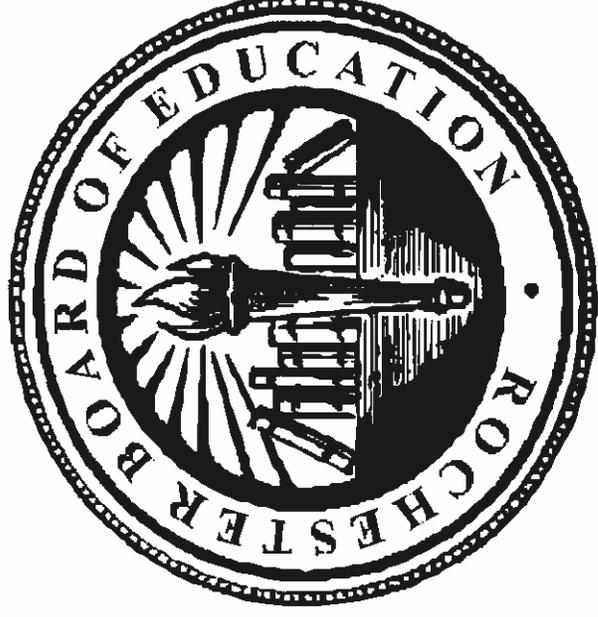


OFFICE OF AUDITOR GENERAL



Accounts Payable
Audit Report

Board Acceptance: BOE Meeting October 27, 2011



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Accounts Payable Executive Summary

OBJECTIVE

To evaluate the Accounts Payable operating process including the internal control environment over district claims for accuracy, timeliness, and validity of transactions.

BACKGROUND

Accounts Payable was last audited by OAG in 2008, when the district was converting financial processes, including disbursements to PeopleSoft Financials 8.9. In addition, the Office of the State Comptroller performed an audit of Selected Financial Transactions which included control related recommendations regarding the payment of claims. The disbursement process has been automated utilizing the PeopleSoft system for requisition, procurement, receipts, and vendor payment. During the 2009-10 fiscal year, total disbursements were approximately \$625M excluding wire transfers.

SCOPE

We assessed the internal control environment through the adequacy of operating protocols and procedures, documentation, management oversight and compliance. Our audit evaluated transactions for the period from July 1, 2009 through October 31, 2010.

During our review, we performed follow-up on previously issued audit recommendations. We also evaluated if adequate controls have been implemented to limit the District's exposure to unauthorized disbursement of funds.

CONCLUSION

Operating procedures, practices, monitoring and system controls improved since 2008. Based on our review of the current procedures and related testing, we identified a few additional opportunities to further manage vendors, receipts, payments, and access risks. Procurement personnel are able to choose whether or not purchase orders require formal acknowledgement of receipt prior to payment. Since this is a manual control to make receiving optional, there is a risk that payments could be made prior to receipt of goods and services. Procurement should proactively monitor to ensure the option is not erroneously utilized. The Claims Auditor lacked visibility to disbursements made outside of the standard payable check process. The Claims Auditor should reconcile the total payments approved by the Claims Auditor to actual cash disbursements. We also noted a lack of adequate support for wires and electronic payments outside of the standard payable's process. Improvements to system access controls outside of PeopleSoft delivered functionality should be reviewed to determine if improved segregation is feasible between vendor approval authority and vendor update ability, as well as access to create vouchers and override match controls or document tolerances.



