

**REDW**

The Rogoff Firm

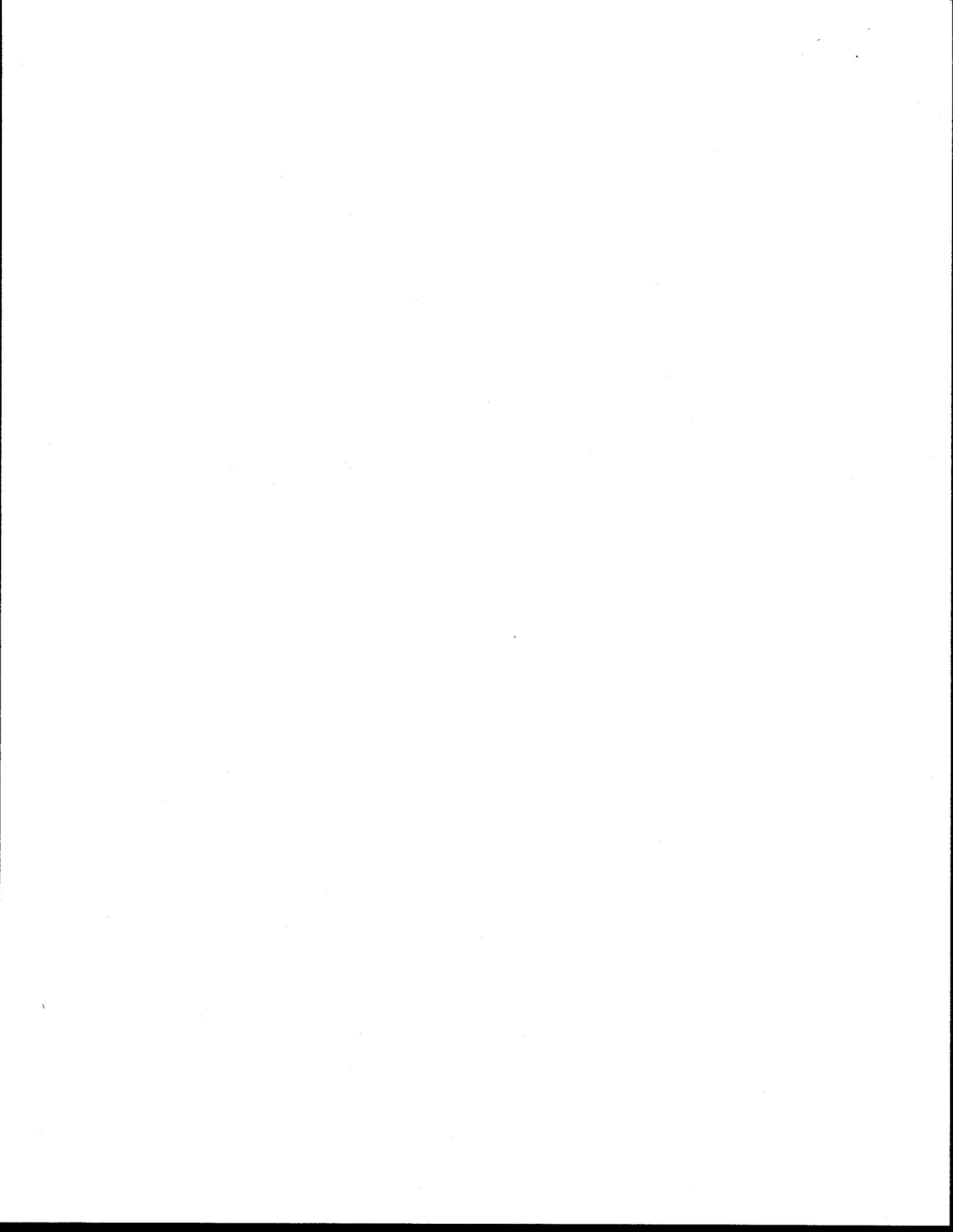
CERTIFIED PUBLIC ACCOUNTANTS / BUSINESS & FINANCIAL ADVISORS



Internal Audit

Accounts Payable

December 2010



# **Bernalillo County Internal Audit Accounts Payable Department**

## **Executive Summary**

### **SUMMARY OF PROCEDURES**

REDW performed an internal audit of the Bernalillo County accounts payable (AP) function. Our internal audit focused on determining whether the AP procedures and processes reflected sound internal controls, best practices, and were being properly applied by the AP department.

