



City of Edmonton Office of the City Auditor

Audit of Accounts Payable

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1200, Scotia Place, Tower 1
10060 Jasper Avenue
Edmonton, AB T5J 3R8
Phone: 780-496-8300
edmonton.ca/auditor

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Objectives

To determine whether controls over accounts payable transactions are adequately designed and operating effectively.

Scope

This audit assessed accounts payable data from June 1, 2017 to May 31, 2018. This audit included accounts payable transactions originating from the purchasing orders and non-purchasing order (non-PO) process. The corporate credit card process was audited previously, therefore credit card transactions were only included for the testing of duplicate payments over multiple payment methods.

We excluded transactions from the Edmonton Public Library and the Edmonton Police Service because those organizations do not report to the City Manager.

Statement of Professional Practice

This project was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing



Executive Summary

Accounts Payable is responsible for processing and paying vendor invoices related to goods or services received by the City. The City needs to effectively maintain accounts payable processes to mitigate the risk of unauthorized payments, duplicate payments, inefficiencies and ensuring that the right vendors are paid on a timely basis.

What did we do?

The objective of this audit was to determine whether controls over accounts payable transactions are adequately designed and operating effectively.

To do this we interviewed staff involved in all phases of the accounts payable processes. We also reviewed accounts payable transactions and analyzed accounts payable systems.

What did we find?

During the audit we found that certain key controls over accounts payable transactions were poorly designed or missing. We found control deficiencies surrounding authorization of non-purchase order transactions and access to accounts payable systems. We also found that there is an opportunity to improve the accounts payable's documentation regarding processes for training purposes. There is an opportunity for accounts payable staff to receive additional training to help improve efficiency and to ensure that transactions are processed consistently. Finally, Accounts Payable does not have documented performance objectives; this would better enable the area to measure their effectiveness and efficiency.

What do we recommend?

As a result, we determined that opportunities exist to improve the design and operating effectiveness of these key controls. We made four recommendations to address the issues and opportunities for improvement.

Recommendation 1

Improve controls over receiving non-purchase order transactions

We recommend that the Branch Manager of Financial Services implements documented controls that:

- Mitigate the risk of Accounts Payable receiving non-purchase order transactions that are not appropriately approved.
- Enable Accounts Payable to verify that non-purchase order transactions are appropriately approved.

Recommendation 2

Improve controls over accounts payable systems

We recommend that the Branch Manager of Financial Services documents and implements controls that:

- Periodically review the Kofax and PTS user listings to restrict access to appropriate personnel.
- Reconcile PTS and SAP transactions on a periodic basis.
- Implement mitigating controls over identified incompatible roles.
- Implement a detective control to identify duplicate payments across multiple platforms.

Recommendation 3

Implement process to update Kofax and provide more training

We recommend that the Branch Manager of Financial Services:

- Implement a process to run the Kofax Learning Module on a regular basis to improve Accounts Payable processing efficiency.
- Provide additional training to accounts payable staff on how to use the systems.

Recommendation 4

Develop performance measures

We recommend that the Branch Manager of Financial Services develop and implement formal performance measures and targets.



Background

In 2017, the City of Edmonton processed 313,140 accounts payable transactions with a combined value of \$1.8 billion.

The accounts payable function is an essential element of every business. Suppliers are paid for the goods and services they provide. The City of Edmonton processes a high volume of accounts payable transactions annually – in 2017, 313,140 transactions were processed with a combined value of \$1.8 billion.

