated; the number of outstanding advances has been greatly reduced.



CONSTRUCTION PROJECT PAYMENTS – RETENTION PAYABLES

Contract closeout is an important aspect of contract (project) administration. Contract closeout begins when the contract is physically complete. Closeout is completed when all administrative actions have been completed and all final payments have been made. This process requires close co-ordination between the contracting department/project manager, legal department, city clerk and the contractor.

The current role of Accounting/AP in the administration of existing City/Department approved construction contracts is to initiate the request for payment (RFP) of the balance in the applicable fund retention payable account (206000) upon receipt of the legal Notification of Completion from the City Clerk's office.

As of March 10, 2006, Retainage Payables account has a balance of ~\$4 million. There is no periodic or annual account reconciliation by fund/contract to the general ledger - some fund balances have been carried forward for several years; there is no evidence that the general ledger/trial balance is accurate; no detail of what makes up the 206000 GL account balance by contract/work order in the various funds.

SYSTEM SECURITY

Access to the IFAS/AP system is provided by the IT organization and restricted by passwords. Currently there is no requirement to change passwords at any specified interval, such as 90 days. Access to the various AP functions is restricted based on user ID. A list of authorized system users is maintained in IFAS under the direction of accounting management and the IT

⁴ Refer to IRS publication 535 (Accountable and non-accountable Reimbursements) and 15B (Fringe Benefits).

⁵ 17 cash advances over 30 days; 12 over 60 days; 11 over 90 days; 4 over 120 days

department. AP system source code is restricted to only personnel responsible for maintaining and developing the AP system

SUMMARY

During our review of Accounts Payable, we found significant opportunities to strengthen internal controls, standardize and improve processes/procedures and implement/apply accounting best practices.

- ❑ Centralizing receipt and processing of all invoices will reduce the time and cost involved with multiple personnel performing the same tasks and improves internal controls.
- ❑ With the implementation of an automatic matching and approval process, the time involved within AP and within City departments routing invoices and vouchers will be greatly reduced and improve customer satisfaction.
- ❑ Implementing a procurement card (p-card) can have a significant impact on AP as well as Purchasing. Use of p-cards eliminates small dollar non-PO vouchers and consequently the volume of check processing – a multitude of small transactions are converted into one monthly invoice and payment. The various methods of purchasing goods/services will be enhanced, simplified and be more efficient; Speedy POs will be eliminated.
- ❑ Management should also consider implementation of Travel credit cards to those individuals in departments who *frequently* have a need to attend conferences, out-of-town business meetings and seminars. Implementation of a City-sponsored Travel credit card will significantly reduce the number of Cash Advances and reduce the time spent to monitor and reconcile the related accounting activities.
- ❑ An additional practice to reduce the volume of check processing and disbursements is converting major vendors to electronic payments via an automated clearinghouse (ACH) as an electronic method of payment and delivery. ACH is a batch-oriented electronic fund transfer system governed by the National Automated Clearing House Association (NACHA) operating rules. ACH batched transactions involve an industry standard two-day processing time. ACH payments eliminate paper checks and individual vendor wire transfers; a formatted disbursement file is sent to the bank, which then electronically transfers payments to vendors. Management has expressed a desire to reduce paper checks and wire transfers processed, favoring the cost-benefit offered by using ACH. Continued efforts to implement ACH should be a high priority for Accounting/AP.
- ❑ Finally, as Accounts Payable implement the recommended changes in policy, processes and procedures, the *frequency* of check runs should be reviewed. Check runs are time-consuming but if not frequent enough the volume of “emergency” or “rush” checks increases.

We thank the Accounting and AP management/staff for their co-operation and assistance during this performance audit review, and look forward to consulting with them as needed during implementation of recommended system and process changes.

