

ACCOUNTS PAYABLE AUDIT



WEST PALM BEACH

Internal Audit

Audit No. 16-01
February 26, 2018

City of West Palm Beach Internal Auditor's Office

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February 26, 2018

Audit Committee
City of West Palm Beach
401 Clematis Street
West Palm Beach, Florida

RE: Accounts Payable Audit, AUD16-01

Dear Audit Committee Members:

Attached is the City of West Palm Beach's Internal Auditor's Office report on the Finance Department's Accounts Payable Unit. Although the Accounts Payable Unit has consistently processed a large volume of payments with a small staff, additional opportunities for improvement are presented in this report.

We thank the management and staff of the Finance Department for their time, information, and cooperation during this audit.

Respectfully Submitted,

/s/ Beverly Mahaso
Interim City Internal Auditor

cc: Jeri Muoio, Mayor
Jeff Green, City Administrator
Dorritt Miller, Deputy City Administrator
Mark Parks, Chief Financial Officer
Frank Hayden, Procurement Director
Karen Malcolm, Accounting Manager

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Background

The City of West Palm Beach's (City) Accounts Payable Unit (AP) operates under the direction of the Accounting Division of the City's Finance Department (Finance), and reports to the Chief Financial Officer through the Accounting Manager. AP is responsible for the processing and payment of many of the City's payables for supplies and services. During the period examined, which comprised August 2016 to August 2017, AP processed approximately 48,000 invoices with a total value of approximately \$312 million.

Management is responsible for ensuring that the operating structure achieves the business objectives which is rooted in sound governance practices and standards. In this context, AP is entrusted with ensuring that only valid and authorized supplier invoices are paid with appropriate purchasing and receiving documentation.

As of August 31, 2017, there were three employees in the Accounts Payable Unit: An Accounts Supervisor and two Accounting Clerks. However, we were informed by Finance that a number of other staff members, as well as temporary employees, assist with the Accounts Payable process on an as needed basis. Invoices for payments of goods and services are required to be sent to Accounts Payable by suppliers, and processed for payment through the City's financial processing system in Oracle.

The City is obligated to be in compliance with Section 218.70-218.80 of the Florida Statutes, known as the Local Government Prompt Payment Act, which requires payment of invoices within 45 days. Further, Procurement Procedure 20-65 addresses the process for establishing suppliers in the database of the Supplier Master File. The process for Receiving Reports and Invoices (Procedure 20-60) sets forth the procedure to follow in order to certify that the goods and services have been received. It also establishes the process to follow when submitting an invoice. Receipt of goods is addressed in the Warehouse Procedures Chapter 20-70.

Statement of Scope

The audit scope period was from August 1, 2016, through August 1, 2017, however, in some instances, the scope period may have been adjusted based on the availability of data. The audit included examining controls and conducting interviews with both Accounts Payable and Procurement staff in order to understand the current process from procurement to payment.

Statement of Objectives

The objectives of this audit were to determine:

- The standards of governance surrounding and supporting the AP environment;
- The adequacy of controls over supplier set-up, validation, modification, and maintenance and their effectiveness;
- Whether payments were duly authorized by appropriate purchasing, receiving, and

- invoicing documents; and
- Whether payments were made timely and properly classified.

Statement of Methodology

We utilized several audit methodologies to achieve the objectives. These evidence gathering techniques included:

- Evaluating and reviewing the governance framework in place to mitigate risk and how it impacts operations including reviewing relevant State Laws, the City's Code of Ordinances, and Policies and Procedures.
- Conducting extensive interviews of AP staff, as well as related personnel;
- Performing data analysis of areas under review during the audit period;
- Examining the internal control system over the accounts payable process, including evaluating the workflow process from initiation of the requisition through receipt and payment, in order to identify systemic issues; and
- Other audit procedures determined necessary.

Statement of Auditing Standards

We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). 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.