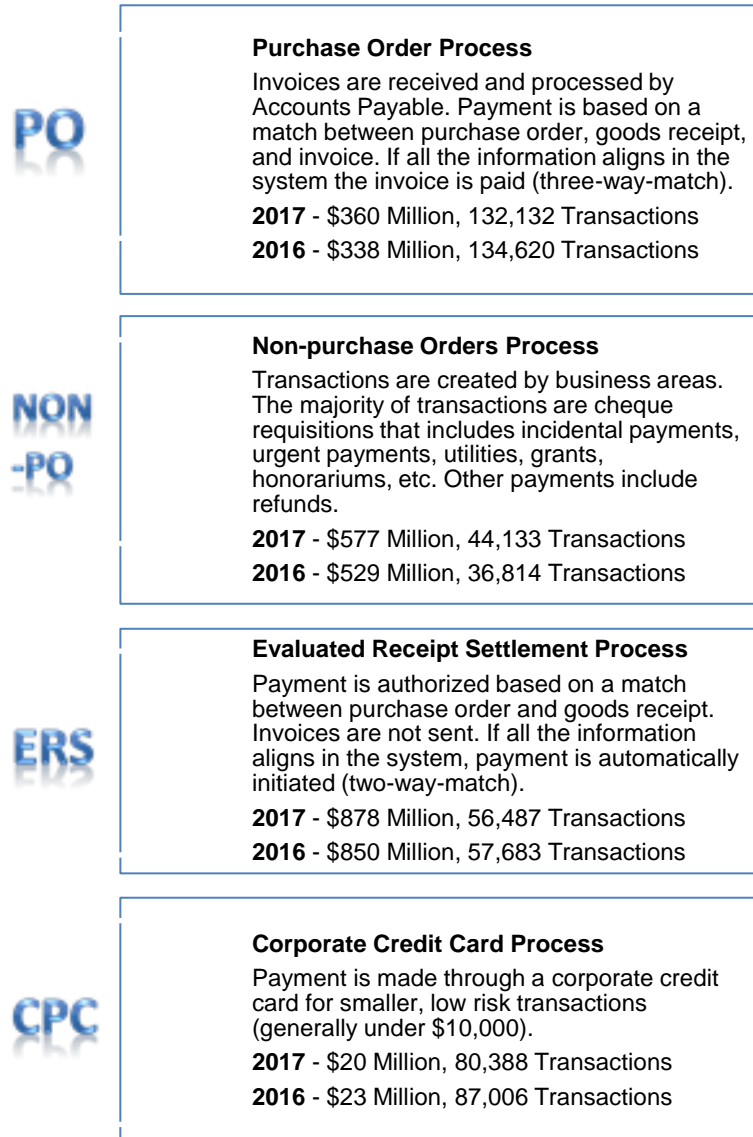
The Accounts Payable section in the Financial Services Branch processes invoices and issues payments for goods and services purchased by the City. Accounts Payable helps manage the City's reputation and relationships with suppliers by providing accurate and timely payment to suppliers.

The accounts payable process includes receiving supplier invoices, matching the invoices to corporate records, and ensuring that accurate and timely payment is made to the correct supplier.

There are four payment processes managed by Accounts Payable, they include purchase orders (PO), non-PO's, evaluated receipt settlement, and corporate credit cards (see Figure 1).

This audit will focus on the PO and Non-PO processes as accounts payable staff process these two types of transactions. ERS and Credit Card transactions are primarily processed in the business areas or through electronic processes, but the payment is facilitated by Accounts Payable.

Figure 1: Account payables processes





Authorization of Non-PO Invoices

Process to pay non-POs

We examined the process to pay non-PO invoices within the City and determined whether the payments were authorized by the appropriate personnel.

When a business area needs to pay a non-PO invoice they initiate a cheque requisition. The process for cheque requisitions is:

The total value of cheque requisitions in 2017 was \$556m

1. The business areas complete a cheque requisition form. The form needs to include approval signatures and coding.
2. The business area sends the form and invoice to Account Payable either by inter-office mail or electronically (e-mail).
3. Accounts Payable processes the cheque requisition for payment.

What we found

We found that there is a risk that the city is making unauthorized payments to false vendors.

Three false invoices were processed and paid.

We submitted three false invoices along with cheque requisitions to Accounts Payable to determine whether these transactions would be processed. Each of these cheque requisitions had a creator and approver that were not actual City of Edmonton employees. In addition, vendor information on the invoices was not accurate. The results of our testing were that all three invoices were processed and paid by the City.

Accounts Payable did not create any false vendors in vendor master file as these transactions went through the cheque requisition process for incidental, low value transactions (Non-PO process) and not the PO process (see Figure 1 page 4). For cheque requisitions, Accounts Payable does not create a vendor entry in the Vendor Master File. The Vendor Master File has additional controls in place to ensure vendor information is verified and accurate.

16 of the 43 approvers may not have had the authority to approve expenditures

We also reviewed a sample of 43 transactions to determine if the individual approving the cheque requisitions had the authority to approve expenditures. We found that 16 of the 43 approvers may not have had the authority to approve the expenditure based on their current role in the City's Human Resources system. Included in these 16 exceptions, we found 3 instances where accounts payable staff could not determine who approved the transaction.

