



Audit of Accounts Payable

Second Follow-Up Review

Improvements have been made to further ensure City purchases of around \$723 million are appropriately supported and approved. Specifically, additional guidance has been created, system security controls have been improved, and automated payment processing procedures have been established.

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Follow-Up at a Glance

Why we did this Follow-Up:

This report is intended to provide information on what changes have been made in response to the Audit of Accounts Payable issued in October 2019. The original audit evaluated the effectiveness of controls over accounts payable in order to properly record and safeguard the spending of municipal funds. This second follow-up review was included in the City's fiscal year 2022-2023 Annual Internal Audit Plan as approved in August 2022 and amended in July 2023 by the City Council.

What we Found:

A Cash Disbursements Policy was adopted in January 2021 that provides additional guidance to Accounts Payable and department staff including formalizing standards for receiving documentation and improving controls over check processing. In addition, Accounts Payable has automated invoice and payment request processing, resolved financial system access issues, and set up a payments and p-card purchase comparison process, helping to reduce the risk of duplicate payments. Finally, the City now requires supervisor approval for all Staples purchases, reducing the risk of funds being spent inappropriately. The status of each recommendation is summarized below:

Recommendation	Mgmt. Response	Status
1. Formalize an AP policies & procedures manual.	Concur	Implemented
2. Ensure AP & Purchasing Staff don't have incompatible system access.	Concur	Implemented
3. Include a standard invoice numbering guideline in the policies & procedures manual.	Concur	Implemented
4. Consider developing a procedure to verify invoices weren't paid via p-card.	Concur	Implemented
5. Establish a process to ensure the City isn't paying exempt taxes.	Concur	Implemented
6. Require employees to enter adequate receiving documentation for all goods & services.	Concur	Implemented
7. Consider requiring employees who physically receive goods & services enter receiving documentation.	Concur	Implemented
8. Require check requisitions under \$5,000 to be approved.	Concur	Implemented
9. Restrict physical collection of checks.	Concur	Implemented
10. Encourage use of electronic payments.	Concur	In Progress
11. Ensure Staples purchases are approved & received.	Concur	Implemented
12. Annually review Staples users to verify access.	Concur	Implemented
13. Consider changing Staples billing practices to improve efficiency in the AP Division.	Partially Concur	Implemented

Recommendation Status Update

This report summarizes the Audit of Accounts Payable recommendations, management responses, and the City Auditor's Office's follow-up findings, which describe to what extent department management has implemented Audit's recommendations since the publication of the original report in October 2019.

Most simply, it is the function of an accounts payable function to verify an organization's obligation to pay suppliers and other entities that are owed money by an organization. In the City of Denton, this obligation to pay is verified in three ways: 1) automated three way-matching, 2) manual review by the Treasury Division, and 3) manual review by the Accounts Payable Division. The volume of payments verified through each of these processes between August 2022 and July 2023 is summarized in Table 1.

Table 1: Obligation to Pay Verification Summary (Aug. 2022 – Jul. 2023)

Verification Procedure	No. of Payments	Est. Payment Amount (Millions)
Three-Way Match	7,143	\$428.0
Manual Treasury	926	\$291.5
Manual AP	4,629	\$3.9
Refunds	2,513	\$0.1
Payment Requests	1,190	\$3.7
Reimbursements	926	\$0.1
Other	0	\$0.0
All:	12,698	\$723.3

Payment Procedures Should be Updated and Expanded

1. Update and formalize an accounts payable policies and procedures manual.

Management Response: Concur

Finance Comments: The process to update policies and procedures is under way. These examples will assist in drafting changes to the policies and procedures manual. We want to ensure comprehensive policies are appropriately formal and cover all aspects of Accounts Payable practices and procedures.

Audit Follow-Up Finding: Implemented

The City Council adopted a new Cash Disbursements policy on January 26, 2021 via ordinance. This policy includes roles and responsibilities for Accounts Payable, Procurement, and departments making and approving purchases with regards to the payment process. During the

audit, Accounts Payable staff was in the process of updating this policy to reflect changes needed due to the implementation of an accounts payable automation software; however, these have not yet been completed.

Critical Purchasing System Access Needs to be Reviewed

2. Finance and Procurement need to ensure that Accounts Payable and Procurement staff do not have incompatible system access.

Management Response: Concur

Finance Comments: Tech Services has now restricted the Accounts Payable Staff's ability to add purchase order requisitions and enter receipts.

Purchasing Comments: Tech Services is working to create more restrictive user groups for Procurement Staff's system access to differentiate between the users who approve requisitions and the users who have access to the supplier master file.

