

OFFICE OF AUDITOR GENERAL



Accounts Payable
Audit Report

July 2008



Accounts Payable Index

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Accounts Payable Executive Summary

OBJECTIVE:

To evaluate the District's Accounts Payable operations since the implementation of PeopleSoft 8.9, including the internal control environment for appropriate design and operation.

BACKGROUND:

Accounts Payable (AP) utilized a manual process prior to the implementation of PeopleSoft 8.9. In the previous environment, Accounts Payable Clerks performed a manual three-way match upon receipt of a paper invoice, proof of goods or services received and purchase order (if applicable), and then entered the invoice for payment. The individual judgment of each AP Clerk was required for each disbursement. The conversion to PeopleSoft 8.9 automated AP operating procedures. The three-way match including the invoice, receipt and purchase order is completed by the system. AP Clerks are still responsible for entering invoices into the Accounts Payable system; however the receipt and purchase order are not received in a hard copy form. They are now maintained in the system when they are entered by other operating areas and the system matches the three items for payment.

SCOPE:

To evaluate the policies and procedures surrounding the District's Accounts Payable department, we evaluated the controls and processes utilized for Accounts Payable. We collaborated with the various Accounting Staff and Management to understand the current control environment and procedures. We observed Accounts Payable processes to assess the control environment, as well as to evaluate efficiencies. Invoices were selected for testing and the existence of documentation, as well as the timeliness and accuracy of the entry of the invoices into the system. In addition, timeliness of payments was tested. Matching and document tolerance overrides were evaluated for reasonableness. Security regarding system access was assessed to ensure the proper segregation of controls, as well as to determine who has access and their level of access to Accounts Payable functions in the PeopleSoft system. Productivity of Accounts Payable staff was analyzed. The stop payment process was reviewed. Testing was performed to ensure the nonexistence of duplicate payments to vendors.



Accounts Payable Executive Summary

CONCLUSION:

Controls for the Accounts Payable department are generally lacking throughout the process. Improving AP system controls and consistency of AP operating activities will significantly strengthen the environment. Comprehensive written policies and procedures are necessary to enhance the accuracy and consistency of AP operating practices. Accounts Payable policies should, at a minimum, include job descriptions and performance standards for Accounts Payable staff, detailed instructions for all processes, policies regarding system access and controls, policies regarding changes and overrides to the system, and approval standards.

The Accounts Payable processes should contain controls that ensure: increased management oversight and monitoring, proper segregation of duties, safeguarding of assets, utilization of standard Accounts Payable reporting, appropriate communication, and sufficient system security.

Problems related to the timeliness of invoice entry into the system and subsequent timeliness of payments are a result of many factors, not all of which reside in AP. Dedicated resources should be designated to promptly identify the root cause of problems as they occur and to expedite the invoice entry and payment resolution process. There should be a trending of problem invoices to determine recurring causes followed by supervisory communication requiring correction.

System controls should be improved to provide for adequate segregation of duties, audit trails on key control areas, proactive identification and communication of job failures, and more formalized change management in daily operations and emergencies. Change management should ensure full disclosure and documentation regarding system changes to all parties that could be affected by the change.



Accounts Payable Summary of Recommendations

	Recommendations
1	<i>Develop and implement written Accounts Payable policies and procedures documenting all Accounts Payable functions and guidelines.</i>
2	<i>Establish departmental standards to monitor operations and staff and facilitate proper oversight. At a minimum, establish standard operating reports such as an AP aging, cycle time reports, clerk data entry statistics, and exception reporting to facilitate timely feedback and coaching opportunities.</i>
3	<i>Define and assign ownership for functional roles and responsibilities within the payment process.</i>
4	<i>Establish a responsive problem resolution process with dedicated resources and ownership to resolve problem invoices when they occur. Ensure the process has reporting to communicate backlogs.</i>
5	<i>Perform the existing Trial Register validation process prior to forwarding the Trial Register to the Claims Auditor.</i>
6	<i>Discontinue printing checks until after authorization has been granted by the Claims Auditor.</i>
7	<i>Discontinue the practice of returning live checks to the AP Clerk that has entered the invoice. In addition, verify the number of checks printed against the number of checks mailed.</i>
8	<i>Verify all system tolerance levels established in the system to ensure they are in alignment with management approval. Ensure all changes are communicated to appropriate parties including the Claims Auditor.</i>
9	<i>Enhance AP cut off procedures to ensure that additional scrutiny is exercised to record a proper liability for year end.</i>
10	<i>Establish a review process for invoice data entry to ensure accuracy.</i>
11	<i>Validate the completeness and accuracy of the Accounts Payable listing and re-implement a monthly reconciliation and review process between the General Ledger and Accounts Payable.</i>



