Audit of

Accounts Payable Procedures

November 20, 2015

Report #2015-16

MISSION STATEMENT

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Audit of

Accounts Payable Procedures

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Audit of
Accounts Payable Procedures

Executive Summary

Pursuant to the ***Office of Inspector General's (OIG) 2014-2015 Work Plan***, OIG has audited the Accounts Payable Procedures. The primary objectives of the audit were to (a) assess the adequacy of internal controls of the Accounts Payable System, and (b) determine the accuracy and timeliness in processing payments after products and services have been received. The audit produced the following conclusions:

1. Accounts Payable Internal Controls

(a) No Duplicated Invoices. The PeopleSoft System has a built-in automated control feature to prevent duplicated invoices. OIG randomly selected 11 paid invoices and entered the information into the system. The testing concluded that this automated control for preventing duplicated invoices was working as expected. In addition, OIG used data analytic tools to analyze all the 226,607 payments, totaling $780 million, processed during July 2013 through December 2014. The analysis did not reveal any duplicated invoices paid through the system for the test period.

(b) Accounts Payable Sub-Ledger Agreed With General Ledger. OIG compared and reconciled the monthly *Accounts Payable Open Liability Report* to the *General Ledger Summary* for October 2014 through February 2015. The review revealed no discrepancies between the Accounts Payable and the General Ledger.

(c) Minor Exception: Need for Segregation of Duties. The monthly reconciliation of the Accounts Payable balance with the General Ledger was performed by the Accounts Payable Manager, who also had access to enter payment vouchers into the Accounts Payable System.

2. No Material Noncompliance for Purchases from District Employees

OIG performed an analytical review of the vendor records, District employee records, and accounts payable records to identify purchases from District employees. The review revealed no material noncompliance with the District's purchasing rules for the testing period July 2013 through December 2014.

3. 98% Sample Invoices Paid Within 30 Days

The review of 150 sample invoices (totaling $5.1 million) revealed that 147 (98%) of them were paid within 30 days after the receipt of the invoices. The other three (2%) invoices (totaling $181,954.30) were not paid until 64 to 106 days after the receipt of the invoices.

4. Standard Operating Procedures Manual Needs Updating

Accounts Payable implemented a new paperless procedures in August 2014. However, the new procedures have not been codified in the District's ***Accounts Payable Standard Operating Procedures Manual*** as of April 21, 2015.

Management Response: *Please see pages 9 and 10 for details.*

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M E M O R A N D U M

TO: Honorable Chair and Members of the School Board
Robert M. Avossa, Ed.D., Superintendent of Schools
Chair and Members of the Audit Committee

FROM: Lung Chiu, CPA, Inspector General

DATE: November 20, 2015

SUBJECT: Audit of Accounts Payable Procedures

PURPOSE AND AUTHORITY

Pursuant to the ***Office of Inspector General's (OIG) 2014-2015 Work Plan***, we have audited the Accounts Payable Procedures for July 1, 2013, through December 31, 2014. The primary objectives of the audit were to (a) assess the adequacy of internal controls of the Accounts Payable System, and (b) determine the accuracy and timeliness in processing payments after receipt of products and services.

SCOPE AND METHODOLOGY

This audit was performed in accordance with ***Generally Accepted Government Auditing Standards*** promulgated by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of our audit covered the period July 1, 2013, through December 31, 2014. The audit included (a) testing and observing the internal controls of the Accounts Payable System built in to the PeopleSoft System, (b) interviewing District staff, and (c) reviewing the following records:

1. Applicable ***School Board Policies*** and ***Florida Statutes***, including ***Local Government Prompt Payment Act (Chapter 218, Part IV)***, and ***Code of Ethics for Public Officers and Employees (Chapter 112 Part III)***.

2. School District's ***Accounts Payable Standard Operating Procedures Manual***.

3. Sample payments records and supporting documentation.

We appreciate the courtesy and cooperation extended to us by staff during the review. The final draft report was presented to the Audit Committee at its November 20, 2015, meeting.

