Office of the City Auditor

To: Honorable Mayor and
            Members of the City Council

From: Ann-Marie Hogan, City Auditor

Subject: Accounts Payable Audit

RECOMMENDATION

That Council request the City Manager to report back on April 20, 2004, regarding the implementation status of each of the Auditor's recommendations in the attached report, and every six months thereafter, until all recommendations have been implemented.

SUMMARY

An Accounts Payable Audit was performed with the objective of identifying duplicate City payments made to vendors during fiscal year 2003. This audit was scheduled to be performed as part of the fiscal year 2004 audit plan. Audit work began July 25, 2003, and concluded on October 30, 2003.

The audit did not identify any significant loss of money from duplicate vendor payments, but did identify several causes for such payments. These causes should be resolved because they could allow much larger future duplicate payments to occur and go undetected.

The audit report includes 12 audit findings and 16 recommendations.

FISCAL IMPACTS OF RECOMMENDATION

Care was taken to make audit recommendations that appeared to be cost effective to implement. However, Finance has responded that two audit recommendations can not be implemented until vacant and frozen positions are filled.

CURRENT SITUATION AND ITS EFFECTS

Concerns identified during the audit include the following:

- Some City employees are submitting a significant number of invoices to Accounts Payable for payment that have already been paid.

- The Accounts Payable Unit is performing two functions that belong in the Purchasing Unit.

- The PI Module feature that prohibits Accounts Payable staff from paying an invoice a second time under the same P.O. was not working from October 2002 through the middle of December 2002 after a software upgrade.

- Some vendors have more than one vendor account number, increasing the risk that an invoice will be paid twice.

- The City's automated accounting system is not programmed to identify or prohibit duplicate payments involving vouchers.

- The automated accounting system feature that would allow the City to automatically take advantage of vendor discounts for timely payment is not being used.

- Departments sometimes put the wrong purchase order (P.O.) number on an invoice, and Accounts Payable staff sometimes do not catch this error, and use this incorrect P.O. to pay the wrong vendor.

- Sometimes Accounts Payable staff made a conscious decision to send vendors checks that erroneously included a payment for another vendor's invoice.

- Void check procedures are not adequate. There are no written policies and procedures for obtaining reimbursement from vendors for overpayments or processing vendor refund checks.

RATIONALE FOR RECOMMENDATIONS
The audit recommendations in the audit report are designed to reduce the risk of loss of City money.
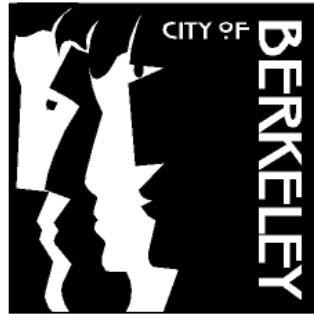
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City of Berkeley

Accounts Payable Audit

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Presented to Council December 16, 2003

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Table of Contents

I. OBJECTIVES OF THE AUDIT

The objective of this audit was to identify duplicate City payments made to vendors during fiscal year 2003. This audit was scheduled to be performed as part of the fiscal year 2004 audit plan. The audit plan was presented to City Council on June 10, 2003.

II. SCOPE AND METHODOLOGY

The scope of this audit was limited to City of Berkeley accounts payable checks issued from July 1, 2002, through July 23, 2003. The last day that checks were issued for fiscal year 2003 was August 6, 2003.

The auditor's analysis of the accounts payable database began on July 25, 2003. Audit fieldwork, consisting of interviewing City staff and reviewing accounts payable supporting documentation for the database information, began on August 7, 2003. Fieldwork concluded on October 30, 2003. The information used to complete this audit was obtained primarily through:

- Use of Audit Command Language software (ACL) to perform analysis of accounts payable records in the City's automated general ledger and subsidiary ledgers that reside in the GMBA Module.
- Discussion with City staff in the Accounts Payable Unit in Finance (Finance-AP), the Administration Division of the Library, and the Information Technology Department (IT).
- Review of written policies and procedures for processing accounts payable in Finance-AP.
- Review of accounts payable support documentation for vendor payments.