Accounts Payable Summary of Recommendations

Rec#	Recommendations
1	<i>Evaluate the feasibility of implementing a system control to ensure that the optional receiving function is properly utilized. If a system control is not feasible, establish monitoring to ensure that the "Receiving is Optional" flag is appropriately utilized on purchase orders</i>
2	<i>Formalize a process to substantiate all new vendors and vendors requiring reactivation. Substantiate all vendors within PeopleSoft prior to setup and approval. Obtain a W-9 and vendor application for all currently approved vendors.</i>
3	<i>Substantiate all vendors prior to entry and approval to prevent duplicate vendor records. Ensure compliance with Procurement policy regarding inactive vendors.</i>
4	<i>Ensure only authorized individuals have access to approve vendors. Segregate the authority to create and update vendors with the authority to approve vendors.</i>
5	<i>Implement duplicate invoice controls in processing. Develop a process to monitor potential duplicate invoice entry to ensure duplicate payment of invoices does not occur.</i>
6	<i>Implement controls over journal entry disbursements that assure consistency in adequate support, compliance with business service procedures, and authorization. Specifically, include Claims Audit in this process.</i>
7	<i>Eliminate the authorization of the Director of Educational Facilities to approve City of Rochester claim vouchers for bond ordinances.</i>
8	<i>Review and authorize all claims in accordance with NYS Education Law 1724. Obtain formal Board agreement for the payment of expenditures that require payment prior to Claims Audit approval.</i>
9	<i>Reconcile Claims Audit released payments to all payment cycle expenditures on a periodic basis.</i>



Accounts Payable Summary of Recommendations

Rec #	Recommendation
10	<i>Ensure only authorized individuals have access to create vouchers, set PO receiving options, override match controls, and override document tolerances. Modify system access to ensure proper segregation of system access controls. Monitor system access on a periodic basis to ensure proper segregation of system access controls.</i>
11	<i>Establish procedures to completely remove user access and preferences from the system when user job or employment status changes. Establish comprehensive procedures and protocols for changing user access and periodically verify propriety of user access for key control functions with management.</i>
12	<i>Develop a procedure to detect, identify, explain, and document gaps in voucher sequence numbers in a timely manner.</i>



Accounts Payable Observations, Recommendations and Action Plans

OBSERVATION: #1

Procurement

Receiving is Optional Function

PeopleSoft provides a function within procurement to flag a line on a Purchase Order as "Receiving is optional". This flag automatically forces the line into a two way match, which eliminates the need for a receipt before payment. Buyers utilize this function to manually flag shipping line items; however, the system does not prevent the use of this function for other line items. Since a system control does not exist to monitor this function, Procurement should monitor the use of this function. Eliminating receipt for goods and services prior to payment could allow payment for goods and services that were not satisfactorily delivered.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Evaluate the feasibility of implementing a system control to ensure that the optional receiving function is properly utilized.

If a system control is not feasible, establish monitoring to ensure that the "Receiving is Optional" flag is appropriately utilized on purchase orders.

Management Responses: The "Receiving is optional" function is used by Buyers when it is not practical to receive against particular lines of a purchase order. This ability is limited to the buyer function in Purchasing and the contract buyer function in Legal. It is used on a limited basis where services are provided and cannot be received within the system. This includes utilities, rental charges and other professional services that repeat on a monthly basis and have been approved through the contract process or other managers responsible for the service. The function is also used for shipping charges under the logic that if the goods have been documented as being received in the system, the shipping of the goods must also have occurred.

Every two weeks, the Purchasing Department generates and reviews a listing of purchase orders that have items with "Receiving is optional" flags. Any necessary corrections are identified and sent to the Buyer to change the "Receiving is optional" flag accordingly.

Responsibility: Gary Smith, Director of Procurement; Vernon Connors, Acting Chief Financial Officer

Due Date: Completed



Accounts Payable Observations, Recommendations and Action Plans

OBSERVATION: #2

Vendor

Vendor Verification

Vendor verification procedures are not adequate to ensure vendor integrity. The District requires all vendors to complete a vendor application and a W-9. We noted that not all vendors selected for testing had the required vendor application or the W-9 on file. Vendors that were moved from an inactive status to an active status were not evaluated for completeness of file documentation or validity. All vendors should be substantiated to ensure their validity and a vendor application and W-9 should exist for all approved vendors. Some vendors were set up and approved without any verification or adequate documentation.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Formalize a process to substantiate all new vendors and vendors requiring reactivation. Substantiate all vendors within PeopleSoft prior to setup and approval. Obtain a W-9 and vendor application for all currently approved vendors.

Management Responses: The vendor verification process has been updated. A vendor application and W-9 form must be completed and on file prior to activating a vendor. Since the audit, the Purchasing Department has reviewed and obtained the appropriate documentations for all active vendor files. The updated process has been documented in the Vendor File Procedures Manual.