BACKGROUND

Accounts Payable Procedures

Accounts Payable, a unit within the Accounting Services Department, is responsible for ensuring timely payments for goods and services received by the School District. Accounts Payable is to ensure that payments are properly authorized, approved, accurate, and adequately monitored to prevent duplicate payments. Accounts Payable utilizes Enterprise Scan, Invoice Imaging Validation System and the Payables Module of the PeopleSoft automated system to process transactions. Several control features are incorporated in these systems to assist in ensuring that accounts payable function achieves its objectives. For example, the PeopleSoft financial system requires:

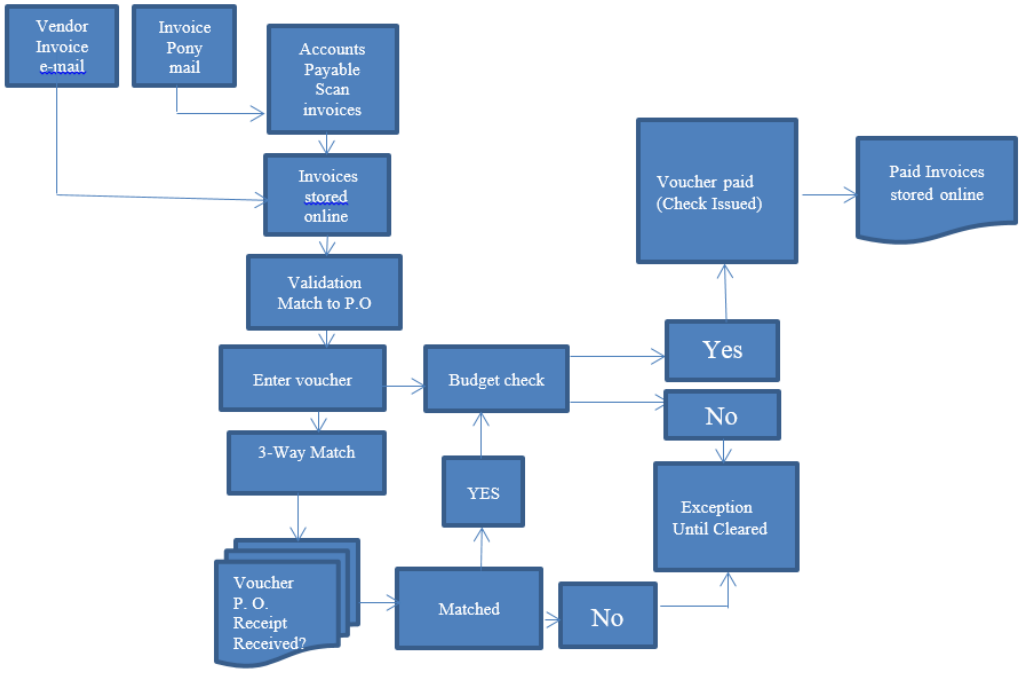
(1) Different approval levels for different dollar thresholds for purchase of supplies, equipment and services.

(2) The user departments or schools to electronically "receive" the invoice in PeopleSoft to confirm that the goods and services have been received satisfactorily.

(3) PeopleSoft automates a three-way match of the "receipt" by user department, and compares the invoice information with the related *Purchase Order*, and the available fund balance.

The District is required to maintain a copy of the invoice and any other supporting documentation to support the disbursement of fund. To streamline the invoice processing and storage processes, Accounts Payable has begun scanning and storing the invoices electronically since August 2014. Invoices received in the mail are scanned into the District's mainframe using the Enterprise Scan software. This software and another imaging software enable the scanning and storage of documents in a database for record retention.

Key Processes For Accounts Payable



Source: ***Accounts Payable Standard Operating Procedures Manual*** *and interview with staff.*

Statistics

During Fiscal Years 2013 through 2015, Accounts Payable processed an annual average of 155,252 vendor invoices and employee reimbursements, totaling $510 million.