Audit Conclusions and Summary of Findings

1. Procure to Pay (P2P) Three-Way Match: The P2P three-way match has inefficiencies stemming from a number of different processes such as routing and expedited payment request procedures.
2. Duplicate Payments: The manner in which payments are made creates challenges in preventing and monitoring duplicate payments.
3. User Profiles and Accesses: In some cases users having conflicting accesses and in other cases users are not identified.
4. Oracle Approval Levels: Many individuals in the City who are authorized to approve financial transactions have approval levels of \$999,999,999.00, which is the default setting in Oracle.
5. Aging Reports – Supplier Invoices and Credit Memos: The Aging Reports for Supplier Invoices and Credit Memos were not accurately captured in the reports. Further, discrepancies existed in the data.
6. Supplier Master File: The manner in which entries are made into the Supplier Master File is inconsistent. Further, Accounts Payable personnel have the ability to modify the file which is inconsistent with best practices.
7. Signature Specimen: Invoice and Form 121 Requests for Payment approvals are not supported by signature specimens to validate the signatures. In addition, there

is no current Delegation of Authority policy in place to ensure all updates and reviews are made as required.

Noteworthy Accomplishments

It is important to recognize the significant accomplishments achieved by the Accounts Payable Unit. We commend them for working diligently to pay invoices considering the volume of payment requests received compared to the small number of employees tasked with making the payments. They have also had the foresight to hire additional FTEs and temporary staff. We also commend them for proactively taking on additional roles to help expedite payments even though some of these roles should be performed by the individual departments. Finally, we commend them for proactively reviewing and beginning the process to restructure the AP process from start to finish.

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Opportunities for Improvement

1) Procure to Pay Three-Way Match

Condition

The Procurement to Payment (P2P) process is designed to ensure accurate payments. Central to this process is the 3-Way Match procedure which in general, consists of verifying the terms, quantities, and prices listed on the purchase order, invoice, and receipt documents. We reviewed AP's procedures and found several opportunities for improvement as follows:

- **Three-Way Match.** We reviewed payments made from August 2016 to August 2017, and found approximately 48,000 payment transactions. However, approximately 43 percent of the transactions were not matched to a Purchase Order which is one of the three elements of the 3-Way Match. This may occur due to the use of the Form 121 Request for Payment which is discussed further below.
- **Payment Disbursements.** Over the past number of years, the number of checks issued through the manual check request or "Form 121 Request for Payment" process has increased as a method to expedite payments, thereby adding to the workload of not just the Accounts Payable Unit, but the entire Accounting Section. There are valid instances where a Department has to initiate a "Form 121 Request for Payment" in order to get an invoice paid. However, we have been advised that this practice of paying invoices on a Form 121, rather than being matched with a Purchase Order, has in some instances, resulted in Purchase Orders remaining open, along with the associated encumbrance of funds, even though all goods or services were recorded as received, and all obligations to the vendor satisfied.
- **Processing Invoices.** We note that AP uses Quillix software to gather documents needed for receiving and invoice approval. However, Quillix is a routing software and is not a substitute for either a receiving or invoice approval process. We have been advised that invoices can remain in the Quillix queue for prolonged periods, which could cause the City to exceed the 45-Day Prompt Payment requirement.

Criteria

Effective AP management is key to maintaining good relationships with suppliers and management of cash flow. Procurement Policy and Procedure 20-60, outlines specific procedures to follow to ensure that supplies are properly received and that Finance matches the invoice with the delivery ticket, receiving report, and purchase order.

This policy is consistent with best practices, which recommend that there be a three-way match between the Purchase Order, receiving documentation, and invoice in order to ensure that payments are properly made for goods and services authorized, and confirmed as received.

The manual check process is a methodology for special circumstances payments, such as employee reimbursements, which are not handled through a purchase order.

Cause

Based on our reviews, it appears that the heavy volume of check requests, due to requests for expedited payments, creates inefficiencies in the payment process. Further, additional inefficiencies are created when using a routing software for approvals that requires additional manual processes.

Effect

Without a consistent methodology to validate and verify the receipt of goods and services, AP may not have the ability to confirm proper receipt of goods prior to processing the supplier invoice. This may result in delayed or inaccurate payments. In addition, Purchase Orders may remain open that should have been closed due to payments having been processed by a Form 121, and therefore funds remain encumbered.