Accounts Payable does not have a process in place to identify or verify the approver on cheque requisitions. In addition, there is not a secure channel for authorized employees to submit cheque requisitions to Accounts Payable.

Accounts payable management indicated that the oversight role for approving cheque requisitions currently lies with the business areas and not with Accounts Payable. Therefore, Accounts Payable only checks if a cheque requisition has a signature, but does not verify if the signature or approver are legitimate. In addition, anybody within a City of Edmonton business area can send invoices and cheque requisitions to Accounts Payable via interoffice mail or e-mail.

There is a risk that unauthorized employees could send false cheque requisitions to Accounts Payable for processing and they would be paid. Without a secure channel and other mitigating controls there is a risk that cheque requisitions are provided to Accounts Payable that are not properly approved and/or for legitimate business purposes.

Recommendation 1

Improve controls over receiving non-purchase order transactions

We recommend that the Branch Manager of Financial Services implements documented controls that:

- Mitigate the risk of Accounts Payable receiving non-purchase order transactions that are not appropriately approved.
- Enable Accounts Payable to verify that non-purchase order transactions are appropriately approved.



Accepted by Management

The Branch Manager of Financial Services will ensure that documented controls are implemented that mitigate the risk of receiving non-purchase order transactions that are not appropriately approved and enable Accounts Payable to verify that these transactions are appropriately approved.

Business areas are responsible for managing the controls over the initiation and approval of Non-PO Payment requisitions including segregation of duties and approvals, prior to their transmission to Accounts Payable (AP) for payment issuance.

Financial Services has developed the Financial Administration and Control Directive and the Expenditure Accountability Framework to enhance controls over the payment of City Money. This directive and procedure combined with the planned implementation of electronic workflow for these transactions and transitional measures to strengthen controls and financial administration.

Implementation of the Financial Administration and Control Directive and the Expenditure Accountability Framework will ensure that all expenditures, including non-purchase order transactions are appropriately reviewed and approved. Electronic workflow and the system controls therein are necessary to mitigate the risk currently associated with manual approvals. In the interim, while electronic workflow is being established, the Director of Treasury Management will incorporate additional controls to mitigate these risks including controlling how submissions of documents are made to accounts payable. These will ensure that the security and approval risk for requisitions is appropriately mitigated and that attest functions are established to validate the approvals against the Expenditure Accountability Framework.



Implementation: Administrative Directive training for Expenditure Officers completion: March 31, 2019

Electronic Workflow high volume pilot completion: May 31, 2019

Implementation of Workflow completion: March 31, 2020



Responsible party: Director, Treasury Management



Use of One time Vendors

We reviewed the City's processes surrounding the use of one time vendors.

One-time-vendor transactions are a type of transaction that is used by the City to pay vendors that the City does not expect to do business with on a regular basis. One time vendors do not have the same controls as vendors that have been setup in the Vendor Masterfile.

What we found

There is no process to identify one time vendors

During our interviews we found that Accounts Payable does not have a process to identify or review one-time-vendors. We reviewed the accounts payable data and identified 14,804 one time vendors. We found that 128 of these vendors were used five or more times in the last year.

The total number of these transactions for these 128 vendors was 1,346. We examined the top 10 one-time-vendors with the highest number of transactions. We determined that the majority of these transactions are related to property tax refunds. We found that these one-time-vendors were businesses representing citizens who disputed their property tax payments. The refunds were collected by the vendors on behalf of the citizens.

Accounts payable management communicated that the decision to set vendors up as a regular vendor is the responsibility of the business area. There is a risk that these transactions are not being processed efficiently as currently the vendor information needs to be entered separately for each transaction. If these vendors were set up in the City's Vendor Masterfile, this would increase the rate that these transactions would be processed and decrease the risk of error.



Duplicate Payments

We also reviewed how the City ensures that duplicate payments are not made for the same invoice using different payment methods

What we found

We found that the City does not have a process to identify duplicate payments across multiple platforms.

Duplicate payments are multiple payments made by the City for the same invoice/transaction. Duplicate payments can occur through the same payment method, or through payments made across multiple platforms. An example of a payment made through multiple platforms would be an invoice that is paid with a corporate procurement card and through the Non-PO process.