Fiscal Year	# of Invoices	Total Payments
2013	156,505	$475,126,249.06
2014	156,333	$500,471,979.71
2015	152,919	$555,152,533.77
Average / Year	***155,252***	***$510,250,254.18***

Source: PeopleSoft

The 2011 Audit. During Fiscal Year 2011, we completed an ***Audit of Timeliness of Payments to Vendors and The Implementation of the PeopleSoft Accounts Payable System*** (Report #2011-01). The audit did not reveal significant noncompliances and control weaknesses[1].

[1] The 2011Audit concluded that:

- 2.7% of the sample payments were not supported by the original invoices.
- 2.6% of the invoice dates in PeopleSoft did not agree with the dates on the invoices.
- 16 sample invoices exceeded the $1,000 *Purchase Order* threshold but did not have the required *Purchase Orders*.
- Vendor Master File was not periodically reviewed in order to identify and remove any duplicate and inactive vendor record. Similar finding was noted in our 2015 ***Audit of Purchase Order Procedures*** (Report #2015-17).

Source: Audit Report #2011-01.

CONCLUSIONS

The audit produced the following major conclusions.

1. Accounts Payable Internal Controls

(a) No Duplicated Invoices

Actual Testings. The PeopleSoft System has a built-in automated control feature to prevent duplicated invoices. We tested the adequacy of this control by random testing of 11 paid invoices by requesting Accounts Payable staff to enter the information into the PeopleSoft System for payment. We observed that the system did not allow the paid invoices be entered into the system and responded with the message "*duplicate invoice detected…voucher entry rejected*." We concluded that the system control for preventing duplicated invoices was working as expected.

In addition, we used data analytic tool to analyze all the 226,607 payments, totaling $779,988,121, processed during July 2013 through December 2014. The analysis included the evaluation of the patterns and relationships of the transactions based on certain key information, including vendor name, vendor number, invoice number, payment amount, and invoice date. The analysis did not reveal any duplicated invoices paid through the system for the test period.

(b) Accounts Payable Sub-Ledger Agreed with General Ledger

The PeopleSoft System has several sub-systems, including Accounts Payable and General Ledger. When transactions are processed by the Accounts Payable Sub-system, corresponding entries are also recorded in the General Ledger Sub-system. We compared and reconciled the monthly *Accounts Payable Open Liability Report* to the *General Ledger Summary* for October 2014 through February 2015. The review revealed no discrepancies between the Accounts Payable Sub-System and the General Ledger Sub-System.

(c) Minor Exception: Need for Segregation of Duties

We noted that the monthly reconciliation of the Accounts Payable balance with the General Ledger was performed by the Accounts Payable Manager, who also had access to enter payment vouchers into the Accounts Payable System.

Segregation of duties is an important internal control procedure designed to reduce the risk of loss due to intentional or unintentional errors and fraud in a financial system. Adequate segregation of duties includes separation of the custodial, recording, authorizing and reconciliation functions. Inadequate segregation of duties in the accounts payable function may result in failure to detect or correct improper or erroneous payment activities.

Recommendation

Reconciliation of the Accounts Payable balance with the General Ledger should be performed by another staff member who does not have access to enter payment vouchers into the Accounts Payable System.

Management's Response: *Management believes the procedures in place provide for adequate segregation of duties over the reconciliation of accounts payable subledger to the general ledger. The AP Manager runs a system generated report and compares to a screen print of the general ledger. Both documents are provided to the Accounting Manager for review as part of month end close procedures. The complete month end reporting package is then submitted to the Accounting Director. In addition, the AP Manager does not have access to modify the vendor master file. Invoices must be input against established vendors that are setup in Vendor Maintenance by the Purchasing Department. All invoices are verified against the budget prior to processing. Most invoices are processed using a three way match comparing the invoice to the purchase order to the receipt by the end user.*

(Please see page 9.)

2. No Material Noncompliance for Purchases from District Employees

We performed an analytical review of the vendor records, District employee records, and accounts payable records for the testing period July 2013 through December 2014. The analysis revealed that 239 payments, totaling $2,323,991, were paid to 26 vendors who shared the same addresses of current or former District employees. The review of these 239 payments revealed no material noncompliance with the District's purchasing rules.

