

# INTERNAL AUDIT REPORT

2014-02

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Accounts Payable

Finance Department

April 3, 2014

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MUNICIPALITY OF ANCHORAGE  
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# MUNICIPALITY OF ANCHORAGE



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*Mayor Dan Sullivan*

April 3, 2014

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2014-02, Accounts Payable, Finance Department**. A brief summary of the report is presented below.

In accordance with the 2013 Audit Plan, we have completed an audit of accounts payable. The objective of this audit was to determine whether vendor payments were properly approved, adequately supported with proper documentation, and made timely to legitimate, approved vendors.

Based on our observation, it is our opinion that all tested payments were properly approved, adequately supported with proper documentation, and made to legitimate, approved vendors. However, payments to vendors were not always made timely, invoices received by departments were not always entered into PeopleSoft in a timely manner, and invoices were not always forwarded to departments in a timely manner.

There were three findings in connection with this audit. Management was responsive to the findings and recommendations.



Peter Raiskums, CIA, CFE, CGFM  
Director, Internal Audit

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*Mayor Dan Sullivan*

April 3, 2014

**Internal Audit Report 2014-02**  
**Accounts Payable**  
**Finance Department**

**Introduction.** The Municipality of Anchorage (Municipality) has a decentralized accounts payable function. The Municipality requires the procurement of a large volume of goods and services in a timely manner. The payment process involves the ordering agency, the receiving agency, the Controller Division's Accounts Payable Section (Accounts Payable), and the Treasury Division. The receiving agency performs the receiving process and processes the receiving documentation. The receiving agency may be the same as the ordering agency. The ordering agency retains sufficient supporting documentation, enters the invoices into the PeopleSoft financial system, and ensures that invoices are approved for payment. The Accounts Payable Section is responsible for functions such as training accounts payable personnel, maintaining the vendor database in PeopleSoft, issuing information returns, voiding accounts payable checks, running pay cycles, and creating checks based on payment information entered by ordering agencies. The Treasury Division prints and disburses the checks. Accounts payable is governed by Policy and Procedure (P&P) 24-19, *Processing Accounts Payable Documents in PeopleSoft*.

**Objective and Scope.** The objective of this audit was to determine whether vendor payments were properly approved, adequately supported with proper documentation, and made timely to legitimate, approved vendors. We judgmentally selected a sample of 211 invoices at various Municipal departments and examined the supporting documentation.

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 September through October 2013. The audit was requested by the Administration.

**Overall Evaluation.** All tested payments were properly approved, adequately supported with proper documentation, and made to legitimate, approved vendors. However, payments to vendors were not always made timely, invoices received by departments were not always entered into PeopleSoft in a timely manner, and invoices were not always forwarded to departments in a timely manner.

## **FINDINGS AND RECOMMENDATIONS**

### **1. Payments Not Always Made Timely.**

- a. **Finding.** Payments to vendors were not always made timely. Specifically, 23 of 100 (23%) judgmentally selected invoices we tested were paid between 34 and 98 days after the invoices were received. Policy and Procedure 24-19 states that bills from vendors should be paid within thirty calendar days of receipt of the invoice by Accounts Payable or the ordering agency unless certain extenuating conditions exist.

Because we found so many invoices that were not paid timely, we expanded our sample and judgmentally selected an additional 111 invoices with prolonged time lags for payment to determine why it took longer than 30 days to pay the vendor. We found 28 (25%) of these payment delays were due to normal business practices such as ensuring that ordered goods or services were properly received and obtaining complete billing details. However, we found 83 (75%) of these payment delays were caused by factors such as staffing shortages, human error, misdirected or misplaced invoices, routing delays, additional paperwork requirements, and address problems. Late payments may result in penalty payments and loss of discounts for the Municipality.

- b. **Recommendation.** The Controller should remind department heads that invoices should be paid within 30 calendar days of receipt of the invoice by Accounts Payable or the ordering agency.

- c. **Management Comments.** Management stated, “Concur. With the implementation of SAP, there will be updated training on the entire accounts payable process. In addition, SAP should allow for better monitoring of the timeliness of payments.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Invoices Not Always Timely Entered into PeopleSoft.**

- a. **Finding.** Invoices received by departments were not always entered into PeopleSoft in a timely manner. Specifically, our review of PeopleSoft data revealed that 34 percent of invoices were entered into PeopleSoft more than 10 days after the invoice receipt date as shown below.