We found six duplicate payments that totaled \$1,691

We compared credit card payments and transactions processed by Accounts Payable between June 1, 2017 and May 31, 2018. There were a total of 78,806 credit card transactions in this period. We found that six of these payments were also paid through other payment methods. The total value of the duplicate payments was \$1,691. Three of these duplicate payments have been reversed by Accounts Payable. One of these transactions has a stale dated cheque. This cheque has not been reissued and a stop payment has been processed. The remaining two duplicate payments had cheques that were cashed and there was no reversal identified on the credit card or in the accounting system.

Accounts Payable is currently in the process of recovering these payments.

See Recommendation 2



Accounts Payable Systems

We assessed whether authorized personnel had the appropriate level of access to accounts payable systems and whether the systems were working together appropriately.

Only accounts payable staff should have access to Kofax and PTS as these are the systems that are required to process accounts payable transactions. The roles within these systems should also ensure that there is appropriate segregation of duties.

Accounts Payable has three different systems:



The City's financial accounting system where payment information is recorded and further processed.



When an invoice is received it is scanned into Kofax. The system uses optical character recognition (OCR) to streamline the information transfer process from an invoice into the Process Tracking System system.



The Process Tracking System (PTS) is used by Accounts Payable to process invoices, and match invoices to PO and good receipt for payment. When invoices have been processed in PTS, they are later recorded to SAP. This system interacts with SAP.

What we found

Two unauthorized employees had access to accounts payable systems

We reviewed the user listing for all three systems. We found:

- Two unauthorized employees that had access to Kofax.
- One unauthorized employee that had access to PTS.
- One member of accounts payable had incompatible roles in PTS.

Accounts payable management has now resolved these issues.

Conflicts were not monitored as planned

We determined that Accounts Payable does not regularly review who has access to systems. The risk of not reviewing who has access to accounts payable related systems is that confidential information could be accessed by unauthorized personnel.

As payments are processed and recorded in SAP, we reviewed the roles and responsibilities of accounts payable staff in SAP. We found that there were three staff members that each had multiple incompatible roles within the accounting system. There is a risk that one of these staff members could process and pay the same transaction.

Accounts Payable has drafted procedures to monitor these incompatible duties. However, we did not find any evidence that these controls have been implemented. As of July 2018, these conflicts are now being monitored and documented by a financial analyst.

Lack of reconciliation between PTS and SAP

We wanted to ensure that the three systems were working together appropriately. We did not find any issues between the interaction of Kofax and PTS. However, we found that there is no reconciliation between PTS and SAP. Accounts Payable uses the PTS system to process transactions. The data is then retrieved by SAP for financial recording and payment of vendors. To ensure that all transactions are properly recorded and paid, it is important that all data processed in PTS is properly transferred to SAP.

We spoke with the developer of PTS regarding this issue and they informed us that this functionality could be built into PTS. Without reconciliation there is a risk that transactions processed in PTS are not recorded in SAP.

Recommendation 2

Improve controls over accounts payable systems

We recommend that the Branch Manager of Financial Services documents and implements controls that:

- Periodically review the Kofax and PTS user listings to restrict access to appropriate personnel.
- Reconcile PTS and SAP transactions on a periodic basis.
- Implement mitigating controls over identified incompatible roles,
- Implement a detective control to identify duplicate payments across multiple platforms



Accepted by Management

Access to the Kofax, PTS and SAP has been reviewed and unauthorized access to the system has been removed. The Director of Treasury Management will review access to the AP system on a periodic basis to ensure systems are appropriately restricted. Incompatible roles and segregation of duties within SAP was reviewed as part of a larger City project completed in December 2016. The Director of Treasury Management has reviewed all role conflicts to ensure proper resolution either through the allocation of roles or through the implementation of mitigating controls. Mitigating controls have been established and are being monitored by the Manager of Corporate Accounts Payable and the Director of Treasury Management.

The Director of Treasury Management is currently working with the PTS consultants to develop a periodic reconciliation or other system control/functionality that will ensure that items processed in the PTS environment are appropriately captured within SAP.

Aware of the risk of duplicate payments, particularly in the credit card payment and employee expense streams, accounts payable has developed preventative controls for duplicate payments including the Employee Travel Authority and Expense form which requires a reconciliation of expenses by payment source (non-purchase order transactions including credit card and payments to employees). The Branch Manager of Financial Services with the Director of Treasury management will design and implement an appropriate detective control for duplicate payments in cost-effective manner.



