Municipality of Anchorage

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Internal Audit Report 2000-6
Vendor Payments
Finance Department

Introduction. The Central Processing Section of the Finance Department has been responsible for the processing and payment of all vendor invoices for the Municipality of Anchorage. However since the implementation of the new PeopleSoft financial system in 1999, the business processes of the Municipality have been changing. Currently, there are other agencies performing functions that have typically been assigned to Central Processing. Invoices are being processed for payment by the Central Processing Section as well as by Municipal Light and Power, Anchorage Water and Wastewater Utility, two Sections in Health and Human Services, Purchasing, Fleet Services Division of Property and Facility Management, Anchorage Fire Department, Ombudsman, Management Information Systems Department, Treasury Division of the Finance Department, and Public Works Department. This decentralization is known as "roll out".

Scope. The objective of this audit was to determine the timeliness of vendor payments and adequacy of documentation in the "rolled out" agencies. The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of January through February 2000. The aging of receivables was as of January 4, 2000. The audit was requested by the Administration.

Overall Evaluation. Vendor invoices were not being paid in a timely manner. Our review revealed that as of January 4, 2000, half of the outstanding invoices in the system were past due. And, although we found that documentation was adequate to support the payments being made in the

"rolled out" departments, documentation was not consistently maintained nor filed. Policy and Procedure (P&P) 24-19, Processing Accounts Payable Documents in PeopleSoft, and the Accounts Payable Guide did not reflect the current operational environment and require revision. Invoices were not being processed in a consistent/standard manner by the clerks in Central Processing nor by the staff in the "rolled out" departments. The "roll out" process for vendor payments has not been consistent throughout the Municipality.

FINDINGS AND RECOMMENDATIONS

1. Aging of Outstanding Invoices.

a. **Audit Comment.** Our review of unpaid invoices in Central Processing on January 4, 2000, revealed 1,397 invoices, half of which were past due. The age of the unpaid invoices, based on the invoice date, was as follows:

Age	Number of Invoices
1 to 30 Days (Current)	736
31 to 60 Days	288
61 to 91 Days	152
91 to 120 Days	71
Over 120 Days	150

We randomly selected 25 invoices that were not current to determine the reason why they had not been paid within the required time frame. We found that invoices were generally being held up equally by Central Processing and the departments as follows:

Where Delayed	Number of Invoices
Delayed in Central Processing	9
Delayed in Department	9
Delayed in Both Areas	2
Could Not Determine	5

Similar findings were noted in Audit Reports 87-10 and 94-11. Previously, the aging of accounts receivable was a manual process. The new PeopleSoft system has automated the aging process, which should provide management with a better method of monitoring accounts payable and staff productivity to ensure timely payments. However, payments were still untimely.

b. **Management Comment.** Management stated, "Management concurs with the finding and notes that the 50% status of past due payments has improved from the 63% of the previous audit report dated July 5, 1994. Further, the payment status has continued to improve since the audit test date of January 4 due to several factors: 1) The 1999 year-end influx of invoices and receiving reports has now been handled, 2) Two additional FTP positions have been authorized since January, 3) The Section Supervisors continue to work with their staff to implement improved BUSINESS PROCESSES and roll out additional agencies, and 4) Increased use of the aging capabilities of the new PeopleSoft system to monitor accounts payable. As of May 5, 2000, past due payments represent 13% based on dollars and 31% based on voucher lines."

2. Policy and Procedures Require Revision.

a. **Finding.** P&P 24-19 and the Accounts Payable Guide do not reflect the current operational environment and require revision. The P&P states that bills from vendors should be paid within 30 calendar days of receipt of the invoice by Accounts Payable or the ordering agency. However, most invoices require payment to be made within 30 days of the invoice date. As a result, even if payments were made in accordance with the P&P, vendors would view the payments as late. In addition, the P&P requires the tracking of certain dates to determine whether payments are made in a timely manner. These include the date the invoice is received in Central Processing or the ordering agency, the date the approved voucher is received in Central Processing from the department, the date the goods or services are received and the date of dispute resolution. However, none of these dates are maintained in the PeopleSoft system. As a result, it cannot be easily determined whether payments are being processed in accordance with the P&P. In addition, the P&P and the Accounts Payable Guide do not address the "roll out" of the departments and the changes in business processes. The Accounts Payable Guide, dated April 1996, includes procedures and forms used in the prior Financial Information System. It refers to requests for voucher checks and blanket purchase orders that are no longer used in the PeopleSoft system. Both the P&P and the Accounts Payable Guide are still being given to individuals being trained for "roll out". The lack of a current P&P and Accounts Payable Guide has contributed to some of the problems discussed in this audit report.

