



Office of the City Auditor

*Committed to increasing government efficiency, effectiveness,
accountability and transparency.*

City Auditor's Report: **2016-01**

Issue Date: **September 8, 2015**

Audit of:

DEPARTMENT OF FINANCE Accounts Payable Division

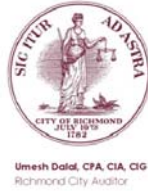
Significant improvements are needed in controls over the Accounts Payable function



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Richmond City Council

The Voice of the People

Richmond, Virginia

Office of the City Auditor

Executive Summary

September 8, 2015

The Honorable Members of the Richmond City Council
The Honorable Mayor Dwight C. Jones

Subject: Department of Finance – Division of Accounts Payable Audit Report

The City Auditor's Office has completed an audit of the City's Accounts Payable Division. The Division processed approximately 98,000 payments totaling more than \$1.8 billion through the City's disbursement bank account during the 18 month audit period ending December 31, 2014. Due to the magnitude of the City's resources exposed, the discrepancies found in this report need to be corrected in a timely manner.

The report includes the following salient findings:

- The controls over the Accounts Payable function need significant improvements as resources equal to the City's entire budget are being expended through the Accounts Payable Division. Some of the control deficiencies could potentially result in significant financial losses for the City.
- One of the major vulnerabilities of any accounts payable process is the ability to abuse the set-up of a vendor in the system. It is relatively easy to set-up a new vendor account in RAPIDS.
- The auditors found that the basic control of a three way match was eliminated. Although, the record of receivers existed, approximately 34% of the paid invoices, totaling approximately \$142 million, were paid without using the three way match control. Other serious control deficiencies were noticed during the audit. The auditors found no occurrence of fraud. However, if fraud was occurring due to control deficiencies, it may not be detected timely.
- Deficiencies in the newly implemented system (RAPIDS) and a lack of appropriate training and communication related to the centralization of the Accounts Payable function resulted in delayed payments to vendors.
- Bank reconciliations were delayed and showed accounting and procedural discrepancies.

Management responses to this report are included in Appendix A. The City Auditor's Office appreciates the Finance Department's cooperation during this audit.

Sincerely,

Umesh Dalal

Umesh Dalal, CPA, CIA, CIG
City Auditor

cc: Selena Cuffee-Glenn, Chief Administrative Officer
The Richmond City Audit Committee
Lenora Reid, Deputy Chief Administrative Officer of Finance and Administration
Edward Gibbs, Director of Procurement Services

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Introduction, Objectives, and Methodology

The City Auditor's Office has completed an audit of the City's Accounts Payable Division (AP) for the 18 month period ended December 31, 2014. The objectives of this audit were to:

- Evaluate the efficiency and effectiveness of operations, which consisted of evaluating the:
 - Effectiveness of centralizing the Accounts Payable Division
 - Timeliness and accuracy of payments
 - Existence and rectification of duplicate payments
- Determine the existence and effectiveness of internal controls, including the verification of:
 - Timeliness of bank reconciliations
 - Segregation of duties
 - Identifying and addressing the risk of inappropriate payments
- Verify compliance with laws, regulations, and policies; specifically, the following requirements:
 - IRS Form 1099 guidelines
 - Code of Virginia (Prompt Payment Act)
 - Code of Virginia Title 55, Chapter 11.1 (Disposition of Unclaimed Property)
 - Compliance and approval of expenditures

The auditors conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those Standards require that the auditors plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions based on the

audit objectives. The auditors believe that the evidence obtained provides a reasonable basis for their findings and conclusions based on the audit objectives.

The auditors performed the following procedures to complete this audit:

- Interviewed management and staff;
- Reviewed and evaluated relevant policies and procedures and tested for compliance;
- Reviewed and analyzed Accounts Payable data;
- Conducted walkthroughs of the Accounts Payable processes; and
- Performed other tests, as deemed necessary.