Implementation: December 31, 2019



Responsible party: Director, Treasury Management

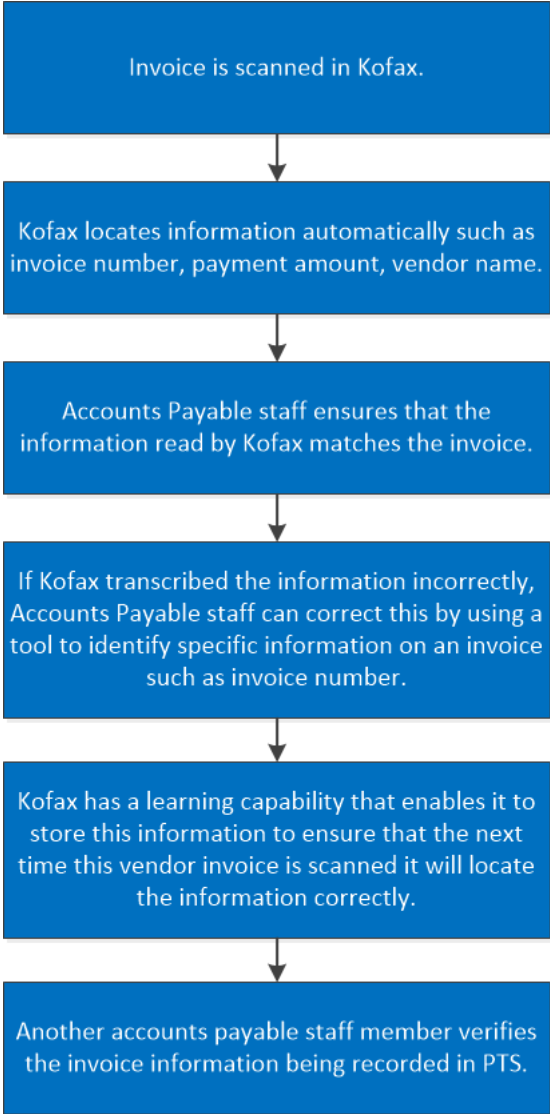


Invoice Receiving and Processing

Receiving invoices

We reviewed the process that is followed when an invoice is received by Accounts Payable.

Accounts Payable uses the Kofax system to read and transfer information into PTS. The process for processing invoices in Kofas is described below.



What we found

We found that Accounts Payable was two months behind in running the learning module in Kofax. The impact of not running the learning module is that accounts payable staff has to repeatedly correct the same wrongly identified information and that the system is not running as efficiently as it could. This could also have an impact on staff morale as staff could have the perception that the system is not working as intended.

The learning module enables the process to become more and more automated. This automation would increase the rate that invoices are added to PTS for processing and reduce processing time

We found that Accounts Payable does not have an established process to run the Kofax learning module on a regular basis.

See Recommendation 3

Processing invoices

We also reviewed how invoices are processed. We reviewed transactions paid by the City to determine whether they were paid to the correct vendor.

What we found

A report was run by Accounts Payable to identify payments made to vendors that had different payment information between the invoice and PO for the period of June 1, 2017 to May 31, 2018. Accounts Payable found that there were 190 paid transactions where the name of the vendor on the PO did not match to the name of the vendor on the invoice. We verified the accuracy of the work conducted by Accounts Payable. Accounts Payable investigated all 190 transactions:

Three transactions were paid to the wrong vendor.

- Three transactions were paid to the incorrect vendor. In all three cases, Accounts Payable has recovered the money and paid the correct vendor.
- Ten transactions, spread over nine vendors, were paid to the correct vendor but were paid to the wrong business area within that vendor. Accounts Payable sent payment confirmations to all nine vendors to confirm whether payment was received. As of October 23, 2018, they received back five confirmations indicating that the vendor had received payment.
- 176 transactions were found to have been paid to the correct vendor. In all of these cases the invoice was

applied to the incorrect PO in PTS. Subsequently, this incorrect information was moved to SAP. The cause of this was that the majority of these vendors have a central payment location which is different than the location where the goods or services were ordered from.

