

**REVENUE AND FINANCE
ACCOUNTS PAYABLE
AUDIT 15-05
NOVEMBER 2, 2015**



CITY OF TAMPA

Bob Buckhorn, Mayor

Internal Audit Department

Christine Glover, Internal Audit Director

November 2, 2015

Honorable Bob Buckhorn
Mayor, City of Tampa
1 City Hall Plaza
Tampa, Florida

RE: Accounts Payable, Audit 15-05

Dear Mayor Buckhorn:

Attached is the Internal Audit Department's report on Accounts Payable.

The Revenue and Finance Department has already taken positive actions in response to our recommendations. We thank the management and staff of the Revenue and Finance and Purchasing Departments for their cooperation and assistance during this audit.

Sincerely,

/s/ Christine Glover

Christine Glover
Internal Audit Director

cc: Dennis Rogero, Chief of Staff
Sonya Little, Chief Financial Officer
Lee Huffstutler, Chief Accountant
Gregory Spearman, Purchasing Director
Mike Perry, Budget Director
Terrie Williams, Accounting Operations Manager
Michael Cascone, Accounts Payable Supervisor
Kevin Frye, Procurement Manager

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/s/ Melinda Jenzarli

Auditor

/s/ Christine Glover

Audit Director

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BACKGROUND

Accounts payable processing is a function of the Revenue and Finance Department and is made up of ten individuals. The Purchasing Department must approve and establish all vendors in Oracle prior to payment. During FY2014, 60,370 payments were processed totaling \$319,888,227.

City purchases are approved through the Oracle Procurement module. This process requires the departments to create and approve requisitions for their individual purchases. The Purchasing Department must approve all requisitions before a purchase order is generated. Departments are responsible for making sure that requisitions are created and approved before goods or services are purchased, and invoices are processed.

After 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. The invoice is then sent to accounts payable for processing. Checks are processed and mailed to vendors weekly. Originals of all invoices are maintained in the Revenue and Finance Department for six months and then sent to storage.

STATEMENT OF OBJECTIVES

This audit was conducted in accordance with the Internal Audit Department's FY2015, Audit Agenda. The objectives of this audit were to ensure that:

1. Payments are properly approved and are processed efficiently and effectively.
2. Internal controls over vendor set-up, maintenance, and validation are adequate.
3. Proper segregation of duties exists between vendor creation and payment approval and processing.

STATEMENT OF SCOPE

We have conducted an audit of the Accounts Payable activities of the Revenue and Finance Department. The audit period covered October 1, 2013, through September 30, 2014, and included a review of internal controls over citywide purchases, payments, and vendor set-up. Original records and copies were used as evidence and verified through observation and physical examination.

STATEMENT OF METHODOLOGY

The vendor master file, purchase orders created, and all payments made during the audit period were extracted from Oracle. This data was tested and analyzed to verify that vendors and purchases were approved prior to payment. All active Oracle users with the ability to create vendors, create and approve requisitions, and enter invoices for payment were reviewed for proper separation of duties. The Oracle data used in this audit was assessed and deemed reliable.

STATEMENT OF AUDITING STANDARDS

We conducted this performance audit in accordance with generally accepted government auditing standards. 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

Based upon the test work performed and the audit findings noted below, we conclude that:

1. Payments were properly approved and processed effectively. Ongoing training in Oracle Procurement could improve efficiencies in the payment process.
2. Internal controls over vendor set-up, maintenance, and validation were adequate.
3. Proper segregation of duties exists between vendor creation and payment approval and processing.

NOTEWORTHY ACCOMPLISHMENT

Since the implementation of Oracle, Accounts Payable has added the flexibility to provide detailed information to Contract Administration about which vendors need to provide year-end estimated expense amounts.

While the findings discussed below may not, individually or in the aggregate, significantly impair the operations of the Revenue and Finance and Purchasing Departments, they do present risks that can be more effectively controlled.

PURCHASE APPROVALS

STATEMENT OF CONDITION: Of the 44,800 purchase transactions processed through Oracle Procurement during FY2014, 12,391 (or 28%) of the requisitions were approved on average 32 days after the invoice date.

CRITERIA: Goods and services purchased by City departments should be approved prior to purchase. This will ensure invoices are processed efficiently, vendors are paid timely, and that purchase commitments are properly encumbered.

CAUSE: The City does not have formal written policies and procedures for the proper creation and approval of requisitions in Oracle Procurement. In addition, ongoing training in Oracle Procurement has not been provided to the departments.

EFFECT OF CONDITION: Inefficiencies in the departments and invoice processing, delay in vendor payments, and purchase commitments going unencumbered resulting in possible overspending.

RECOMMENDATION 1: Purchasing should work with Revenue and Finance and Budget to create written policies and procedures for the proper creation and approval of requisitions in Oracle Procurement. Ongoing training on these policies and procedures should also be provided to the departments.

MANAGEMENT RESPONSE: Purchasing is in agreement that purchase requests made by City departments should receive approval from our department prior to any goods and/or services are provided to the City.

In our initial review of Purchase Orders identified by Internal Audit, it appears that the majority of the Purchase Orders were with contract vendors. Further review is needed on these Purchase Orders to verify if a City contract does exist. Our estimated timeframe to have that analysis done is 90 days. T&I Department assistance will be requested as necessary.