Audit work was performed in accordance with Generally Accepted Government Auditing Standards. Audit work was limited to those areas specified in the scope and methodology section of this report.

III. BACKGROUND

Finance-AP is staffed with an Accounting Office Specialist Supervisor (AP supervisor), three Office Specialist IIs, and one Accounting Office Specialist III. The Unit had a fiscal year 2003 budget of $282,185. The AP supervisor reports directly to the Finance Director. During fiscal year 2003, Finance-AP issued approximately 23,600 checks totaling $123 million. Checks are issued weekly.

Before a new vendor can be paid by purchase order (P.O.), the AP supervisor or staff in the Finance Purchasing Unit (Purchasing) must first establish a vendor account number in both the Purchase Inventory (PI) and the GMBA (general ledger) Modules of the City's automated accounting system, FUND$. If a vendor is to be paid by voucher, only a vendor account number in GMBA is required. The vendor account number is used to pay all invoices associated with the vendor. Information about the vendor, such as their address and invoice payment history, is maintained under this vendor account number.

Vouchers are used to pay for goods and services that were not purchased using a P.O. Their use is restricted. Once a voucher is approved, the voucher and invoice (or alternative support documentation) are sent to Finance-AP for payment.

The City purchases most of its goods and services using P.Os. Purchasing issues P.O.s from the PI Module. Once the City receives the goods or services purchased, the invoice is signed by authorized City staff to document the receipt of the goods or services, and to approve the invoice for payment. Before approving an invoice for payment, staff make sure that the invoice has not already been paid. Additional information required to pay for the goods and services received is written on the invoice. This includes the number of the P.O. that is to be used to pay for the invoice and the amount that should be paid. The invoice is then sent to Finance-AP for payment.

Finance-AP staff enter the invoices that have been approved for payment into the City's accounting system. Vouchers are entered directly into the GMBA Module. Invoices resulting from goods and services purchased with a P.O. are entered into the PI Module. The PI Module is programmed to detect duplicate invoice numbers, and will not permit the same invoice number to be paid twice under the same P.O. After business hours, the daily PI Module input is automatically sent to the City's GMBA Module.

Accounts payable input activity is reported in the GMBA Module report titled "Accounts Payable Edit List". These reports are reviewed and approved by the AP supervisor and the Deputy Director of Finance. Once they are approved, the Finance Accounting Division updates these batches of work in the GMBA Module. Finance-AP can then print checks to pay vendors for the invoices that were processed. Finance-AP prints all the accounts payable checks for the City. The PI Module has been programmed to pay invoices so vendors receive payment about 30 days from the invoice date. Finance-AP mails these checks to the vendors, or makes the checks available for pickup by City staff so they can provide them to the vendors.

Finance-AP performs the invoice processing and payment function for the entire City, except the Library Department. The Library's Administration Division performs the invoice processing function for the Library Department, except check printing, which is done by Finance-AP.

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IV. RESULTS OF AUDIT

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The audit found instances in which invoices were sometimes paid twice in error, but did not find any evidence that this condition resulted in any significant loss of money to the City. For the approximately $123 million in invoices that had been paid during fiscal year 2003, computer-assisted audit techniques (CAATs) software was used to provide automated techniques for extracting and analyzing potential duplicate payments. The CAATs software used was Audit Command Language (ACL). ACL software was used to identify hundreds of potential duplicate payments. Specifically, invoice payments meeting the following criteria were identified:

1. Duplicate vendor name, invoice number, and invoice amount.
2. Duplicate vendor name, invoice date, and invoice amount.
3. Duplicate vendor name, invoice number, and different invoice amount.
4. Duplicate invoice date, invoice number, and invoice amount.

A closer look at these payments found that most of these were not duplicates. They were generally recurring expenditures, like monthly rent payments. After eliminating these from the pool of potential duplicate payments, there were relatively few payments that appeared to be duplicates.

Thirty-six invoice payments that the auditor believed had potential for being duplicate payments were audited. Twenty-three duplicate payments totaling $12,474 were identified. The AP supervisor reported during the audit that refunds or credits for almost all of these duplicate payments had been received or would be received in the near future. The auditor verified that duplicate checks had been returned, or a refund or credit received, for thirteen of the duplicate payments totaling $ 10,719. By the time the audit was completed, Finance reported that there was an outstanding balance of $1,566.

