

City Accounts Payable

April 1, 2008

Report # 654

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AUDIT REPORT #654

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Suite 200, St. James Building



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Honorable Members of the City Council
City of Jacksonville

INTRODUCTION

Accounts Payable is a function of the City's General Accounting Division and is responsible for processing payments for purchases made on behalf of the City. These include payments to vendors, payments for contractual services, travel reimbursements, and payments for emergency purposes. Accounts Payable has 14 employees, including, a Supervisor, two Account Technician Seniors and 11 Account Technicians. Of the 14 employees, seven are responsible for making payments to vendors; six are responsible for making payments to contractual vendors, processing travel reimbursements and issuing check request and the Accounts Payable Supervisor oversees all of Accounts Payables' activities. During October 1, 2006 to September 30, 2007, Accounts Payable processed 58,886 payments to non-contractual vendors totaling \$176,339,637. A contractual payment is any payment issued by the City to a vendor as part of an existing legal agreement between the City and the vendor. Non-Contractual payments refer to vendor payments that typically originate from a purchase order. In the same period, Accounts Payable processed 154 payments totaling \$1,889,282 through the manual check process. In October 2006, Accounts Payable stopped processing their payments through a system known as Jax2K and switched to using a computer-based procurement and payment system called JaxPro.

STATEMENT OF OBJECTIVES

The objectives of the audit were as follows:

1. To determine whether payments made to authorized vendors by Accounts Payable were accurate.
2. To determine if Accounts Payable made payments in accordance with applicable legal regulations and guidelines.

STATEMENT OF SCOPE AND METHODOLOGY

The scope of our audit included all non-contractual payments to vendors dated October 1, 2006 to September 30, 2007. Our scope also included payments to non-contractual vendors processed with a manual check, which are processed separately from the daily check run. Our audit did not include examining these payments to determine if purchases were initiated in accordance with the City's Procurement Code. We tested through interviews, observations, and examinations of supporting documentation. We verified the information by physically examining a random sample of 360 invoice payments totaling \$1,024,883 processed during this audit period. In addition, we examined a random sample of 25 manual check payments totaling \$312,212.

Our report is structured to identify Internal Control Weaknesses, Opportunities for Improvement and Audit Findings as they relate to our audit objectives. Internal control is a process implemented by management to provide reasonable assurance that Accounts Payable achieves its objectives in relation to the effectiveness and efficiency of operations, compliance with applicable laws and regulations, and reporting. An Internal Control Weakness is therefore defined as either a defect in the design or operation of Accounts Payable's internal controls or is an area in which there are currently no internal controls in place to ensure that objectives are met. An Opportunity for Improvement is a suggestion that we believe could enhance the operations of Accounts Payable. An Audit Finding is an instance where management has established internal controls and procedures, but responsible parties are not operating in compliance with the established controls and procedures.

Suggested Additional Audit Work

In limiting the scope of this audit, we did not pursue the following areas, and as such they should be considered for future audit work:

- Payments made to contractual vendors.
- Payments made to employees or retirees for payroll, pensions, travel reimbursements, or salary advances.
- Payments made for construction and other capital projects.

STATEMENT OF AUDITING STANDARDS

We conducted our audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity, or function under audit. This audit also included an assessment of applicable management controls and compliance with requirements of laws and regulations when necessary to satisfy audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

AUDITEE RESPONSES

Responses from the auditee have been inserted after the respective recommendations to each finding, internal control weakness or opportunity for improvement. We received these responses from the General Accounting Division, via Kevin Stork, City Comptroller, in memorandums dated July 3, 2008 with updates on August 1, 2008 and from the Procurement Division, via Michael Clapsaddle, Procurement Division Chief in a memorandum dated July 1, 2008.

AUDIT CONCLUSIONS

1. Based on the information reviewed, it appears that Accounts Payable made accurate payments; however, because the Procurement Division determines whether purchase orders are to be receipted by dollar amount or quantity, Accounts Payable cannot enforce Standard Operating Procedure 2.3.8, which establishes guidelines for processing payments. Therefore, we

could only verify that the City received the correct quantity of goods in instances where items were receipted by quantity.

2. In most instances, payments were made in accordance with applicable legal regulations and guidelines; however, there is opportunity for improvement.