Responsibility: Gary Smith, Director of Procurement; Vernon Connors, Acting Chief Financial Officer

Due Date: Completed



Accounts Payable Observations, Recommendations and Action Plans

OBSERVATION: #3

Vendor

Duplicate and Inactive Vendors

Duplicate vendor records exist and were approved within the PeopleSoft system. Our audit identified vendors with duplicate tax ID numbers, as well as duplicate vendors as a result of typos, short name differences and spelling issues. We also noted a vendor with no activity since 2004, but remained active in the PeopleSoft system. Vendor information should be substantiated prior to entry and approval to prevent duplicate records. Vendors should be deactivated if they are inactive for a designated period, according to the Procurement policy. Duplicate vendors add inefficiency to the payment process and can also create a risk of error or fraud.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Substantiate all vendors prior to entry and approval to prevent duplicate vendor records. Ensure compliance with Procurement policy regarding inactive vendors.

Management Responses: All vendors are substantiated prior to entry and approval. This was explained to the auditors when they were seeking information from the department and was already documented in the Vendor File Procedure Manual. There are reasons that a vendor may have more than one record. For example, there are many departments/locations within the University of Rochester, RIT, MCC and others that need to have individual records, but the same tax identification number. These are reviewed and decisions made as to how they should be entered into the vendor file. As closely as records are monitored typos, short name difference and spelling issues will remain to be an issue. This is of no risk to the District. As these instances are found they are corrected and where possible records are placed on inactive status. Concerning the issue of vendors with no activity since 2004 this again has little if any risk to the District. The Purchasing Department has just recently taken over responsibility for the vendor file database which includes placing vendors on an inactive status. Vendors that have not had any activity for 18 months are inactivated in January and July of each year.

Responsibility: Gary Smith, Director of Procurement; Vernon Connors, Acting Chief Financial Officer

Due Date: Completed



Accounts Payable Observations, Recommendations and Action Plans

OBSERVATION: #4

Vendor

Vendor Approval

PeopleSoft users that do not require access in their current job or no longer work for the district have access to approve vendors. One of the individuals with access to approve vendors is a current employee, but is not on the list of people authorized to approve vendors. Two other individuals with access to approve vendors are no longer employed by the District. In addition to IM&T personnel that support the system, we noted that the Director of Procurement and a staff member of the Procurement Department have the authority to create, modify and approve vendors. Responsibilities to create or update vendor records should be separate from responsibilities to approve vendors. Unauthorized individuals with authority to approve vendors could allow payment for improper expenditures.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Ensure only authorized individuals have access to approve vendors. Segregate the authority to create and update vendors with the authority to approve vendors.

Management Responses: PeopleSoft System access for former employees had been terminated when they left employment with the District. As such, the former employees could not access any programs in the PeopleSoft System and could not process any vendor approvals. In addition, vendor file access within the PeopleSoft Procurement System has been removed. Vendor file access for current employees who do not work in the Purchasing Department has also been deactivated.

The PeopleSoft delivered product provides the authority to create, modify and approve vendors to individuals with vendor approval authority. We cannot remove the ability to create or modify vendors from individuals who have the ability to approve vendors at this time.

Responsibility: Gary Smith, Director of Procurement; Vernon Connors, Acting Chief Financial Officer

Due Date: June 30, 2012



Accounts Payable Observations, Recommendations and Action Plans

OBSERVATION: #5

Disbursement

Duplicate Invoice Controls

Our audit procedures found that 9 out of 37 potential duplicate payments selected for testing, or 24%, were in fact duplicate invoice entries, all of which were paid. Three of the nine duplicate payments were not identified or corrected by Accounts Payable or Claims Audit. The PeopleSoft system has an automated control to prevent entry of invoices with the same date, invoice number and vendor. However, Accounts Payable has a practice of manually altering a vendor's invoice number, which circumvents this system control. This results in a duplicate invoice payment. Invoice information should not be altered upon entry. If alteration is necessary due to system limitations, controls should exist to ensure that duplicate payments are prevented.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Implement duplicate invoice controls in processing. Develop a process to monitor potential duplicate invoice entry to ensure duplicate payment of invoices does not occur.