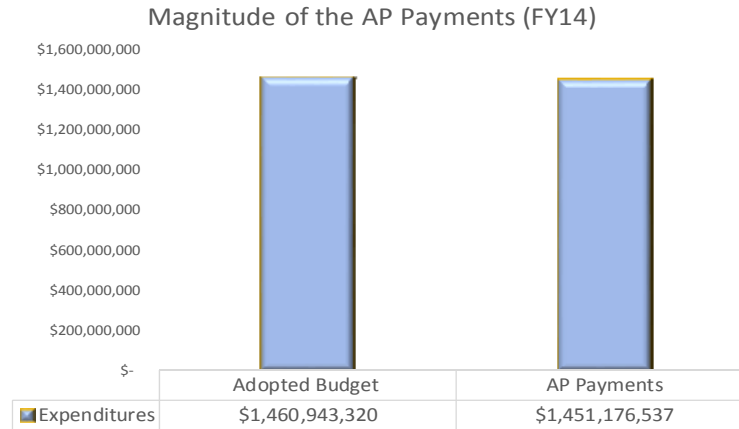
Management Responsibility

The City management is responsible for ensuring resources are managed properly and used in compliance with laws and regulations; programs are achieving their objectives; and services are being provided efficiently, effectively, and economically.

Background

The citywide accounts payable payment processing is a centralized function within the Finance Department. The AP Division is staffed with one Controller, one Assistant Controller, three Accounts Payable accountants, six Office Support Specialists, and one Account Specialist. Due to several vacancies in the above positions, the AP Division hired six temporary employees for keying and processing vendor payments.

The AP Division processed approximately 98,000 payments totaling more than \$1.8 billion through the City's disbursement bank account during the 18 month audit period. The significance of this activity can be demonstrated by the following bar graph:



The above information indicates that the City's entire budgeted expenditures are spent through the accounts payable system.

Accounts Payable Best Practices

The auditors researched several sources (i.e. AICPA, ICMA, ALGA, GFOA, and others) for best practices that could be beneficial to the City's Accounts Payable Division. Best practices are proven processes for improved performance. If implemented, identified procedures could improve the efficiency and effectiveness within the AP Division. Some of the AP best practices include:

- *Implementation of procurement cards*: cards can be issued to people who make frequent purchases. This process eliminates the multitude of supplier invoices by consolidating them all into a single monthly credit card statement.

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- *Automated three-way match*: this process uses a computer system to perform the matching work.
- *Digitize accounts payable documents*: documents are scanned and electronically stored in a computer database. It reduces data entry and archiving costs, and facilitates accessing needed documents by stakeholders.
- *Shrinking the supplier database*: shrinking the supplier database reduces a variety of data-entry tasks.
- *Issue ACH payments with remittance details*: when ACH payments are issued to participating suppliers they may not have supporting detail for the payments. Issuing detailed ACH payments could potentially eliminate extra contact between the locality and the supplier.
- *Utilize ACH blocks and filters*: ACH blocks and filters stop any attempt by an outside entity to process an ACH transfer and remove funds from a checking account without authorization.
- *Utilize reconciliation tools*: reconciliation tools allow governments to extract information from their bank or have information sent from their bank to assist in performing period-end reconciliations.
- *Reconcile*: require daily staff reconciliations of wires and ACH releases.

OBSERVATIONS AND RECOMMENDATIONS

Weakness in Internal Controls Could Lead to Abuse

**Internal Controls
over accounts
payable need
improvement**

According to the Government Auditing Standards, internal control, in the broadest sense, encompasses the agency's plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. An effective control structure is one that provides

reasonable assurance regarding:

- Efficiency and effectiveness of operations
- Accurate financial reporting
- Compliance with laws and regulations

The overall conclusion of internal control testing is:

Based on the audit procedures followed, the auditors concluded that:

- The controls over the accounts payable function need significant improvements as resources equal to the City's entire budget are being expended through the Accounts Payable Division. Some of the control deficiencies have the potential of resulting in significant financial losses.
- We found no occurrence of fraud. However, if fraud was occurring, it may not be detected timely. The controls continue

to be weak due to inadequate staffing, lack of proper oversight, and lack of formal processes. Considering the magnitude of resources exposed to these deficiencies, a forensic audit to provide assurance about the City's fraud exposure is in order.

Several factors contributed to the above conclusions, which are discussed in this report.

Updated Policies and Procedures were Not Available

During the audit period, the Accounts Payable Division lacked updated comprehensive policies and procedures. Without updated policies and procedures, staff may not receive guidance in performing their duties. This may result in errors and inconsistencies in accounts payable processing.

Recommendations:

- 1. The Director of Finance needs to update and implement formal policies and procedures relating to Accounts Payable.***
- 2. The Director of Finance needs to ensure that Accounts Payable and citywide staff supporting accounts payable are trained on the updated policies and procedures.***

Process for Centralizing Accounts Payable was Inadequate

In July 2013, the City implemented RAPIDS, an Enterprise Resource Planning (ERP) system. It has the ability to share data, such as vendor information that is stored centrally, used, and updated across the City departments.