AUDIT OBJECTIVE #1

To determine whether payments made to authorized vendors by Accounts Payable were accurate.

Finding 1 *Item Quantity*

In our testing of 360 invoice payments, there were 273 (75%) instances in which we were unable to determine if payments were made for the correct quantity of items received because the purchase order allowed items to be receipted by dollar amount. In the 87 instances where purchase orders were set up to be receipted by quantity, we found that Accounts Payable made payments for the correct quantity of items received. The City's Procurement Division is responsible for specifying whether items are to be receipted by quantity or by dollar amount.

Accounts Payable Standard Operating Procedure 2.3.8, which establishes the procedures for payment review in JaxPro states, "Verify that the prices and commodities on the invoice(s) are in agreement with the terms of the Purchase Order and are correctly reflected on the receiving report." The three-way match between the invoice, purchase order, and the receiving report is a control mechanism to ensure payments are made accurately for goods received. However, Accounts Payable is unable to adhere to Standard Operating Procedure 2.3.8 if the Procurement Division does not select the receipt by quantity method when creating the purchase order. In addition, performing the three-way match by comparing just the dollar amount increases the risk of making duplicate payments for items ordered on a routine basis such as water and office supplies.

Recommendation to Finding 1

We recommend that Departments receipt purchases by quantity and unit price whenever possible. Departments should only receipt purchases by dollar amount in instances where the vendor provides a service and the quantity cannot be determined. We also recommend that Accounts Payable perform the three-way match including verification of the item quantity as specified by Standard Operating Procedure 2.3.8. In order to ensure this can be accomplished by Accounts Payable, it is vital that Procurement staff select the quantity receipt method when creating purchase orders whenever applicable.

General Accounting's Response to Finding 1

We agree with the finding and recommendation that departments receipt purchases by quantity and unit price whenever possible. The process is initiated by the department requesting a purchase in JaxPro and the Procurement Division buyer setting up the purchase to be receipted in either dollar or quantity. The encumbrance is then interfaced into the accounting software

FAMIS. Accounting will continue to work with the Procurement Division with classifying purchases using the JaxPro system.

Procurement Division's Response to Finding 1

I have reviewed this finding and recommendation. I agree with this finding and recommendation. This issue has been addressed with Procurement management and staff to reiterate the importance of creating the receipt method in accordance with the bidder's quote/bid. Dollar receipt method is to be used for services that do not have units and unit process and where the quote/bid is "lump sum". Lump sum being that a single price is offered for a particular service/task. This area will be addressed as Procurement management develops a Standard Operating Procedure for the job classifications that are involved with the purchasing process (Buyer, Buyer Assistant, and Buyer Senior.)

Finding 2 *Missing Vouchers*

Accounts Payable was initially unable to locate six of the 385 voucher packets selected for audit testing. Accounts Payable located five of these voucher packets after the completion of our fieldwork. Accounts Payable routinely sends voucher packets to be scanned onto Microfiche or CD-ROM. It is not clear whether the voucher packages were lost or misfiled within the General Accounting Division or during the scanning process at the outside vendor.

Recommendation to Finding 2

We recommend that Accounts Payable send documents for scanning as quickly as possible to make electronic versions available for research and review purposes since electronic versions are less likely to be lost or misfiled. We also recommend that Accounts Payable utilize a tracking system to indicate when voucher packets are accessed and by whom.

Auditee Response to Finding 2

We agree with your finding and recommendation. Accounts Payable (A/P) has not been able to send documents to be microfilmed for much of this fiscal year due to a contract not being in place for microfilming. Information Technology Department (ITD) is the responsible department for this contract and is evaluating responses to their Request for Proposal (RFP). Once the contract is awarded, Accounting can start sending documents to be microfilmed. According to the RFP specifications, the current contract, when awarded, will be through September 30, 2008 with two (2) one year renewal options. ITD will issue a release against the master blanket order for the remaining months of FY2008. Beginning October 1, 2008, Accounting will issue a release against the master blanket order for this service in FY2009.

We agree with a tracking system for accessing check documentation. The procedure has been revised and notice has been given that anyone who wishes to receive documents from the A/P file must see the clerk at the check run desk.