b. **Recommendation.** Both P&P 24-19 and the Accounts Payable Guide should be updated to reflect the current PeopleSoft processing environment, including procedures for "rolled out" departments. In addition, dates used to track payments should be reevaluated to be consistent with vendor requirements and PeopleSoft

records. We also recommend that outdated procedures should not be handed-out or used during the training of employees scheduled to be "rolled out".

c. **Management Comments.** Management stated, "Management concurs with the finding and recommendation. Both P/P 24-19 and the Accounting Process Section of the Accounting Guide were updated prior to the January 1999 implementation of PeopleSoft, but by the time the P/P update was published in April 1999, the operating environment had already changed from what had been anticipated six months earlier. As the operating environment continues to evolve daily to accommodate idiosyncrasies of the new system with fixes, patches and workarounds, we have not deemed it cost-effective to formally revise P/P 24-19 again until the system upgrade is completed later this year.

"In the meantime, end-users of the system have been notified that the medium for transmittal of revisions to BUSINESS PROCESSES is the published notes of the weekly PeopleSoft User Support meetings. Both the Accounting Guide and the Accounts Payable Guide are being revised at this time. The obsolete Accounts Payable Guide is no longer being distributed."

d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and generally responsive to the recommendation. We encourage management to establish standard written policies and procedures as soon as possible. Municipal employees should have these procedures during "roll out" training to ensure consistent application throughout the Municipality. With the upgrade to PeopleSoft 7.5, the operating environment will continue to evolve and change and it is important that Municipal employees have standard procedures to follow even if they have to be continually updated. Using meeting minutes and memos to be the source of policies and procedures is neither effective nor efficient.

3. Invoices Not Being Processed In a Consistent/Standard Manner.

a. Finding. Invoices were not being processed in a consistent/standard manner by the clerks in Central Processing or by the staff in the "rolled out" departments.

Per discussion with the Central Processing Supervisor, invoices are to be date-stamped upon receipt and distributed to the appropriate clerks for entry into the PeopleSoft system. After entry, the invoice should be sent to the appropriate department for approval. Once the authorized invoice is received back from the department, it is finalized for payment. Weekly, a query is processed by each clerk to determine the status/aging of outstanding vouchers for which they are responsible.

However, we found that these procedures were not being followed by all of the Central Processing staff. For example, all invoices were not date stamped and/or entered into the PeopleSoft system upon receipt by Central Processing. Our review of all invoices on-hand in Central Processing as of January 4, 2000, revealed 206 invoices that should have been entered to the system. Ninety-six of the invoices were already past-due for payment. Per our discussions with Central Processing clerks, there were five main reasons for the invoices not being entered: the invoices needed research (14.6%), department personnel requested payment not be processed (1%), invoices were inherited from another clerk (64.5%), clerks were behind in their work (17.7%), and invoices were just received (2.1%). We also observed that Central Processing staff would sometimes send a copy of the invoice to the respective department for approval. The original invoice would be retained in Central Processing until the copy was returned by the department, at which time the original invoice would be thrown away. Since only the original copy contained the date stamp, the record of when the invoice was received was lost. We also found that not all Central Processing staff were aware of the requirement to run the weekly query and did not always use the comments section on the voucher information screen to

provide tracking information. Notes were written on the invoices, defeating the purpose of an automated system.

Our review of "rolled out" departments also revealed a lack of standardized procedures addressing when invoices should be entered in the system, how often budget check errors should be reviewed, what documentation should be maintained, how paid invoices should be filed, and when approval should be sent to Central Processing. Some department personnel entered invoices upon receipt, while others entered them upon approval. Each department also kept a varying amount of documentation. Most departments did not file a copy of the check with the paid invoices. In addition, paid invoices were filed in a variety of ways -- alphabetically by vendor, check number, general ledger account number, input date and program title.