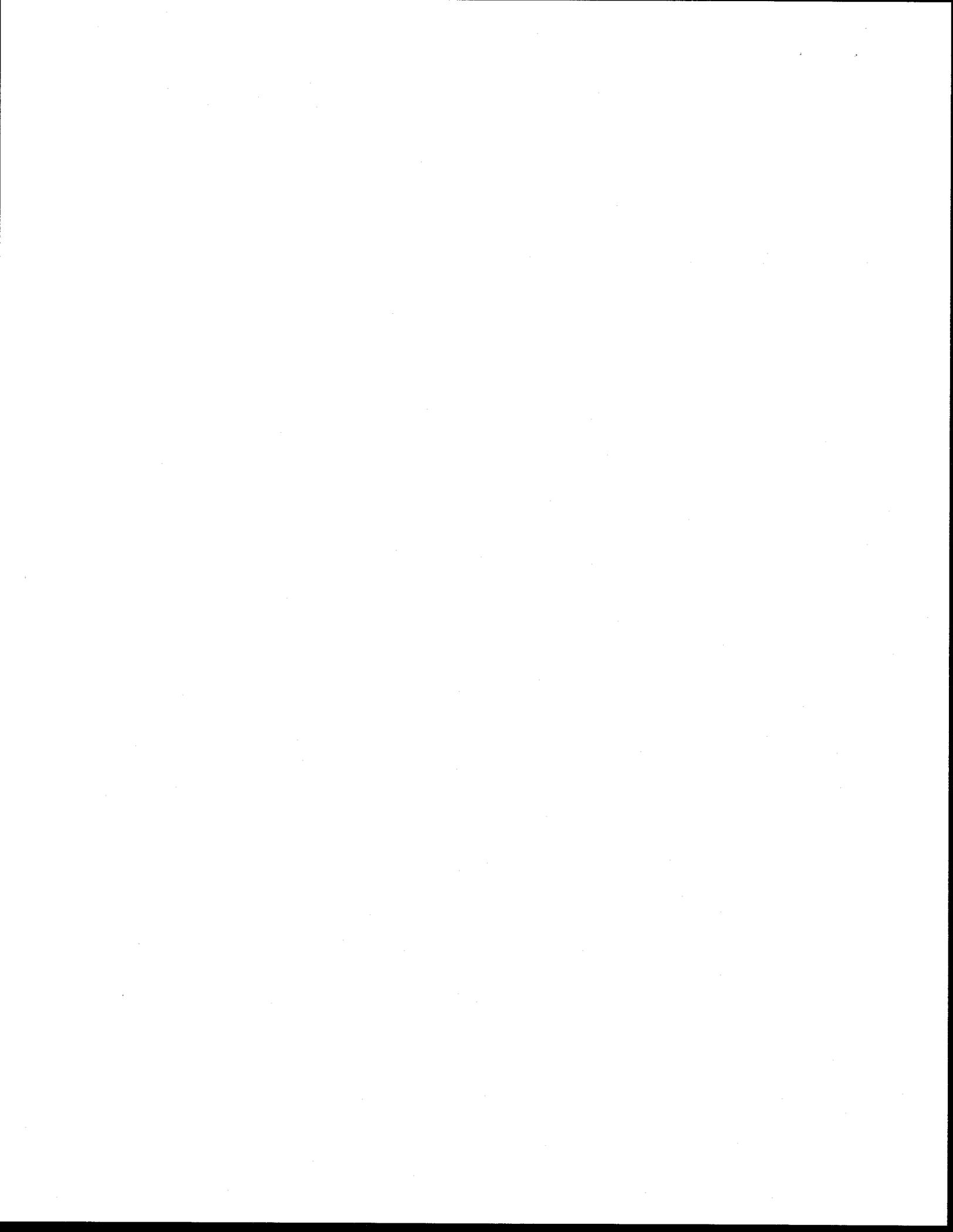
We performed a variety of procedures, including:

- Summarized outstanding AP balances exceeding 60 days;
- Compared the SAP system granted user access to the AP personnel duties and evaluated appropriateness of access;
- Tested all AP vendors paid through ACH to determine that each vendor's bank account information entered into SAP agreed to the ACH vendor enrollment form;
- Performed a Benford's Law analysis on the fiscal year (FY) 2010 payment register to identify unusual patterns in disbursement amounts and investigated those items;
- Tested a sample of disbursements from the FY 2010 payment register;
- Examined a sample of identical payments made to the same vendor within 10 days and verified that each payment made was for a separate good or service, was not a duplicate payment, and any voids were properly supported; and,
- Obtained a listing of all vendors that offer early pay discounts and selected a sample of ten disbursements to test that the discount taken was accurately calculated and correctly applied to the payment.

### **SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS**

We noted the following significant high or medium risk observations presented below:

- **Vendor remittance information not always being retained**—Seven out of 59 payments tested did not have a master data form on file and therefore we were unable to confirm the remittance information on the warrant. We also noted 13 out of 59 items tested where vendors, such as contracted poll workers and employees, did not have a master data form on file. The County should create disbursement procedures which identify the types of source documentation that should be retained or reviewed prior to payment and the instances where a vendor master request form may not be necessary.