The AP Division did not receive additional staffing for centralized invoice keying process

In addition to the new system, the Accounts Payable Division restructured from decentralized to centralized accounting operations. Previously, the processing of invoices was completed by the various departments throughout the City. Once invoices were keyed into the system by the departments, the invoices were routed to Accounts Payable for payment. The new centralized process routed all invoices to Accounts Payable for keying into the system and payment. The centralized process could improve efficiencies and controls if it were implemented appropriately. Implementation of this process required all of the invoices citywide to be directed to and received by the Accounts Payable Division in order to accomplish data entry of the invoice information. However, the AP Division did not receive any additional staff to accomplish this substantial assignment. This created a huge backlog of invoices that needed to be processed.

Lack of proper training may have contributed to delayed payments

The auditors found that policies and procedures for the new process were not provided to the departments. In addition, it appeared that the departments did not have any training or detailed communication related to the change in the process. This created inconsistent practices across the City.

The City departments do not have visibility of the Accounts Payable's receipt of invoices. Some of the departments used this situation as a reason for not documenting receipts in the system. However, the receipt of goods and services does not depend upon when the invoice was received. Therefore, the departments should update the system when goods and services are delivered. Not keying in the receivers, hinders the AP staff's ability to verify if goods and services are received prior to payment. One of the major reasons for untimely payment can be attributed to this cause.

The auditors found that RAPIDS allowed departments to record receipts of goods and services in the system, which can be used by accounts payable to make payments without delay. However, it appears that due to lack of proper communication between Accounts Payable and departments, this capability was not consistently used.

Recommendations:

- 3. The Director of Finance needs to require that invoices received by the Accounts Payable Division are scanned timely and made visible to the City Departments.***
- 4. The Director of Finance needs to require that all changes made to the payment process are communicated timely to all departments.***

Vendor Set-up Needs Significant Improvement

One of the major vulnerabilities of any accounts payable system is the ability to set-up a vendor in the system. Any failures in this area could be abused. At the City, any vendor can register online with the Department of Procurement Services. To set-up a vendor account in RAPIDS, the prospective vendor needs to provide the following information:

- Company name
- Email
- Last name
- Address

It is relatively easy to set-up a new vendor account in RAPIDS

In addition, the vendor must provide an IRS form W-9. This form requires a taxpayer identification number. This identification number can be obtained online from the IRS website by submitting the following information depending on the type of business:

- Valid taxpayer identification number
- Business Name or Individual
- Type of entity
- Address
- Reason for applying
- Payroll liability information

The auditors reviewed W9's from the vendors and found that some of the forms tested were incomplete. The Department of Procurement Services also verifies the vendor's identity by checking the validity of their taxpayer ID with the IRS. The user departments are not involved in verifying the vendor account set-up in RAPIDS.

The above process indicates that it is not difficult to set-up a vendor account in RAPIDS. Once a vendor account is set-up and validated by Procurement Services, payments can be made to this account. If the vendor name is similar to an existing vendor, the process currently could allow using the newly set-up vendor to divert the payments. This is a significant control weakness.

Recommendations:

5. *The Director of Procurement Services needs to require vendor accounts that are set up and activated within the City's Supplier Portal be verified by the City Departments as a valid vendor to be used for City business.*

6. *The Director of Procurement Services needs to require that all documentation to support vendor accounts is accurate and complete.*

Three-Way Match Control was Eliminated

Three-way match is a basic control, which ensures that:

- The City pays for the goods or services ordered (Source: Purchase Order)
- The City actually has received the goods or services ordered (Source: Receiving Report)
- The vendor charges the City for the agreed upon prices and the quantities ordered (Source: Vendor Invoice)

Elimination of three-way match has compromised internal controls

Recently, the City eliminated the requirement for verifying the City's receipt of goods and services. Therefore, the Accounts Payable personnel can now pay for the charges for which an open purchase order exists. This change has further weakened internal controls.

The auditors determined that during the audit period, approximately 34% of the paid invoices, totaling approximately \$142 million showed evidence of using invoices and purchase orders only. The system was not properly configured to show evidence of all corresponding receipts. Subsequently, the auditors found all but one of the sample receipts in the procurement module of RAPIDS. It is not clear if the Accounts Payable Division actually verified the existence of receipts relating to these payments.

**Public Works
acknowledged
receipt of goods
and services
although they may
not have actually
received them**

The auditors found that the three-way match function did not work as intended. Some departments using the system did not provide proper information for the function to work. For example, the Department of Public Works acknowledged receipt of goods and services five days after the date of the purchase order irrespective of the fact that they may not have actually received the procured goods and services. This action defeated the purpose of the three-way match.