Accounts Payable Summary of Recommendations

	Recommendations
12	<i>Develop record retention policies and document recovery procedures for Accounts Payable. Ensure storage method utilized is reliable and easily accessible.</i>
13	<i>Implement an audit trail for changes to user preferences, changes to security settings, and voucher attributes and processing that is reviewed regularly by owners and reviewable upon request.</i>
14	<i>Modify system access for the Accounting Director and the Accounts Payable Supervisor to assure proper segregation of duties to minimize risk.</i>
15	<i>Discontinue the practice of sharing user IDs as they are intended to be unique to each user. Sharing makes it difficult to identify the originator of a transaction. This rule should be communicated to all AP staff.</i>
16	<i>Develop automatic system generated reporting which documents all system overrides and define specific criteria that identifies when it is appropriate to override system matching. Limit access to individuals able to override transactions to those who cannot enter invoices.</i>
17	<i>Establish a process to ensure full disclosure and documentation occurs for emergency fixes via formal communication and impacts are agreed to and understood by process owners.</i>
18	<i>Establish a procedure that ensures timely system notification for completed and failed processes. The procedure should include escalation of critical business processes and notice when problems are resolved.</i>
19	<i>Develop a procedure to detect, identify, explain and document gaps in voucher sequence in a timely manner. Evaluate the necessity of the reserve voucher function and if this function is deemed necessary, develop a cumulative audit trail.</i>
20	<i>Eliminate the ability for Accounts Payable to change account data for PO related invoices.</i>



Accounts Payable Observations, Recommendations and Action Plan

OBSERVATION #1

Operations

Policies and Procedures

Documented policy and procedures manuals do not exist for Accounts Payable for the current operations environment. There is no operating consistency and uniformity amongst Accounts Payable staff. Written and communicated policies and procedures would enhance the accuracy and consistency for handling and recording transactions, aid in monitoring the performance of employees, serve as a training tool for new employees and improve internal communication within the Accounts Payable department. Also, there are no detailed job descriptions for the Accounts Payable function, only those job descriptions as prescribed by civil service. Detailed job descriptions would aid in holding employees responsible and accountable for the work performed.

RECOMMENDATIONS and MANAGEMENT RESPONSE

Develop and implement written Accounts Payable policies and procedures documenting all Accounts Payable functions and guidelines. The manual should, at a minimum, include the following:

- *Define Accounts Payable policies and procedures regarding changes to matching and document tolerance levels including approval, communication and change management.*
- *Specific duties and responsibilities of Accounts Payable staff.*
- *Detailed instructions regarding how to enter invoices into PeopleSoft, including examples of principle transactions such as differences between PO and Direct Pay procedures.*
- *Detailed instructions regarding matching records and how to prepare claims for Claims Audit.*
- *Check disbursement process*
- *Override process*
- *Stop payment process*
- *Define performance standards which are expected of Accounts Payable staff.*
- *Define controls which are automated and manual, and align responsibility for key process controls.*



Accounts Payable Observations, Recommendations and Action Plan

Management Responses: An Accounts Payable manual was created in 2004 with work policies and procedures, both administrative and system related. The manual will be updated to reflect the business process changes due to the system upgrade in July 2007 from PeopleSoft Financials 8.4 to 8.9. The manual will be updated in phases. The first phase will include revising policies and procedures documenting critical operating functions while the second phase will comprise writing policies regarding process flow. Process flow cannot be established definitively due to the uncertainty of the department's structure. Process flow will be dependent on the number of permanent positions allotted to the Accounts Payable department.

Responsibility: Vince Carfagna, Comptroller; Cerri Cupples, Interim Director of Accounting; Christina Jones, Senior Account Clerk
Typist

Due Date: Phase 1 – January 31, 2009; Phase 2 – June 30, 2009



Accounts Payable Observations, Recommendations and Action Plan

OBSERVATION #2

Management Oversight and Monitoring

There is inadequate management oversight and monitoring of Accounts Payable staff. Monitoring ensures that the internal control system is operating as designed and expected. As a result, consistent outcomes are difficult to achieve.

An Accounts Payable Supervisor has not been formally appointed. A Senior Account Clerk Typist has been delegated some of the duties of an Accounts Payable Supervisor, but has not been empowered or recognized as a leader. We recognize the need for an Accounts Payable Supervisor and the person who holds this title must have the ability, authority and support to effectively monitor the Accounts Payable Staff.

Due to the lack of a formally appointed AP Supervisor, management oversight and monitoring is difficult to achieve. The following monitoring opportunities were noted during our review:

Accounts Payable reports are not being reviewed or analyzed

Vendor accounts are not being reconciled regularly

Transactions are not being checked for accuracy

Lack of consistency of procedures and processes amongst employees

Lack of expectations and performance standards for Accounts Payable Clerks

- Management was unaware of the processing backlog because unprocessed invoices were in each clerk's desk.
- System permissions and functionality granted to staff was not readily known.