Finding 3* Manual Check Process *

In our sample of 25 voucher packages for manual checks, we noted six (24%) instances where there was no evidence of authorization by the City Comptroller for the preparation of manual checks. According to Standard Operating Procedure 2.2.5 which establishes the procedure for processing manual checks, the first step in manual check preparation is to "get approval to

produce a manual check from the Comptroller or his designee.” In addition, the voucher packages did not provide enough information to evaluate the level of compliance with Standard Operating Procedure 2.2.5, which states that the purpose of a manual check is, “to respond to an emergency need for payment prior to the next check run.”

Recommendation to Finding 3

We recommend that Accounts Payable document within the voucher packages, compliance with the requirements of Standard Operating Procedure 2.2.5. The record maintained for a manual check should contain the approving signature of the Comptroller or his/her designee, justification for the emergency payment, and any supporting documentation. We also recommend that the Accounts Payable Supervisor or his/ her designee periodically review manual checks to monitor the frequency of their usage. The reviewer should note if an employee is processing an abnormal amount of emergency checks as this could indicate either an attempt to circumvent the normal payment process or frequent errors by the account technician.

Auditee Response to Finding 3

We agree with the finding and recommendations. The discrepancies in the sample voucher packages reviewed by the auditors were due to a problem with the payroll upload which caused multiple manual checks needing processed. A verbal authorization by the Comptroller had been given for these manual checks and most were signed off by the Comptroller, but due to an administrative oversight, six did not have the Comptroller’s signature signifying authorization.

Modifications have been made to have the Comptroller or a designee sign a spreadsheet that lists all manual checks, the vendors being paid, an explanation as to why we are issuing the checks, and the amounts. This will be kept on file in A/P for review by the A/P supervisor.

Internal Control Weakness 1* Credit Memos*

We observed that neither JaxPro nor FAMIS (the City’s general ledger) are utilized to track credit memos although the capability is available. A vendor issues a credit memo to the City in order to reduce or eliminate the amount that the City has to pay the vendor as an amendment of the original invoice issued previously. Vendors typically issue credit memos for damaged goods, errors, or allowances. Account Technicians keep the memo as a reminder to reduce the payment amount of the next invoice since the original invoice that generated the credit has already been paid. Accounts Payables’ technique of handling credit memos increases the risk of making duplicative payments because payments are not linked to the corresponding invoice and the invoice reduced by the credit memo appears to have an unpaid balance on the system. Tracking credit memos manually also increases the risk of overpaying the vendor because Accounts Payable personnel may not remember to apply the credit to the next invoice received.

Recommendation to Internal Control Weakness 1

We recommend that Accounts Payable utilize the FAMIS module of managing credit memos, or develop a suitable alternative that matches payments to the corresponding invoice.

Auditee Response to Internal Control Weakness 1

We agree with the recommendation to use the FAMIS module of managing credit memos. The current method being used was a work around due to a short coming in the FAMIS software.

At the time of this audit, the FAMIS module of managing credit memos was being reviewed. Since then, A/P has tested the credit module in FAMIS and the test has proven successful. A/P expects to go live with the use of the FAMIS tracking module in early July. We will have SOP's developed for the process ASAP.

Internal Control Weakness 2* Account Technicians cannot correct invoices *

Account Technicians routinely alter the invoice number in order to process payments because JaxPro does not permit the same invoice number to be entered twice for the same vendor. This system control is intended to prevent duplicate payments. However, if an Account Technician makes an error while processing a payment, JaxPro does not allow the technician to delete the entry and reenter the payment information. A typical alteration would involve putting an "A" or "." after the original invoice number so that JaxPro recognizes it as a different invoice and accepts the payment. We also observed that if an Account Technician encounters a problem requiring additional research, he/she will cancel the entry in JaxPro; however, the cancelled entry remains stored in JaxPro and the account technician will not be permitted to prepare a payment unless the invoice number is altered.

Recommendation to Internal Control Weakness 2

Accounts Payable should prohibit employees from altering invoice numbers to process payments. We recommend that JaxPro be modified to allow the Accounts Payable Supervisor and an Account Technician Senior to correct payment entries before the payment entry is finalized. The Accounts Payable Supervisor and Account Technician Senior should be the only individuals with this ability. We also recommend that the Accounts Payable Supervisor monitor the number of entries corrected to determine if a staff member is making errors frequently that may need additional training.