There is also a risk that AP may process payments for goods or services not received, make payments to unauthorized vendors through the 121's, or initiate other inappropriate transactions.

Recommendation 1

Finance should review its process for ensuring that invoices are duly matched to both purchasing and receiving documents. The use of the manual check request form, known as Form 121, should be discouraged, except in extenuating circumstances and for those instances, properly monitored and controlled.

The receiving process of each department should be strengthened to ensure that the City is in compliance with the 45 day payment requirement under the Prompt Payment Act. This should be reinforced for all invoices supported by a Purchase Order or Project so as to increase matches to Purchase Orders.

Expenses such as Utilities, Payroll, and Employee Expense Reimbursements (approved via a specific approval process) should be removed from the purchase order driven process or limited to an annual purchase order. This could positively impact the AP workload by streamlining the overall efficiency of disbursements processing.

Finally, Finance should incorporate its own routing within Oracle, rather than utilizing an external software that does not have optimal interfaces with Oracle which would help expedite payment of vendor invoices. This may require the assistance of an Oracle expert who can address various the Oracle needs. In addition, if Finance continues the use of Quillix software, we recommend incorporating its bar code capabilities which will increase efficiencies with proper training.

Management Response

The Finance Department agrees with the recommendation. We will implement procedures to deter and reduce the use of Form 121 requests. We will work with department managers and directors to identify a list of vendors whereby their monthly

recurring invoices may be paid without individual department approvals (for example, Florida Power and Light, and related benefits, etc.)

Invoices from preapproved vendors will be approved by designated Finance Department personnel, other than accounts payable, once the vendor is confirmed as listed on the approved list. Accounting staff will exercise scrutiny of invoices and billed amounts to determine reasonableness and consistency with previously paid amounts. Invoices with unusual amounts will be verified with department personnel to determine approval prior to payment. All payment of invoices will be supported by the respective supporting documents to ensure controls and proper monitoring as intended.

The Finance Department will also obtain information to determine the feasibility of having a dedicated Oracle professional to assist with necessary requirements and improvements. Furthermore, we will provide training to new users and others who are performing receiving and approval functions.

Target Implementation Date: September 30, 2019

2) Duplicate Payments

Condition

We reviewed payments made by AP and found that the manner in which payments are made and payment information is entered, creates challenges in monitoring and preventing duplicate payments. We noted that Oracle software is programmed to prevent duplicate payments by requiring unique suppliers and invoice numbers. We analyzed several reports related to payments and found the following:

- **Data Entry** – A review of the payment data disclosed that the manner in which the data is entered creates unique transactions such that it would be very difficult for AP to flag or prevent duplicate payments. Supplier names and invoice numbers contain extra spaces, dashes, numbers, letters, or characters, thereby creating unique transactions and defeating the duplicate payment controls in place. This appears to occur in an effort to force payments through the system due to backed up work and a heavy workload. More importantly, this is the primary issue that may lead to duplicate payments.
- **Purchase Orders** – As previously mentioned, we reviewed data of payment transactions from August 2016 to August 2017, and found that there were approximately 20,000 (43%) transactions that were not matched to a Purchase Order. We were advised that this typically occurs when the Form 121 Request for Payment is used to request an expedited payment. As such, it is possible to generate a duplicate payment because the Form 121 Request for Payment is not matched to a Purchase Order where a duplicate payment request may be identified.
- **Purchasing Card Payments** – We requested a report to compare payments made to vendors on purchasing cards versus payments made by any other method. We were advised that because purchasing card transactions do not go through AP, there is no report to compare these payments. As such, duplicate payments can occur if departments pay a vendor on their purchasing card while a request for payment is in AP's queue. We acknowledge that there is a review of the purchasing cards, but the timing of that review may not coincide with a review of payments made through AP.
- **Negative Entries** – An analysis of payment transactions mentioned previously, identified approximately 1,500 negative payment entries which represent transactions being backed out. While this represents a small percentage of the transactions, it is concerning considering AP's heavy workload. We were advised that these transactions occur when correcting a range of issues such as: overpayment/deposit refunds, changing and correcting the general ledger period, fund, cost center, and other corrections. We note that these issues are not all generated by AP because departments request payments to specific accounts, then later request that the same payments be applied to different accounts.