Audit Follow-Up Finding: Implemented

Currently, there are seven security groups in the City's financial system involved in the vendor payment process as shown below:

Table 2: Financial System Payment Process Security Groups

Accounts Payable	Purchasing	Warehouse
ACCTPAY	PURCHASST	WAREHOUSE
ACCTPAYSV	PURCH	WAREHOSUPV
	PURCHSUPR	

These security groups restrict access within the City's financial system so that users only have access to the functions needed to perform their duties. Ideally, duties within the purchase process should be segregated to minimize the risk of abuse. These duties include:

- Procurement Requisition/Approval
- Purchase Order Issuance
- Receipt of Goods
- Accounts Payable/Payment Disbursement

Based on a review of changes made to these security groups, all previously noted access security issues appear to have been resolved. In particular, accounts payable representatives are no longer able to enter procurement requisitions or receipts. Further, according to staff, some Purchasing staff's (i.e. PURCH group) ability to enter receipts must remain so that change orders can be appropriately processed.

Duplicate Payment Controls Need Improvement

3. Include a standard invoice numbering guideline within the policies and procedures manual.

Management Response: Concur

Finance Comments: The standard invoice numbering practice will be incorporated in the updated Policy Manual.

Audit Follow-Up Finding: Implemented

The Accounts Payable Division adopted written guidance for staff on how to process vouchers without unique invoices numbers in September 2023. This guidance generally covers all instances where a voucher may not have a unique invoice number. It should be noted that this guidance may result in some unique vouchers being processed with the same "invoice number" based on this guidance.

4. Consider developing a procedure to verify that certain invoices have not already been paid on a procurement card.

Management Response: Concur

Finance Comments: Staff has been exploring ways to compare invoices paid by p-cards to invoices processed thru the Accounts Payable system. The only common data between the two systems is the date of the transaction and the amount. The P-card system does not use the Vendor Master numbering system and the transaction number on the receipt is not in the JDE system. We are currently installing a new travel and p-card software which should enhance shared between the two systems to find data points that we can use to search for duplicate transactions. Ultimately, the payments are from separate systems and staff will implement all procedures policy to mitigate the risk.

Audit Follow-Up Finding: Implemented

The City has contracted with it's p-card monitoring vendor to perform a comparison of all p-card purchases and previous payments with payments issued each week. The vendor then produces a comparison report highlighting potential duplicates by risk level. This report is reviewed by Accounts Payable staff each week, helping to reduce the risk that invoices are not also being paid on p-card. It should be noted that reviews of this comparison report are currently being documented via e-mail. Documentation of these reviews could be improved by utilizing the provided report form and saved in a central location.

Some Exempted Taxes Have Been Paid

5. **Establish a process to ensure the City is not paying any taxes for which it is exempt.**

Management Response: Concur

Finance Comments: Accounting staff is consistently being reminded to check for sales taxes being billed on vendor invoices while reviewing the Accounts Payable check run.¹ Also, Accounts Payable staff has the responsibility to reduce any sales tax charges and file the proper work with the vendor to exempt any future sales tax charges. These practices will be incorporated into the updated Policy and Procedures Manual.

Audit Follow-Up Finding: Implemented

According to Finance staff, Accounts Payable manually verifies that invoices received do not include exempt taxes as part of their standard review process. If exempted taxes are included, the amount is deducted from the issued check and the vendor is notified of the City's exempt status. Based on a sample review of 95 payments, no exempt taxes were paid.

Receiving Documentation Can be Improved

6. **Require employees to enter adequate receiving documentation for all goods and services.**

Management Response: Concur

Finance Comments: As Part of the update to the Accounts Payable Policy and Procedures manual, we will require the department personnel to upload an image of the receiving or shipping document with the invoice as a reference for City staff when processing payments to the vendor.

Audit Follow-Up Finding: Implemented

The Cash Disbursements policy, implemented in January 2021, states "appropriate documentation to support expenditures is the detailed, itemized original 'invoice' or receipt listing the items purchased." This policy clarifies what is considered adequate receiving documentation for goods and services. This standard was not previously set.

Based on a sample review of 95 payments issued during calendar year 2020, only one appeared to have receiving documentation that may be inadequate. In addition, based on this review, more purchase orders for

¹ According to Finance management, the practice where Accounting staff review checks issued by Accounts Payable valued over \$5,000 was discontinued in 2023.

goods appeared to use a quantity and price order method instead of a lump sum. The quantity and price order methodology for purchase orders provides further assurance that goods are received before payment because staff entering the receiver must enter the quantity of the goods received instead of just the invoiced cost.

7. Consider requiring the employee who physically receives goods or services to enter the receiving document in JD Edwards via policy.

Management Response: Concur

Finance Comments: Agree. As part of the update to the Accounts Payable Policy and Procedures manual, we will require the department personnel to upload an image of the receiving or shipping document with the invoice as a reference for City staff when processing payments to the vendor.