AUDIT RECOMMENDATIONS, RESPONSES, ACTION PLANS

Recommendation #1	Response and Action Plan
<p>Cash Advances - At the time of our audit, four advances were outstanding for over 120 days. According to IRS rules, these advances should have been recorded as additional income to the employee and taxed accordingly; management has not been complying with IRS rules.</p> <p>While there is an Excel spreadsheet maintained listing individual cash advances, event date, amount, etc., there was no aging of the advance; it was difficult to tell how many days past 30 days (per current Admin Policy) the advance was outstanding. There was no "audit trail" of notification to employees of past due advances.</p> <p>We recommend modifying the current processes and procedures as follows:</p> <ol style="list-style-type: none"> 1) Age the outstanding advances past 30 days in order to support escalation notices. 2) Develop a formal, consistent escalation process when advances become past due after 30 days. Retain documentation of notifications (i.e., note date of notification on spreadsheet). 3) Advise employees of the IRS "income" rule and take action if/when appropriate to ensure regulatory compliance. <p>Travel and Expense Reimbursement - The practice of financial management review/approval signature on 100% of all Travel & Expense statements <i>after</i> department/division management review/approval and submission to Accounting for processing is inefficient and adds little value to the reimbursement process.</p> <p>We recommend Admin Policy 04.001.00 (Travel and Expense) be revised as follows:</p> <ol style="list-style-type: none"> 1) Once the Accounting clerk has reviewed the Statement of Expense for accuracy, completeness (receipts) and proper signature approval, the need for additional review by the ACM/CFO or other designated management staff (i.e., Controller) should be by <i>exception only</i>- Statement of Expense with a highly questionable expenditure; those over an established high-dollar threshold, City Council statements, etc. This change in review procedures within Accounting will reduce the effort in the processing of Statement of Expense reimbursements; yet establish controls appropriate to the risk and value of the corresponding transactions. 2) Establish a policy for completion and submission date of a Statement of Expense (i.e., 30 business days from end of business 	<p><i>Management concurs with the recommendation. The "Days Outstanding" count has been added to our worksheet for easy reference and aging. A formal, consistent aging process has been incorporated into our desk manual and employees will be advised of the IRS "income" rule when appropriate. Administrative Policy 04.001.00 (Travel and Expense) will be revised as recommended.</i></p>

<p>travel/meeting) to ensure timely recording of expenditures/employee reimbursements.</p> <p>3) Establish a dollar threshold and/or timeline for submission of <i>non-travel</i> related expense reimbursements (i.e., monthly for mileage reimbursements; quarterly for total expenses under \$50, etc.).</p>	
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Recommendation #2	Response and Action Plan
<p>Retention Payable - Contract closeout is an important aspect of contract (project) administration. Contract closeout begins when the contract has been physically complete. Closeout is completed when all administrative actions have been completed and all final payments have been made. This process requires close co-ordination between the contracting department/project manager, legal department, city clerk and the contractor.</p> <p>We recommend the following actions:</p> <ol style="list-style-type: none"> 1) Transfer responsibility of request for payment for retention funds at project closeout to the appropriate City department/project manager. 2) Establish an Admin Policy for Retention Payables to ensure roles and responsibilities for contract closeout procedures are clear between departments/project managers and accounting staff. 3) Reconcile the 206000 and 206900 accounts by fund and contract/project to ensure accuracy of the general ledger. Continue to reconcile these accounts at least quarterly. <p>The above recommendations will greatly improve internal controls (separation of duty; safeguard assets), and eliminate the “accounting contract administration” role of the AP Supervisor.</p>	<p>Management concurs with the recommendation. <i>The Accounts Payable division has begun the process of transferring responsibility of the request for payment of retention funds at project close out to City departments. In addition, we will be meeting with project managers to ensure they have an adequate understanding of retention payable procedures. Management believes that the each contract serves as adequate documentation of the City’s responsibilities relating to retention payable; therefore creating a new administrative policy is not deemed necessary. Project managers should outline their desk manuals for the handling of retention payables, if necessary. The accounting division will be under filling an existing vacancy with an Accountant I in order to assist with reconciling the retention payable accounts on a quarterly basis. We anticipate this position to be filled by the end of July 2006. In the meantime, we will continue to reconcile current activity flowing through the account for accuracy and completeness.</i></p>