Although the audit did not identify any significant loss of money from paying vendors for the same invoice twice, it did identify several causes for such payments. These are discussed in the audit findings. The causes for many of the duplicate payments should be resolved because they could allow much larger future duplicate payments to occur and go undetected.

In addition, the audit found some instances of staff in Finance-AP performing incompatible duties, that the City was not effectively taking advantage of vendor discounts for timely invoice payments, that procedures for voiding accounts payable checks needed improvement, and that written procedures were not available for processing vendor refund checks or for obtaining reimbursement from vendors for overpayments. Some concerns were also identified with the Library Department's purchasing and accounts payable procedures. These concerns will be looked at and reported on in an upcoming audit of the Library.

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V. FINDINGS

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Finding 1   Use of Incorrect Purchase Orders To Pay Vendors Could be Reduced

Departments sometimes put the wrong P.O. number on an invoice, and Finance-AP staff sometimes do not catch this error, and use this incorrect P.O. to pay the wrong vendor. This was the most common reason for the duplicate payments that were identified during the audit. Nine of the 23 (38%) duplicate payments identified by the auditor occurred for this reason. The actual duplicate payment occurs when the incorrect vendor and the correct vendor are paid for the same invoice. To help prevent this from occurring, written procedures for Finance-AP require staff to make sure the P.O. number on the invoice is for the vendor identified on the invoice. However, this is not always done. Finance-AP staff stated that this procedure was sometimes difficult to follow if they had little time to input payment information before an input deadline. Prior to the audit, Finance-AP staff had not been provided with written policies and procedures.

Finance has not provided City departments with written accounts payable procedure guidelines. The AP supervisor stated that Finance plans to present the City with an accounts payable training class so City staff know what Finance-AP requires from them to properly pay their invoices.

Recommendations for Finance

1.   We recommend that Finance follow-through with their plan and have the first accounts payable training class within six months from the date this report is issued. Also within six months, Finance should present all City departments with written accounts payable procedure guidelines. The class and written guidelines should address the importance of providing Finance-AP with the correct P.O. number each time an invoice is submitted for payment. Consideration should also be given to establishing guidelines that provide Finance-AP staff with sufficient time to follow Finance-AP entry procedures. In addition, management should reiterate to Finance-AP staff the importance of following the written procedures.

City Manager's Response

Finance agrees with the finding and recommendation. Finance has developed an Accounts Payable training and classes are scheduled to begin January 2004. Finance will present City departments with Accounts Payable procedure guidelines by March 2004.

Finding 2   Accounts Payable Staff Sometimes Knowingly Overpay Vendors

Sometimes Finance-AP staff made a conscious decision to send vendors checks that erroneously included a payment for another vendor's invoice. Finance-AP staff stated that instead of voiding the check, they would pay the vendor incorrectly instead of not paying the vendor at all. In addition to paying the incorrect amount to the incorrect vendor, they would also pay the correct vendor the correct amount, thereby knowingly overpaying one vendor and processing a duplicate payment. In this situation Finance-AP staff would request a credit or refund from the erroneously paid vendor, or apply the overpayment to one of their unpaid invoices.

This procedure increases the risk to the City that the overpayment will not be returned to the City. The AP supervisor stated that checks for the incorrect amount should always be void. However, she further stated that this procedure was not discussed with her staff and there were no written policies and procedures addressing how payment errors were to be handled.

It appears that this condition may exist in part because Finance-AP staff do not have authorization to correct their input errors directly in the PI Module. It appears granting this authorization may also give them the authorization to create a P.O., an incompatible function. Instances were found where Finance-AP staff had just completed entering a payment to an incorrect vendor, identified the error, but the PI Module would not allow any of the staff to correct the entry. Finance-AP staff are supposed to request an Accounting Office Specialist III (AOS III) in Finance Accounting to reverse out these errors. Few requests are made, about four to six each year.