Internal controls of the Accounts Payable department should assure that ongoing monitoring occurs in the normal course of operations. Without adequate management oversight and monitoring, there is a lack of control over the Accounts Payable department and its staff.



Accounts Payable Observations, Recommendations and Action Plan

RECOMMENDATIONS and MANAGEMENT RESPONSES

Establish and formally appoint a leader responsible for the management of the Accounts Payable function. Establish departmental standards to monitor operations and staff and facilitate proper oversight. At a minimum, establish standard operating reports such as an AP aging, cycle time reports, clerk data entry statistics, and exception reporting to facilitate timely feedback and coaching opportunities.

Management Responses: We have attempted to attain an Accounts Payable Supervisor title for the Senior Account Clerk Typist to no avail. Issues concerning civil service title, union placement, testing and compensation have hindered assignment of the Accounts Payable Supervisor as well as this position's job responsibilities. Once the Accounts Payable processes are defined and an Accounts Payable Supervisor is assigned, we intend to establish departmental standards to monitor operations and staff. Some of the recommended reports have been established, but have not been used to their full potential. We intend to develop procedures to analyze the data provided in these reports. A match exception report by date is being utilized in lieu of an Accounts Payable aging. This report provides each voucher that has gone into match exception as well as how many days overdue. The match exception team is reviewing and clearing exceptions on a daily basis. Clerk data entry statistics are being run on a weekly basis.

Responsibility: Vince Carfagna, Comptroller; Cerri Cupples, Interim Director of Accounting; Christina Jones, Senior Account Clerk Typist

Due Date: December 31, 2008



Accounts Payable Observations, Recommendations and Action Plan

OBSERVATION #3

Role Clarity and Operating Procedures

There is a general lack of clarity regarding the roles and responsibilities departments should have concerning the execution of the payment of an invoice. Because Accounts Payable is the last step in the process, invoices tend to get held up there and it becomes AP's responsibility to clear the problems. Many of the issues that arise are not Accounts Payable issues and should be addressed by other departments. There are many processes that cross departments and clear delineation of responsibilities will help facilitate the payment process.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Define and assign ownership for functional roles and responsibilities within the payment process. The following roles should have a designated person or department who is responsible for the function:

- *Match exceptions*
- *Document tolerance issues*
- *Receiving – training, notification, follow-up*
- *Invoicing issues – no PO number, vendor sent to school and not AP*
- *Vendor issues*
- *Purchase order issues – expired PO, closed PO, wrong PO number*
- *Budget code issues*
- *Budget check failing*
- *Grant issues*
- *Training*
- *Claims conflicts*

Management Responses: The Comptroller will define and assign ownership for functional roles and responsibilities with the Procure to Pay process.

Responsibility: Vince Carfagna, Comptroller

Due Date: November 30, 2008



Accounts Payable Observations, Recommendations and Action Plan

OBSERVATION #4

Timeliness

Invoices were not being entered into the PeopleSoft system or being paid in a timely manner at the time of our review. There were numerous reasons contributing to late payment of invoices and the inability to enter vendor invoices. We are aware of the following problems:

- Inaccurate entry into the PeopleSoft system
- Invoices are not routed directly to Accounts Payable
- Match exceptions
- Receipting in the PeopleSoft system not completed
- Budget check issues
- Document tolerance – overnight issues and pricing/vendor issues
- PO issues – invalid PO number, no PO number on invoice, PO closed, last year PO number on current year invoice, PO needs amendment. Invoices in excess of prior year un-amendable POs sometimes result in payments outside of the original PO.
- Shipping and freight issues
- Grant closed
- Budget code errors

The lack of accuracy and timeliness causes incomplete internal reporting since expenditures are not being recorded. In addition, delinquent vendor payments, poor vendor relations, unfavorable purchasing terms and loss of vendor discounts are also caused by late payments. Vendors have placed the District on credit hold until payments were received and some obligations were sent to collections. A proactive resolution process must be implemented to restore vendor confidence and improve internal reporting.



Accounts Payable Observations, Recommendations and Action Plan

RECOMMENDATIONS and MANAGEMENT RESPONSES

Establish a responsive problem resolution process with dedicated resources and ownership to resolve problem invoices when they occur. The process should involve at a minimum:

- *Trending invoice problems to determine and remediate the root cause for the problem.*
- *Identifying individuals who are not properly following District processes.*
- *Training to minimize frequently occurring human error.*
- *Modification of operating procedures that hinder timely processing.*
- *Modification of system settings as necessary.*
- *Operating standards for resolving problem invoices when they occur.*
- *Monthly reporting to track and monitor problem invoice resolution.*
- *Procedures for accurately recording period end problem invoices in compliance with accounting standards.*

Management Responses: Accounts Payable operating procedures have been modified to better expedite the payment process due to changes since the implementation of PeopleSoft 8.9. We have restructured the Accounts Payable department to include a problem invoice team and match exception teams which are responsible for resolving invoices with these issues. Problem invoices and match exceptions will be tracked to identify reasons behind all of the issues. These teams will remain in the department dependent on the number of permanent staff allocated to the Accounts Payable department. We would also like to obtain dedicated resources to assist in the resolution of problem invoices. This would include having a dedicated purchasing, grants and budget person committed to support Accounts Payable when issues arise with invoices in which these departments are needed to resolve.