This analysis will show the distinction between Purchasing Orders issued under contract and those that were issued for “non-catalog” requests. Additional investigation will be necessary for Purchase Orders issued for “one time buys” or “Non-Catalog” items relative to the Invoice Date and Requisition delay.

Purchasing’s action plan is twofold: (1) to update the Purchasing Policy and Procedures Manual by December 2015 to address enforcement of purchases receiving approval by our department, and (2) draft training documents and hold sessions with the user departments to reinforce these policies. Initial training will begin by the first quarter FY2016 starting with the user departments identified with the most occurrences of Requisition input/approval after the invoice date.

VENDOR MASTER FILE

STATEMENT OF CONDITION: During a review of the Oracle vendor master file, it was noted that 18,995 of the 28,800 active vendors (66%), did not have activity during FY2014.

CRITERIA: Active vendors in the vendor master file should only include vendors doing ongoing business with the City.

CAUSE: There is currently no periodic review of the vendor master file to inactivate vendors set-up for one-time payments, and that have not had activity within a designated period of time.

EFFECT OF CONDITION: An increase in the risk of errors and fraud in the payment process, and the master vendor file becoming less manageable due to voluminous records.

RECOMMENDATION 2: Accounts Payable and Purchasing should work together to conduct a periodic review of the vendor master file to inactivate vendors set-up for one-time payments, and that have not had activity within a designated period. Parameters should also be established as to when a vendor should be inactivated.

MANAGEMENT RESPONSE: Purchasing agrees that a periodic review of the vendor master file should be done in order to inactivate the following types of “vendors”:

1. Vendors/Suppliers of the City that have not had any payment activity within a designated time period
2. Employees who have been set-up for one-time payments or reimbursements

With regards to Type “1” above, Purchasing agrees that a review needs to be done to eliminate vendor sites that have not shown any recent payment activity for the City of Tampa. The majority of the sites listed in the FY14 report supplied by Internal Audit are the result of the data conversion activity in July 2013 where the City converted all vendors (and all related sites) that had activity in ADPICS since 2011. The only way to specifically target specific vendor sites is to manually input an “inactive date” at this specific site level. For FY14 we can use the list provided by Internal Audit to begin that process. Purchasing has begun that process now and would expect completion within 90 days.

With regards to Type “2” above, at our request T&I has also inactivated “Employee” vendor record types that we included in the July 2013 conversion to Oracle. The intent of these Employee records was that they would be used in the IExpense module for Accounts Payable which was never implemented by the City. For other “Employee” records that have been set up since we converted to Oracle (used for reimbursement purposes), Purchasing will review the FY14 list provided by Internal Audit and inactivate those sites. For future “Employee” vendor request Purchasing will include an inactive date of 30 days from the initial set-up date.

RECORDING WIRE TRANSFERS

STATEMENT OF CONDITION: The Banking Division initiates a wire transfer to pay the following vendors:

- Bank of America (purchasing cards and e-payables)
- Title Companies (Real Estate transactions)
- Pitney Bowes (postage)

To record these transactions, Accounts Payable enters a standard invoice into Oracle. A check is created, and then subsequently canceled at the bank.

CRITERIA: There should be a separate payment method in Oracle to record wire transfers.

CAUSE: A separate payment method to record wire transfers has not been set-up in Oracle.

EFFECT OF CONDITION: Utilization of the standard payment method to record wire transfers, where an actual check is cut and subsequently canceled, could result in duplicate payments. This process also creates inefficiencies in the AP bank reconciliation process.

RECOMMENDATION 3: The Revenue and Finance Department should consider creating a separate payment method in Oracle to record wire transfers. This will stop an actual check from being issued, reduce the risk for duplicate payments, and streamline the recording of wire transfers and the AP reconciliation process.

MANAGEMENT RESPONSE: AP has constructed a new payment run to address “Recording Wire Transfers.” This payment run was built for recording payments that are sent by wire. This process is used to record wire payments sent by the City of Tampa. This process incorporates the General Ledger, Project & Grants, Fixed Assets, and the Procurement modules. AP wire payment transactions will post entries to all four modules if applicable.

GARNISHMENT CHECKS

STATEMENT OF CONDITION: Employee Social Security numbers are printed on garnishment checks that are mailed for payment and are also printed on the remittance advice kept on file.

CRITERIA: Per the “Social Security Number Protection Act of 2010” (S.3789, Jan. 5, 2010) Sec.2 (a)(1) In General.- Section 205(c)(2)(C) of the Social Security Act (42 U.S.C. 405(c)(2)(C)) is amended at the end the following:

“(x) No Federal, State, or local agency may display the Social Security account number of any individual, or any derivative of such number, on any check issued for payment by the Federal, State, or local agency.”

CAUSE: The Social Security numbers are included on the garnishment checks to ensure that the funds are applied properly.

EFFECT OF CONDITION: Violation of the "Social Security Number Protection Act of 2010", and an increase in the risk of employee identity theft.

RECOMMENDATION 4: The Revenue and Finance Department should remove employee’s Social Security numbers from garnishment checks and from the remittance advices that are kept on file. An alternative identifier should be included on garnishment checks, such as a case number, to ensure the funds are applied properly.

MANAGEMENT RESPONSE: Accounts Payable and Payroll have updated the garnishment check template. SSI numbers have been removed from the check advice. The process has been successfully tested in Oracle. The new garnishment template has to be migrated to Oracle production.