During the inquiries, the auditors found the following:

- Accounts Payable personnel have the ability to pay an invoice without a receipt on the purchase order;
- Accounts Payable personnel can establish new vendors. This is a procurement function, but a number of the Accounts Payable staff (including temporary employees) have the COR Payables Manager authority in RAPIDS that allows vendor set up to occur. Ten of the 13 Accounts Payable staff have the ability to set up a vendor and process payments;
- According to Finance personnel, the three-way match is no longer being used as a result of a recommendation from the RAPIDS implementation consultant;
- Accounts Payable personnel can override a purchase order and pay invoices in excess of the established/remaining purchase order amounts;
- Accounts Payable personnel have the ability to pay the same invoice twice.

Serious internal control weaknesses exist such that abuse of City resources may not be prevented

The above observations represent a serious weakness in the internal control system. It indicates that the accounts payable process can be abused. If it is being abused, it is not easy to identify the abuse. A forensic audit of this process may be necessary to verify if the process is being abused and to what extent. The accounts payable process and related controls have weakened in comparison to the 2007 audit report over the same process.

Recommendations:

- 7. The Director of Finance needs to mandate that the three-way match process be reinstated as a requirement for invoice processing.***
- 8. The Director of Finance needs to determine if the ability to implement an automated three-way match process is feasible.***
- 9. The DCAO of Finance and Administration needs to consider having a forensic audit conducted on the Accounts Payable Division.***
- 10. The Director of Finance needs to require that the supplier function that allows for the Accounts Payable staffs' ability to set up vendors be removed from the COR Accounts Payable responsibility.***

Bank Reconciliations were Delayed and Showed Discrepancies

Bank reconciliations showed accounting and procedural discrepancies

The auditors learned that the disbursement bank account reconciliations were behind schedule by at least seven months. The City processes the majority of its non-payroll related payments through this account. The auditors examined reconciliations for FY14. The auditors could not determine if the reconciliations were reviewed and approved by management to validate their accuracy. The following observations were noted:

Training:

A standard process is not in place for the completion of bank reconciliations. The newly assigned staff to this function had minimal guidance related to the process.

Untimely clearing of large reconciling items:

The auditor found that a large number of reconciling items for significant amounts were carried forward to subsequent months as discussed below:

Wire Transfers:

A detailed analysis of outstanding wire transfers on the bank reconciliations revealed the following major issues:

- The June 2014 bank reconciliation included wire transfers for \$164,000 that cleared the bank account but were never recorded in the accounting system.
- A payment for \$11.25 million was made in August 2013, but it was not recorded in the accounting records until January 2014.

- A wire transfer for \$116,000 was made in October 2013 and voided a month later in the accounting records. It is not clear if the City has received a refund as the department did not provide documentation.
- In the above identified unrecorded wire transfers totaling \$164,000, duplicates were identified for approximately \$37,500 and not recorded to the accounting records. It is not clear if the City has received refunds of this amount as it still remains an open item.

The above situation indicates that a large amount of payments are not accounted for in a timely manner. These occurrences resulted from the lack of a process to verify proper accounting records prior to making a wire transfer.

The payments to one vendor totaling approximately \$63,000, which were included in the above \$164,000, were not recorded to the ledger due to inaccurate accounting strings. The normal budgeting process will not allow such a payment to be made unless proper appropriations are available for that account. However, in this case the normal budgetary controls were circumvented. The ability to circumvent budgetary controls presents significant risk as it can be misused.

Budgetary controls were circumvented for certain payments

Untimely accounting entries:

The disbursement account is funded by transfers from the City's concentration account. The City transfers funds in/out daily to support the payment of transactions being processed. In RAPIDS, a monthly journal entry to move the money into the disbursement account has to be recorded to show the movement of money from one account to the other.

Entries for transfers of \$1 billion were not recorded in a timely manner

The above transfers need to be recorded in a timely manner for the accounting staff to properly reconcile bank accounts and determine the available bank balances. The auditors noted that the Finance Department did not record the fund transfer entries for 11 months in FY14. In the month of June 2014, adjusting entries totaling more than \$1 billion were made. This means the Finance Department did not have an accurate indication of the bank balance during that time.