The Accounts Payable department recognizes the need for enforcement of business procedures. We are going to track violators of District processes and disseminate the information to Chiefs and the Controller. We currently track violations such as confirming orders and requestors that do not receipt goods and services in the system as required. Receiving is managed externally through an automatic email notification to the requisitioner with escalation to their supervisor if the invoice has been entered into the system, but receiving in the system has not been performed.

Responsibility: Vince Carfagna, Comptroller; Cerri Cupples, Interim Director of Accounting; Christina Jones, Senior Account Clerk
Typist

Due Date: November 30, 2008



**Accounts Payable
Observations, Recommendations and Action Plan**

OBSERVATION #5

Trial Register Validation Process

Verification of the Trial Register for the check disbursement process occurs after checks are printed and the register is forwarded to the Claims Auditor for approval. Review and validation of the invoices in the Trial Register should occur prior to producing checks and obtaining the final approval from the Claims Auditor. The most effective way to ensure that all properly entered and approved payments are included in the Trial Register for payment is to perform this review earlier in the process. The Claims Auditor approval should not be the control relied on to identify unauthorized payments in the check run.

RECOMMENDATIONS and RESPONSES:

Perform the existing Trial Register validation process prior to forwarding the Trial Register to the Claims Auditor.

Management Responses: We do agree that it would be beneficial to validate the Trial Register prior to producing the checks and obtaining final approval from the Claims Auditor. Because we are unaware of any system capability to produce a trial register in PeopleSoft before the checks are printed, we have not been able to implement this procedure. Through the use of PeopleBooks and IM&T resources, we are going to perform research to determine if we can validate the Trial Register prior to check printing.

Responsibility: Vince Carfagna, Comptroller; Cerri Cupples, Interim Director of Accounting; Christina Jones, Senior Account Clerk

Due Date: January 31, 2009



Accounts Payable Observations, Recommendations and Action Plan

OBSERVATION #6

Checks Printed Prior to Claims Audit Final Approval

Disbursement checks are printed prior to receiving final approval of the trial register from the Claims Auditor. If a disbursement is rejected by the Claims Auditor, the Accounts Payable Supervisor stated the check will be held. This practice increases the risk that a check could be disbursed without proper approval. It is also a poor business practice to store checks in the safe. Education law requires that Claims Auditor approval be obtained prior to payment. This is to ensure that only legitimate claims against the District are paid. Printing the checks should only occur prior to claims audit's final approval. It should be noted that although this is not a frequently occurring problem it does occur.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Discontinue printing checks until after final authorization has been granted by the Claims Auditor.

Management Responses: Claims Audit performs a 100% review/approval of all vouchers processed for payment in Accounts Payable. In addition they approve the generation and mailing of the actual checks. It is our understanding that Claims is only required to approve payments *one* time. Although checks are printed they are not mailed until this second approval is received from Claims Audit. During the pay cycle generation process the first pay cycle detail is provided to the Claims Auditor. Accounts Payable makes changes based on their review and sends a second pay cycle detail to the Claims Auditor. The Claims Auditor then requests to review the Trial Register. The length of time to receive approvals back for the second pay cycle and Trial Register review from Claims delays the check printing process. To alleviate delay of the check printing process, we have collaborated with Claims Audit to develop a reasonable timeline for both parties to follow to ensure timely processing of payments. The checks are now generated and mailed after the final authorization is granted by the Claims Auditor. Overall this process can be improved and would be more efficient once a customization is put in place to place all vouchers on payment hold in the system when they are initially created in Accounts Payable. The Claims Auditors would then release the vouchers for payment by removing the hold in the system and a check would be created. This would eliminate the need for approval of the check run as Accounts Payable would only issue checks for vouchers the Claims Auditors have released for payment.

Responsibility: Vince Carfagna, Comptroller; Cerri Cupples, Interim Director of Accounting; Christina Jones, Senior Account Clerk
Typist

Due Date: Completed



Accounts Payable Observations, Recommendations and Action Plan

OBSERVATION #7

Check Disbursement Process

Improper segregation of duties is present in the Accounts Payable Check Disbursement process. After the checks are printed, they are returned to the Accounts Payable Clerk who originally processed the invoice. Historically, the live checks were given to accounting, but due to changes in staffing, the process was modified and checks were returned to the original Accounts Payable Clerk. The opportunity exists to make erroneous or fraudulent disbursements that could go undetected when live checks are returned to the original entry person. Checks should not be returned to the individual that entered the invoice. These checks should be given to an independent party. Also, the checks are not counted prior to their mailing to ensure that all checks are accounted for.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Discontinue the practice of returning live checks to the AP clerk that has entered the invoice. In addition, verify the number of checks printed against the number of checks mailed.

