



## Accounts Payable and Contract Monitoring

### Internal Audit

April 2016

**REDW**<sup>LLC</sup>

CPAs | Business & Financial Advisors

# **Bernalillo County Internal Audit Accounts Payable and Contract Monitoring**

## **Executive Summary**

### **SUMMARY OF PROCEDURES**

REDW performed an internal audit over selected processes of the Accounts Payable (AP) department and the County's contract monitoring processes. Our internal audit focused on testing various policies and procedures and internal controls, including: processes related to vendor payments and disbursements, duplicate payments, late payments, aging payments, vendor set-up, credit card and e-Payables payments and reconciliations, VIM and SAP user access, and Benford's Law analysis. Additionally, we assessed the processes for contract monitoring, contract management, and vendor compliance with contracts.

We performed the following procedures:

- Obtained an understanding of operational procedures through reading relevant AP documentation and interviewing various AP and Purchasing Department personnel.
- Tested a sample of disbursements to evaluate whether they were accurate, approved, and paid timely.
- Tested a sample of potentially duplicate payments to determine if a voided check was completed and maintained, voided payment was completed in the system, or if the payment was completed for different invoice numbers.
- Tested a sample of late payments associated with grant funds to determine if late fees were incurred.
- Evaluated AP aging from aging data collected during the 2010 AP internal audit and completed an aging analysis for both 2010 and 2015 data to determine if the County has improved payment management.
- Selected a sample of vendors to determine if they had a Vendor Master Form and W-9 on file and if provided information matched the information in SAP. Additionally, selected vendors to determine if the e-Payables form was on file along with a W-9 and if the vendor information matched to the SAP system.

- For selected months, evaluated the processes for credit card reconciliations and monthly credit card reviews to determine if reconciliations and reviews were performed timely and that any discrepancies identified were investigated and documented. Additionally, for selected months, evaluated the e-Payables payment process and monthly transaction review completed to determine if payments were made timely and accurately.
- Obtained user access roles from the County’s ERP department to determine if appropriate segregation of duties functions were in place with the VIM and SAP systems.
- Performed Benford’s Law analysis to determine if there were any unusual or irregular patterns in payments amounts.
- Obtained and tested various applicable contracts to determine if they required vendor monitoring or reporting.
  - Interviewed respective department personnel on selected contracts to determine if contract monitoring was taking place, if any issues with contracted vendors were occurring, and identify tools that various departments were utilizing for monitoring contract requirements.

## SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

We found areas during the course of the audit where controls were functioning properly and established procedures were followed. Throughout the course of our contract monitoring interviews, we found that many departments had established processes for monitoring vendor compliance with contract deliverables and working with vendors if any issues arose. Additionally, the County has implemented a process for the monitoring of aging payables which appears to have significantly reduced the amount of payables that the County has outstanding.

Significant high and moderate risk observations are presented below:

- **Payment Amount does not Agree to Contract**—County departments are responsible for ensuring invoices are billed in accordance with the contract. The process to review invoices and verify they are in accordance with the contracts appears to be inconsistent and payments to vendors were identified that did not agree to the contracted amounts. The County should implement a training program on how to monitor the contracted rates which will help ensure that vendors are accurately charging the County.
- **Outdated Vendor Information**—There were a total of 16,000 vendors included on the vendor listing and of those, only approximately 4,000 were used by the County in 2015. It was identified that many of the vendors included in the vendor listing did not have the required Vendor Master Form on file as they were utilized prior to the SAP system being implemented and the Vendor Master Form was not utilized at that time. The County should update the vendor listing to only include recently used vendors and update the required supporting documentation, including the Vendor Master Forms and W-9s, to ensure that all information is current and accurate.

\* \* \* \* \*

Further detail of our purpose, objectives, scope, procedures, observations, and recommendations are included in the internal audit report. In that report, management describes the corrective action taken for each observation.

