



MEMORANDUM

DATE: November 19, 2021

TO: Audit Committee of the School Board of the City of Virginia Beach

FROM: Terrie L. Pyeatt, CPA *TL*
Director, Office of Internal Audit

SUBJECT: **Cash Disbursements Audit**

BACKGROUND

As part of the FY21 Audit Work Plan, the Office of Internal Audit (IA) has performed a Cash Disbursements Audit. The Audit Committee of the School Board of the City of Virginia Beach (VBCPS) requested that the Office of Internal Audit (IA) audit 50 cash disbursements.

Departments, offices, and schools (Users) can initiate a cash disbursement in two ways. Users can request a payment using a payment request or by requesting a payment against a purchase order. Both methods flow through BuySpeed, the procurement and payment processing system used by VBCPS. Similar approvals and reviews are required for both methods.

When using a purchase order, the signature authority gives approval at the purchase requisition stage. The user enters the item they want to buy into BuySpeed and starts the automated workflow. The workflow should go to the signature authority for the assigned cost center. The signature authority reviews the requisition to ensure that the purchase is warranted. It then flows to the Accounts Payable division (AP) of the Office of Business Services (OBS), who reviews it for the proper account code and ensures the appropriate signature authority approval. The workflow then goes to the Office of Purchasing Services (Purchasing). Purchasing ensures that all procurement requirements are met before converting the purchase requisition into a purchase order and ordering the item. Once the user receives the item, the user enters an electronic receipt in BuySpeed. The vendor usually sends the invoice directly to AP, who ensures that it matches the electronic receipt and the purchase order. If they match, AP enters the invoice into BuySpeed and approves the transaction for payment. BuySpeed uses a 3-way match for purchase order payments. If the purchase order, electronic receipt, and invoice match in BuySpeed, the approved purchase order payment is automatically uploaded to Oracle Cloud, VBCPS's financial system.

Alternatively, when using a payment request, the user obtains the item directly from the vendor without using a purchase requisition. After the user receives the item ordered, they enter the request to pay the invoice into BuySpeed and start the automated workflow. The workflow should go to the signature authority for the assigned cost center. The signature authority reviews the payment request to ensure that it matches the invoice. It then flows to AP, who reviews it for the proper account code, appropriate signature authority approval, and correct vendor name and amount based on the invoice. If they match, AP approves the transaction for payment in BuySpeed.

Under either method, BuySpeed-approved payments are uploaded into Oracle Cloud. The Treasurer for the City of Virginia Beach uses the data in Oracle Cloud to make payments for VBCPS. VBCPS should upload all approved invoices into Oracle Cloud for payment within 45 days of the invoice date or the receipt of the goods and/or services.

AUDIT OBJECTIVES

Internal Audit reviewed 50 cash disbursements to determine if they were properly processed, specifically to determine if:

- The signature authority approved the transaction;
- The items purchased were reasonable based on the function of the department, school, or office;
- The users coded the transactions to the correct general ledger account;
- They received a final approval for payment within 45 days of the invoice date, or the date the goods or services were received;
- The approved payment amount and vendor match the invoice;
- The invoice amount matches any contracts referenced in BuySpeed, if applicable; and
- Procurement guidelines were followed for transactions over \$10,000.

AUDIT SCOPE AND METHODOLOGY

Internal Audit reviewed 50 non-payroll invoices greater than \$500 but less than \$20,000 that had an effective date in Oracle Cloud of September 2020 – August 2021. Inquiry and examination of documents and data, as well as interviews, were the methods of reviewing internal controls for this limited scope audit.

OBS provided IA with four Excel files containing all AP-approved invoices. The files contained over 7,500 unique invoice numbers with effective dates during the audit period. IA judgmentally selected 50 invoices from the files. IA selected them judgmentally so that we could include a variety of invoices across the division without selecting multiple invoices from the same vendor, while still including invoices across several funds and cost centers. The results cannot be extrapolated to the entire population. IA examined accounts payable procedures, VBCPS records, Oracle Cloud general ledger, BuySpeed, and Laserfiche records for the 50 cash disbursements.

IA conducted the following testwork for each transaction:

- IA examined BuySpeed workflow paths to ensure the appropriate signature authority approved the transaction.
- IA compared the final approval dates to the invoice date to determine if the transaction was approved within 45 days of the invoice date or the receipt of the goods or services, whichever was later.
- IA reviewed the source documents, including the invoice, to determine if:
 - The purchase appeared reasonable based on the function of the department, office, or school;
 - The vendor's name and amount on the invoice matched the payee and dollar amount of the approved transaction in Oracle Cloud;
 - The general ledger account code used to record the transaction in Oracle Cloud seemed reasonable based on the purchase; and
 - The invoiced item matched the electronic receipt in BuySpeed for all payments made against purchase orders.
- IA reviewed the supporting documentation found in BuySpeed and/or Laserfiche to determine if the user followed proper procurement procedures for all transactions over \$10,000.
- IA compared the invoice to the terms and conditions of any contract referenced in BuySpeed, if applicable.