Management Responses: We have modified our processes to have live checks returned to a temporary staff person who does not enter invoices. However we do not have a permanent resource to complete this role. This process will be permanently assigned following decisions made regarding the Accounts Payable staffing allotment.

We will validate the number of checks printed against the number of checks mailed utilizing the stamp machine to count the number of envelopes stuffed and affixed with postage. Pre-stuffed checks will be counted separately. The total number will be verified with Accounts Payable and a reconciliation log will be kept to track the number of checks mailed versus the number of checks printed.

Responsibility: Vince Carfagna, Comptroller; Cerri Cupples, Interim Director of Accounting; Christina Jones, Senior Account Clerk
Typist

Due Date: Completed



Accounts Payable Observations, Recommendations and Action Plan

OBSERVATION #8

Tolerance levels

System changes were made to the document tolerances with no supporting management approval. The tolerance level for matching and document tolerance was initially \$500 or 10%, whichever was less. Per accounting and management, the level was approved to be changed to \$500 or 20%, whichever was less on February 5, 2008. We obtained written approval for this change. There was uncertainty whether the change had yet been implemented.

Unbeknownst to management, the tolerance level was changed to \$500 or 200%, whichever was less on February 1, 2008. This change was based on verbal approval from the CFO which occurred on February 14, 2008. There was no written approval to support the change to 200%. When the change was made by IM&T, the change was communicated in writing to accounting management and purchasing. A system audit trail exists to identify the changes made to the tolerance levels.

Written approval should be obtained prior to any system changes including tolerance levels. The matching tolerances should be utilized as a tool to ensure that the District is not being overbilled. Management was not aware of the new tolerance levels, which demonstrates a lack of control regarding changes made by IM&T.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Verify all system tolerance levels established in the system to ensure they are in alignment with management approval. Ensure all changes are communicated to appropriate parties including the Claims Auditor.

Management Responses: We have verified that all current system tolerances established are in alignment with what management has approved. Procedures will be developed for system changes to tolerance levels which will include communication of tolerance level changes to necessary parties within five days of the change.

Responsibility: Annmarie Lehner, Manager, Business Enterprise Applications; Vince Carfagna, Comptroller; Cerri Cupples, Interim Director of Accounting; Christina Jones, Senior Account Clerk Typist

Due Date: November 30, 2008



Accounts Payable Observations, Recommendations and Action Plan

OBSERVATION #9

Accounts Payable Cut-Off

Improved AP cut-off procedures are necessary to ensure accurate financial reporting of District liabilities. An operating practice exists which allows a three week window for identifying and entering prior year invoices into the system. Accounts Payable invoices not processed within the required cut-off dates will be reviewed for significance and accrual entry, if appropriate. An accrual was completed by the District after fiscal year end 2007, but during the external audit an adjustment was needed for an additional \$521K. Proper Accounts Payable cut-off is critical for the accuracy of financial reporting. Failure to appropriately accrue liabilities results in expenditures not being recorded in the proper period which understates expenses.

RECOMMENDATIONS and RESPONSES:

Enhance AP cut off procedures to ensure that additional scrutiny is exercised to record a proper liability for year end.

Management Responses: The Accounts Payable cut-off process has changed from last year. For fiscal year 2008, we are routing all invoices that come in daily to an accountant who scrutinizes and evaluates the invoice to determine what budget year the invoice applies to. The invoice is then stamped with the proper budget year. The 07-08 Accounts Payable module was kept open longer this year, through July 31, 2008. Invoices for the 08-09 school year were entered into the system on an as needed basis during this time.

Responsibility: Vince Carfagna, Comptroller; Cerri Cupples, Interim Director of Accounting; Christina Jones, Senior Account Clerk
Typist

Due Date: Completed



Accounts Payable Observations, Recommendations and Action Plan

OBSERVATION #10

Inaccurate Entry into PeopleSoft

Independent verification of AP invoice entry does not occur prior to the Claims Auditor review. Incorrect data, including invoice date, number or vendor was noted in our testing. Invoices should be entered into the PeopleSoft system with accuracy. Inaccuracies in invoice entry could cause a delay of payment and also make it difficult to detect duplicate payments. Data entry errors are generally detected by the Claims Auditor. An appropriate control should exist within AP to verify the data entry prior to forwarding to the Claims Auditor.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Establish a review process in which all or a sample of invoices are reviewed by a supervisor or peer to ensure accuracy. An effective process should provide evidence of the items reviewed. Track evidence of errors found during the review and Claims Audit process for training opportunities.