Recommendation for Finance

2.1   Update written policies and procedures in Finance-AP to:
   - Require that vendor checks, when known to be for the incorrect amount or payable to an incorrect vendor, always be void.
   - Identify how Finance-AP staff are to correct, or have others correct, known Finance-AP input errors.

City Manager's Response

Finance agrees with the finding and recommendation. Written policies and procedures will be updated by March 1, 2004.

Recommendation for Finance and Information Technology

2.2   With Finance as the lead department, Finance and Information Technology should work with HTE Inc. to determine whether Finance-AP staff can be given the ability to correct their own input errors without also giving them other FUND$ authorization they should not have.

City Manager's Response

Finance and Information Technology (IT) agree with the recommendation. With Finance as the lead department, Finance and IT will investigate whether this feature can be activated. It is likely that this would require custom programming, either internally or externally, resulting in an ongoing cost for upgrades. A determination will be made by April 15, 2004.

Finding 3   Resubmission of Invoices That Have Already Been Paid

Some City employees are submitting to Finance-AP for payment a significant number of invoices that have already been paid. Although the PI Module is programmed to detect and prevent the payment of an invoice that has already been paid, it is not 100% effective in preventing all instances of duplicate payment. For example, five of the 23 duplicate payments identified during the audit (22%) had been paid twice because the invoice had not been entered exactly the same, and therefore was not recognized by the PI Module as a duplicate invoice. The more invoices that Finance receives for payment that have already been paid, the higher the risk that the City will pay an invoice twice.

Unaudited records in Finance-AP indicate that during fiscal year 2003, three employees submitted for payment a total of 83 invoices that had already been paid. The supervisors who approved these invoices for payment did not catch these errors. The Deputy Director of Finance stated that departments know they are responsible for making sure that invoices have not already been paid before sending them to Finance-AP for payment. Both the Deputy Director of Finance and the AP supervisor feel too many invoices that have already been paid are being sent to Finance-AP for payment.

The AP supervisor stated that she has informally brought this concern to the attention of the three individuals. Two were in the Public Works Department, and one was in the Parks Recreation and Waterfront Department. The Director of Public Works stated that his department does not have the capability to determine whether an invoice has already been paid before sending it to Finance-AP for payment. He stated that his department relies on the PI Module to catch duplicate invoices. The representative from the Parks Recreation and Waterfront Department indicated that her department would be interested in any training that could be provided.

The AP supervisor stated that Public Works' staff has the capability to look in FUND$ (the City's financial system) and determine whether an invoice has already been paid. She also stated that Finance is developing an accounts payable class for the City departments that would address concerns in this area.

City Manager's Response

Finance concurs with the finding.

Recommendation for Finance

3.1   The accounts payable class and written guidelines that Finance plans to provide to City departments (see recommendation 1) should make it clear that those who receive the goods or services on-line in PI and those who approve the invoice for payment, are responsible for making sure the invoice has not already been paid before they submit it to Finance-AP for payment.

City Manager's Response

Finance agrees with the recommendation. Classes are scheduled to begin January 2004.

3.2   When a specific City employee continues to submit paid invoices for payment after being asked not to by the AP supervisor, we recommend that this concern be brought to the attention of the employee's supervisor, and, if the problem persists, to the employee's department director.

City Manager's Response

Finance agrees with the recommendation. Effective immediately, Finance staff will continue to document when staff in other departments erroneously submit duplicate invoices *for payment. Finance staff will begin reporting the information to the appropriate department head, and will recommend that employees who appear to need training attend one of the AP classes scheduled to begin in January.*

Finding 4   PI Module Feature That Prevents Duplicate Payments Was Not Always Working

The PI Module feature that prohibits Finance-AP staff from paying an invoice a second time under the same P.O. was not working from October 2002 through the middle of December 2002 after a software upgrade. The "duplicate invoice" warning message continued to be displayed during this time, but was not always effective in preventing an invoice from being paid twice. Of the 23 invoices the audit found had been paid twice, five (22%) had been paid twice for this reason. Finance staff stated that the feature is currently working.

City Manager's Response

Finance concurs with the finding

Recommendation for Finance and Information Technology

4. Future PI Module upgrades should not be used until the feature that prevents the duplicate payment of invoices has been tested and is working properly, or an equally effective alternative internal control has been put in place.