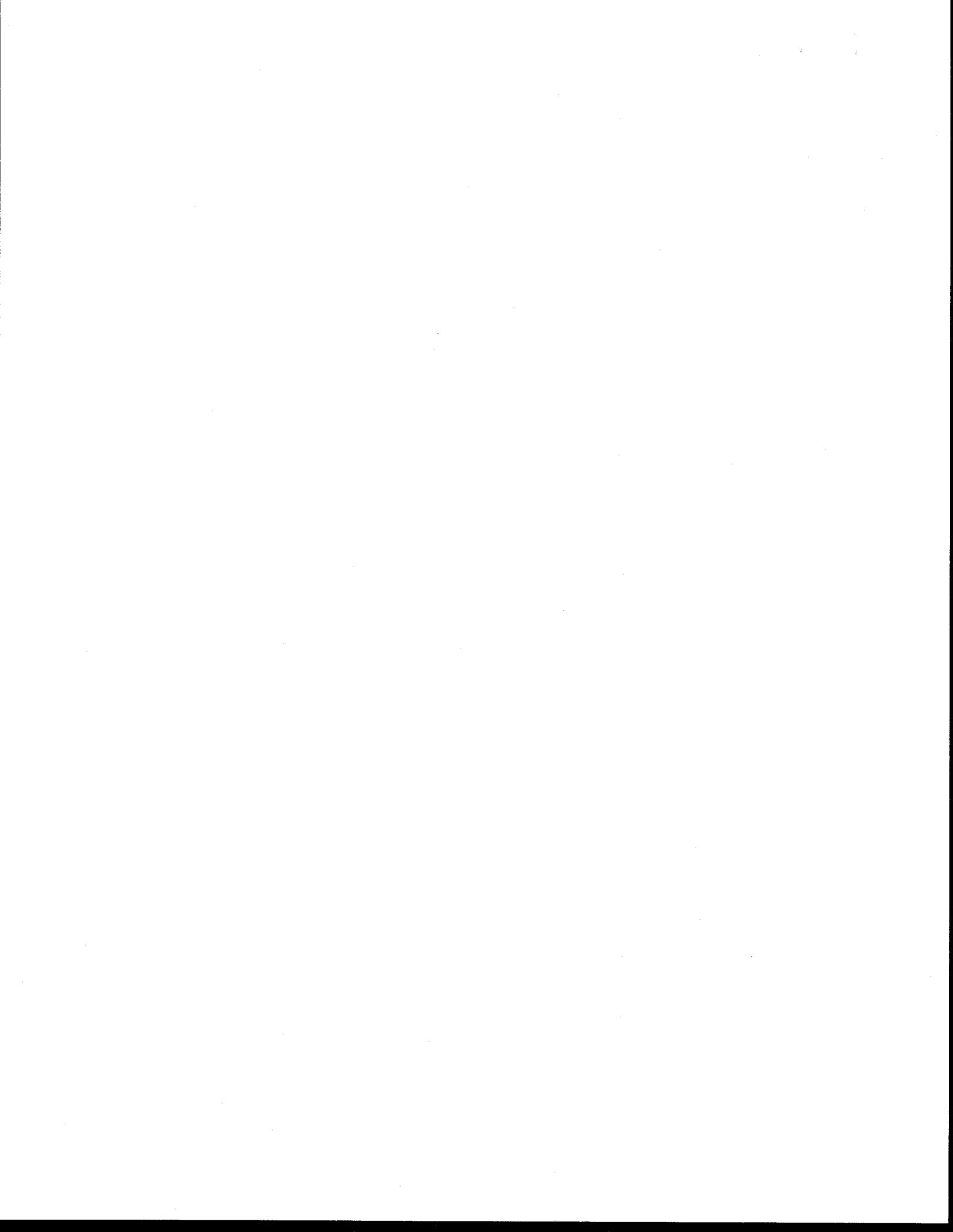
Other lower risk observations are included in the attached detailed report.

\* \* \* \* \*

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

*REDW LLC*

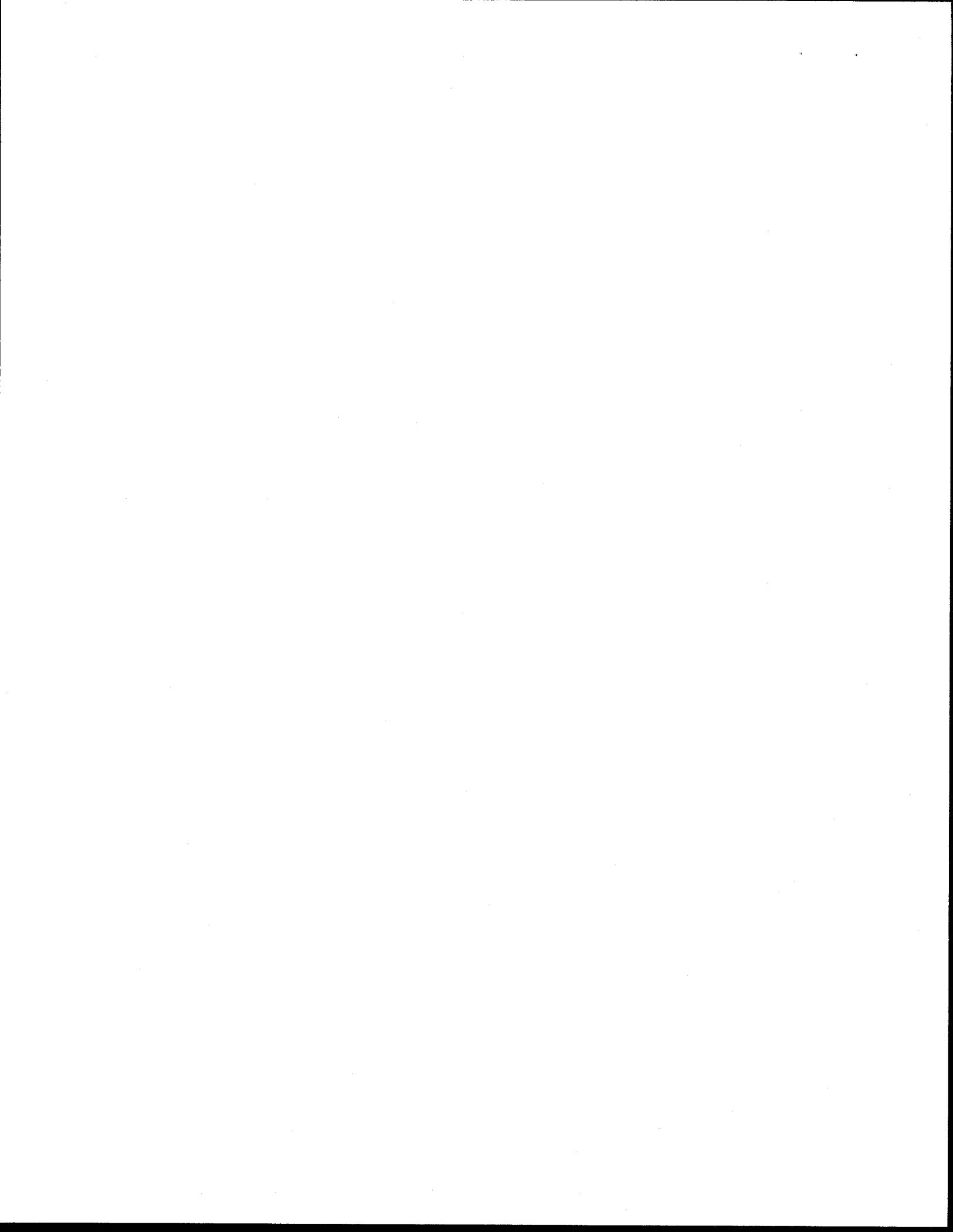
February 02, 2011



# Bernalillo County Internal Audit Accounts Payable Department

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# **Bernalillo County Internal Audit Accounts Payable**

## **Report**

### **INTRODUCTION**

We performed the internal audit services described below solely to assist Bernalillo County in evaluating the processes and procedures over the accounts payable (AP) function. 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 evaluating policies and procedures over the AP process and to determine if the internal controls over AP disbursements are adequate and effective with respect to responding to risks within the County regarding the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with laws, regulations and contracts.