Management Responses: Data entry correction will be tracked to determine the frequency of data entry errors. Sample testing to review the accuracy of invoice data entered into the system will be performed for those Accounts Payable Clerks with frequent input errors. We will add a process in the policies and procedures manual which will address this issue.

Responsibility: Vince Carfagna, Comptroller; Cerri Cupples, Interim Director of Accounting; Christina Jones, Senior Account Clerk
Typist

Due Date: January 31, 2009



Accounts Payable Observations, Recommendations and Action Plan

OBSERVATION #11

Reconciliation

Reconciliation between the General Ledger and Accounts Payable Ledger is not performed, reviewed or approved monthly. It was noted during our testing that the monthly reconciliations between the General Ledger balance and the open invoices had not been performed since the implementation of PeopleSoft 8.9. It was brought to our attention that the reason why this reconciliation had not been prepared on a monthly basis was due to the lack of a query providing an Accounts Payable listing. Subsequent to our audit fieldwork, an Accounts Payable listing became available and a reconciliation was performed for March 2008. This Accounts Payable listing has not been validated for completeness and accuracy, nor has the reconciliation been completed to identify variances and reconciling items by Accounting.

Prior to the implementation of PeopleSoft 8.9, this reconciliation was completed on a monthly basis. The lack of reconciliation between the General Ledger and Accounts Payable allows for differences to occur and accumulate over a period of time. These differences could result in inaccurate reporting in which financial decisions are based.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Validate the completeness and accuracy of the Accounts Payable listing. Re-implement the monthly reconciliation and review process between the General Ledger and Accounts Payable.

Management Responses: Validation of the Accounts Payable listing will be performed to ensure completeness and accuracy for reconciliation purposes. The reconciliation process will be restored to a monthly basis beginning with the June 2008 reconciliation.

Responsibility: Vince Carfagna, Comptroller; Cerri Cupples, Interim Director of Accounting

Due Date: December 31, 2008



Accounts Payable Observations, Recommendations and Action Plan

OBSERVATION #12

Storage and Record Retention

Record retention and storage policies have not been established for Accounts Payable documentation. This information has been kept indefinitely on microfiche, an antiquated form of data storage. The scanner to the microfiche machine is broken and the supporting documentation for the weekly check runs have been stored in boxes in the accounting department since November 16, 2007. To ensure the availability of records when needed, a clear written record retention policy should exist for all aspects of the Accounts Payable department. The means of storage should be operational and reliable to facilitate record retrieval.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Develop record retention policies and document recovery procedures for Accounts Payable. Ensure storage method utilized is reliable and easily accessible.

Management Responses: We recognize the need to update our storage system and we are in the process of obtaining funding and approval to purchase a new computer scanner for the storage of our records. The scanning of the 2007-2008 invoices and other supporting documentation which has been stored in boxes will be outsourced and scanned onto the microfilm. We will begin storing the 2008-2009 invoices on the computer utilizing the new scanner.

Responsibility: Vince Carfagna, Comptroller; Cerri Cupples, Interim Director of Accounting; Christina Jones, Senior Account Clerk
Typist

Due Date: October 31, 2008



**Accounts Payable
Observations, Recommendations and Action Plan**

OBSERVATION #13

System

Audit Trail

An audit trail does not exist for changes to user preferences, security settings, and parameters regarding voucher authorities, voucher processing, and invoice configurations. We noted that there are situations where users have access to pages, but not the user preferences. IM&T personnel have full access to most pages and have the ability to change user preferences and security settings for anyone including themselves without visibility. IM&T uses a development ID with full access to system functions. An audit trail should exist for changes to security settings and changes to user preferences that can be reviewed as needed. Visibility to security setting changes enables oversight and minimizes the likelihood of unauthorized changes.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Implement an audit trail for changes to user preferences, changes to security settings, and voucher attributes and processing that is reviewed regularly by owners and reviewable upon request.

Management Responses: We will work with IM&T to implement an audit trail for changes to user preferences, security settings, and parameters regarding voucher authorities, voucher processing, and invoice configurations that is reviewed regularly by owners and reviewable upon request.

Responsibility: Annmarie Lehner, Manager, Business Enterprise Applications; Vince Carfagna, Comptroller; Cerri Cupples, Interim Director of Accounting; Christina Jones, Senior Account Clerk Typist

Due Date: January 31, 2009



Accounts Payable Observations, Recommendations and Action Plan

OBSERVATION #14

System Access and Proper Segregation

Responsibilities of the Accounting Director and the Accounts Payable Supervisor and their related system access should not create an environment in which the opportunity for fraud could exist. Access should be segregated to minimize the risk of any one person having total control of any transaction from beginning to end, or access to transactions which don't align with their job responsibilities.