We received excellent cooperation and assistance from the County personnel during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico

June 14, 2016

# **Bernalillo County Internal Audit Accounts Payable and Contracts Monitoring**

## **Table of Contents**

	<u>Page</u>
INTRODUCTION	1
PURPOSE AND OBJECTIVES	1
SCOPE AND PROCEDURES PERFORMED	2
OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES	4

# **Bernalillo County Internal Audit Accounts Payable and Contract Monitoring Report**

## **INTRODUCTION**

We performed the internal audit services described below solely to assist Bernalillo County in evaluating the internal controls over selected processes relating to the Accounts Payable (AP) and Contract Monitoring functions. Our services were conducted in accordance with the Consulting Standards issued by the American Institute of Certified Public Accountants, Generally Accepted Government Auditing Standards, and the terms of our contract agreement for internal audit services. Since our procedures were applied to samples of transactions and processes, it is possible that significant issues related to the areas tested may not have been identified.

Although we have included management's responses in our report, we do not take responsibility for the sufficiency of these responses or the effective implementation of any corrective action.

## **PURPOSE AND OBJECTIVES**

Our internal audit focused on determining whether selected processes relating to the AP department and departmental contract monitoring were in compliance with policies and procedures (P&P), applicable regulations, and reflected best practices and sound internal controls. We assessed the processes related to vendor payments and disbursements, duplicate payments, late payments, aging payments, vendor set-up, credit card and e-Payables payments and reconciliations, VIM and SAP user access, and Benford's Law analysis. Additionally, we assessed the process for contract monitoring including: contract pricing was accurate, contract deliverables were received, and department oversight of contracts was occurring.

## **SCOPE AND PROCEDURES PERFORMED**

**In order to gain an understanding of the processes and operations, we interviewed the following personnel:**

- Dinah Esquivel, Purchasing Director
- Amy Childers, AP Manager
- Robert Martinez, Financial Services Administrator
- Nichole Candelaria, AP Coordinator
- Sharon Toppin, Credit Card Program Administrator
- Darlene Ortiz, Travel Administrator
- Various County Departments, as necessary

**In order to understand policies and procedures we read relevant portions of:**

- The Bernalillo County Accounts Payable Administrative Instructions updated August 2015;
- The Bernalillo County Credit Card Program Guidelines updated February 2016;
- The Bernalillo County Purchasing and Contracting Guidelines Administrative Instructions updated as of November 2012; and,
- Various County contracts during contract monitoring procedures.

**We performed the following testwork:**

***Disbursement Testing:*** Obtained a listing of disbursements from January 1, 2015 through February 2016 and selected a sample of 150 payments (based on 95% Confidence Level (CL) and 2% Tolerable Deviation (TD) from a total population of 129,000) and from this sample we extracted all payments that were for purchasing vendors (excluding direct pay vendors and garnishments) to obtain a final sample of 90 vendors. We tested to determine if:

- Invoice and other supporting documentation for payment was maintained and agreed to the purchase order (PO) and goods receipt.
- Proper approvals for payment and receipt of goods were obtained.
- Payee name and information matched to the canceled warrant, if applicable.
- Amounts paid agreed to contract, if applicable.
- Invoice was clerically correct.
- Invoice was paid within 60 days of receipt.
- Information in SAP agreed to the invoice including key dates.

Additionally, we performed a gap detection analysis on the payment register to determine if any gaps in payment document number existed.

***Duplicate Payments:*** Utilizing the payment register listed above, we identified all payments made within 10 days of each other, for the same amount and to the same vendor. We randomly

selected 10 payments (of 80 total) to determine if the payments were for different good/services or if the transaction was voided.

**Late Payments:** From the payment register listed above, we extracted all payments charged to a grant fund and then further narrowed the population to any payments made over 90 days after the invoice date. From this reduced population, we selected 9 (10% of the population, 85 identified) to determine if the grant fund was charged a late fee which would be a prohibited transaction.

**Aging Payment Analysis:** Utilizing the sample selected in the disbursement testing we compared the invoice date to the payment date to determine if payments were made timely. Additionally, we compared an aging of the 2010 disbursements to an aging of the current database of disbursements to determine if payment management has improved.