Management Responses: The Accounts Payable Department adds or modifies invoice numbers on a limited basis. This practice is followed when an invoice is received without an invoice number or invoice date. Examples of this include RCSD Claim Voucher or Travel Reimbursement requests. It is also used when a vendor issues a series of invoices using the same invoice number, as with monthly rental invoices. The Accounts Payable Department uses numbering conventions in these instances that are designed to prevent duplicate invoice payments.

Manual reviews are also in place to lessen the risk of duplicate invoice payments. This is evidenced by the fact that only three duplicate payments out of those tested were not discovered by Accounts Payable or Claims Audit. Six of the duplicate payments were identified and recovered by Accounts Payable and Claims Audit prior to audit testing. This illustrates the manual controls in place to minimize the risk of duplicate payments. Adding additional manual control levels will not significantly reduce the risk of duplicate payments.

Responsibility: Christina Jones, Accounts Payable Supervisor; Cerri Cupples, Director of Accounting; Vernon Connors, Acting Chief Financial Officer

Due Date: Risk Accepted



Accounts Payable Observations, Recommendations and Action Plans

OBSERVATION: #6

Disbursement

Non-AP Disbursements

Controls over disbursements processed through journal entries were not effective to assure adequate support, compliance with business service procedures, and authorization. Non-accounts payable disbursements did not conform to the control standards established for standard accounts payable check disbursements. Non-standard accounts payable disbursements did not consistently have adequate supporting documentation, departmental approval to attest to the payment accuracy, or claims audit approval. Also, it was noted that sales tax was erroneously paid for travel related expenditures. Controls should be established to ensure payments that are not made through the standard Accounts Payable check process are substantiated and reviewed by Claims Audit.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Implement controls over journal entry disbursements that assure consistency in adequate support, compliance with business service procedures, and authorization. Specifically, include Claims Audit in this process.

Management Responses: The disbursements tested and referenced in this observation were primarily insurance related claims such as workers compensation, student accident insurance, medical and dental insurance, and flexible spending. Due to the restrictions set forth by the service providers, it is not operationally feasible to conform to the District's control standards established for standard accounts payable check disbursements as the vendor initiates and executes the claim reimbursement(s) in "real time". The scope and availability of supporting documentation provided by the vendors to the District to support these insurance claims varies. Pending IT resource availability, the Accounting Department will research the feasibility of an online journal lookup capability, which accommodates document uploads and electronic workflow approval within PeopleSoft. This is the most efficient control process which would enable Claims Audit to review any non-accounts payable disbursement transactions. The District's Accounting Department will then document a process for insurance-related non-accounts payable disbursements, which takes into consideration all of the aforementioned factors. Occasionally, it is necessary for the Accounting Department to process noninsurance related, non-accounts payable disbursements. A formalized process for these occasional disbursements will be documented. The Accounts Payable Department has initiated a claim with the applicable vendor to recoup the sales tax which was erroneously paid – it should be noted that this claim was originally reviewed at the department and Claims Audit level.

Responsibility: Cerri Cupples, Director of Accounting; Vernon Connors, Acting Chief Financial Officer **Due Date:** June 30, 2012



Accounts Payable Observations, Recommendations and Action Plans

OBSERVATION: #7

Disbursement

Approval of Ordinance Payments

On a weekly basis, the Senior Director of Operations approves all bond ordinance payments which are paid by the City of Rochester. In his absence, the Deputy Superintendent of Administration or the Director of Educational Facilities will sign these City claim vouchers. The Director of Educational Facilities is also a required signer of the Application and Certificate for Payment which is the support for the payment. The Director of Educational Facilities should not be authorized to sign the City of Rochester claim vouchers because he signs the Application and Certificate for Payment. Being an authorized signer of both documents creates a lack of separation of responsibilities. Eliminating the Director of Educational Facilities' authorization to approve the claim vouchers will ensure adequate oversight over the bond ordinance payment process.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Eliminate the authorization of the Director of Educational Facilities to approve City of Rochester claim vouchers for bond ordinances.