Below is a summarized list of Accounts Payable system functions which the Director of Accounting and the Accounts Payable Supervisor have access to in PeopleSoft:

- The Director can create and manage override matching and document tolerance, process payments, and change voucher payables options
- The Director can maintain and approve vendors
- The Director can establish, maintain, and manage assets and projects
- The Director can manage closing rules and do journals
- The Director can change chart fields
- The Director can perform KK budget entry
- The Supervisor can create, manage (OR) and approve vouchers, override matching, and process payments
- The Supervisor can maintain vendor information and pay vendors

Access to unnecessary functions or to functions from vendor setup to final payment creates the risk of inappropriate transactions that could go undetected. Such risks are possible given the access provided to the Director of Accounting and Accounts Payable Supervisor.



Accounts Payable Observations, Recommendations and Action Plan

RECOMMENDATIONS and MANAGEMENT RESPONSES

Modify system access for the Accounting Director and the Accounts Payable Supervisor to assure proper segregation of duties to minimize risk:

- *Segregate voucher match overrides and approvals from voucher entry.*
- *Segregate voucher payments from voucher entry.*
- *Create an audit trail to monitor all vendor approvals and provide automated reporting.*
- *Create an audit trail of changes to chart field data and provide automated reporting.*

Management Responses: System access for the Director of Accounting will be modified so that they cannot create vouchers. Due to PeopleSoft Financials 8.9 system configuration as well as the lack of staffing resources in Accounts Payable it is necessary for the Accounts Payable Supervisor to be able to create and override matching on vouchers, as well as process payments. Although the Supervisor can maintain vendor information, they cannot approve the vendor file- only Purchasing can approve the vendor record therefore segregation of duties remains in tact. We will work with IM&T to create an audit trail to monitor vendor approvals.

Responsibility: Annmarie Lehner, Manager, Business Enterprise Applications; Vince Carfagna, Comptroller; Cerri Cupples, Interim Director of Accounting; Christina Jones, Senior Account Clerk Typist

Due Date: March 31, 2009



Accounts Payable Observations, Recommendations and Action Plan

OBSERVATION #15

User ID

During the audit, it was noted that the Accounts Payable Supervisor shared her user ID with an Accounts Payable temporary employee so this individual could enter vouchers into the PeopleSoft system. The Accounts Payable Supervisor's ID has more authority than the standard staff role. This represents a loss of control over system access. Accounts Payable policies and procedures do not exist to negate such activity. User-IDs should not be shared by anyone. It is not possible to distinguish who is responsible for transactions when IDs are shared.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Discontinue the practice of sharing user IDs as they are intended to be unique to each user. Sharing makes it difficult to identify the originator of a transaction. This rule should be communicated to all AP staff.

Management Responses: Although we do recognize the importance of not sharing user IDs, there was a critical need to have this temporary employee enter invoices as at the time her employee ID was not set up for PeopleSoft. All temporary employees now have their own user IDs and passwords for PeopleSoft. User IDs will no longer be shared amongst permanent and temporary staff.

Responsibility: Vince Carfagna, Comptroller; Cerri Cupples, Interim Director of Accounting; Christina Jones, Senior Account Clerk
Typist

Due Date: Completed



Accounts Payable Observations, Recommendations and Action Plan

OBSERVATION #16

Overrides

There is no defined criteria regarding overrides for matching and document tolerance, nor are there formal processes and procedures regarding execution of the overrides. If the automated controls are going to be overridden, procedures must be in place to ensure that those controls are verified manually and all standards set in the system are manually determined to be proper prior to the override taking place. Supporting documentation for all overrides should exist to prove the validity of the overrides.

The Director of Accounting and the Accounts Payable Supervisor have the ability to override matching and document tolerance. They are also able to enter invoices into the system which results in a lack of segregation of duties. Those with access to override matching and document tolerance should not have the capability of entering invoices into the system as well.

Per IM&T, the match status field in PeopleSoft is not set to be an auditable field therefore, when an override to matching is completed, there is no trail indicating which vouchers were overridden, by whom and when. All overrides to an automated control should have an audit trail.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Develop automatic system generated reporting which documents all system overrides and define specific criteria that identifies when it is appropriate to override system matching. Limit access to individuals able to override transactions to those who cannot enter invoices.

Management Responses: We will define specific criteria that identifies when it is appropriate to override system matching. These criteria will be included in the policies and procedures manual we are creating for Accounts Payable. IM&T has identified an audit trail for matching overrides. This trail identifies overrides since the implementation of PeopleSoft 8.9.

Responsibility: Annmarie Lehner, Manager, Business Enterprise Applications; Vince Carfagna, Comptroller; Cerri Cupples, Interim Director of Accounting; Christina Jones, Senior Account Clerk Typist

Due Date: December 31, 2008



**Accounts Payable
Observations, Recommendations and Action Plan**

OBSERVATION #17

Changes to Accounts Payable System Records

Changes were made to production data and configuration without visibility and documentation noting data owner review. There were also instances of incomplete or delayed communication of changes/fixes that created exceptions resulting in additional work or further intervention. Lack of visibility to changes and their results jeopardizes data integrity and responsibility for data ownership. All emergency and non-emergency changes to production data should be visible and the impacts understood by the business owner.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Establish a process to ensure full disclosure and documentation occurs for emergency fixes via formal communication and impacts are agreed to and understood by process owners.