**Vendor Setup:** We compared the approved vendor listing to the payment register to determine if any payments were made to nonapproved vendors. Additionally, for 20 of the vendors selected in the disbursement testing, we verified that the vendor's W-9 and Vendor Master Form were on file and that all information agreed to the information entered into the SAP system, including vendor name, address, and EIN. We also selected a sample of 4 vendors from the disbursement testing to determine if the vendor's e-Payables authorization form and W-9 were on file and if the information agreed to the SAP system.

**User Access:** We obtained a listing of all AP user access roles and tested that there were appropriate segregation of duties in place.

**Benford's Law:** Utilizing the payment register we performed Benford's Law analysis to determine if there were any unusual or irregular patterns in payment amounts. From this analysis, we extracted transactions identified as highly suspicious due to recurring payment numbers and aggregated the data by vendor. We then selected a sample of 14 vendors that were identified in the transaction analysis described above. For each of the selected vendors we performed the following:

- Researched the vendor to determine that vendor appeared appropriate and valid.
- Located the vendor contract and reviewed the contract to determine that selected disbursement amounts seemed reasonable and in accordance with the contract, if applicable.
- Verified that a W-9 was on file for the vendor.

**Credit Card Processes:** We obtained the June and December 2015 credit card reviews performed by AP to ensure that the months selected were reconciled accurately and that purchases did not include charges for nonallowable items or services, including alcohol, personal expenses, etc.

Additionally, we obtained the March, June, and December 2015 credit card reconciliations and reviews performed by the Purchasing Department and selected 10 credit card user's including supporting documentation, to determine that:

- The details of the Bank of America Statement, Monthly Excel Reconciliation created by Purchasing, and the Justification Report completed by user departments agreed.
- The Justification Reports had signature approval.

- The receipts were attached to Justification Report, and if no receipts were attached, verified an executed Affidavit of Lost Receipt form was completed.
- The purchases did not include sales tax on goods purchased.
- Purchases appeared reasonable and allowable.

We also scanned the credit card reconciliations for months selected to determine if any purchases were made for anything considered unusual including: to casinos, cash advances, unreasonably large amounts, unusual vendors, and any repetitive amounts.

***e-Payables Review:*** We observed the March, June and December 2015 e-Payables monthly transaction reviews and payment processes to determine if the payment agreed to the bank statement. Additionally, we observed the processes for monitoring e-Payables ensuring that vendors are withdrawing payments timely.

***Contract Monitoring:*** We obtained a listing of all existing contracts and addendums the fiscal year 2015 (July 2014 to June 2015). We identified items that were not for goods or services which reduced the population from 700 to 300 unique contracts. We selected a sample of 30 contracts (10% of population). If deliverables were listed in the contract we determined if:

- The deliverables identified in the contract were received, and if not, necessary action was documented and taken.
- The department understood the contract requirements and was monitoring the contract to ensure requirements were completed.

Additionally, we inquired with selected departments about their process for monitoring vendor compliance and for resolving any issues that arise in working with a contracted vendor.

## **OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

We identified the following weaknesses:

### ***1) Payment Amount does not Agree to Contract***

County departments are responsible for ensuring that vendors are accurately charging the County in accordance with the contract. The process to review invoices to ensure they are in accordance with the contracts appears to be inconsistent. During our testing, we identified 31 of 75 invoices (5 vendors) had amounts charged that did not agree to the contracted rates for goods/services.

**Potential Risk: High**—Without a detailed departmental review of invoices and comparison to the contracts the County could be over paying vendors. While the variances identified were not significant, there is a risk that County-wide these variances could become significant and impact cost savings.

**Recommendation:** To ensure that vendors are charging the County appropriately and being paid accurately, the County should consider implementing training to all employees who are involved with the payment approval processes so they can better understand what to look for to ensure accurate charges are made.