Recommendation #3	Response and Action Plan
<p>System Security – In our review of employees who have access to the various AP system functions, we detected employees who no longer perform AP functions, employees who have no related AP job responsibilities, and in a few instances individuals no longer employed by the City. There are no standard procedures in place for the periodic monitoring of system user capabilities to ensure assignments provide for adequate segregation of duties and are appropriate based on job title/function.</p> <p>To ensure adequate system security and controls, we recommend the following:</p> <ol style="list-style-type: none"> 1) Authorized system users should be updated 	<p>Management concurs with the recommendation. <i>Authorized system users will be updated regularly for new hires, transfers and terminations. In addition, procedures have been formalized to review user access on a bi-annual basis to review user access and capabilities.</i></p>

<p>regularly for new hires, transfers and terminations.</p> <p>2) The types of access allowed employees should be compared to system reports documenting the functions accessible.</p> <p>3) Formalize procedures for periodic (semi-annual) review of user access/capabilities.</p>	
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Recommendation #4	Response and Action Plan
<p>Vendor Database – Vendors added to the vendor master file/database should be processed by employees independent of those involved in invoice data input, payment processing and account reconciliation activities in order to create a separation of duties that mitigates the potential for fraud. The external auditors have also noted internal control concerns regarding the current practice of AP staff adding vendors to the master database.</p> <p>During our review the following compensating controls were proposed:</p> <ol style="list-style-type: none"> 1) Non-PO vendors will be identified with a new “seed” value (unique identifier for type of vendor); a “PEID” (vendor ID) will be auto-generated 2) AP staff will no longer have the capability of running the match utility for the check (CK) database 3) Staff not assigned to AP will run a report of adds/modifications prior to each biweekly check run, as well as run the match utility to update payees in the CK database. Proof of review of reports will be documented/noted and dated. <p>We recommend management implement the above compensating controls immediately. We also suggest there be a comprehensive review of the input and verification procedures to ensure proper control over <i>who</i> does the changes and <i>what</i> is changed.</p> <p>There are no procedures in place for periodic review and deletion of vendors that are no longer utilized.</p> <p>We recommend AP work with Purchasing to update the vendor database. On a regular basis, inactive vendors should be removed so that a payment is not accidentally made to the wrong vendor or sent to an address that is no longer current. In our review of the vendor database we noted duplicate TIN numbers assigned to different PEIDs. AP with Purchasing should eliminate redundant (duplicate) AND obsolete (inactive) vendors and maintain a “clean” vendor database/file.</p>	<p><i>Management concurs with the recommendation. The Accounting Division has implemented the compensating controls outlined relating to set up of new vendors. In addition, we will instigate procedures with the Purchasing Division to update and clean out the vendor database at least on an annual basis to ensure that it is current.</i></p>

Recommendation #5	Response and Action Plan
<p>Invoice Handling – Invoices are currently sent to the person who placed the purchase order or requested the service. Payments can be delayed due to loss or delay in approving and routing the invoice to AP for processing. Accounting has no way of knowing what has been received but not billed/invoiced (RNB) and billed not received (BNR). It is critical to know at fiscal year-end outstanding liabilities to ensure all expenses are properly recorded per GAAP. In addition, discounts can be lost due to delay in receiving and processing invoices. With improved processing of invoice receipt (through elimination of mail float and mail distribution float) discounts can be increased.</p> <p>We recommend the following changes to current processes/procedures:</p> <ol style="list-style-type: none"> 1) Centralize invoice receipt - all invoices be sent directly to a designated person in Accounting/AP to date stamp and distribute to the appropriate AP staff member for processing. 2) Streamline the process flow through automated workflow. <p>Most imaging (scanning) and workflow technologies will send an image of an invoice to the appropriate department employee for approval and even coding (for GL Key and Object); an automatic follow-up within a set period of time can be established if no response is received. Once approval and coding are received, the AP system would “release” the invoice for payment processing.</p> <p>By controlling receipt of all invoices, Accounting will know at any time the amount of outstanding liabilities.</p> <p>Allowing integrated systems to provide 3-way and 2-way matching should relieve approval “bottlenecks” and allow for process efficiency improvement.</p> <p>The above recommendations will require co-ordination with Purchasing, Departments and Synergen users – POs will need to instruct vendors to send invoices directly to Accounting; Departments will discontinue the current practice of receiving invoices directly, inputting invoice information into Synergen/SPL and preparing payment batches for AP processing.</p> <p>Refer to “Streamlining Accounts Payable Invoice Processing” attachments for an overview of the proposed process changes.</p>	<p><i>Management acknowledges the benefits outlined in this recommendation. As discussed in several meetings with the Internal Audit staff, this recommendation is a significant change to how the City, as a whole, processes accounts payable. Currently, our IFAS administrators are in the process of researching the IFAS work flow system and how this will integrate with the SPL system currently in use. Once this is done, they will estimate the project costs and staffing resources necessary to implement this recommendation and present to executive management for approval.</i></p>