Vendor Relationship with District Employees	Description of Purchases	# of Vendors	# of Payments	Total $ Amount
Former Employees *	Various	24	203	$2,313,588.73
Employee #1	Music Instructions	1	21	$5,700.00
Employee #2	Provide support & information liaison between schools and parents of children with disabilities.	1	15	$4,702.50
Total	***26***	***26***	***239***	***$2,323,991.13***

** Businesses fully or partially owned by former employees or their relatives.*

Management's Response: *Management concurs.*

(Please see page 9.)

3. 98% Sample Invoices Paid Within 30 Days

The State's ***Prompt Payment Act*** requires payment for non-construction purchase be made within 30 days after the receipt of a "proper invoice" from the vendor. As indicated in the *Terms and Conditions* available on the Purchasing Department's website, the School District's payment terms for general purchases are:

> *"Net 30 days unless otherwise indicated on purchase order. The number of days will be computed from date of satisfactory delivery of the goods or services at place of acceptance or from date correct invoice is received, whichever is the later date*."

To determine the extent of compliance with the payment terms, we randomly selected and reviewed 150 sample invoices, totaling $5,123,098.93. The review found that 147 (98%) invoices, totaling $4,941,144.63 (96%), were paid within 30 days after the District received the invoices, and goods and services. The remaining three invoices, totaling $181,954.30, were paid between 64 to 106 days after the District received the invoices. The causes for delay in processing these five invoices included:

- 2 invoices (#630446 and #190229-00, totaling $7,224.30) were not processed by Accounts Payable until 62 and 100 days respectively after the invoices were received (through the PeopleSoft System) by the user departments/schools.

- 1 invoice (#13765-10 for $174,730) was not received (through the PeopleSoft System) by the user department until 66 days after Accounts Payable received the invoice.

Invoices Not Paid Within 30 Days

Invoice					Payment		# of Days for		
#	Date	Received by A/P (A)	Received * By Users (B)	Amount	Date (C)	Check #	Received * by User (B) – (A)	Processing by A/P (C) – (B)	Total (C) – (A)
630446	5/9/2014	5/13/2014	5/19/2014	$6,006.00	8/27/2014	413323	6	100	106
13765-10	9/17/2013	9/20/2013	11/25/2013	$174,730.00	11/26/2013	390820	66	1	67
190229-00	8/9/2013	9/17/2013	9/19/2013	$1,218.30	11/20/2013	390270	2	62	64
Total				***$181,954.30***					

* *Invoices have to be received (through the PeopleSoft System) by the user departments/schools to confirm that the goods and services have been satisfactorily received by the District.*

Recommendation

All invoices should be process in a timely manner to ensure compliance with the ***Prompt Payment Act*** and District's payment terms. Delays in processing invoice payment could result in unwarranted interest expenses required by ***Prompt Payment Act***.

Management's Response: *All invoices should be processing in a timely manner, in accordance with Prompt Payment Act:*

i. Invoice 630446 – Payments to this vendor were placed on hold by the legal department. The hold was released on June 30th once the legal issue was resolved. One of the

invoices inadvertently remained on hold and was paid 58 days after notification of the release of hold. Accounting will review invoices on hold as part of the month end close process to ensure only authorized invoices remain on hold.

ii. *Invoice 13765-10 – As stated above, the District utilizes a three way match and an invoice cannot be processed until the end user certifies receipt of the good or service. Prompt payment does not start until after a proper invoice is received and the goods or services have been provided. Once the receipt was entered, payment was made within one day. Schools and departments receive a Missing Receipts Report that is included in School's Top 5 Reports, updated nightly, and Accounting sends a reminder GoogleDoc email to schools and departments on a weekly basis for open receipts. Schools and departments are instructed to only certify receipt of goods and services physically received and accepted. Any goods on backorder should not be received.*

(Please see page 9.)

