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# Accounts Payable Review

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Report # 2013–01



**Date:** January 23, 2013

**To:** Kevin Carpenter, Finance & Property Services (Finance)

**Re:** Accounts Payable Review

The Internal Audit Department (IA) contracted with PricewaterhouseCoopers (PwC), one of the big 4 audit firms, to collaboratively conduct an Accounts Payable (AP) review for the City of Minneapolis (City). This review was included in the 2012 Internal Audit Plan.

**Background**

The process whereby the City makes payments owed to vendors for goods, supplies, or services is commonly referred to as AP processing. Data pertaining to the City's AP function for 2011 and 2012 (through September 30) is referred to in the table below:

City of Minneapolis Accounts Payable Processing			
Year	Number of Payments Processed	Amount of Payments Processed	Average days to process payments
2011	65,069	\$ 712 million (approx.)	34.5
2012 (through September 30)	47,137	\$ 518 million (approx.)	31.7

**Objectives**

The review was performed to:

- Identify key financial and operational risks within the AP process;
- Assess whether appropriate controls are designed to mitigate key risks;
- Assess whether key controls are operating effectively through limited testing;
- Provide control recommendations, as appropriate; and
- Document the end-to-end AP process with agreed upon key controls.

**Scope**

This review included identifying key internal controls, including current policies and procedures, through observation, inquiry, analytical procedures and limited testing within the AP process. We performed, on a sample basis, testing of current processes and transactions within the period of January 1, 2011 through the end of field work, November 16, 2012.

**Approach**

To evaluate the AP process, meetings were held with key Finance personnel to map the end-to-end AP process and identify key risks within the process. Once the risks were identified, IA assessed whether controls were in place to mitigate the risks. This review focused on the following processes:

- Vendor Management;
- Purchasing;
- Invoice Processing;
- Payment Processing; and
- General Ledger Recording.

## Summary of Findings and Management Responses:

### 1. Monitoring User Access Rights

Currently, Finance has internal control testing to verify conflicting access rights do not exist, but there is no evidence of review by appropriate management. Auditors also noted there is no process currently in place for management to monitor that user access rights are appropriately restricted based on job function.

#### **Management Response**

*Initial review will occur in the first quarter of 2013 and recur annually at a minimum. Compass Support staff will provide user access lists to the Controller in January and the Controller will review and sign that the lists have been reviewed; any concerns or discrepancies will be brought to the attention of the Chief Financial Officer (CFO).*

### 2. Approving and Monitoring Vendor Master File Changes

During the review, it was noted that changes to the vendor master file in Compass (e.g., adding new vendors, changing key data to existing vendors, etc.) can be requested by any City employee and do not require management approval. Furthermore, Auditors noted Finance management does not have a process in place to monitor additions/edits to the vendor master file.

#### **Management Response**

*Finance management has eliminated the practice of accepting telephone calls as authorization to setup a vendor and will require all edit/addition requests be submitted in writing, either by e-mail or on a predefined form. Finance currently performs quarterly internal control testing on a sample of vendor information for new setup and changes. This process will be augmented by the AP Manager who will scan and review new vendors and vendor changes on a monthly basis.*

### 3. Adherence to Current Processes and Procedures

During the review, it was noted that two out of four daily Match Exception Reports tested did not contain appropriate reviewer signatures to indicate a review was performed. Additionally, one out of 30 single payment invoices tested did not contain documented approval required to verify that the payment made had received appropriate management review and accountability. Furthermore, Auditors noted one instance out of 35 vendors tested where the vendor set-up date in Compass was subsequent to the invoice date.

#### **Management Response**

*To reinforce policies and procedures, improve awareness and maintain a low risk status on these items on an ongoing basis, Finance management will:*

- *Continue to encourage and direct City personnel to utilize the requisitions, receiving and procurement procedures posted on the Finance & Property Services website.*
- *Continue to train Finance staff on policies and procedures.*
- *Instruct key staff from other City Departments on the importance of following established procedures.*

## Conclusion

Based on our review, the AP process appears to be well controlled, with some opportunities for improvement to address risk areas identified in this report. Finance worked collaboratively with IA to develop action plans.

IA and PwC would like to extend our appreciation to Finance personnel who assisted and cooperated with us during this review.

**Cc:** Paul Aasen, City Coordinator's Office  
Sandra Christensen, Finance  
Lalonne Erickson-Baker, Finance  
Connie Griffith, Finance  
Ray Morales, Finance  
Larry Parker, Finance  
Jean Poppen, Finance

# Accounts Payable Review

## Audit Findings and Management Responses

### 1. Monitoring User Access Rights

Auditors performed walk-throughs and interviews with Finance personnel surrounding user access controls within the AP process. Currently, Finance has internal control testing to verify conflicting access rights do not exist, but there is no evidence of review by appropriate management. Auditors also noted there is no process currently in place for management to monitor that user access rights are appropriately restricted based on job function. Proper monitoring and evidence of management review are essential to ensure access is limited to authorized personnel and job functions are appropriately segregated.

#### **Recommendation**

We recommend Finance management develop a process for the Controller, or appropriate designee, to review Compass user access reports (at least annually) to verify that access to perform critical functions is appropriately restricted and that conflicting access rights do not exist. Furthermore, we recommend Finance management ensure the user access reports are signed as evidence of management review and retained.

#### **Management Response**

Initial review will occur in the first quarter of 2013 and recur annually at a minimum. Compass Support staff will provide user access lists to the Controller in January and the Controller will review and sign that the lists have been reviewed; any concerns or discrepancies will be brought to the attention of the CFO.