b. **Recommendation.** Standard procedures should be developed and implemented for processing invoices in both Central Processing and the "rolled out" departments. The procedures should include when an invoice should be entered into the system, how often budget check errors should be reviewed, what documentation should be maintained and how paid invoices should be filed. Written procedures formalize management directives, reflect current practices and provide for a consistent application of procedures.

c. **Management Comments.** Management stated, "Management concurs with the finding and recommendation. It is management's intent to formally revise P/P 24-19 again when the system upgrade is completed later this year. In the meantime, end-users of the system have been notified that the medium for transmittal of revisions to BUSINESS PROCESSES is the published notes of the weekly PeopleSoft User Support meetings. Both the Accounting Guide and the Accounts Payable Guide are

being revised at this time. The obsolete Accounts Payable Guide is no longer being distributed."

d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and generally responsive to the recommendation. We encourage management to establish standard written policies and procedures as soon as possible. With the upgrade to PeopleSoft 7.5, the operating environment will continue to evolve and change and it is important that Municipal employees have standard procedures to follow even if they have to be continually updated. Using meeting minutes and memos to be the source of policies and procedures is neither effective nor efficient.

4. "Roll Out" Inconsistent Throughout Municipality.

a. **Finding.** The "roll out" process for vendor payments has not been consistent throughout the Municipality. Currently, there are three business units: MOA (General Government), MLP (Municipal Light and Power) and AWWU (Anchorage Water and Wastewater Utility). Vendors are requested to mail invoices directly to the appropriate business unit. However, individual departments within General Government have been "rolled out" for vendor payments but all invoices are still sent to Central Processing in City Hall. Thus, when an invoice is received in Central Processing that pertains to a "rolled out" office, Central Processing staff have to separate the invoice from those that are processed in Central Processing and then send it to the proper office for processing. These extra steps not only increase the potential for loss of the invoice but also delay payment. However, requiring vendors to send invoices to each "rolled out" office may present other problems.

According to the Acting Purchasing Officer, using separate billing addresses would cause some concern in the vendor community. He stated: "The vendors would need

to establish a separate account for each department/division which could be anywhere from 25 to 35 different billing addresses. Additionally, this would become very burdensome under our current vendor contracts (previously know as 'annual supply contracts' and 'blanket purchase orders') as it would require the vendor to obtain the additional billing information on each transaction (at the time of purchase) in order to bill the proper department or division. Mistakes or improper billing would most likely occur resulting in similar delays for payment. We would further recommend that any decision in the future to require direct vendor billing be thoroughly reviewed and coordinated prior to implementation."

b. **Recommendation.** The Chief Fiscal Officer, in coordination with the Acting Purchasing Officer, should reassess the current procedures for assigning billing addresses, processing vendor payments, and continuing "roll out" of invoice processing responsibilities.

c. **Management Comments.** Management stated, "Management concurs with the finding and recommendation. The Chief Fiscal Officer and Acting Purchasing Officer meet weekly along with other members of management to continually reassess BUSINESS PROCESSES including current procedures for assigning billing addresses, processing vendor payments, and continuing 'roll out' of invoice processing responsibilities. As better processes are agreed upon, they are implemented. As a result, roll out is expected to continue to evolve into a more efficient and effective process."

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

5. Manual Checks.

a. **Finding.** Manual checks were not input to the PeopleSoft system in a timely manner. Our review revealed that the system showed 23 vouchers totaling $1,171,415.90 that required payment. However, further review indicated that the payments had been made by nine manual checks that had not been input to the system. Per discussion with Central Processing staff, manual checks had not been input to the system due to time constraints and other priorities. When manual checks are not input to the system, there is the possibility of duplicate payments being processed as well as misstatement of the financial records.

b. **Recommendation.** Manual checks should be input to the PeopleSoft system in a timely manner to prevent duplicate payments and produce accurate financial records.

c. **Management Comments.** Management stated, "Management concurs with the finding and recommendation. When we implemented the new system, we were not fully aware of its restrictions on input of items that had not passed budget check. Manual payments could not be entered into the system until adequate budget was set up to the respective accounting lines. In some cases it took several months for the user departments and OMB to get the budget set up - there was little incentive for them since the check had been paid already. At this time, all manual checks that were issued have been entered into the system.

"We have changed our business process so checks are no longer issued until the budget is set up. Further, it is now our practice to issue "express" checks from the system rather than hand checks. We do not anticipate any further problems with this issue."

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

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on April 18, 2000.

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