

March 1, 2006

**Internal Audit Report 2006-6**  
**Accounts Payable**  
**Finance Department**

**Introduction.** The Accounts Payable Section of the Finance Department's Controller Division is responsible for functions such as processing payments for utilities, training agency accounts payable personnel, maintaining the vendor database in PeopleSoft, verifying documentation, and processing travel expense reports. In addition, the Accounts Payable Section revises and maintains the Accounts Payable Users Guide that outlines the PeopleSoft payment process. In 2000, the central accounts payable function was decentralized. The current payment process includes several Municipal entities: the Ordering Agency, the Accounts Payable Section, and the Treasury Division. The Ordering Agency acknowledges that the goods or services have been received, enters the invoices into PeopleSoft and authorizes the payment of these invoices. The Ordering Agency is also required to maintain sufficient supporting documentation supporting the payment. The Accounts Payable Section reviews the authorization and creates the appropriate check based on the information entered into PeopleSoft. The Treasury Division then prints and distributes the check.

**Objective and Scope.** The objective of this audit was to determine whether vendor payments were for valid Municipal purchases, supported by valid invoices, made to valid merchants, and were properly approved. Specifically, we selected a random sample of 158 accounts payable transactions at various Municipal agencies and examined the supporting documentation for validity. In addition, we reviewed a random sample of 29 refunds/reimbursements to determine if backup documentation was adequate and transactions were properly authorized. Finally, we reviewed applicable policies and procedures to determine if Municipal agencies were in compliance and if the policies mirrored current accounts payable practices.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of October 2005 through January 2006. The audit was requested by the Administration.

**Overall Evaluation.** Overall, selected accounts payable transactions were for valid purchases, supported by valid invoices, made to valid merchants, and were properly approved. However, 6 percent of the payments we tested were not supported by original invoices and 25 percent of the invoices were not paid within 30 days as required by Municipal Policy and Procedure (P&P) 24-19, Processing Accounts Payable Documents in PeopleSoft.

## **FINDINGS AND RECOMMENDATIONS**

### **1. Transactions Not Supported by Original Documents.**

- a. Finding.** Accounts payable transactions were not always supported by original documents in 9 of 158 transactions reviewed (6%). Payments made from anything other than original vendor invoices may not be valid and could expose the Municipality to potential losses. The Accounts Payable Users Guide, referred to in P&P 24-19, states that, “. . . sufficient support documentation justifies the invoice payment.” In addition, P&P 24-7, Authorization of Accounting Transactions, requires that, “. . . every request for payment . . . is supported by documentation adequate to indicate to a reasonable person that the transaction is valid and proper.”
- b. Recommendation.** The Chief Fiscal Officer should remind Municipal departments that appropriate supporting documentation is required for all vendor invoice payments.

- c. **Management Comments.** Management stated, “Management concurs with the finding and the Controller Division Accounts Payable section will provide a quarterly reminder to all departments which emphasizes the requirement for attachment of appropriate documentation to substantiate all vendor invoice payments. The Controller Division will also review and revise Municipal Policy and Procedure 24-19 Accounts Payable Processing during 2006.”
  
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Payments Not Made Timely.**

- a. **Finding.** Vendor payments were not always made timely. We found that in 39 of 158 (25%) invoices tested, payments were made between 31 to 133 days after the invoice was received. In some cases it was difficult to determine if the invoice was paid within 30 days because it was not stamped indicating the date it was received. P&P 24-19 states that, unless certain extenuating circumstances exist, “It is the policy of the Municipality that bills from vendors should be paid within thirty (30) calendar days of receipt of the invoice by Accounts Payable or the ordering agency.” Reasons given for the payment delays ranged from misfiled and lost invoices to a lack of funding. Late payments may result in penalty payments and/or the loss of discounts for the Municipality.
  
- b. **Recommendation.** The Chief Fiscal Officer should remind Municipal departments that P&P 24-19 requires vendors to be paid within 30 days unless valid extenuating circumstances exist.
  
- c. **Management Comments.** Management stated, “Management concurs with the finding and the Controller Division Accounts Payable section will provide a quarterly reminder to all departments which emphasizes the requirement for timely

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payment of all vendor invoices. The Controller Division will also review and revise Municipal Policy and Procedure 24-19 Accounts Payable Processing during 2006.”

- d. Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

**Discussion With Responsible Officials.** The results of this audit were discussed with appropriate Municipal officials on January 17, 2006.

Audit Staff:  
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