City Manager's Response

Finance and IT agree to implement the recommendation.

Finding 5   Some Vendors Have More Than One Vendor Account Number

The AP supervisor reported that there are a significant number of vendors with more than one vendor account number in the PI and GMBA Modules. She explained that this condition increases the risk that an invoice would be paid twice. Specifically, if City staff establish two different P.O.s under two different vendor account numbers and pay for the same invoice twice, once under each P.O, the duplicate payment will not be detected by the PI Module. The PI Module only prevents an invoice from being paid twice when the same invoice number is input for payment under the same P.O. The AP supervisor stated that she has been working with staff in Purchasing to identify and eliminate these extra vendor accounts.

In our April 1997 audit report titled "Review of the Manual Check Process" Finding 5 states that many vendors were incorrectly being assigned multiple vendor numbers in the GMBA Module. On April 17, 2001, Finance reported to City Council that recommendation 5.1 had been implemented, correcting this problem. However, it appears that this prior audit recommendation is still outstanding, or has only been partially implemented.

City Manager's Response

Finance concurs with the finding

Recommendation for Finance

5. Establish a project in the Berkeley Work Plan system, (City's formal system for tracking special projects) to eliminate all duplicate vendor account numbers in PI and GMBA, as appropriate, within six month of this report being issued.

City Manager's Response

Finance agrees with the recommendation. Finance does perform some vendor account maintenance in PI and GMBA annually. However, to effectively and completely implement this recommendation would require at least .25 FTE. Resources are currently not available to implement this recommendation.

Finding 6   No Program to Identify Duplicate Payments in GMBA

The GMBA Module is not programmed to identify or prohibit duplicate payments as is the PI Module. An invoice could be paid twice by voucher, or once by voucher and once by P.O., and this duplicate payment would not be detected or prevented in the GMBA Module. This means that unauthorized payments could go undetected.

In addition, no invoice number or date was entered in the invoice number field in GMBA for 1,918 voucher payments as required by written procedures. As a result, the auditor was unable to use the ACL software to analyze these invoices for possible duplicate payments. Therefore, some duplicate payments may have gone undetected. Omitting the invoice number will prevent Finance and other City departments from performing a similar analysis.

City Manager's Response

Finance concurs with the finding

Recommendations For Finance and Information Technology

6.1   With Finance as the lead department, Finance and Information Technology should evaluate whether it would be feasible or possible for HTE Inc. (developer of the City's accounting software) or the City to program the GMBA Module to detect or prevent duplicate payments that are not currently prevented in the PI Module.

City Manager's Response

Finance and IT agree with the recommendation and will consult with HTE to make a determination by March 1, 2004.

6.2   Set up the GMBA Module so that before a payment is processed an invoice number must be entered into the invoice number field to process a payment. Alternatively, we recommend that written procedures be updated to require the AP supervisor to review the Cash Edit List Report and ensure there are no blank invoice number fields before this input is processed.

City Manager's Response

Finance and IT agree with the recommendation. Finance has implemented more stringent requirements to make a payment by voucher (GMBA payment). This has significantly reduced the number of vouchers used to make payments. Because of the inherent risk of making this program modification, Finance and IT will need to meet to discuss an effective solution. A determination will be made by May 1, 2004.

Finding 7   A Duplicate Payment Log is Not Maintained

Finance-AP does not maintain a log or similar record to document each duplicate payment that occurs and why it occurred. Staff in Finance-AP are assigned the invoices they process for payment by being assigned vendors that begin with specific letters of the alphabet.

When a vendor is erroneously paid, the Finance-AP staff assigned to this vendor is responsible for obtaining a refund check or credit, or applying the overpayment to one of the incorrectly paid vendor's unpaid invoices, and documenting the correction. A centralized record of all duplicate payment activity is not maintained. As a result, the AP supervisor does not have the information needed to monitor the volume of and reasons for duplicate payments, and to implement new procedures to reduce the City's risk of future loss.

City Manager's Response

Finance concurs with the finding.