Criteria

AP is responsible for ensuring that payments are made timely and accurately for goods and services received.

Cause

There are several causes for the concerns identified as follows:

- The Finance Department has been inundated with payment requests in various forms. This has created a heavy workload and has strained staff to meet payment deadlines while also increasing opportunities for human error.
- Unique invoice numbers and/or suppliers are created by AP to ensure that payments can be processed and not prevented by the system as a duplicate.
- Departments use the Form 121 Request for Payment which increases AP's workload because these transactions require manual entry. As such, the potential for data entry errors increases significantly.
- The use of purchasing cards to expedite payments to vendors creates challenges in identifying duplicate payments because these payments do not go through AP.

Effect

The inconsistencies in the manner in which payments are processed not only creates inefficiencies and increases the workload, but it also creates significant vulnerabilities for fraud. While we acknowledge that exceptions occur and processes should be in place to address them, this should occur on an exception basis as originally intended.

Recommendation 2

The Finance Department should ensure that all payments are accurate and timely by:

- Improving controls and revising processes related to data entry and the creation of invoices and suppliers,
- Revising the data that is relied upon for making payments,
- Implementing monitoring procedures to ensure consistent application of changes made, and
- Revising the Form 121 Payment process such that it is used for extenuating circumstances only.

Management Response

The Finance Department agrees with this recommendation and will revise policies and procedures to ensure that there are adequate controls to prevent duplicate payments. We will ensure that our business practices and procedures are in alignment particularly as

related to data entry and payment request procedures. Users will be trained on the procedures and going forward, we will implement monitoring procedures for the various changes.

Target Implementation Date: September 30, 2019

3) User Access

Condition

We analyzed various aspects of user profiles and accesses and found that there were a number of opportunities for improvement as follows:

- **Conflicting Access** – We found that a number of employees have access to various applications, which can create conflicts in terms of segregation of duties, in that they can purchase, receive, and approve invoices as well as authorize payments to vendors.
- **Unidentified Users** – We reviewed overpayment refund data from August 2016 through August 2017, and found approximately 1,000 refunds for services rendered by the City such as utility overpayments. A further analysis of these refunds found over 100 instances where the overpayment refund was created by a user identified as “anonymous.” We were advised that analysts log into Oracle with their identifying credentials when importing overpayment refund data. However, when the import occurs, the system marks the transactions as “created by anonymous” instead of attaching the analyst’s name. Based on our review, this has been occurring since at least 2005. While we acknowledge that system generated transactions do occur for various reasons, transactions should not be created by anonymous users even if they are ultimately found to be valid.
- **Role Changes** – There is no verifiable process in place to ensure that role changes caused by separating employees, promotions, or changes in duties, are duly reviewed and implemented with the appropriate approvals. Further, we reviewed the 2016 CAFR and found that similar conditions existed. We note that the recommendations in the CAFR (Appendix A 2016-05 and 06) state that all user access requests and user changes should be sent and logged into the IT Department’s ticketing system, Solarwinds. Currently, this recommendation has not been fully implemented.

Criteria

A key element of internal control calls for segregation of the purchasing, receiving, and payables function as a fraud deterrent technique. Changes to user accounts should be documented and approved in writing. Further, users should be clearly identified.

Cause

The Finance Department has not updated its procedures for initiating, amending, reviewing, and monitoring user profiles for access to Oracle. This may have occurred because the City does not have anyone on staff with expert knowledge of Oracle such that they could assist in making various improvements to Oracle as needed for daily business use.

Effect

There is a risk that one or more employees may be performing incompatible roles in the Procurement to Payment process, which increases the risk of unauthorized transactions.

Further, having an anonymous user account makes it challenging to verify who created a transaction and whether the transaction is valid. There may also be employees who have left the City or changed roles and have not had their profiles updated to their current status and may have more authority than necessary.

Recommendation 3

The Finance Department should ensure that access to payment software is properly safeguarded by:

- Developing standard user profiles based on user roles, responsibilities, and business needs, in compliance with Segregation of Duties principles.
- Ensuring that all access requests are properly logged into Solarwinds prior to granting access.
- Implementing on-going review and monitoring procedures to ensure compliance with policies.

The Finance Department should ensure that transactions are transparent and users can be held accountable by:

- Removing or deactivating unidentifiable users,
- Conducting periodic reviews of user transactions to ensure that all transactions are performed by identifiable users, and
- Considering available options to obtain Oracle expertise on a regular basis.

Management Response

The Finance Department agrees with this recommendation and plans to implement a policy which addresses the access to various financial related modules within the Oracle database. User access will be based upon specific user needs and job requirements. The policy will incorporate necessary controls which segregate the approval of purchase, receiving of goods, and payment of expenditures. We will work with the Human Resources Department to ensure relevant personnel are updated annually in the Oracle database, or as needed with regards to separations or changes in roles/responsibilities. We will also work with an Oracle specialist to find a suitable resolution to the anonymous user issue. On an annual basis, we will review user access and responsibilities to ensure controls are operating as intended.

Target Implementation Date: September 30, 2019

4) Oracle Approval Levels

Condition

We reviewed the Approval Levels and Assignment Report in Oracle in order to determine dollar level approvals for Oracle users. We determined that many individuals in the City who are authorized to approve requisitions, purchase orders, and invoices have an approval authority of \$999,999,999.00 which is the “by default” setting in Oracle. There is no criteria to determine approval authority based on title or business function.

Criteria

Governance best practices recommend that a proper Delegation of Authority be established and updated annually to enable subordinates to perform necessary functions as the organization grows. This is to ensure that transactions are made by authorized personnel. Approval levels for all levels of Accounts Payable, as well as other departments, should be based on business need and function. An appropriate dollar limit should be set and authorized in writing by the department. In addition, there should be pre-established User Profiles which define the abilities of individuals to approve transactions at various levels of the Oracle modules.

Cause

The City has not established an appropriate Delegation of Authority and appropriate levels of transaction approvals based on business need. As a result, the default setting in Oracle has not been modified for many users to reflect the actual requirements of the City. As previously mentioned, this may also be due to not having Oracle expertise within Finance that is readily available to assist.

Effect

There is a risk that employees and/or contractors may be approving transactions in excess of their actual responsibilities.

Recommendation 4

The Finance Department should ensure that an Appropriate Delegation of Authority Policy is established and updated annually. In addition, Finance should evaluate approval levels and set approval levels in Oracle to reflect the employees’ actual responsibilities within the workflow process.

Management Response

The Finance Department agrees with this recommendation and plans to implement a policy which addresses the Delegation of Authority and appropriate approval thresholds equivalent to department personnel functional responsibilities. We will work with department managers and directors to identify specific needs and determine applicable thresholds. The relevant thresholds will be updated in the City’s Oracle database. Furthermore, we will also work with the Human Resources Department to ensure the information is updated annually or as needed with regards to terminations or changes in roles/responsibilities. Finally, we will work with City Administration in regards to more readily available Oracle expertise solutions.

Target Implementation Date: September 30, 2020

5) Aging Reports – Supplier Invoices and Credit Memos

Condition

As of September 1, 2017, there were approximately \$12,677,382 in outstanding invoices listed on the Accounts Payable Aging Report. Based on the percentages listed on the report, there were 30% or approximately \$3.8 million of the outstanding invoices which did not appear on the report, resulting in an out of balance report. Based on that premise, we reached out to Finance and were advised that the aging “buckets” in the Report, as currently configured, only capture invoices less than 120 days old, while invoices older than 120 days are not reflected in the Aging. Finance is taking steps to address our concerns to ensure all invoices, including those over 120 days are properly classified so that management can perform an appropriate analysis of the Aging.

We identified a similar issue with the Outstanding Credit Memos Aging Report, in that it also only captures credits less than 120 days old, and not those over 120 days. As of September 30, 2017, there were approximately \$217,121 in outstanding credit memos reflected on the Aging, however, approximately \$156,000 in outstanding credit memos were not captured on the report, due to the same factors impacting the Accounts Payable Aging.

We were also advised that there are variances in these aging reports that result in differences as compared to the general ledger. As such, management has resorted to finding alternate solutions to determine the proper aging of accounts payable balances such as Excel spreadsheets. Management stated that they are aware of the issue, however, they do not have the Oracle expertise to make the changes necessary in a timely manner.

Criteria

Generally Accepted Accounting Principles (GAAP) recommend that policies be in place which permit management to take appropriate action in order to:

- Maintain good trade credit terms with suppliers,
- Ensure invoices are paid at the appropriate time, and
- Ensure early settlement discounts are taken whenever possible.

An effective Aging Report should capture all invoices that remain unpaid and be used as a management tool to monitor the age of the outstanding payables to suppliers or vendor invoices. In addition, the aged accounts payable report can be used to help predict cash flow requirements for future accounting periods. If there are invoices outstanding for a prolonged period, management can review those transactions to determine the root cause.

The Credit Memo Aging Report should be used to ensure that all credits are properly applied to subsequent invoices received from suppliers and not remain outstanding. When a credit is above a pre-determined threshold, reimbursement should be requested from the supplier. All outstanding credit memos should be resolved at the close of the fiscal year.

Cause

Management has not put a process in place to ensure that the AP Aging liability report is generated accurately. Modifications have not been done to the standard Oracle reports to reflect the business needs of the City. This does not permit Finance's management to have accurate information regarding overall AP liability or supplier credits due.

Effect

Based on the current configuration of the reports available, i.e. standard and customized reports in Oracle, AP personnel cannot assess the operational impact of invoices older than 120 days, and therefore evaluate if any of those invoices should be removed and reclassified into a specific General Ledger account separate from the City's Accounts Payable liability.

Recommendation 5

Finance should take steps at the earliest opportunity to review its assigned categories, for proper classification of payables to ensure that all invoices in the AP system are appropriately classified and accounted for, thus ensuring that the City's financial statements represent an accurate reflection of the City's obligations.

To ensure timely resolution of general issues that may arise during the ordinary course of business, Finance should work to identify potential solutions to obtaining Oracle assistance.

Management Response

The Finance Department agrees with this recommendation and plans to implement monthly reviews of all significant balances including accounts payable. Management has proactively developed work arounds to determine the proper aging of accounts payable balances and will specifically review the Accounts Payable Aging detail and identify any significant liabilities greater than 60 days. Balances which are deemed to be contingencies, as in the case of ongoing litigation or having other payment arrangements with specific vendors, will be reclassified from Accounts Payable to other liability categories. Furthermore, we will work to identify and resolve all vendor payables in a timely manner in accordance with the 45 day Prompt Payment Act. Finally, we will work with City Administration in regards to more readily available Oracle expertise solutions.

Target Implementation Date: September 30, 2019

6) Supplier Master File

Condition

The Supplier Master File is the foundation for all Procure to Pay (P2P) activities and is an important asset for the City of West Palm Beach. This file is used to create and update the City's master file listing of suppliers for goods and services. We determined that there are inconsistencies in the manner in which suppliers were entered into the Supplier Master File. For example, there are suppliers listed twice with small differences in the name or address as the data entry is neither consistent nor standardized, and does not follow standard data conventions, such as those outlined in Procurement Policy and Procedure Chapter 20-65. This may lead to a Supplier Master File with potentially invalid or duplicate vendors. For example, names are entered, such as "ADOPT A" and "ADOPT-A", thereby creating two unique suppliers. Furthermore, we also came across a generic supplier named "SUPPLIER", which is inconsistent with best practices. During our review, we identified several examples where these naming convention issues created a new supplier rather than flagging it as a possible duplicate.

Finally, we found that AP personnel have the ability to modify the Supplier Master File, which is inconsistent with best practices. Although AP should have the ability to review the Supplier Master File, due to the nature of their tasks, they should not be able to modify or change a supplier.

Criteria

Chapter 20-65 of Procurement's Policy and Procedure, outlines the procedure for maintaining the Supplier Master File. The policy offers instructions for establishing and maintaining supplier information in Oracle, which is used as the basis for invoice payments.

Cause

The Procurement Department and Finance are not in compliance with the existing procedures regarding maintenance of the Supplier Master File. Further, they have not updated their procedures to reflect best practices in supplier management, which would include an appropriate segregation of duties.

As mentioned previously, the system has controls to reject duplicate suppliers. However, if there is any difference such as a space, dash, asterisk, or any other character, then the system controls may be overcome and a 'new' supplier may be created.

Effect

Proper maintenance and control of the Supplier Master File is an integral element of the procure-to-pay process. Incorrect or unreliable information presents a risk of unauthorized transactions, duplicate payments, and other inappropriate activities.

Recommendation 6

The Finance Department and Procurement should:

- a) Work together in order to determine the appropriate responsibilities for each

business process involving the Supplier Master File to ensure that individuals with the ability to make changes to the Supplier Master File do not also have the ability to process payments.

- b) Update the Procurement Procedure to include standards for the roles and responsibilities of personnel which impact Procure to Pay and Accounts Payable activities.
- c) Revise the Supplier Master File to accurately reflect valid, unique suppliers.
- d) Conduct periodic training and monitoring to ensure understanding and compliance with the new procedures.

Management Response

Finance Department

The Finance Department agrees with this recommendation. We will work the Procurement Department in the creation of new vendors to the Supplier Master File. We agree that Accounts Payable personnel have the capabilities to add new vendors to the supplier master file to facilitate the processing of on-demand and time-sensitive payments. As a mitigating control, the Finance Department will add additional layers of review to monitor and eliminate any abuse of these assigned privileges. The Accounting Manager will review and verify the need to add new suppliers and ensure all required information is present at the time of processing, including a supplier request form. The supplier request form must be signed by the Accounting Manager or the Chief Financial Officer.

Additionally, the Accounts Payable Department will maintain a numerical log for all new suppliers added which will be reviewed by the Accounting Manager on a monthly basis as part of the monthly close process. The log maintained by Accounts payable personnel will be reconciled to the new vendor information in the Oracle database for the same time period.

Target Implementation Date: September 30, 2019

Procurement Department

The Procurement Department agrees with the recommendation and will work with the Finance Department to transition the Supplier Master File protocols to the Finance Department.

Target Implementation Date: September 30, 2019

7) Signature Specimens

Condition

Invoices and Form 121 Requests for Payment approvals are not supported by signature specimens to validate the signatures. We were informed by Finance that at one time a form existed which authorized signatures by control center. Currently, since electronic signatures are used, updates are made on request, in the system by Finance's System Administrator. However, there is no current Delegation of Authority policy or procedure in place to ensure all updates are made as they occur or to require a review of the approver's signature.

Criteria

There should be an enterprise-wide Delegation of Authority policy, which is updated annually. In addition, there should be signature specimens on file in Finance for all individuals authorized to approve payments.

Cause

The City does not have a current Delegation of Authority Policy which defines the process for ensuring that signatures are validated through specimens on file.

Effect

Without a signature specimen in place, there is a risk that employees without appropriate signature authority may be approving invoices and submitting Form 121 Requests for Payment to vendors. This may result in unauthorized transactions.

Recommendation 7

The Finance Department should develop and implement an enterprise-wide Delegation of Authority Policy which should establish a procedure for transmittal of changes to approval paths, appropriate proxies for instances such as vacation leave, and obtaining signature specimens for employees who are responsible for approving requests for payment.

Management Response

The Finance Department agrees with this recommendation and plans to implement a policy which addresses the Delegation of Authority and the proper approval of invoices and Form 121 requests. Signature specimens will also be obtained and reviewed periodically. We will work with department managers and Directors to identify those individuals who are authorized to approve purchases and payment of expenditures. The relevant personnel will be updated in the City's Oracle database. Furthermore, we will also work with the Human Resources Department to ensure the information is updated annually and promptly with regards to terminations or changes in roles/responsibilities.

Target Implementation Date: September 30, 2019