*Management's Response:* Management agrees with the finding. County departments are responsible for ensuring that vendors are accurately charging the County in accordance with established pricing. Beginning in FY17, the Procurement and Business Services (PBS) department will develop and deliver training to each department's invoice approvers to ensure that they know what is expected in the invoice approval process, which includes verifying that the invoiced price is in accordance with established pricing, i.e., contract, purchase order, and/or written quoted price, prior to approval of the invoice.

## **2) *Outdated Vendor Information***

Approved vendors are maintained in the SAP system and supporting documentation should be maintained to validate vendor information. There were a total of 16,000 vendors included on the Vendor Listing and of those, only approximately 4,000 were used by the County in 2015. Additionally, we identified 1 of 24 vendor files where the Vendor Master Form and the W-9 could not be located. It was identified that many of the vendors included in the Vendor Listing did not have the required Vendor Master Form on file as they were utilized prior to the SAP system being implemented and the Vendor Master Form was not utilized at that time.

**Potential Risk: Moderate**—Due to the volume of vendors and amount of disbursements made during the year and the fact that the SAP system vendor data has not been updated for many years there is a higher risk of incorrect data for vendors which could cause inappropriate disbursements.

*Recommendation:* The County should update the Vendor Listing to only include recently used vendors. This should be an ongoing process where the system is cleaned up periodically to remove vendors that are no longer used. The County should also begin going through and updating all required supporting documentation, including the Vendor Master Forms and W-9s, to ensure that all information is current and accurate.

*Management's Response:* Management agrees with the finding. AP submitted two (2) ERP Request Forms on April 19, 2016, to address the following:

1. Archiving of inactive vendors that have not been used in two (2) years or more.
2. Development of a customized report that provides information of all vendors that have been active since July 1, 2014, based on paid purchase orders.

Currently, the business process for setting up new vendors in the SAP system, includes receipt of a Vendor Master Request Form, a W-9 (W-9s are TIN matched with the IRS database), and receipt of ACH or ePayables forms, when applicable. However, to begin the process of validating that supporting documentation for active vendors is current and accurate is contingent upon receipt of the customized report from ERP.

The completion date of the above items are dependent upon ERP priorities and resource availability.

## **3) *Invoices Receipt Dates not Accurately Entered***

Invoice date information should be accurately entered in the SAP system to allow for proper tracking of invoices. During our testing we found that the invoice receipt date in the SAP system, in many instances, did not match the date stamp on the invoice when received by the County.

There is currently no process in place to review invoices for accuracy after they have been scanned and entered in SAP. During our testing we identified:

- 78 of 90 invoices were identified where the receipt date stamped on the invoice did not agree to what was entered as the receipt date in SAP. These date variances ranged from 1 to 7 days.
- 10 of 99 invoices were not date stamped when received therefore we could not verify these were entered timely.

**Potential Risk: Low**—Inaccurate dates in the system could misrepresent data analytics performed by AP to monitor the time spent on various processing stages. Without date stamps on invoices the County is not able to monitor when invoices are received to the date paid.

*Recommendation:* The County should provide additional training for employees to ensure invoices are stamped when received and dates are entered accurately. A review process could be implemented to ensure invoices are date stamped when received and date information is entered accurately into SAP.

*Management's Response:* Management agrees with this finding. The AP department has further investigated this problem and has found that there may be a probable system issues. The Scanner/Validator manually keys the “received date” of the invoice; when the validation process is complete and the invoice is submitted, the system changes that date to the date the invoice hits the workflow.

Discussion with ERP was held on June 8, 2016. ERP requested example screenshots of the process so they can perform further testing to determine next steps to resolve the issue; AP submitted requested information to ERP on June 9, 2016. The date of resolution from ERP is dependent upon ERP priorities and available resources.

\* \* \* \* \*

This report is intended for the information and use of Bernalillo County management, the audit committee, members of the Board of Commissioners of Bernalillo County and others within the organization. However, this report is a matter of public record, and once accepted its distribution is not limited.

We discussed and resolved other minor observations with management and received excellent cooperation and assistance from the County personnel during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico  
June 14, 2016