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.

Internal Audit discussed the results of the audit with management. We thank management and staff of the Office of Business Services for their cooperation throughout the audit. A summary of the audit results, audit recommendations, as well as responses from management are included in this report. These recommendations are intended to further strengthen compliance with policies, procedures, and contractual agreements, as well as to strengthen internal controls and offer process improvements.

In our opinion, the results of the audit indicate that the 50 disbursement invoices were properly processed except as indicated below:

- One transaction was coded to the incorrect general ledger account;
- One invoice was not paid timely; and
- One invoice amount did not match a contract referenced in BuySpeed.

cc: Crystal M. Pate, Chief Financial Officer
Jack D. Freeman, Chief Operations Officer

AUDIT RESULTS AND MANAGEMENT'S RESPONSES

Finding No. 1: Account Coding

A high school coded one of the 50 cash disbursements tested to an incorrect general ledger account code. The school coded a \$1,020.00 invoice for student and staff ice cream to an Instructional Supplies account. The school should have used the Food Services account. IA saw other examples, outside of the 50 selected transactions, of school payments for travel that were also incorrectly coded to an Other Purchased Services account instead of the Travel account. These discrepancies occurred because schools only have eight object codes to use when submitting payments through BuySpeed to spend central administration funds. None of those object codes include a Food Services account or a Travel account, even though schools use central administration funds to pay for these items. As a result, schools must use non-travel or non-food accounts when coding these expenditures in the general ledger. This results in school-level food and travel expenditures being reported in other categories at the division-level. Properly coding purchases to the correct general ledger account provides transparency in financial reporting and analysis.

Recommendations:

We recommend that the Office of Business Services give schools access to additional general ledger account codes. This will allow them to code items to the correct account codes, so that division spending is properly reflected. The accounts should, at a minimum, include the travel and food services object codes.

Management's Response:

The Office of Business Services concurs and will implement by 7/1/22.

Finding No. 2: Contractual Payments

The amount of one of the 50 invoices paid did not agree to the terms of the contract. VBCPS paid the amount of the invoice. The vendor invoiced \$68.75 less than the amount that the contract states. This underbilling occurred each month during FY21 resulting in a cumulative underpayment of \$825.00. The annual FY21 cost per the contract was \$4,652.08 per month, but the invoice was for \$4,583.33. The invoice amount matched the FY20 contractual amount instead of the FY21 contractual amount. The Office of Maintenance Services (Maintenance Services), within the Department of School Division Services, incorrectly created the FY21 purchase requisition using the FY20 contractual amounts. Maintenance Services did not adequately review the purchase requisition even though there were 11 employees who approved the requisition on the BuySpeed approval path, eight of which were from the Office of Maintenance Services and/or the Department of School Division Services. This error was not apparent when the invoices were processed monthly because they matched the approved purchase order. Submitting a purchase requisition with the incorrect dollar amounts can permit VBCPS to underpay or overpay vendors.

AUDIT RESULTS AND MANAGEMENT'S RESPONSES, CONTINUED

IA noted that the FY22 purchase requisition matches the amount of the contract; however, the first three invoices for FY22 were billed and paid at the FY21 contracted rate, which was \$69.79 less than the contracted amount.

Recommendations:

We recommend that the Maintenance Services more carefully review the contractual terms when submitting a purchase requisition. Maintenance Services should determine what each approver on the BuySpeed approval path is reviewing so that at least one person is verifying that the dollar value and contractual terms match the purchase requisition.

Management's Response:

Maintenance Services concurs and will ensure the recommendations are in place by 12/15/21. Maintenance Services has already contacted the vendor who agreed to waive the underpayments for FY21 and are working to correct the FY22 invoices.

Finding No. 3: Timeliness of Payments

One of the 50 invoices tested was paid late. A vendor provided repair services in March 2021; however, the invoice of \$536.40 was not paid until 7/19/21. In general, payments are due within 45 days of the invoice date or the receipt of goods, whichever is later. The staff member processing payment requests did not pay the invoice in March after the craftsman indicated that the work was complete. Maintenance Services stated that they processed the payment request after the vendor contacted them in July. Late payments can cause VBCPS to incur late fees or to damage VBCPS's reputation.

Recommendations:

We recommend that Maintenance Services review their process for tracking invoices so that payments will be made timely.

Management's Response:

Maintenance Services concurs and is currently revising their process to track invoices. This will be completed by 2/28/22.