Audit Follow-Up Finding: Implemented

The new Cash Disbursements policy, implemented in January 2021, requires employees to "obtain detailed, itemized transaction documentation for all purchases, review and verify the validity of all transactions, reconcile transaction to documentation, indicate proper general ledger account coding for transactions and submit required records to the Approver." This new policy appears to place the responsibility for ensuring all goods and services are appropriately received on the employee making the purchase, while still giving departments the flexibility to centralize receiver input.

Based on discussions with Finance staff, many functions centralize receiver input responsibilities. While these responsibilities could be decentralized, it would likely require additional expansion of infrastructure to allow most employees to be able to enter receivers. Specifically, additional financial system users would need to be created and monitored and additional computers may need to be purchased to allow employees to log in and enter the receivers. For this reason, the City has accepted the risks associated with centralized receiver input for operational efficiency reasons.

Some Check Requisition and Dispersal Practices are Inappropriate

8. Require check requisitions under \$5,000 to be approved by a supervisor.

Management Response: Concur

Finance Comments: We will distribute new forms requiring the Supervisor or Manager of the person submitting the check requisition to approve the

under \$5,000 purchase. Directors already are required to approve any check requisition over \$5,000.

Audit Follow-Up Finding: Implemented

The Cash Disbursements policy, implemented in January 2021, requires that check requisitions under \$5,000 be approved by a supervisor. In addition, based on a review of 96 sample payments issued between August 2022 and July 2023, nine were vouchered by a check requisition. Of these, all were appropriately reviewed and approved.

9. Restrict physical collection of checks.

Management Response: Concur

Finance Comments: All Vendor checks will be mailed in the future. We will inform our vendors and City staff that we will no longer release check payments. We will encourage our vendors to choose ACH payments as an alternative. Exceptions to this policy will be allowed on a case by case basis.

Audit Follow-Up Finding: Implemented

The Cash Disbursements policy, implemented in January 2021, states "with very limited exceptions, all checks are to be mailed- there are no vendor pickups. Exceptions, which can be picked up by City employees only, include legal settlements, property purchases, grants, or special requests."

Based on a review of Accounts Payable's Check Pickup log, about 1% of issued checks were physically picked up between October and December 2020. Of these, no checks were picked up by a vendor and all pickups appeared to have generally complied with the Cash Disbursements policy. Table 3 below summarizes these picked up checks:

Table 3: Check Pickups (Oct. 2020 – Dec. 2020)

Pickup Dept.	Checks	Value	Pickup Dept.	Checks	Value
Finance	3	\$1,894,893.56	Parks	3	\$7,463.75
Facilities	1	\$179,429.96	Legal	2	\$1,065.30
Real Estate	5	\$45,449.05	Water	1	\$285.96
Electric	1	\$12,500.00	All:	16	\$2,141,087.58

10. Encourage the use of electronic payments instead of paper checks where possible.

Management Response: Concur

Finance Comments: Agree. The Procurement Office is responsible for setting up the Vendor Masters, including the method of payment the Vendor chooses. We also follow up with reviews of vendor payment

registers to look for and request vendors to setup ACH Payments to eliminate the need for paper checks.

Audit Follow-Up Finding: In Progress

The Cash Disbursements policy, implemented in January 2021, does not include a requirement or preference for vendors to receive electronic payments. In addition, Finance and Procurement staff stated that they had not initiated any efforts since the issuance of the original audit to proactively encourage vendors to convert to electronic payments. Table 4 below shows that there has been a percent increase in the number of electronic payments processed compared to the original audit; however, this increase does not appear to be significant.

Table 4: Electronic Payment Comparison

	FY 2018	CY 2020	Aug. 2022 - Jul. 2023
Number of Electronic Payments	4,177	3,744	4,398
"Eligible" Payments ²	9,819	8,123	9,632
Percent of "Eligible" Payments	43%	46%	46%
Percent of All Payments	30%	34%	35%

According to Finance staff, there has not been a concerted effort to encourage vendors to switch to an electronic payment method due to operational roadblocks. Staff stated that they may begin trying to further encourage this once the new vendor management portal has been rolled out by the Procurement Department and the distribution of electronic payment remittance advices has been automated.

Staples Advantage Features are not Adequately Utilized

11. Develop a process to ensure Staples Advantage purchases are properly approved and received.

Management Response: Concur

Finance Comments: All Staples invoices should include a PO number so that the purchases are authorized by department management and we can process the payment using the Accounts Payable system to match the PO and receiver against the invoice amounts. We are anticipating adding software that will automate the processing of invoices received from our vendors. Using PO number on the Staples purchase will leverage

² According to Finance staff, only vendors who receive more than one payment are eligible to be paid electronically. For that reason, vendors who only received one payment via check were excluded from this calculation.

the automation and speed the process of paying all of our vendor invoices including Staples.