4. *Standard Operating Procedures Manual* Needs Updating

In August 2014, Accounts Payable implemented a new paperless procedures:

- Vendors invoices received in the mail are no longer stamped paid upon receipt in the accounting department.
- The invoices are scanned using the Enterprise Scan software and stored electronically for further processing by the Invoice Validation System.
- During the validation process, invoices are checked for accuracy, completeness, and *Purchase Order* lines are matched based on the values extracted for each line item against data from PeopleSoft.
- Validated invoices are exported for voucher build in PeopleSoft.
- Hard copies of documentation such as checks, invoices, and travel reimbursement request (voucher packages) are no longer retained. Instead these documents are filed electronically.

Although these new procedures were implemented in August 2014, they have not been codified in the District's ***Accounts Payable Standard Operating Procedures Manual*** as of April 21, 2015.

Recommendation

Accounting Services Department should periodically review and update the ***Procedures Manual*** to ensure that all the essential procedures for Accounts Payable are complete and up-to-date.

Management's Response: *A separate* ***A/P Invoice Automation Reference Guide*** *was prepared and issued to all AP staff when the invoice scanning project was implemented. A reference to this guide has been added to the* ***Procedures Manual****.*

(Please see page 10.)

– End of Report –

Management's Response

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FL

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MEMORANDUM

November 10, 2015

TO: Lung Chiu, Inspector General

FROM: Michael J. Burke, Chief Financial Officer MJB

SUBJECT: Management Response - Audit of Accounts Payable

Management has reviewed the Audit Report of Accounts Payable and offers the following responses:

1) Accounts Payable Internal Controls - *Recommendation: Reconciliation of the Accounts Payable balance with the General Ledger should be performed by another staff member who does to have access to enter payment vouchers into the Accounts Payable System.*
   - Management believes the procedures in place provide for adequate segregation of duties over the reconciliation of accounts payable subledger to the general ledger. The AP Manager runs a system generated report and compares to a screen print of the general ledger. Both documents are provided to the Accounting Manager for review as part of month end close procedures. The complete month end reporting package is then submitted to the Accounting Director. In addition, the AP Manager does not have access to modify the vendor master file. Invoices must be input against established vendors that are setup in Vendor Maintenance by the Purchasing Department. All invoices are verified against the budget prior to processing. Most invoices are processed using a three way match comparing the invoice to the purchase order to the receipt by the end user.

2) No Material Noncompliance for Purchases from District Employees
   - Management concurs.

3) 98% Sample Invoices Paid within 30 days - *Recommendation: All invoices should be processed in a timely manner to ensure compliance with the Prompt Payment Act and District's payment terms. Delays in processing invoice payments could result in unwarranted interest expenses required by Prompt Payment Act.*
   - All invoices should be processed in a timely manner, in accordance with Prompt Payment Act:
     i. Invoice 630446 – Payments to this vendor were placed on hold by the legal department. The hold was released on June 30th once the legal issue was resolved. One of the invoices inadvertently remained on hold and was paid 58 days after notification of the release of hold. Accounting will review invoices on hold as part of the month end close process to ensure only authorized invoices remain on hold.

Management's Response

ii. Invoice 13765-10 - As stated above, the District utilizes a three way match and an invoice cannot be processed until the end user certifies receipt of the good or service. Prompt payment does not start until after a proper invoice is received and the goods or services have been provided. Once the receipt was entered, payment was made within one day. Schools and departments receive a Missing Receipts Report that is included in School's Top 5 Reports, updated nightly, and Accounting sends a reminder GoogleDoc email to schools and departments on a weekly basis for open receipts. Schools and departments are instructed to only certify receipt of goods and services physically received and accepted. Any goods on backorder should not be received.

4) *Standard Operating Procedures Manual* Needs Updating - *Recommendation: Accounting Services Department should periodically review and update the* ***Procedures Manual*** *to ensure that all essential procedures for Accounts Payable are complete and up-to-date.*

- A separate ***A/P Invoice Automation Reference Guide*** was prepared and issued to all AP staff when the invoice scanning project was implemented. A reference to this guide has been added to the ***Procedures Manual.***

Please let me know if you have any questions.

MJB/SK/NS:ns/cbt

cc: Nancy Samuels, Director of Accounting
Heather Knust, Director of Budget