Management Responses: The Director of Educational Facilities will be removed from the claim voucher authorization for payment. In the absence of the Senior Director of Operations, the bond ordinance payments will be signed by the Chief Financial Officer.

Responsibility: Vernon Connors, Acting Chief Financial Officer

Due Date: September 30, 2011



Accounts Payable Observations, Recommendations and Action Plans

OBSERVATION: #8

Claims Audit

Electronic Payments

During our audit, we noted that Claims Audit is not reviewing all disbursements as required by NYS legislation. Electronic payments that are not currently approved by Claims Audit include, but are not limited to, debt service payments, escrow claims, student accident claims and workers compensation. Also, the District pays P-Card expenditures prior to Claims Audit review. According to NYS Education Law 1724, no claim against a school district except for compensation of employees shall be paid unless audited and authorized by Claims Audit.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Review and authorize all claims in accordance with NYS Education Law 1724. Obtain formal Board agreement for the payment of expenditures that require payment prior to Claims Audit approval.

Management Responses: Claims Audit recognizes that there may be limited occasions that will not allow the regular payment and review cycle to occur. For electronic payments with a short cycle time, Claims Audit is included on the payment request, which includes the supporting documentation. We will formally document the specific payment types that fall in this category, as well as the approval process for electronic payments.

Responsibility: Deborah Battle-Manns, Claims Audit Supervisor

Due Date: September 30, 2011



Accounts Payable Observations, Recommendations and Action Plans

OBSERVATION: #9

Claims Audit

Claims Audit Assurance of All Disbursements

According to NYS legislation, Claims Audit is required to approve all disbursements that are not related to compensation of employees. Claims Audit does not ensure that all District payments are appropriately reviewed prior to disbursement. Although Claims Audit does ensure that disbursements paid by check have obtained approval, a reconciliation of total expenditures to total payments released by Claims Audit does not exist. A reconciliation of total expenditures to total payment should be completed to ensure that all disbursements requiring Claims Audit approval are being reviewed. As a result, disbursements are made without required Claims Audit approval.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Reconcile Claims Audit released payments to all payment cycle expenditures on a periodic basis.

Management Responses:

We currently receive the General Ledger cash account detail and review disbursements for reasonableness. Management is required to substantiate these disbursements upon request to ensure that payments were appropriate. Although we receive support for wires individually, we will review all outgoing wires and reconcile amounts paid to the payments pre-approved by Claims Audit.

Responsibility: Deborah Battle-Manns, Claims Audit Supervisor

Due Date: October 31, 2011



Accounts Payable Observations, Recommendations and Action Plans

OBSERVATION: #10

User Access and Segregation

PeopleSoft user access for the AP process is not appropriately assigned or segregated based on job responsibilities. During our testing, we noted the following:

- Two Non-Accounts Payable users have access to create vouchers as well as override match controls and/or document tolerance exceptions.
- Three Non-Accounts Payable users have access to create vouchers and to set PO receiving options.
- Two Non-Accounts Payable users have access to create vouchers.
- One employee has access to create POs and to set PO receiving options, but this person is not an authorized buyer.

Proper segregation of system access controls should exist. PeopleSoft user access configurations for performing key control functions should be restricted to only those users who are actively performing the related job responsibilities. Unauthorized access or improper segregation controls within the Accounts Payable functions of PeopleSoft can create an environment in which the opportunity for fraud could exist.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Ensure only authorized individuals have access to create vouchers, set PO receiving options, override match controls, and override document tolerances. Modify system access to ensure proper segregation of system access controls. Monitor system access on a periodic basis to ensure proper segregation of system access controls.

Management Responses: Access for all of the non-Accounts Payable users have been removed with one exception. The Accounting Director still has the ability to override match controls and document tolerance exceptions to facilitate the year-end close process and also to process credit memos. The override ability is our sole means to accomplish these tasks at this time.