Audit Follow-Up Finding: Implemented

Since the original audit, Procurement has worked with City departments to set up approval workflows in the Staples Advantage system. Through this system, users are either classified as associates who order items or supervisors who are able to approve item purchases. Based on review of an August 2023 Staples Advantage User Report, all of the City's 98 Associate users had an appropriate approval workflow setup. In addition, all 75 Supervisor accounts were blocked from making purchases.

It should be noted that about 16 employees had both an Associate and a Supervisor account; however, these all appeared to have an appropriate supervisor account setup.

12. Annually review Staples Advantage users to verify that access is still appropriate.

Management Response: Concur

Purchasing Comments: The control of access to the Staples Advantage is with the Procurement Office. The Purchasing Office will request a user list from Staples annually or however frequently, as needed. Purchasing will send the list out to the departments to verify the users and ask Staples to make the requested changes.

Finance Comments: We agree that an annual review of city staff access to order from Staples should be performed to maintain the proper access of personnel and will be incorporated into the updated Policy and Procedures Manual.

Audit Follow-Up Finding: Implemented

According to Procurement staff, they have set up an annual review process where departments are asked to confirm that their users still need access. In addition, Procurement staff have implemented several user access review processes, including a quarterly review and verification of the user report, and a weekly review to ensure employees who have recently separated from the City no longer have access to the system.

Of all 173 users, only two (about one percent) appeared to no longer be active employees. Both of these users appeared to be Supervisor accounts who could not make purchases. Further, both of these accounts appeared to be for employees who appeared to also have an Associate account, indicating that while user access management is generally effective, Procurement staff should verify that users do not have two accounts when removing access.

13. Consider changing current Staples Advantage billing practices to improve efficiency in the Accounts Payable Division.

Management Response: Partially Concur

Finance Comments: We are anticipating adding software that will automate the processing of invoices received from our vendors. This will speed the process of paying all of our vendor invoices including Staples. Having a PO number on the invoice is key to the automation process. We will change our procedures to effectively leverage the ability of the software to scan and voucher a vendor's invoice to make the payment process more efficient.

Purchasing Comments: We do not have the ability to change Staples' billing practices or procedures. We can limit the number of City staff that have access to order from Staples and agree that this should be reviewed annually to ensure the proper employees have access.

Audit Follow-Up Finding: Implemented

This City has changed its billing method with Staples so that it receives an invoice for each order placed instead of each delivery. This has reduced the number of invoices received from Staples annually by about 98 percent. Between August 2022 and July 2023, about 0.2 percent of the City's vouchers were for Staples compared to 6.3 percent during the previous audit. In addition, Staples payments represented about 0.04 percent of the total amount disbursed between August 2022 and July 2023, compared to 0.06 percent from the original audit.

Table 5: Staples Billing Practices Change Comparison

	Vouchers	Voucher %	Disbursed	Disbursed %
Fiscal Year 2018	3,072	6.3%	\$339,546	0.06%
Aug. 22- Jul. 23	55	0.2%	\$296,057	0.04%

Audit Project Background

The City Auditor's Office is responsible for providing: (a) an independent appraisal³ of City operations to ensure policies and procedures are in place and complied with, inclusive of purchasing and contracting; (b) information that is accurate and reliable; (c) assurance that assets are properly recorded and safeguarded; (d) assurance that risks are identified and minimized; and (e) assurance that resources are used economically and efficiently and that the City's objectives are being achieved.

Auditing Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Management Responsibility

City management is responsible for ensuring that 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.

Objectives, Scope, and Methodology

The City Auditor's Office has completed a second follow-up review of the Audit of Accounts Payable, which evaluated the effectiveness of controls over accounts payable in order to properly record and safeguard the spending of municipal funds. This report is intended to provide a progress update on recommendations from the [Audit of Accounts Payable](#) originally issued in October 2019 that were still outstanding after the initial [Audit of Accounts Payable: Follow-Up Report](#) published in March 2021.

Audit fieldwork was conducted during July and August 2023. The review scope varied depending on the procedure being performed. The following list summarizes major procedures performed during this time:

- Reviewed documentation from the issued audit to develop criteria including industry standards, best practices, policies, and procedures;

³ The City of Denton's City Auditor's Office is considered structurally independent as defined by generally accepted government auditing standard 3.56.

- Interviewed City of Denton Finance Department, Procurement Department, and Technology Services Department staff;
- Reviewed new and updated policies and standard operating procedures;
- Analyzed payments vouchered and payments disbursed between August 2022 and July 2023;
- Examined supporting documentation for a randomly selected statistical sample of 96 payments issued between August 2022 and July 2023;⁴ and
- Inspected user access reports for the City's financial system and Staples Advantage account.

⁴ This sample size provides 95 percent confidence that the true population is within ± 10 percent of the sample estimate.