Recommendation #6	Response and Action Plan
<p>Invoice Processing – Invoice processing efficiency is not optimal due to a high volume of low-dollar invoices. Of the number of non-PO invoices processed during our audit review period of 18 months, 33,000 or 73% are for amounts less than \$500 per transaction record.</p> <p>We recommend discontinuing the current 100% review process by management within Accounting for non-PO invoices – review by exception only for invoices under \$1K. This change in review procedures will reduce the effort in the processing of non-PO invoices; yet establish controls appropriate to the risk and value of the corresponding transactions.</p> <p>The implementation of a City-sponsored procurement card (p-card) will greatly reduce non-PO processing volume and processing costs related to issuing checks. However, the p-card will <i>not</i> reduce the volume of payments processed for recurring purchases currently <i>not encumbered</i> with a purchase order (i.e., phone, utility invoices, etc.)</p> <p>We recommend Accounting work with Purchasing to investigate and determine the cause of non-PO related purchases (excluding those vendors that will transfer to the p-card method of purchasing/payment). Based on annual budgets, blanket POs (annual POs) with a not-to-exceed (NTE) amount should be utilized and referenced on invoices to minimize the volume of non-PO transactions. Increased utilization of POs will be key to a successful re-engineering of AP invoice handling and workflow processing (see Recommendation #5).</p>	<p><i>Management concurs with the recommendation. The ACM/CFO or designated individual will review non-PO invoices under \$1,000 by exception only. Accounting is currently working with the Purchasing Division to implement a Purchasing Card Program, which is estimated to be in place within the next couple of months. In addition, Accounting will work with the Purchasing Division to evaluate the need for blanket POs for other non-PO, high volume related purchases.</i></p>

Recommendation #7	Response and Action Plan
<p>Void Checks – During the audit review months of July 2004 through January 2006, 329 checks totaling \$3,177,393 were voided/reversed in the AP system. In reviewing voided checks (119 checks totaling \$1,406,411) from July 2005 through January 2006, we found little to no documentation attached to the voided check(s) indicating <i>why</i> the check had to be voided. The few that did include documentation indicated duplication of payment to the vendor (duplicate check was returned to the City). We also found several instances where returned checks had not been properly voided in the signature area of the check. The voided checks are not properly safeguarded; the AP Supervisor retains/stacks voided checks in a filing box.</p> <p>Management should investigate the reasons for the volume of voided checks and take appropriate corrective action; especially in cases of duplication of payment given the AP system has the capability of not accepting duplicate invoices (i.e., ensure this</p>	<p><i>Management concurs with the recommendation. Accounts Payable will document the reason for the voided check and include in the batch filing for voids. In addition, Accounts Payable will ensure that all void checks are properly defaced. The current filing system for void checks will be maintained - the City has a Check Management System for easy reference to the status of checks; the void date of the check can be easily traced to the batch file of voids within our filing system.</i></p>

system feature cannot be overridden) for payment processing. In addition, we recommend the following process changes to ensure adequate controls in managing and safeguarding voided checks:

- 1) Attach documentation noting reason for the void check;
- 2) Retain voided checks in a file within numerical sequence; and
- 3) Ensure all checks are marked as "VOID" using permanent ink (stamp is sufficient) across the signature area OR ensure the signature area of the check is cut off/out from each voided check.

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