#### Responsible Party

Connie Griffith, Controller

#### Expected Completion Date

April 1, 2013

#### Projected Cost of Implementation

\$2,000

### 2. Approving and Monitoring Vendor Master File Changes

Auditors performed walk-throughs, interviews and limited testing surrounding the vendor management process. During the review, it was noted that changes to the vendor master file in Compass (e.g., adding new vendors, changing key data to existing vendors, etc.) can be requested by any City employee and do not require management approval. Furthermore, Auditors noted Finance management does not have a process in place to monitor additions/edits to the vendor master file. Proper monitoring and approval of changes to the vendor master file are essential internal controls to ensure changes to vendor information are made in accordance with management direction.

#### **Recommendation**

We recommend Finance management implement a process to ensure documented approval is received from a person of authority and knowledge of the need to add/change vendor information prior to recording changes to the vendor master file in Compass. Furthermore, we recommend Finance management periodically generate and review a report of all changes made to the vendor master file to identify any discrepancies or unusual trends.

#### **Management Response**

Finance management has eliminated the practice of accepting telephone calls as authorization to setup a vendor (the W-9 and vendor application still come from the vendor); and will require all

edit/addition requests be submitted in writing, either by e-mail or on a predefined form. These requests may be submitted by clerical staff but a person of authority within the respective departments must be copied on the e-mail or must sign the requesting form.

Finance currently performs quarterly internal control testing on a sample of vendor information for new setup and changes. This process will be augmented by the AP Manager who will scan and review new vendors and vendor changes on a monthly basis.

Responsible Party  
Treasury Director

Expected Completion Date  
April 1, 2013

Projected Cost of Implementation  
\$3,500

### **3. Adherence to Current Processes and Procedures**

#### Evidence of Review and Approval

In order for the City to pay an invoice, an automated 3-way match between the Purchase Order (PO), Receiver and Invoice occurs within Compass on a daily basis; if there is a discrepancy in price and/or quantity amongst these three documents, the discrepancy is populated in a Match Exception Report which is reviewed on a daily basis. Auditors selected a sample of four daily Match Exception Reports and performed testing to ensure exceptions were addressed and removed from one report to the next, evidence of reviewer signatures was present and the reports were retained by management. From the sample selected, two of the four days did not contain appropriate reviewer signatures to indicate a review was performed. Based on conversations with Finance management, Auditors acknowledge improvements were made related to retaining evidence of management review, as Finance management has implemented a new process in June 2012 requiring signatures of the reviewers.

Furthermore, Single Pay Vouchers are the City's tool for issuing refunds/reimbursements to its customers (e.g. Water Department customers). Auditors sampled 30 single payment invoices and verified the refund/reimbursement contained adequate supporting documentation to ensure the payment was reasonable and contained appropriate approval. Auditors noted one of the 30 single payment invoices did not contain documented approval required to verify that the payment made had received appropriate management review and accountability.

#### Back-loading Invoices

Auditors selected a sample of invoices from 35 different vendors and performed testing to verify the vendors were appropriately approved and setup in Compass prior to the City purchasing goods and/or services from the vendor. From the sample selected, Auditors noted one instance where the vendor set-up date in Compass was subsequent to the invoice date. We understand that instances may occur when an item is needed for emergency purposes; however, these types of purchases should be limited to emergency instances only and using approved vendors. Based on conversations with Finance management, Auditors acknowledge that Finance is aware of this practice and will continue to educate and reinforce current procedures to City personnel, as needed.

### **Recommendation**

We recommend Finance management maintain diligence in:

- Evidencing reviews for key reports (i.e. Match Exception Report);
- Requiring documented approvals for single payment requests; and
- Reinforcing policies & procedures and improving training/awareness surrounding back-loading invoices.

### **Management Response**

As acknowledged by the Auditors in this report, Finance management established new procedures in June 2012 requiring supervisor signatures. Two of the four samples selected by the Auditors that did not contain appropriate reviewer signatures were prior to June 2012 and the two that did contain appropriate signatures were after. Therefore, Finance believes appropriate procedures are in place to mitigate risks as demonstrated by the Auditors low risk designation of this item.

Existing Finance procedures for the Single Pay Voucher process requires supporting documentation and appropriate approval. Furthermore, existing purchasing procedures emphasize the need to obtain appropriate approval prior to making a purchase.

To reinforce policies and procedures, improve awareness and maintain a low risk status for these items on an ongoing basis, Finance management will:

- Continue to encourage and direct City personnel to utilize the requisitions, receiving and procurement procedures posted on the Finance & Property Services website.
- Continue to train Finance staff on policies and procedures.
- Instruct key staff from other City Departments on the importance of following established procedures.

In addition, Finance management will send a City-wide announcement directing staff to the AP procedures website and emphasize the importance of following established procedures.

Responsible Party  
Treasury Director

Expected Completion Date  
April 1, 2013 for sending City-wide communication and Ongoing

Projected Cost of Implementation  
N/A

<b>Projected Cost of Implementation (contents provided by Finance)</b>		
<b>Audit Finding</b>		<b>Total Estimated Cost</b>
1	Monitoring User Access Rights	\$ 2,000
2	Approving and Monitoring Vendor Master File Changes	\$ 3,500
3	Adherence to Current Policies and Procedures	N/A
<b>Totals</b>		<b>\$ 5,500</b>

<b>Abbreviations Used Throughout the Report</b>	
<b>AP</b>	Accounts Payable
<b>CFO</b>	Chief Financial Officer
<b>City</b>	The City of Minneapolis
<b>Compass</b>	City's Accounting system
<b>Finance</b>	Finance and Property Services Department
<b>IA</b>	Internal Audit Department
<b>PO</b>	Purchase Order
<b>PwC</b>	PricewaterhouseCoopers
<b>Receiver</b>	Receiving documents
<b>Voucher</b>	A screen in Compass that contains vendor invoice information