Recommendation for Finance

7. Finance-AP staff should maintain a log to record each duplicate payment identified, and why it occurred. The AP supervisor should periodically review this log and update written procedures as needed to reduce the reoccurring or high risk causes of duplicate payments. Written policies and procedures should include the procedure for the maintenance of the log.

City Manager's Response

Finance agrees with the recommendation and will implement it by February 1, 2004.

Finding 8   Refund or Credit Not Received for All Duplicate Payments

At the time the audit concluded, a refund or credit had not been obtained for eight duplicate payments totaling $1,565.74. At this time, the AP supervisor reported that several vendors stated that they would issue a refund check, and the other payments were in the process of being

researched and resolved.

City Manager's Response

Finance concurs with the finding.

Recommendation for Finance

8.   Obtain a refund or credit for all 23 duplicate invoice payments identified during the audit.

City Manager's Response

Finance agrees with the recommendation and has already received a vendor credit or refund for most of the duplicate payments. The recommendation will be fully implemented by March 1, 2004.

Finding 9   Discount Feature in PI Module is Not Being Used

The PI Module is not being utilized to pay invoices so that the City can automatically take advantage of vendor discounts for timely payment. The AP supervisor stated that this feature is not being used because it is not working well. The system currently defaults to 30 days to pay. Because the early payment discount feature in the PI Module is not being used, the City is probably not effectively taking advantage of discounts that vendors offer for timely payment. As a result, the City is probably paying more for goods and services than it should.

City Manager's Response

Finance concurs with the finding.

Recommendation for Finance and Information Technology

9.   Implement use of the FUND$ feature that provides for the automatic payment of invoices within the discount period. Formally request HTE Inc. to address any problems that prohibit the implementation of this recommendation.

City Manager's Response

Finance and IT agree with the recommendation. However, it cannot be implemented until recommendation 5 (requiring .25FTE) is complete. Because of the negative impact on internal controls, implementation of the recommendation should not be performed by Accounts Payable staff. Work should be performed by General Services (Purchasing unit) staff. This would require that frozen or vacant positions be filled in Finance and could take, at least, a one time expense

of an additional .25FTE (.5FTE required to implement recommendations 5 and 9).

Finding 10   Two Purchasing Functions Are Being Performed by Accounts Payable Staff

Finance-AP is performing two functions that belong in the Finance Purchasing Unit (Purchasing).
1. The AP supervisor is establishing vendor accounts, and maintaining vendor account information, in both the PI and GMBA Modules.
2. The AP supervisor and an authorized Office Specialist II in Finance-AP set-up who can order office supplies on-line from a vendor as well as inputting the dollar amount that each authorized individual can order under a P.O with this vendor.

The ability to establish vendor accounts and the ability to establish who can order office supplies on-line is a purchasing function that should be performed by Purchasing. If the AP supervisor performs these functions as well as the vendor payment function, there is a lack of segregation of incompatible duties and an increased risk that unauthorized purchases could be paid and that this activity could go undetected. The AP supervisor was only recently given the authority to establish new vendors in the PI Module due to a significant staff shortage in Purchasing. Prior, only staff in Purchasing were authorized to establish and maintain vendor accounts in the PI Module.

The AP supervisor stated that she believed the former purchasing manager could still set up on-line office supply ordering.

City Manager's Response

Finance concurs with the finding.

Recommendation for Finance

10.1 Transfer the ability to establish who can order office supplies on-line under each P.O., and the maximum amount that can be spent under each P.O., from Finance-AP to Purchasing. Additionally, remove this ability from the former purchasing manager and anyone else who leaves Purchasing. Update written policies and procedures to reflect this segregation of duties.

10.2 Prohibit all City employees that are involved in vendor payment processing from establishing vendor accounts in the PI or GMBA Modules. Only staff in Purchasing should be given authorization to establish vendor accounts in the PI and GMBA Modules.

City Manager's Response

Finance agrees with the recommendations. However, the recommendations cannot be implemented, as written, due to frozen or vacant positions. Work should be performed by General Services (Purchasing unit) staff. Before implementing on-line ordering of office supplies, anyone could order supplies. On-line ordering restricts City staff that can order supplies. The AP supervisor cannot receive on-line to make payments. Finance will investigate and by March 1, 2004, determine whether an alternative solution can be implemented.

Finding 11   Void Check Procedures Are Not Adequate

A duplicate payment in the audit sample had been returned to the City by the vendor but:
1. Had not been stamped void.
2. Had not been recorded in the Accounts Payable Void Check Log.
3. Had not been provided to Finance Accounting so it could be void in the accounting system.

The check had been issued on June 4, but as of October 15, had not been void. The AP supervisor acknowledged that she had this check for at least two months. The auditor also observed that although the Accounts Payable Void Check Log requested the date each check was received in Finance-AP, this information was not being recorded. As a result, it was not possible to tell how long it was taking the AP supervisor to void checks. When checks are not stamped void and are not void in the accounting system, there is always the risk that the check may be inappropriately cashed. There are no written policies and procedures in Finance-AP regarding the voiding of checks.

City Manager's Response

Finance concurs with the finding.

Recommendation for Finance

11. Checks that need to be void should be stamped void and entered into the Accounts Payable Void Check Log immediately upon their receipt. They should be brought to Finance Accounting every week so they can be void in the system. Lastly, we recommend that the manager overseeing Finance-AP review the void records periodically to ensure procedures are being followed. Written policies and procedures should be updated to reflect this change.

City Manager's Response

Finance agrees with the recommendation. Improvements to the procedures have been implemented. By March 1, 2004, written policies and procedures will be updated to reflect these improvements.

Finding 12   No Written Policies and Procedures For Obtaining Reimbursement From Vendors for Overpayments or Processing Vendor Refund Checks

Written policies and procedures for Finance-AP do not address how staff are to obtain reimbursement from vendors for overpayments and how this activity is to be documented. Although no concerns in this area were observed during the audit, documenting how management wants this task performed and how management will monitor whether procedures are followed will help ensure this task is performed in accordance with management's directives.

Written policies and procedures for Finance-AP also do not address how Finance-AP staff are to ensure that vendor refund checks are timely deposited in Treasury and properly accounted for in FUND$. Because only one Finance-AP employee may know about a vendor refund check, there is the inherent risk that this money may not be timely or properly deposited, or not ever deposited in Treasury, and that this impropriety will go undetected.

City Manager's Response

Finance concurs with the finding.

Recommendation for Finance

12. Develop written policies and procedures that address how management wants Finance-AP staff to obtain reimbursement from vendors for overpayments, how they want this activity documented, and how management will oversee that this procedure is being followed. Additionally, written procedures should be developed that provide a reasonable assurance that vendor refund checks are timely deposited and properly accounted for. These procedures should be sufficiently detailed so that an Office Specialist II outside of Finance-AP could follow the procedures and complete the tasks as management wants them completed without any further guidance.

City Manager's Response

Finance agrees with the recommendation. Written policies and procedures will be updated by March 1, 2004.

VI. CONCLUSION

We would like to commend Finance-AP on their accounts payable operations over duplicate payments. The audit did not find any evidence that the City lost significant money during fiscal year 2003 due to the duplicate payment of vendor invoices; however, we have identified several areas that could be strengthened in the accounts payable operations. Some of the problems found could result in a significant loss of City money. Recommended improvements include the following:

- Provide City departments with instruction and guidelines regarding their role in accounts payable processing.
- Determine if Finance-AP staff can be given authorization to correct input errors without being given authorization to perform incompatible functions.
- Discontinue the practice of sometimes knowingly overpaying vendors.
- Prohibit accounts payable staff from performing purchasing functions.
- Eliminate duplicate vendor accounts in the PI and GMBA Modules.
- Use the PI Module to automatically pay invoices so early payment discounts are obtained.
- Document and implement adequate void check procedures.
- Maintain a log that identifies all known duplicate payments and why each occurred. Use the log to update procedures to reduce the incidents of future duplicate payments.
- Implement procedures that ensure that the PI Module feature that prohibits the duplicate payment of invoices is functioning properly after software upgrades.
- Develop written procedures for obtaining vendor reimbursements for overpayments and for the processing vendor refund checks.

Timely implementation of these recommended changes would further reduce the future risk of loss of City money.

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