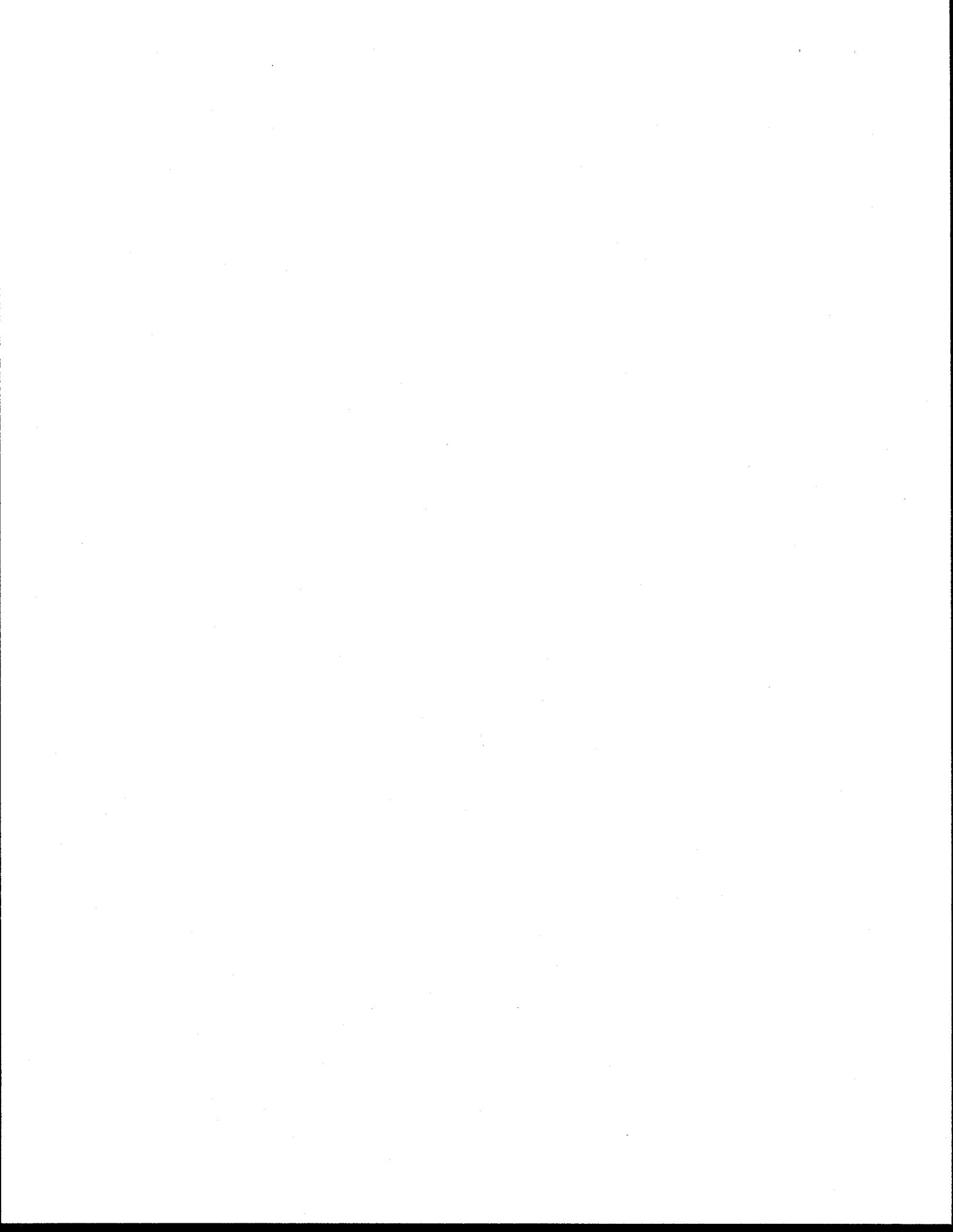
### **SCOPE AND PROCEDURES PERFORMED**

**Interviews:** In order to gain an understanding of the processes and controls over AP, we interviewed the following personnel:

- Teresa Byrd, Budget Director
- Amy Childers, Financial Services Administrator
- Theresa Natzki, Financial Administrator

**In order to understand AP policies and procedures:**

- We read Administrative Instructions No. 44 and additional procedures for AP.

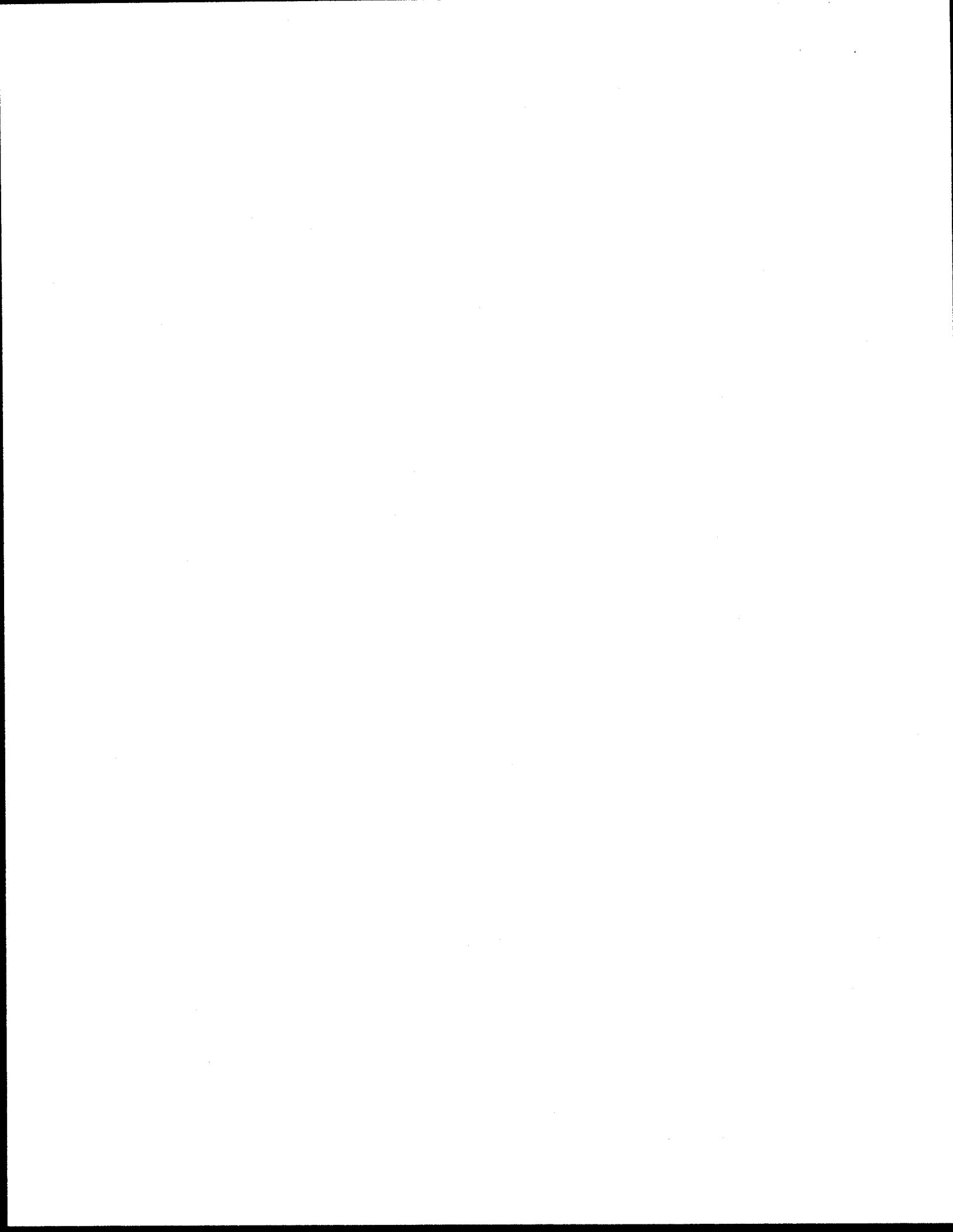


**We performed the following testwork:**

- Obtained the AP Detailed Listing by Fund as of June 30, 2010 and summarized payable balances that had been outstanding for 60 days and longer;
- Compared the SAP system granted user access to the AP personnel duties and evaluated appropriateness of access;
- Performed a Benford's Law analysis on the fiscal year (FY) 2010 payment register to identify any unusual patterns in disbursement amounts and investigated those items;
- Obtained the FY 2010 warrant register and performed a gap detection analysis to determine if there were any missing warrants;
- For general disbursements we obtained the FY 2010 payment register and selected a statistical sample of disbursements based on a 95% confidence level and a 5% tolerable deviation. This resulted in a sample size of 59 disbursements. For each disbursement in the sample we tested that:
  - The invoice agreed to the purchase order (PO) and goods receipt;
  - The PO number and invoice number on the invoice matched the PO and invoice number in the system;
  - Payee name and remittance address on the invoice agreed to the cancelled warrant;
  - If an early pay discount was available, it was taken and correctly applied to payment;
  - The invoice was clerically correct;
  - The invoice was paid timely within 60 days of the invoice date; and,
  - The vendor data entered into SAP agreed to the Vendor Master Request form.
- Utilizing the FY 2010 payment register and data analysis software, we examined a sample of 30 identical payments made to the same vendor within 10 days and verified that:
  - Each payment made was for a separate good or service and was not a duplicate payment; and,
  - If a warrant was voided, it was adequately voided in the system and physically defaced, including signature lines blacked out and stamped void.
- Obtained a listing of all vendors that offer early pay discounts and selected a sample of ten disbursements to test that the discount taken was accurately calculated and correctly applied to the payment; and,
- Obtained a listing of all AP vendors that are paid through ACH to determine that each vendor's bank account information entered into SAP agreed to the ACH vendor enrollment form.

**OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT  
RESPONSES**

We identified the following weaknesses relating to the Bernalillo County AP function.



### ***1) Timely Payment of Invoices***

Thirteen out of 59 invoices tested were not paid within 60 days of the invoice date. Additionally, we noted that at June 30, 2010, the County had approximately \$375,000 in outstanding invoices older than 60 days. It appears that some individual departments are not approving invoices for payment in a timely manner. We specifically noted that the following departments had at least \$15,000 in outstanding invoices: MDC, MATS, Clerks, Housing, Social Services, Fleet Facilities, and Information Technology.

#### **Recommendation**

The County has a decentralized receiving function, which can make it difficult for AP to locate and follow-up on outstanding invoices that have not been approved for payment in the system. The County should modify or create a process for streamlining the receiving and invoice approval functions within the individual departments in order to expedite vendor payments and avoid late fees. The timely payment of invoices may provide opportunities to the County to negotiate discounts with vendors.

#### **Management Response**

The AP Office and ERP team have on-going meetings to determine a plan for creating a streamlined invoice management process for the County. The Finance Deputy County Manager is supportive of this effort and is awaiting the results and recommendations from the staff meetings. Meetings are scheduled throughout the month of January, February and March with the goal of presenting a status report and plan of action by June 30, 2011. In the interim, the AP staff will continue to utilize SAP system reports to determine where department goods have been receipted but invoices not paid and invoices posted but goods not receipted.

### ***2) Vendor Remittance Information not Always Being Retained***

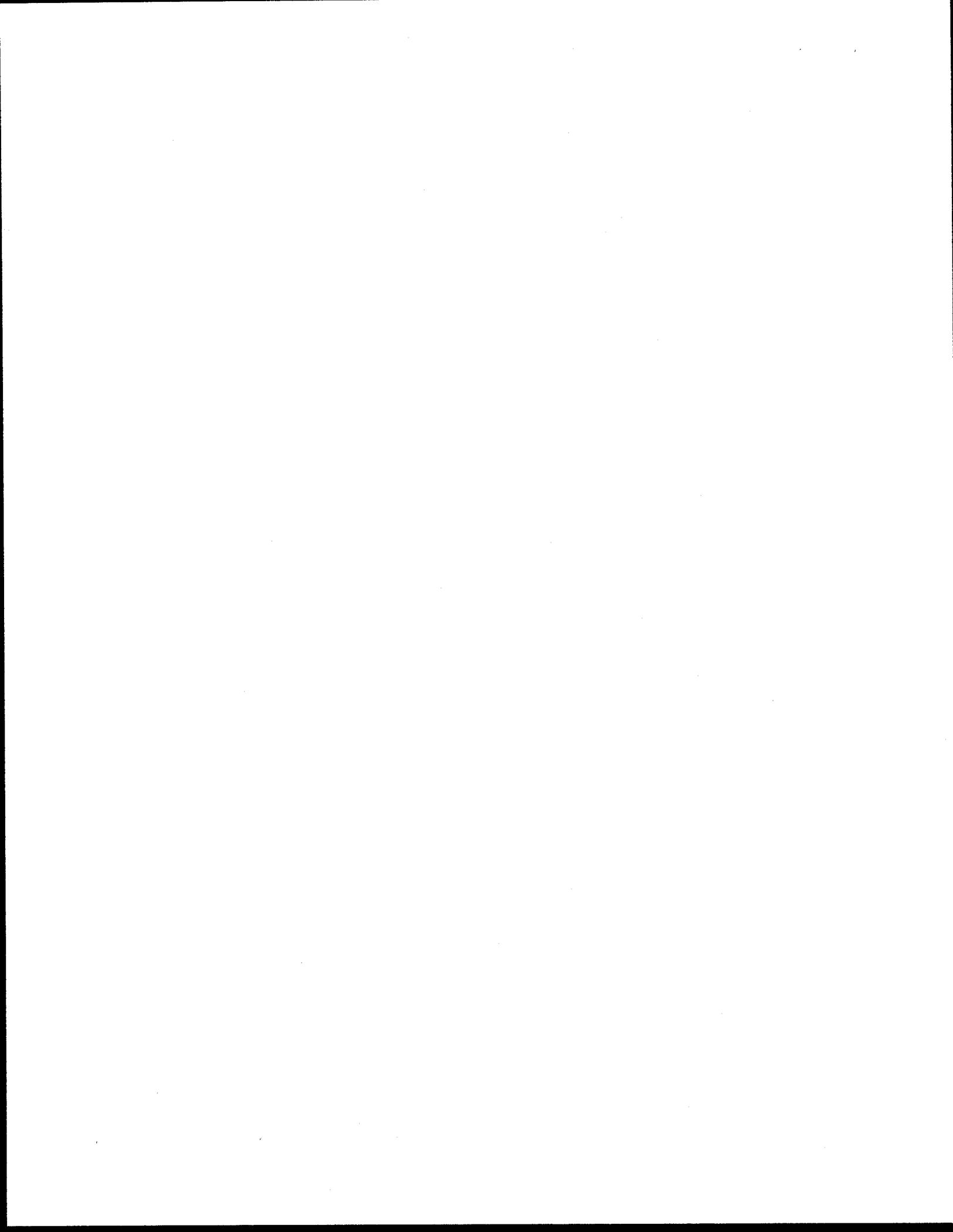
The master data form could not be located for seven out of 59 payments tested and therefore we were unable to confirm the remittance information on the warrant. Additionally, we noted 13 out of 59 items tested where vendors, such as contracted poll workers and employees, did not have a master data form on file to support the remittance information in the SAP system.

#### **Recommendation**

The County should create disbursement procedures which identify the types of source documentation that should be retained and reviewed prior to payment and the instances where a master request form may not be necessary for a certain category of vendors.

#### **Management Response**

The Master Data Request Form is an internal tool, containing vendor contact information, and in most cases is maintained in the AP SAP system for vendor numbers beginning with series #2, Purchasing Vendors and the series #4, Contractual Vendors. The W-9 form is required for these vendors prior to payment and in all cases is maintained in the SAP system. Neither Master data forms or the W-9 forms are required for vendor numbers beginning with #1, employees, #3, poll-workers and #5, payroll vendors, as the contact information is maintained and managed in either the Empath HR/Payroll system or the Clerk's State Voter Record system. The Administrative Instruction and other department procedures will be revised to incorporate this information.



### **3) *Late Fee tracking***

The County does not separately track late fees within the general ledger. As a result, we were unable to analyze the impact of fees or assess whether these were charged to federal programs.

#### **Recommendation**

An account should be created to separately track fees incurred for delinquent payments on invoices. This will aid in compliance with specific federal program requirements and enable the County to identify, investigate, and assess any consequences of late payments incurred by the various departments.

#### **Management Response**

The Accounts Payable Supervisor has scheduled a mid February meeting of ERP, Accounting, Budget and Purchasing staff to explore the possibility of creating an account to separately track fees incurred for delinquent payments on invoices. If necessary, AP will discuss other possible options for tracking delinquent invoice payment fees.

## **FEBRUARY 2010 ACH AND WIRE TRANSFERS INTERNAL AUDIT REPORT FOLLOW-UP**

We determined the status of the observations noted in the February 2010 ACH and Wire Transfer internal audit report. The status was determined through inquiry, testing, and observation.

### **There is not a comprehensive ACH and wire transfer policy—UNRESOLVED**

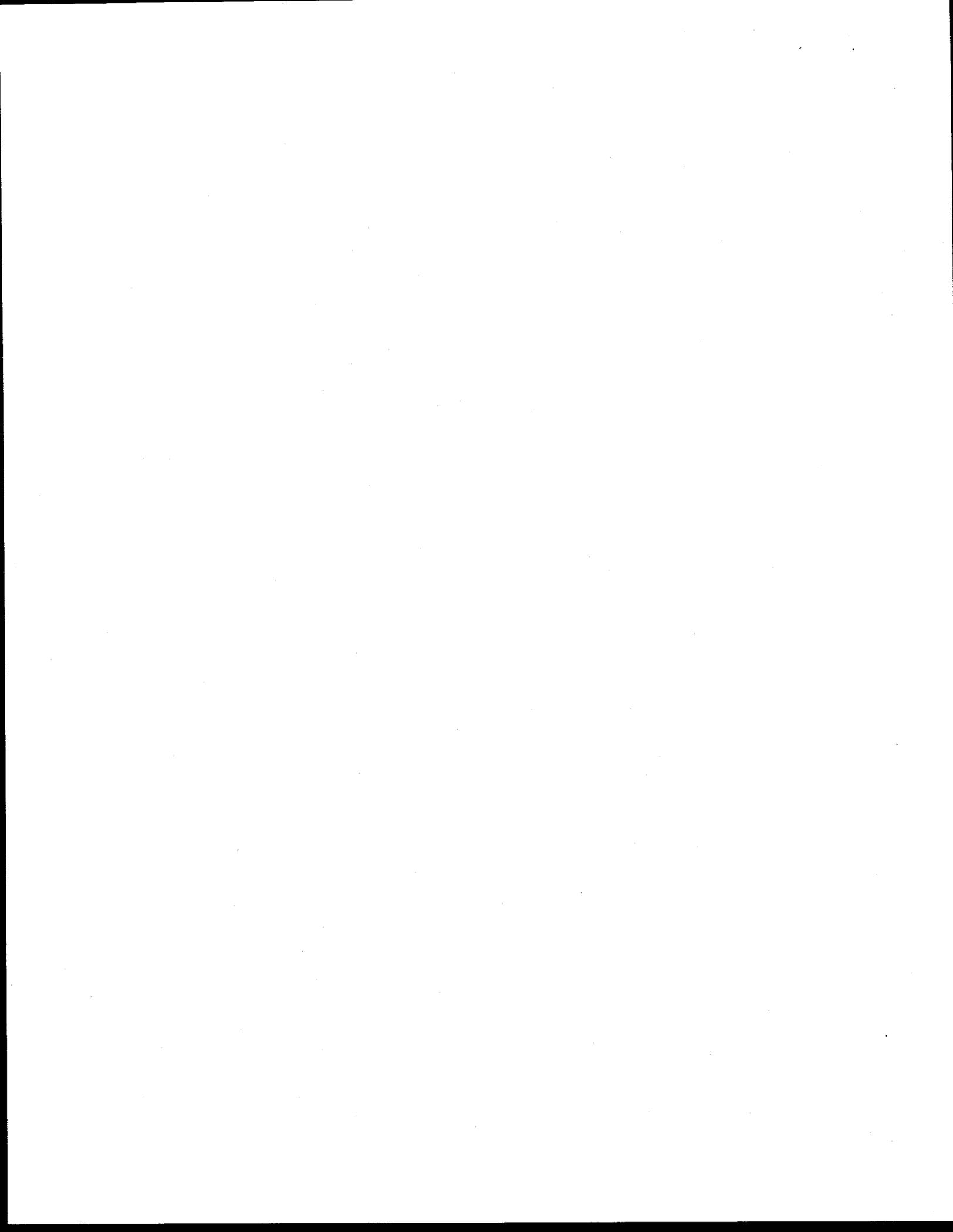
During our testing we found there was not a standardized process of setting up ACH vendors. Twenty-eight of the 56 enrollment forms tested were not kept on file, so we were unable to determine if the vendor information was accurate. The County should develop a comprehensive ACH and wire transfer administrative instruction that includes enrollment form requirements and retention guidelines, payee change procedures, and review and monitoring procedures.

### **AP Management Response-February 4, 2011**

Implementation of the SAP system provided the AP Office with the mechanism to easily provide cost cutting ACH payment options to vendors. As a result of this ability, AP began requiring the ACH enrollment form in April, 2010. All purchasing vendors added to the County Vendor file since April 2010 do have ACH enrollment forms on file. AP is in the process of obtaining enrollment forms from vendors with existing ACH payment method prior to April 2010. Prior to April 2010, with the exception of one, all ACH payments involved payment conveyance to employee payroll vendors. The County did draft an ACH and wire transfer administrative instruction that includes department specific enrollment form requirements, retention guidelines, payee change procedures and a process for reviewing and monitoring. The draft is currently awaiting final approval.

\* \* \* \* \*

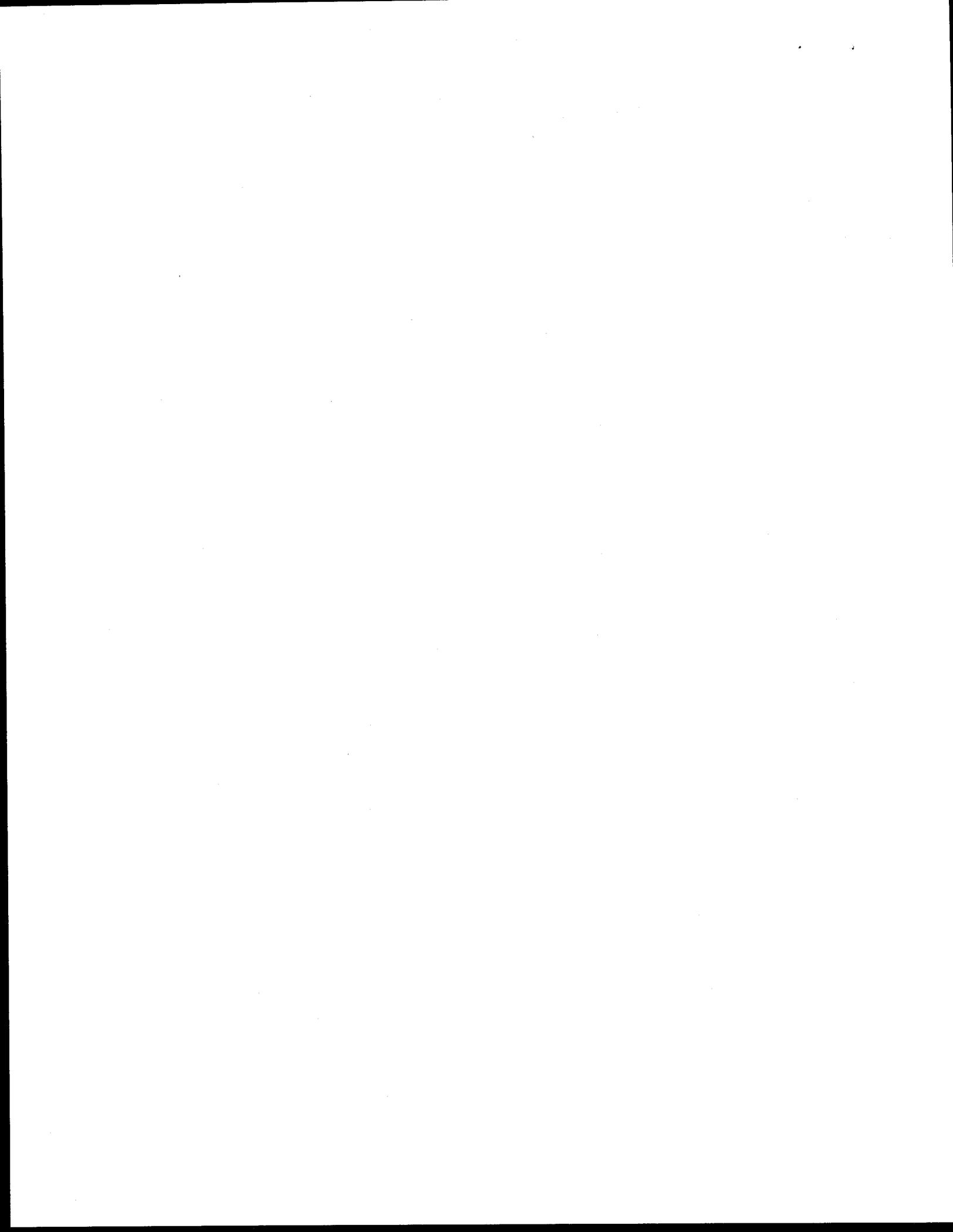
This report is intended for the information and use of Bernalillo County management, the audit committee, members of the board of commissioners of Bernalillo County and others within the



organization. However, this report is a matter of public record, and once accepted its distribution is not limited.

*REDW LLC*

February 02, 2011



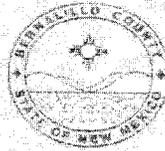
# County of Bernalillo

## State of New Mexico

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DISTRICT 5

TOM ZDUNEK, INTERIM COUNTY MANAGER



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PATRICK J. PADILLA, TREASURER

February 18, 2011

Board of County Commissioners  
County of Bernalillo  
One Civic Plaza, NM 10<sup>th</sup> Floor  
Albuquerque, NM 87102

Re: Internal Audit Reports

Dear Commissioner Maggie Hart Stebbins:

Enclosed are the following Internal Audit Reports for the County of Bernalillo:

- 1) Accounts Payable Internal Audit Report;
- 2) Housing Department Internal Audit Report;
- 3) Sheriff's Department Currency Evidence Account Internal Audit Report.

An executive summary can be found on the first page of the reports, with detailed discussions of the procedures performed and the results of those procedures following.

Should you have any specific questions regarding these reports, please feel free to call our internal auditors at REDW LLC, Steve Cogan, Nita Beth Looks Twice, or Jessica Bundy at 998-3200, or myself at 883-9292.

Sincerely,

Demesia Padilla  
Chairperson  
Audit Committee

cc:

Michelle Lujan Grisham, County Commissioner  
Art De La Cruz, County Commissioner  
Michael C. Wiener, County Commissioner  
Wayne A. Johnson, County Commissioner  
Tom Zdunek, Acting County Manager  
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