Recommendations:

- 11. The Director of Finance needs to mandate that monthly bank reconciliations are completed within 30 days of month-end and resolve reconciling items in a timely manner.***
- 12. The Director of Finance needs to implement a process requiring RAPIDS system entry for wire transfers prior to executing it through the bank.***
- 13. The Director of Finance needs to eliminate the Accounts Payable personnel's ability to override purchase order limits while making payments.***

Duplicate Payments Existed

The RAPIDS system has a built-in control to detect and prevent duplicate payments of an invoice. However, the system can be circumvented by the Accounts Payable personnel without supervisory intervention. Typically, if any of the fields required for invoice entry are entered inconsistently, the system will allow the same invoice to be recorded more than once. Additionally, the City receives invoices that do not have invoice numbers. The Accounts Payable staff assigns invoice numbers to these invoices. However, there is not a formal naming convention defined for the invoice number field. If an invoice is entered

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again with an invoice number formatted differently from the original entry, the system will allow the payment of both invoices.

The auditor found that a very small fraction of total active vendors were potentially duplicates. Most of the identified potential duplicate vendors were transferred from the old financial system during implementation. Yet, the auditors found 332 vendors that received payments during the audit period with the identified potential duplicate vendors. An analysis of 66 transactions for these vendors indicated that 17 or 26% of the payments were duplicate payments totaling approximately \$47,700. The following table indicates the cause of the duplicate payments:

Number of Payments	Reason
4	Invoice processed twice using different vendor numbers
11	Accounts Payable staff altered invoice numbers
1	Accounts Payable staff processed travel voucher twice
1	Duplicate billing for the same service submitted by vendor

The auditor verified with Accounts Payable if the above payments were actually duplicates and confirmed duplicate payments using bank records. The auditor's observed that the Accounts Payable staff had recovered overpayments from two of the duplicate payments for approximately \$20,400. There was no evidence that the remaining \$27,300 had been recovered.

As indicated before, the majority of the Accounts Payable staff processing invoices during the audit period were temporary employees due to lack of

permanent staffing. Lack of proper written procedures and unfamiliarity of staff processing invoices may have resulted in duplicate payments. However, it should be noted that since Accounts Payable staff can make duplicate payments by altering invoice numbers in a variety of ways, this process is vulnerable for misuse. Also, if a payment is processed against multiple vendor accounts for the same vendor, the system will not detect the duplicate payment. During a previously conducted Contract Administration audit, the auditors noted that the fuel vendor's invoices are often batched and added to the system as a single invoice with the invoice number chosen by the AP Division staff. In this event, it will be impossible to identify duplicate invoices.

Recommendations:

14. The Director of Finance needs to establish and implement a standard process to identify, analyze, track, and rectify the processing of duplicate payments.

15. The Director of Finance needs to establish and implement a standard invoice naming convention for invoices.

Payments Made using Invoice Payment Form (IPF)

Invoice Payment Forms are used for payments in the following categories:

- Boards/Commissions—Payments to City Boards or Commissions for services rendered
- Jury Members/Poll Workers—Civic Duty Pay
- Petty Cash—To replenish the petty cash fund
- Prepaid Travel items—Airfare, conferences, registrations, and hotel
- Publications—Purchase of governmental publications offered by federal, state, county, or municipal agencies

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- Real Estate—Real estate purchases and condemnations
- Refunds—Includes taxes, utility deposits, and payroll-related refunds
- Postage—Fees for postal service
- Subscriptions—Magazines, newspapers, etc.
- Toll Roads/Bus Passes—Tokens and bus tickets

These payments are processed using the IPF. This form requires authorization of expenditures by department supervisory personnel. There is no dollar limit associated with payments processed via IPF. The task of processing payments for the IPF requests is delegated to one of the Account Specialists. The auditor noticed that the Account Specialist can enter IPFs into RAPIDS and generate payments for them. The Account Specialist's work is not being reviewed by any other employee. There is no evidence of independent verification if the payments generated for IPF requests are supported by proper documentation or the expenditures are authorized.

The auditor selected 30 payments for a total of approximately \$839,000. Four of the payments were made via wire transfers and did not involve using the IPF. Out of remaining 26 payments, the following observations were made:

<i>Observations</i>	<i>Description</i>
19 (73%)	The expenditure did not qualify for IPF use. Accounts Payable could not locate four of the IPFs.
2 (8%)	IPF not supported by proper documentation
5 (19%)	Paid appropriately

Based on the above observations, it is clear that verification of the appropriateness of these payments is not being performed. In this situation, if a

non-City business related expenditure is processed, it may not be detected in a timely manner. In addition, this payment method could be used to circumvent the City's procurement process.