Responsibility: Christina Jones, Accounts Payable Supervisor; Cerri Cupples, Director of Accounting; Vernon Connors, Acting Chief Financial Officer

Due Date: Completed



Accounts Payable Observations, Recommendations and Action Plans

OBSERVATION: #11

PeopleSoft User Maintenance

Inaccurate and inconsistent user security records exist in PeopleSoft. Our testing identified user permissions (preferences) were granted to perform key AP functions in PeopleSoft, but the user ID was deleted or locked out from the system (PS Operator Definition table). Although no access was available, since the permissions (preferences) and user ID's are both required for access, the ID should have been removed from permissions and the user ID locked out. PeopleSoft user permissions (preferences) should only exist for active users. This incomplete deactivation can lead to confusion regarding who has access to key system functionality.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Establish procedures to completely remove user access and preferences from the system when user job or employment status changes. Establish comprehensive procedures and protocols for changing user access and periodically verify propriety of user access for key control functions with management.

Management Responses: The recommendation to delete the "USER PROFILE" and "USER PREFERENCES" when an employee status changes is considered risky by IM & T. When a User Profile is deleted all historic data as well as active transactions (such as PO comments) will be lost. Instead IM&T is adopting the following alternate procedure. The "USER PROFILE" will not be deleted. This is to facilitate access to historic transactions by that user. (For example comments entered by a Buyer on a PO will be lost if the Buyer User Account is deleted.) Every "USER PROFILE" will have "USER PREFERENCES". Since we are not deleting "USER PROFILES" – "USER PREFERENCES" will also remain. Upon receiving an email request from the department manager to inactivate a User, an IM&T Security analyst will:

1. Delete all the "ROLES" in a "USER PROFILE" for the specified user. This will make all transaction menus disappear from a user perspective.
2. Select the "Account Locked Out?" check box for the specified "USER PROFILE" at the same time. This will disable the Account.
3. The User Preferences for all Procurement Processes which include Contract Processes, Payables Online Vouchering, Requisition Authorizations, Purchase Order authorizations, vendor Processing Authority, Doc Tolerance Authorizations will be cleared.
4. The "USER PREFERENCES" will be adjusted to disassociate any Requesters, Buyers this User is authorized to transact.
5. The Requester Set up and Buyer Set up will be inactivated if applicable for that user.

Responsibility: Annmarie Lehner, Information Technology Officer; Vernon Connors, Acting Chief Financial Officer

Due Date: Completed



Accounts Payable Observations, Recommendations and Action Plans

OBSERVATION: #12

Missing Voucher Numbers

Voucher numbers are automatically assigned sequentially in PeopleSoft when a new invoice is entered into the system. All voucher numbers should be accounted for by both Accounts Payable and IM&T and any gaps in the voucher sequence should be explained. Undetected gaps in sequence could result in the data integrity issues. Based on an analysis of voucher numbers performed during our audit, we noted missing voucher numbers in the sequence. After research and tests performed by IM&T, it was concluded that the missing voucher numbers were caused by the use of the reserve voucher functionality in PeopleSoft, in which vouchers can be reserved in a group in advance. If they are not all used, then the voucher numbers that were not used create a gap in the sequence. The previously reserved voucher numbers are not released for reuse.

Our prior audit report identified missing voucher numbers due to use of the reserve voucher number function. As a result, management indicated that this function would no longer be utilized to avoid possible gaps in the number sequence. During our testing, we noted additional gaps for which management was not aware.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Develop a procedure to detect, identify, explain, and document gaps in voucher sequence numbers in a timely manner.

Management Responses: Accounts Payable discontinued the use of the Reserve Voucher feature after the 2008 OAG A/P audit. As such, this is not the cause of the missing voucher numbers. The PeopleSoft System automatically assigns voucher numbers on a sequential basis. There were two instances of an Accounts Payable staff member erroneously entering invoice numbers in the voucher number field. This was the only cause of the voucher number gap. This issue was reviewed with all staff members and will not re-occur. A PeopleSoft query is now run on a quarterly basis to identify and document missing voucher numbers.

Responsibility: Christina Jones, Accounts Payable Supervisor; Cerri Cupples, Director of Accounting; Vernon Connors, Acting Chief Financial Officer

Due Date: Completed