Management Responses: We have communicated to IM&T staff that corrections are not to be made in production without the approval of Accounting management. When corrections are made they are explained in person and communicated in writing by IM&T. IM&T will reinforce with staff that there will be no SQL or configuration updates to production data without approval by the data owner and IT manager.

Responsibility: Annmarie Lehner, Manager, Business Enterprise Applications; Vince Carfagna, Comptroller; Cerri Cupples, Interim Director of Accounting; Christina Jones, Senior Account Clerk Typist

Due Date: Completed



Accounts Payable Observations, Recommendations and Action Plan

OBSERVATION #18

Overnight Processes Failing

The matching process, budget check, document tolerance check and voucher post are run daily through an overnight process. Vouchers must pass matching, document tolerance and budget check in order for the voucher to be eligible for payment. Throughout our audit, we were notified on numerous occasions that one or all of these overnight processes failed which caused the reports necessary for processing in Accounts Payable to be incomplete. The failing of these overnight processes caused delays in Accounts Payable which led to payment delays. IM&T did not consistently communicate the failures to Accounts Payable in a timely manner; therefore Accounts Payable discovered the issue independently. Early identification of a problem is key in mitigating data cleanup and correction. Without detection, or with delayed detection, data integrity for decision management is at risk.

Automated processes should be fully functional because Accounts Payable is relying on these overnight processes in order to fulfill obligations of the District. Even if automated processing controls are more dependable, if such automated system controls cannot be relied upon, data integrity can be jeopardized. Proposed fixes should be fully tested and accepted with management sign-offs certifying system functionality prior to promotion to production.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Establish a procedure that ensures timely system notification for completed and failed processes. The procedure should include escalation of critical business processes and notice when problems are resolved.

Management Responses: A process has been put in place for the identification and notification of failing overnight processes. A designated IM&T staff is responsible for notifying Accounts Payable if any of the overnight processes failed and for informing Accounts Payable when the issue has been resolved.

Responsibility: Annmarie Lehner, Manager, Business Enterprise Applications; Vince Carfagna, Comptroller; Cerri Cupples, Interim Director of Accounting; Christina Jones, Senior Account Clerk Typist

Due Date: Completed



Accounts Payable Observations, Recommendations and Action Plan

OBSERVATION #19

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. Although an audit trail does exist for reserved vouchers, it is not cumulative and the loss of visibility exists.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Develop a procedure to detect, identify, explain and document gaps in voucher sequence in a timely manner. Evaluate the necessity of the reserve voucher function and if this function is deemed necessary, develop a cumulative audit trail.

Management Responses: Although useful, we have decided not to utilize the Reserve Voucher functionality to avoid possible gaps in voucher number sequence. Since it was determined by IM&T that the previous missing voucher numbers found were due to this process, we don't agree that data integrity issues can result. However to eliminate the problem, Accounts Payable will not use this functionality.

Responsibility: Annmarie Lehner, Manager, Business Enterprise Applications; Vince Carfagna, Comptroller; Cerri Cupples, Interim Director of Accounting; Christina Jones, Senior Account Clerk Typist

Due Date: Completed



Accounts Payable Observations, Recommendations and Action Plan

OBSERVATION #20

Change Chart String Data

Accounts Payable employees have the ability to change chart string data (i.e. account number) when they enter invoices into the PeopleSoft system. Accounts Payable needs to have access to change chart string data for grant related POs, H and K funds as well as for entering direct pay information. They should not have access to change chart string data for invoices that would have originated from a PO. These expenses have already been budgeted and approved prior to Accounts Payable receiving the invoice for payment. The ability for Accounts Payable staff to be able to direct where the expense is classified allows the expense to be hidden in accounts which are less likely to be reconciled, audited or monitored. It also gives the Accounts Payable staff the ability to change the direction of an expense whose classification was already budgeted and approved.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Eliminate the ability for Accounts Payable to change account data for PO related invoices.

Management Responses: As stated in the observation it was recognized that it is necessary for Accounts Payable to have access to change chart string data for purchase orders funded by grant and capital projects. Chart field values for grant related vouchers are changed if the grant has expired and we are directed by Budget director or the grant monitor to change the budget code the voucher was originally entered against to a valid code. The chart field values changed on capital fund vouchers is due to changes in the subclass, project code, category, and subcategory which are identified by the Design Group/Facilities department head. Approvals for any of these changes are communicated in writing via email or directly on the invoice.

Responsibility: Vince Carfagna, Comptroller; Cerri Cupples, Interim Director of Accounting; Christina Jones, Senior Account Clerk
Typist

Due Date: Completed