Recommendation:

16. The Director of Finance needs to enforce and monitor that Invoice Payment Forms are used for the identified expenditures.

Compliance with the Prompt Payment Act Needs to be Improved

According to the Code of Virginia Prompt Payment Act, every agency of local government that acquires goods or services, or conducts any other type of contractual business with a non-governmental, privately owned enterprise, shall promptly pay for the completed delivered goods or services by the required payment date. The required payment date shall be either:

1. The date on which payment is due under the terms of the contract
or
2. If a date is not established by contract, not more than forty-five (45) days after the receipt of the goods/services or invoice, whichever is later.

Adequate controls are not in place to ensure compliance with the Prompt Payment Act, City Charter (§74.9), and the Department's policies and procedures. The auditor found that 23.66% or 45,953 payments for approximately \$270 million were not in compliance with the Prompt Payment Act. This is a very conservative estimate as it represents payments made after 45 days from the invoice date. However, some vendors may have different terms such as payments due in 30 days from the invoice date. The auditors

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could not capture contract related payments made beyond their stated terms of the contract. This data was not available electronically. The auditors compared the promptness of payments with another Virginia locality and found:

Entity	% of Invoices Paid in 30 Days
City of Richmond	61%
A Virginia Locality	78%

The auditors were informed that Accounts Payable had a large backlog of unpaid invoices due to the citywide invoice centralization and lack of receivers processed by the departments. As discussed before, the AP Division was understaffed and unprepared to handle the massive invoice volumes since this process was implemented in July 2013, without any additional resources. During the audit period, the AP Division had six temporary employees responsible for data entry of invoices. The Finance Department did not have corresponding permanent positions authorized. This newly implemented centralized invoice processing has caused multiple vendor and agency complaints due to significant delays in making payments to vendors.

Accounts Payable does not have an automated imaging system with optical character reading (OCR) capability, where they can scan the invoices and share them with the departments. Currently, invoice information is input manually, which is inefficient. This change may ensure timely invoice processing and payments. Based on discussions with the City Controller, the Finance Department is currently working on implementing new systems to address this issue. Also, according to the Deputy Chief Administrative Officer (DCAO) over Finance and Administration, the Finance Department is contemplating the requirement for departments to receive and scan invoices, which is expected to

be entered in RAPIDS using an OCR enabled software. This change, if made, will improve the efficiency of invoice processing.

An analysis of the Purchasing data indicated that Procurement Services issues approximately 26,000 purchase orders with a value of \$13.7 million under \$2,000 each during the audit scope. This represents 68% of the total purchase orders issued. The Finance and Procurement Services Departments have proposed using procurement cards for small purchases under \$2,000. This change will reduce the number of payments substantially, making the payment process more efficient.

Recommendations:

- 17. The Director of Finance needs to monitor and enforce the department's compliance with the Prompt Payment Act.*
- 18. The Director of Procurement Services needs to establish and implement a citywide Procurement Cards process.*
- 19. The DCAO needs to procure and implement an OCR enabled software for invoice scanning and integration with RAPIDS.*
- 20. The DCAO needs to request additional funding for permanent staffing in the Accounts Payable Division after the above recommendation has been implemented.*

Compliance with IRS Regulations Needs to be Improved

The City is required to report non-employee compensation exceeding \$600 to the IRS during a calendar year on form 1099-Misc for services rendered. The City is also required to report payments on the IRS form 1099-S relating to the sale

or exchange of real estate. Certain business classifications are exempt from these requirements.

The auditor learned that 73 individuals did not receive a Form 1099 in accordance with IRS guidelines. The IRS levies a penalty of \$100 for each incident of non-reporting. Therefore, the City could be liable to pay \$7,300 in IRS penalties. Without adequate controls and procedures in place, vendors may not be properly flagged for 1099 purposes, resulting in inaccurate reporting to the IRS and the City may be liable to pay penalties.

Recommendation:

21. The Director of Procurement Services needs to establish and implement a process to ensure that vendors that require a 1099 are properly flagged.

Unclaimed Property

Unclaimed property is property of others held by an organization, which despite their efforts to locate the owner of the property, it remains undistributed. Property is considered unclaimed after it is held for an extended period of time (dormancy period) and considered abandoned. The reporting requirements are as follows:

- FY13 (July 1, 2011 through June 30, 2012) due November 1, 2013
- FY14 (July 1, 2012 through June 30, 2013) due November 1, 2014

Unclaimed property for FY13 was filed and paid by November 4, 2013. The City

requested and was granted an extension for the FY14 reporting period until December 31, 2014. An estimated payment of \$212,859 was remitted in November 2014 with the request for extension. The City submitted their FY14 unclaimed property on February 6th, 2015 for a total liability of \$51,923, resulting in an overpayment of \$160,936, which has been requested from the State. The policies and procedures related to unclaimed property were not available.