Auditee Response to Internal Control Weakness 2

We agree with the first recommendation, but implementation is hindered due to limitations in JaxPro. Please note that payment processing for JaxPro generated purchases are entered through JaxPro. Once an invoice is entered into the JaxPro system, it stays there and no corrections can be made, even if an incorrect invoice is entered. For example, if an invoice is entered and the transaction for that invoice has to be corrected or voided, the technicians cannot enter that particular invoice number again. A new invoice number has to be created for the correction. Accounting has tried several times to get the JaxPRO system modified with an invoice maintenance process but to no avail. We will continue to address this need with the Procurement Department. We do not agree with the second recommendation that only the A/P Supervisor or a team leader be the ones to process invoice corrections. There are many instances where the Account Technicians can and should handle these themselves. At the beginning of the JaxPro system there were quite a few errors due to our unfamiliarity with the new system. Since then and as our Account Technicians become more familiar with the system, the number of errors has diminished. Although we do not have a case by case count on the number of errors, we agree on monitoring the number of errors and have started collecting a record of any and all checks that get voided on a daily basis and why they were voided. The A/P Supervisor can then review who is making errors and take appropriate action.

Internal Control Weakness 3* Access to Vendor Information Table*

We identified fourteen individuals that have direct access to the vendor table in FAMIS; this table is used to store vendor information including the name and address. In addition, Accounts Payable and Procurement staff have the ability to create or update vendor information in JaxPro, which updates the information in FAMIS. Segregating duties between those that have access to update vendor information and those that can create a payment request is considered a good internal control mechanism. Easy access to vendor information increases the risk of fraudulent activity by the creation of fictitious vendors or the diversion of vendor payments to a different address or payee.

Recommendation to Internal Control Weakness 3

We recommend that the ability to create a new vendor, delete a vendor, or edit vendor information in JaxPro be assigned to Accounting personnel outside of Accounts Payable. Accounts Payable should submit any vendor changes to the designated Accounting personnel for modification. Access to the vendor table in FAMIS should be limited to individuals that do not have the ability to create or request payments.

Auditee Response to Internal Control Weakness 3

We agree that the segregation of duties is an important internal control mechanism. Short of the segregation of duties, compensating controls are in place throughout FAMIS to offset the opportunity for fraudulent payments. Even though certain A/P staff has access to both vendor set up and payment processing, all payments processed require higher level approval before said payments can proceed to a check. Secondly, said payments also go through a daily match up and review which require supporting documentation to be matched up and scrutinized against the check. We believe these controls more than compensate for the lack of segregation of duties.

In reference to the recommendation for personnel outside of A/P having access to the vendor setup table, this is being allowed due to the volume and necessity to accomplish a certain task or demand. We are reviewing their accounts payables process to ensure either segregation of duties or the existence of compensating controls.

Opportunity for Improvement 1* Combining Invoices*

Account Technicians frequently combine invoices when entering payment information into JaxPro. The system used before the conversion to JaxPro allowed for invoices to be combined when processing payments and the perception of Accounts Payable staff was that combining invoices reduced payment processing time. The practice of combining invoices makes it difficult to analyze payment information because it is challenging to separate important information such as the invoice amount or the quantity received. The way information is entered and stored in JaxPro makes the data unsuitable for use as a decision making tool. The JaxPro system limits the invoice field to 25 characters, which indicates that JaxPro was not designed to have multiple invoices combined into a single entry.

Recommendation to Opportunity for Improvement 1

We recommend that Account Technicians be prohibited from combining invoice numbers when processing payments. The FAMIS system combines all payment vouchers with the same vendor name automatically during the nightly check run; therefore, creating a separate voucher for each

invoice should not significantly increase the number of checks printed by the Treasury Division. Based on our observations, combining invoice numbers does not appear to materially reduce the payment processing time and we believe that the benefits outweigh any increased processing time.

Auditee Response to Opportunity for Improvement 1

We agree it would improve the ability to analyze payments if invoices were not combined in the processing phase, but are concerned of the inefficiencies this would create in the general process. We agree to conduct a time and motion study to determine whether processing time is materially impacted. If it proves not to materially alter processing time, we will implement your recommendation.