**PeopleSoft Accounts Payable  
 Time Lags Between Invoice Receipt Date  
 and Invoice Entered into PeopleSoft Date  
 01/01/2013 - 09/30/2013**

<u>Time Lags</u>	<u>Amount</u>	<u>Transactions</u>	<u>Percent of Transactions</u>
0 – 10 days	\$125,606,978	12,088	66.1%
11 – 20 days	19,661,757	3,475	19.0%
21 – 30 days	7,696,159	1,489	8.1%
31 – 60 days	7,782,670	1,050	5.7%
61 – 120 days	605,755	177	1.0%
Over 120 days	<u>180,153</u>	<u>25</u>	<u>.1%</u>
<b>Totals:</b>	<b><u>\$161,533,472</u></b>	<b><u>18,304</u></b>	<b><u>100%</u></b>

Source: PeopleSoft Financial Query

Note: This statistical analysis excludes Anchorage Water and Wastewater Utility and Municipal Light and Power.

Policy and Procedure 24-19 states that invoices should be entered into PeopleSoft within 10 days after receipt of the invoice. As a result, payments could be made late and aging reports used for management purposes could be distorted. Accurate aging reports can help management monitor the status of accounts payable to ensure that payments are made timely.

- b. **Recommendation.** The Controller should remind Municipal departments to enter invoices into PeopleSoft within 10 days after the receipt of the invoice according to P&P 24-19.
  
- c. **Management Comments.** Management stated, “Concur. With the implementation of SAP, there will be updated training on the entire accounts payable process. All accounts payables employees will be told that invoices need to be entered within 10 days of original receipt of invoice unless there are extenuating circumstances.”
  
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Invoices Not Always Forwarded Timely to Departments.**

- a. **Finding.** Invoices were not always forwarded to departments in a timely manner. Our review of 211 transactions revealed 11 instances where invoices were either delayed or misdirected when traveling between departments. These delays sometimes resulted in late payments as well as late payment penalties. For example, one invoice went to four different departments before it was directed to the correct department and paid. Although the invoice was correctly addressed to Parks and Recreation, it was first delivered to Treasury as shown below.

### Routing of Utility Invoice

<u>Invoice Date</u>	<u>Received By</u>	<u>Received Date</u>	<u>Forwarded To</u>	<u>Date Paid</u>	<u>Invoice Date Due</u>
12/18/2012	Treasury	12/21/2012	Accounts Payable		
	Accounts Payable	12/24/2012	Project Management & Engineering		
	Project Management & Engineering	12/26/2012	Parks & Recreation		
	Parks & Recreation	1/17/2013		1/21/2013	1/14/2013

In another case, an invoice went to four different departments before it was directed to the correct department and paid. The invoice was correctly addressed to Accounts Payable, but needed to be directed to the correct department for payment.

### Routing of Contaminated Filter Invoice

<u>Invoice Date</u>	<u>Received By</u>	<u>Received Date</u>	<u>Forwarded To</u>	<u>Date Paid</u>	<u>Invoice Date Due</u>
11/30/2012	Accounts Payable	12/10/2012	Police Department		
	Police Department	12/13/2012	Facility Maintenance		
	Facility Maintenance	12/20/2012	Public Works		
	Public Works	1/22/2013		1/24/2013	Due upon receipt

Policy and Procedure 24-19 states that Accounts Payable should provide a copy of the invoice to the ordering agency within 5 work days after receipt when the ordering agency does not receive a copy of the invoice from the vendor.

- b. **Recommendation.** The Controller should ensure that invoices received in Accounts Payable are forwarded to the appropriate department within five working days after receipt.
  
- c. **Management Comments.** Management stated, “Concur. As a decentralized department, it can be difficult to decipher where an invoice should be sent. The examples in the audit report show that the Accounts Payable department is not the only department that has trouble deciphering where to send the invoices – in most cases the vendor does not provide a clear indicator of who ordered the product/service. We will continue to monitor this issue. After SAP is implemented, we will have more system tools that will help identify this problem.”
  
- 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.

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