In April 2018, a stop was implemented in PTS that blocks any payments whereby the vendor on the invoice and PO do not match. Accounts payable staff cannot override this block. Blocked transactions are now reviewed by supervisory staff prior to posting to ensure correct recording.

Training and Documented Processes

Accounts Payable implemented PTS and Kofax in May of 2017. Training is an important part of implementing a new system as it helps staff learn how to use the new functions and processes of the system.

What we found

We found that sufficient training was not provided to the staff using these systems. In addition, we also observed that there are no documented procedures on how to use these systems for staff to refer to. We were also told that different team members process transactions differently as there is no defined way to do things.

As a result, the implementation of these new systems has been challenging.

Additional training is required to help ensure that transactions are processed in a consistent manner and that the functionality of the system is being used. This will also help improve the efficiency and effectiveness in the processing of invoices.

Recommendation 3

Implement process to update Kofax and provide more training

We recommend that the Branch Manager of Financial Services:

- Implement a process to run the Kofax Learning Module on a regular basis to improve Accounts Payable processing efficiency.
- Provide additional training to accounts payable staff on how to use the systems.



Accepted by Management

The Kofax Learning Module update process is now current. The Branch Manager of Financial Services and Director of Treasury Management have established a process to run the Kofax Learning Module on a periodic basis and have assigned this process to the Kofax Administrator. The Director of Treasury Management and the Manager of Accounts Payable will work to optimize the process to maximize accounts payable processing efficiency.

The system was implemented in May 2017. Training was provided as part of the rollout of the new technology but it is acknowledged that additional, recurring training updates would benefit all team members. Recurring training sessions will provide an opportunity to address user concerns with the system, standardize processes and increase efficiency.

Additional training was provided by the system vendor in October 2018 and an action log created of questions and issues for follow-up. This elevated the knowledge of team members around the use of the system for PO, Non-PO, Kofax and other processes. Additional vendor-based training and development will continue in 2019.



Implementation: June 30, 2019



Responsible party: Director, Treasury Management



Performance Measures and Targets

Performance monitoring

Performance monitoring of a business area is necessary to ensure overall effectiveness and efficiency. It helps a business area to know how they are performing and what could be improved.

What we found

There are no specific performance measures and targets

Currently Account Payable is tracking daily, weekly and monthly statistics to manage workloads. Each staff member is assigned a specific set of vendors that they are responsible for processing invoices for. The accounts payable manager will monitor the workloads of each team member and reassign work if required. However, Accounts Payable does not have performance measures or targets in place.

Performance measures and targets help management determine if they are meeting their program objective and service levels in an effective and efficient manner. Without these measures and targets they cannot determine whether they need to improve or if they're doing a good job.

Recommendation 4
Develop performance measures

We recommend that the Branch Manager of Financial Services develop and implement formal performance measures and targets.

Accepted by Management

The Branch Manager of Financial Services will ensure that formal performance measures and targets are developed and implemented.

Prior to the implementation of the Document Management System in 2017, accounts payable was a paper-based microfilm document process reliant on interoffice mail to obtain manual approval of documents. Without electronic data capture performance metrics and targets were identified at a macro or process level.

A significant benefit of the system is the electronic data generated which includes process tracking data. This data is a powerful tool in the accounts payable process and provides an opportunity for management to view and analyze data in a way that wasn't possible before.

The implementation of the new system required significant changes within the business processes and to some degree disrupted the workflow making it difficult to determine appropriate targets and metrics. Accounts payable has been monitoring weekly and monthly statistics and observing trends. With the stabilization of production, and the reduction in cycle time to normal levels, service-focused measures and targets will be developed.



Implementation: September 30, 2019



Responsible party: Director, Treasury Management



Appendix 1: Risk Assessment and Methodology

Risk Assessment

During our risk assessment, we identified the following potential risks for the Accounts Payable section:

- Implementation of new systems in May 2017 - Kofax and PTS.
- Complaints relating to lack of documented processes.
- Cheque requisitions process indicated potential control weaknesses.
- Inefficient use of one time vendors process.
- Duplicate payments across payment platforms.

These risks formed the basis of our audit objectives and audit program

Methodology

We used the following methods to conduct this review:

- Reviewed the City's accounts payable processes.
- Held discussions with management and staff of Accounts Payable section.
- Analyzed accounts payable data.
- Reviewed cheque requisitions, invoices, and other payment documentation.
- Reviewed the system access of staff.