Opportunity for Improvement 2 *Post Audit Process*

The Accounts Payable payment review process appears to be duplicative. Standard Operating Procedure 2.3.8 establishes procedures for Account Technicians to review their colleagues' entries before the daily check run. Accounts Payable created this review to reduce the occurrence of processing errors; however, it appears that the Accounts Payable staff spends about half their time reviewing their colleagues' entries. The current method for processing payments is as follows: an account technician makes a payment entry, another account technician reviews the entry, the Treasury Division prints the check, another accounts payable staff member reviews a copy of the check printed by the Treasury Division before the payment is issued to the vendor. Errors detected in this second review require the check to be re-printed, creating additional work for the Treasury staff and potentially causing delayed payments. We were unable to assess the effectiveness of the two separate reviews in preventing erroneous payments because Accounts Payable does not maintain any records or track the frequency of errors, the types of errors detected in the review or note if a particular employee is consistently making errors; however, the process appears duplicative.

Recommendation to Opportunity for Improvement 2

We recommend that Accounts Payable establish a method of tracking the effectiveness of the review process, showing how many errors the reviews detected, the type of error, what caused the error, if a staff member is consistently making errors and how the error was rectified. Based on the number and type of errors found during the review process, the cost of utilizing staff for half a day to perform the review may not be justified. An excessive number of errors by Accounts Payable staff may indicate the need for additional training.

Auditee Response to Opportunity for Improvement 2

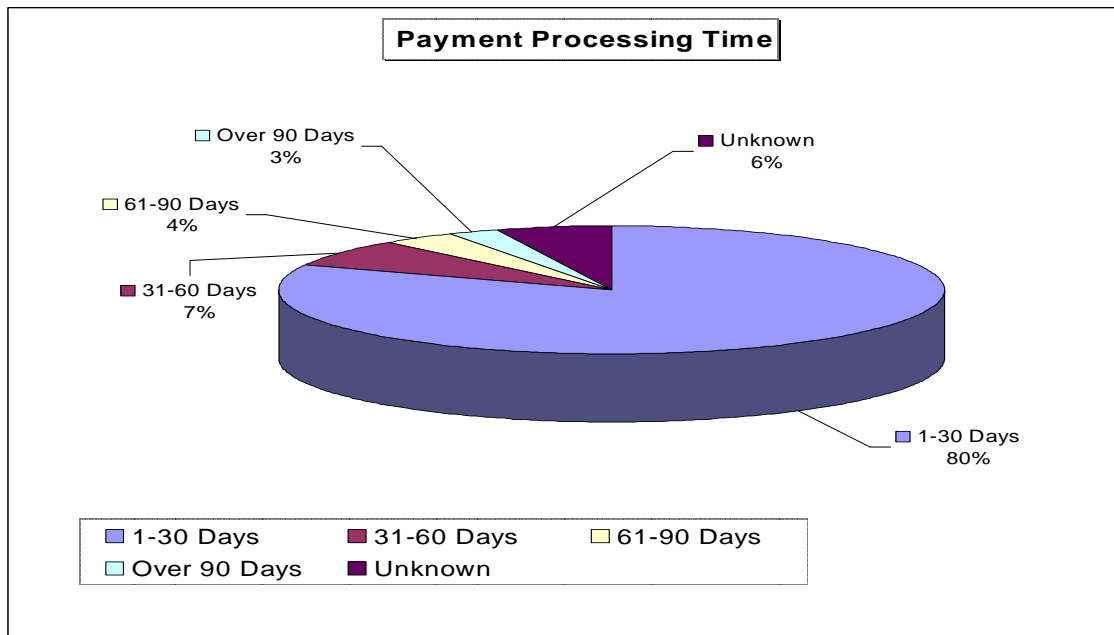
We agree with the recommendation that there should be some kind of monitoring of the account technicians' errors. The A/P Supervisor and the A/P Manager recognize the need to keep track of this information and have implemented a system for when payments are mis-keyed; the A/P Supervisor will sign off on the correction. A copy of the correction sign-off is kept along with a log as to who made the error and what the error was. The A/P Supervisor then gives the information to the appropriate Account Technician for correction.

AUDIT OBJECTIVE #2

To determine if Accounts Payable is making payments in accordance with applicable legal regulations and guidelines.

Finding 4* Payment Processing Time*

Accounts Payable is not meeting the General Accounting Division's performance objective of paying 90% of invoices within 30 days of receipt. We tested a random sample of 360 invoices processed during the year by comparing the date the invoice was received to the date payment was prepared. The chart that follows shows the results of our testing. Accounts Payable paid approximately 80% of invoices within 30 days of receiving the invoice. We were unable to calculate the number of days that elapsed in 20 instances (6%) because the invoice could not be located or the date stamp on the invoice was not visible. The Accounts Payable Supervisor informed us and our observations confirmed, that some City Departments insist on receiving the invoice before receipting the item in the procurement system. Accounts Payable estimates that it sends approximately 200 invoices daily to City Departments. The practice of Departments receiving invoices or refusing to receipt purchases in a timely manner lengthens the payment time and hinders the General Accounting Division from achieving its performance objective of paying 90% of invoices within 30 days of receipt.



Recommendation to Finding 4

Generally, Departments should not receive invoices; however, we recognize that in some instances, it may be inefficient for Accounts Payable to receive the invoice (e.g., Fleet Management receives multiple deliveries of vehicle parts daily, and the invoices are provided at the time of delivery). Therefore, we recommend that Accounts Payable identify those Departments permitted to receive invoices directly. All other Departments should be required to inform vendors to submit invoices directly to Accounts Payable. Departments should be required

to complete the receiving report as soon as the service or good is provided. We also recommend that Accounts Payable no longer mail invoices to Departments. We acknowledge that some Departments may need to maintain a copy of the invoice in special situations. On these rare occasions, we recommend that Accounts Payable send the invoices electronically.

Auditee Response to Finding 4

We agree with the finding and several of the recommendations. We agree that invoices should come to Accounting and have asked the Procurement Department to reiterate that at meetings with vendors and on the purchase orders. Due to concerns from various departments/divisions, Accounting has been hesitant to implement additional changes until the JaxPro process is working better. Also, some departments that have reimbursable grants need the invoice as documentation for their grant packages.

One of the features of the JaxPro system is that departments are to receipt the merchandise from the packing slip when it arrives. Once receipted, Accounting matches the invoice to the receipt information, checking the invoice against the purchase order for accuracy and releasing for payment. Many times the receipting does not happen timely due to the fact that the person receiving the goods in the field is not necessarily the person receipting the goods in the system. In most instances the person receiving the goods usually signs the packing slip and sends the packing slip to another location within that department to be receipted by someone else. We are working with the Administrative Services Division to improve the receipting process.

A shortcoming within the JaxPro system is that there is not an automatic notification or alert as to when a receipt is made or an invoice is received. It would be very helpful if the JaxPro system would alert the Department if an invoice is entered or alert Accounting if a receipt is entered into the JaxPro system.

We agree that the invoices should be sent to the departments electronically. The method of sending and receiving invoices electronically is still in discussion.

Finding 5* Florida Prompt Payment Act*

Thirty-three (9.2%) of the 360 invoices we reviewed were not paid within the 45 day payment period mandated by the Florida Prompt Payment Act. The actual percentage may be even higher because we were unable to calculate the number of days that elapsed in 20 instances (6%) because the invoice could not be located or the date stamp on the invoice was not visible. We compared the date the invoice was received to the date payment was prepared. Florida Statute Chapter 218 Part VII, commonly referred to as the Florida Prompt Payment Act (FPPA), establishes a policy that “payments for all purchases by local governmental entities be made in a timely manner.” Proper invoices must be paid within 45 days of delivery to an agent, employee, entity, facility, or office of the local government. If a payment is not received within the 45-day timeline, the vendor is permitted to charge the local government interest of one percent each month until payment is received. If the total interest payments for the fiscal year exceed \$250, the local government is required to report the number of interest payments and the total amount of such payments to the municipal governing body (e.g. the City Council). We were unable to determine if the City was required to make interest payments because Accounts Payable could not provide a record of interest payments made during the fiscal year.

Recommendation to Finding 5

We recommend that Accounts Payable revise the method used to track the timeliness of payments. An effective tracking system should alert personnel and supervisors of outstanding invoices as they near the 45-day deadline. Accounts Payable should report interest payments to the City Council annually as stipulated by the Florida Prompt Payment Act.

Auditee Response to Finding 5

We agree with the recommendation and are currently reviewing our present method of checking for on time payments. Each month we take a random sample and notify departments (their Division Chiefs) when they are not processing payments timely. Research of payments for the over 45 day payment date usually renders problems with the vendor invoicing prematurely (before the service is complete or inspected), inaccurately, or sending the invoice to the Department instead of the Accounting Division as listed on the Purchase Order. For the current fiscal year, to the best of my knowledge, we incurred a late fee of \$50 to one vendor, but we have had subsequent discussions with the vendor and we will receive a credit of \$26 on the late fee. We are reviewing some ways to record late payment fees and are continuing to work and improve this process, but are constrained by the limitations of the existing financial and procurement systems of the City.

Opportunity for Improvement 3 *Promote ACH payments

In the population of 58,886 payments issued to non-contractual vendors, 2,378 (4%) were made through ACH disbursements. ACH is an acronym for the Automatic Clearing House, a nationwide electronic funds transfer network that enables financial institutions to distribute electronic deposits and withdrawals to bank accounts. ACH payments are a widely accepted form of issuing and receiving payments due to the convenience and cost-effectiveness of this method of electronic payment. ACH payments benefit the City by reducing the printing and mailing costs associated with preparing a paper check, reducing the risk of a check being intercepted and fraudulently cashed, and by reducing the time it takes vendors to receive payment.

Recommendation to Opportunity for Improvement 3

We recommend that Accounts Payable work with the Procurement and Treasury Divisions to implement a method of encouraging vendors to accept ACH disbursements.

Auditee Response to Opportunity for Improvement 3

We agree with encouraging vendors to be paid via ACH and A/P has promoted the ACH program when speaking with its vendors. Treasury sent out an initial notification of the program, but some vendors have expressed their dislike for the ACH stating that it is difficult to determine what the payment is for. At present, Treasury sends a notice to the vendor letting them know that a payment from the City will be credited to their bank account and which invoices the City is paying. ITD and Treasury are working on a better communication process for this notification. If a vendor picks up his check from Treasury, the vendor is requested to enroll in the ACH program at that time.

OVERALL OPPORTUNITIES FOR IMPROVEMENT

General recommendations for improving Accounts Payable based on our observations, interviews, and data testing include the following:

Opportunity for Improvement 4 *Update Standard Operating Procedures*

Accounts Payables' Standard Operating Procedures do not appear to be reviewed and updated on a regular basis. Although, the Performance Management goals for the General Accounting Division include creating and updating Standard Operating Procedures, the majority of these procedures have not been updated since year 2000. The General Accounting Division has undergone several changes since that time and these SOPs do not reflect the current operations of Accounts Payable. The Accounts Payable supervisor informed us that these procedures are reviewed annually; however, the SOPs we received do not indicate that the review occurred. The current standard operating procedures are task oriented and address issues such as how to process check requests and store voucher packets; however, these Standard Operating Procedures seldom address control issues such as the oversight responsibilities of the Accounts Payable Supervisor and the Manager of Accounting Services.

Recommendation to Opportunity for Improvement 4

We recommend that Accounts Payable revise their standard operating procedures to establish policies for their current mode of operations. We also recommend that the General Accounting Division develop written policies on internal controls relating to Accounts Payable.

Auditee Response to Opportunity for Improvement 4

We disagree with the conclusions reached in that Account Payables does have SOPs that reflect their current mode of operation. The A/P Supervisor reviews and revises these SOPs continuously and at the end of each fiscal year sends a revised copy to our Accounting Systems section to be published on the City's portal. Due to a miscommunication between the Accounts Payable Supervisor and his staff, the updated and revised date fields were not changed. Additionally, the updated SOPs for last year did not get published on the portal, but we have SOP(s) reflecting our current operations on the shared drive in accounts payables. In the future, all updated SOPs will have the date fields changed and will be sent electronically to the Accounting Systems for publishing. The A/P Manager or her designee will check the portal to ensure publication

We appreciate the assistance and cooperation we received from City Accounts Payable and the Procurement Division throughout the course of this audit.

Respectfully submitted,

Kirk A. Sherman, CPA
Council Auditor