The City was required to contact the property owners to notify them of the unclaimed property prior to forwarding it to the State. Not following this procedure, carries a fine of \$50 per account. In addition, a penalty of \$1,000 per day for reporting after the due date may also be applied to the City.

Recommendation:

22. The Director of Finance needs to establish and implement a process to ensure compliance with the Code of Virginia for Unclaimed Property.

MANAGEMENT RESPONSE FORM

Appendix A

2016-01 Finance Department - Accounts Payable Audit

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
1	The Director of Finance needs to update and implement formal policies and procedures relating to Accounts Payable.	Y	The Director of Finance will implement formal policies and procedures relating to Accounts Payable.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Finance / Assistant Controller - Disbursements		31-Dec-15
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
2	The Director of Finance needs to ensure that Accounts Payable and citywide staff supporting accounts payable are trained on the updated policies and procedures.	Y	The Director of Finance will ensure that Accounts Payable and agency staff are trained on the updated policies and procedures.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Finance / Assistant Controller - Disbursements		January 31, 2016 - Ongoing
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
3	The Director of Finance needs to require that invoices received by the Accounts Payable Division are scanned timely and made visible to the City Departments.	Y	The Department of Finance will scan invoices timely and make visible to City Departments as the RAPIDS system will allow.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Finance / Assistant Controller - Disbursements		12/31/2015 - Ongoing
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
4	The Director of Finance needs to require that all changes made to the payment process are communicated timely to all departments.	Y	The Department of Finance will communicate timely to all departments changes made by the Department of Finance related to payment processing.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Finance		December 31, 2015 - Ongoing
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION

MANAGEMENT RESPONSE FORM

2016-01 Finance Department - Accounts Payable Audit

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
5	The Director of Procurement Services needs to require vendor accounts that are set up and activated within the City's Supplier Portal be verified by the City Departments as a valid vendor to be used for City business.	N	RAPIDS is intended to function similarly to the Commonwealth's e-Procurement System which allows vendors to register through the Supplier Portal. Registration is completed by Procurement upon receipt of a valid W-9 and TIN/name confirmation through IRS e-Services. Payments to suppliers should require a 3-way match (approved PO, completed receiving report, and properly posted invoice). Additionally, RAPIDS is intended to directly solicit vendors on competitive procurements based on commodity codes selected by the vendor during the registration process. Solicitating approval from a City Department before completing registration could preclude valid vendors from becoming registered and afforded contract opportunities. Additionally, MBE and ESB firms may be disproportionately affected because of unfamiliarity with the company name.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Procurement Services		
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
6	The Director of Procurement Services needs to require that all documentation to support vendor accounts is accurate and complete.	Y	Vendor Database Policy 49 has been revised twice to further strengthen internal controls to ensure W-9 information and data entered in RAPIDS is accurate prior to completing the registration process. For all new vendor creates - W-9, IRS e-Services verification, and compliance with vendor database standards are being reviewed by two Procurement Services employees to ensure compliance.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Procurement Services		31-Jan-16
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION

MANAGEMENT RESPONSE FORM

2016-01 Finance Department - Accounts Payable Audit

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
7	The Director of Finance needs to mandate that the three-way match process be reinstated as a requirement for invoice processing.	Y	The Director of Finance will ensure that the three-way match process is reinstated as a requirement for invoice processing.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Finance / Assistant Controller - Disbursements		31-Dec-15
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
8	The Director of Finance needs to determine if the ability to implement an automated three-way match process is feasible.	Y	The Director of Finance will determine the feasibility of implementing an automated three-way match process.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Finance / Assistant Controller - Disbursements		31-Dec-15
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
9	The DCAO of Finance and Administration needs to consider having a forensic audit conducted on the Accounts Payable Division.	Y	The DCAO for Finance and Administration will determine the benefits of a forensic audit to be conducted by internal or external auditors on the Accounts Payable Division
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	DCAO for Finance and Administration		31-Dec-15
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
10	The Director of Finance needs to require that the supplier function that allows for the Accounts Payable staffs' ability to set up vendors be removed from the COR Accounts Payable responsibility.	Y	The Director of Finance will have Information Technology (IT) restrict vendor/supplier set-up to the Office of Procurement.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Finance / DCAO for Finance and Administration		4-Sep-15
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION

MANAGEMENT RESPONSE FORM

2016-01 Finance Department - Accounts Payable Audit

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
11	The Director of Finance needs to mandate that monthly bank reconciliations are completed within 30 days of month-end and resolve reconciling items in a timely manner.	Y	The Director of Finance will develop a Standard Operating Procedure for the bank reconciliation process that mandates that bank reconciliations are completed within 30 days of month-end and resolve reconciling items timely.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Finance / Assistant Controller - General Accounting		31-Dec-15
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
12	The Director of Finance needs to implement a process requiring RAPIDS system entry for wire transfers prior to executing it through the bank.	Y	The Director of Finance will implement a process requiring RAPIDS system entry for wire transfers prior to executing it through the bank.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Finance / Debt Manager / Assistant Controller - General Accounting		31-Dec-15
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
13	The Director of Finance needs to eliminate the Accounts Payable personnel's ability to override purchase order limits while making payments.	Y	The Director of Finance will eliminate the accounts payable personnel's ability to override purchase order limits while making payments.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Finance		15-Sep-15
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
14	The Director of Finance needs to establish and implement a standard process to identify, analyze, track, and rectify the processing of duplicate payments.	Y	The Director of Finance will establish and implement a standard process to identify, analyze, track and rectify the processing of duplicate payments that are not inherent to the payment
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Finance		31-Dec-15
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION

MANAGEMENT RESPONSE FORM

Appendix A

2016-01 Finance Department - Accounts Payable Audit

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
15	The Director of Finance needs to establish and implement a standard invoice naming convention for invoices.	Y	The Director of Finance will establish and implement a standard invoice naming convention for invoices.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Finance		16-Oct-15
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
16	The Director of Finance needs to enforce and monitor that Invoice Payment Forms are used for the identified expenditures.	Y	The Director of Finance will review the Invoice Payment Form (and update if applicable) and monitor that the form is used for identified expenditures.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Finance/ Assistant Controller - Disbursements		31-Dec-15
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
17	The Director of Finance needs to monitor and enforce the department's compliance with the Prompt Payment Act.	Y	The Director of Finance will develop a Standard Operating Procedure that is to be used by City Departments and Finance. The Director of Finance will also monitor and enforce the departments compliance with the Prompt Pay Act by conducting regular audits of invoice payments.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Finance / Management Analyst II		6-Nov-15
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
18	The Director of Procurement Services needs to establish and implement a citywide Procurement Cards process.	Y	Procurement Services has requested two (2) FTEs and the corresponding personnel and training budget commensurate with the duties and responsibilities of administering a p-card program. A p-card program should not be implemented without appropriate staffing and funding for professional development.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Procurement / Director of Finance		FY17 Budget Request / Adoption July 1, 2017
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION

MANAGEMENT RESPONSE FORM

2016-01 Finance Department - Accounts Payable Audit

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
19	The DCAO needs to procure and implement an OCR enabled software for invoice scanning and integration with RAPIDS.	Y	The DCAO will review the feasibility and cost associated with implementing an OCR enabled software for invoice scanning and integration with RAPIDS.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	DCAO for Finance and Administration / Director of Finance		30-Jun-16
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
20	The DCAO needs to request additional funding for permanent staffing in the Accounts Payable Division after the above recommendation has been implemented.	Y	The DCAO will request additional FTEs for the Accounts Payable Division due to the change in Accounts Payable Processing (decentralization to centralization without additional resources).
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	DCAO for Finance and Administration		FY17 Budget Request / Adoption July 1, 2017
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
21	The Director of Procurement Services needs to establish and implement a process to ensure that vendors that require a 1099 are properly flagged.	Y	Vendor Database Policy 49 has been revised twice to further strengthen internal controls to ensure W-9 information and data entered in RAPIDS is accurate prior to completing the registration process. For all new vendor creates - W-9, IRS e-Services verification, and compliance with vendor database standards are being reviewed by two Procurement Services employees to ensure compliance.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Procurement Services		31-Jan-16
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
22	The Director of Finance needs to establish and implement a process to ensure compliance with the Code of Virginia for Unclaimed Property.	Y	The Director of Finance will establish and implement a process to ensure compliance with the Code of Virginia for Unclaimed Property (Standard Operating Procedure).
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Finance / Assistant Controller - General Accounting		16-Oct-15
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION