



ACCOUNTS PAYABLE & CASH
DISBURSEMENTS
INTERNAL AUDIT

December 2016





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May 8, 2017

Finance and Administration Committee
City of Springfield
840 Boonville Ave.
Springfield, Missouri 65802

Re: Accounts Payable and Cash Disbursements Internal Audit

Dear Committee Members:

In conjunction with our overall engagement to provide internal audit services to the City of Springfield (City), we have completed our internal audit of the Accounts Payable and Cash Disbursements processes and the associated internal controls. Our services were performed in accordance with the International Standards for the Professional Practice of Internal Auditing, as promulgated by the Institute of Internal Auditors (IIA).

The accompanying report includes an Executive Summary, our Observations and Recommendations, Process Improvement Opportunities, and a supporting Appendix. Because the procedures performed in conjunction with the review are more limited than would be necessary to provide an opinion on the system of internal accounting controls taken as a whole, such an opinion is not expressed. In addition, the engagement did not include a detailed audit of transactions that would be required to discover fraud, defalcations or other irregularities.

This report is intended solely for the information and use of management and the City Council and is not intended to be, and should not be, used by anyone other than the specified parties. City of Springfield external auditors may be provided with a copy of this report in connection with fulfilling their responsibilities. In addition, we understand that the City may be required to make our report, once finalized, available under sunshine laws.

We would like to express our gratitude to all employees involved with this project. Each person involved was accessible and responsive to our requests for information.

Sincerely,

RUBINBROWN LLP

A handwritten signature in black ink that reads "Christina Solomon".

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cc: David Holtmann

**CITY OF SPRINGFIELD
ACCOUNTS PAYABLE AND CASH DISBURSEMENTS INTERNAL AUDIT**

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CITY OF SPRINGFIELD
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Executive Summary

Project Overview and Scope

We completed our review of the City of Springfield's Accounts Payable (AP) and Cash Disbursements processes and the associated internal controls. The objectives of our review were to:

- Ensure adequate internal controls exist over the AP and Cash Disbursements processes and that those controls are operating effectively.
- Evaluate the AP and Cash Disbursements processes for operating efficiencies and applicability of best practices.

Our review included transactions occurring from November 1, 2015 through October 31, 2016. We completed the following procedures:

- Conducted in-person interviews with AP and Finance personnel in order to gain an understanding of and document the following cash disbursements processes:
 - Invoicing,
 - Check run (including physical check stock security),
 - Emergency payments,
 - Month end close process;
- Reviewed roles and responsibilities for segregation of duties conflicts;
- Performed limited testing of transactions to corroborate the documented processes; and
- Evaluated trends using data analysis for the areas identified above.

Background

Our internal audit of the AP and Cash Disbursements processes included invoice receipt and approval performed by various City departments, the sending of the approved invoice to the AP department, and payment process performed by AP. As of October 2016, cash disbursements over the period totaled \$111,714,947, with 99% of the number of payments being made by check and 1% of payments being processed through ACH/Wire (see Appendix A for disbursement details).

Best Practices

Based on our review, the AP department has adequate internal controls, except as provided in our observations below. The following are some of the observations indicative of the AP department's adherence to best practice internal controls:

- Month-end procedures are properly in place and are well documented in a month end packet.
- A log is maintained in order to require various departments to acknowledge, via signature, receipt of finalized checks.

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Executive Summary

Observations and Recommendations

We noted the following observations during our review:

- Three invoices were improperly paid twice;
- 136 gaps in check numbers were noted in the disbursements register;
- No check log is kept in the Finance vault to track checks being removed from the vault;
- Segregation of duties issues were present as one employee had both Payroll and AP access within Oracle;
- Finance Control Procedures do not address potential conflicts of interest with City Council members that could violate Missouri state statute; and
- The Finance Control Procedure requiring individuals to be authorized to approve accounting documents has not been updated or maintained.

Additionally, we provided four process improvement opportunities in the areas of centralized payment processing, ACH payments, document imaging capabilities, and vendor payments. All observations, recommendations, and process improvement opportunities were discussed with management. Details are noted in the tables attached immediately hereafter.

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OBSERVATIONS AND RECOMMENDATIONS



	Process/Procedure	Observation and Risk	Recommendation	Management Response
1	Invoices are approved as received by the department before being paid by AP.	<p>Observation: Upon review, we noted that three separate invoices were paid twice, totaling \$261.76.</p> <p>Risk: Unnecessary and improper payment of vendors.</p>	Review the listing of duplicate payments, including the vendors, to confirm the identified payments were isolated incidents.	<p>Director of Finance</p> <p>We have reviewed the duplicate payments and taken action to receive credit on the overpayments. The procedural issue with the duplicate payments will be corrected by ensuring payments are issued to remit addresses. Given the large volume of payments, the City believes future duplicate payments will be negated by the new procedure. This action has been implemented.</p>

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OBSERVATIONS AND RECOMMENDATIONS



	Process/Procedure	Observation and Risk	Recommendation	Management Response
2	<p>Checks are sequentially issued for payments to vendors.</p> <p>Voided checks are tracked in the Oracle financial system.</p>	<p>Observation: Upon review of the disbursements listing, check gaps were noted for 136 check numbers. The voided checks report was reviewed and we confirmed the missing checks were not voids.</p> <p>Risk: Improper or fraudulent payments.</p>	<p>Investigate the provided listing of check gaps in order to confirm the checks were properly voided or spoiled.</p> <p>In an effort to keep track of any potential check gaps in the future, maintain a log of all spoiled check numbers.</p>	<p>Director of Finance</p> <p>We understand the concerns regarding the noted checks. While the checks were not formally voided, they were manually marked as either spoiled or overflow within the system. There are times that multiple payments to one vendor are consolidated on one payment that do not fit on one check, resulting in an overflow check marked void by the accounting system.</p> <p>We began keeping a log of all spoiled and overflow checks in February 2017.</p>
3	<p>Checks are stored and accessed in a vault in the Finance department. When checks are printed, the employee accesses the vault and removes the necessary amount of checks from the top of the stack.</p>	<p>Observation: No check log is maintained in the Finance vault for checks removed for printing.</p> <p>Additionally, no audit trail is maintained in the event a check is identified as missing or having been improperly removed from the safe.</p> <p>Risk: Inability to identify checks missing from check stock.</p>	<p>In order to provide a proper audit trail, implement a check log at the Finance vault requiring employees sign out the checks being used for the weekly check run. Additionally, periodically review the blank check access log to determine checks are being used by the proper personnel according to policy.</p>	<p>Director of Finance</p> <p>We agree with the recommendation and have implemented the check log in the vault in February 2017.</p>

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	Process/Procedure	Observation and Risk	Recommendation	Management Response
4	<p>Access to the Oracle accounting system is distributed to employees as deemed necessary to perform job duties.</p>	<p>Observation: Upon review of the Oracle access listing, we noted that one employee held change access to both the Payroll and AP modules within Oracle. The employee had AP User access, giving her the ability to enter and approve invoices in the system. The employee's access did not allow payment initiation for invoices within the system.</p> <p>The employee was in the process of transitioning from the AP department to the Payroll department full time during the period access had been granted.</p> <p>Risk: Invoices being entered and approved in the system without further review prior to being paid by AP.</p>	<p>Review the current Oracle access listings to confirm proper access for finance personnel.</p> <p>Continue to work throughout the transition to confirm employees are not provided access that would lead to potential segregation of duties issues.</p> <p>Monitor the employee's AP transactions until the unnecessary access is removed.</p>	<p>Director of Finance</p> <p>This situation occurred during a time that the sole employee in the AP section was on vacation and the former AP employee was temporarily reassigned to AP to cover the work-flow for the week. The AP assignment was removed at the end of the week.</p> <p>The City agrees with the recommendation and will ensure potential segregation of duties conflicts are avoided in the future.</p>

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	Process/Procedure	Observation and Risk	Recommendation	Management Response
5	<p>Missouri state statute 105.454.1 requires that transactions with a City Council member’s business over \$500 may only occur after public notice of the opportunity, and if the Council member’s bid is the lowest.</p> <p>City policies address conflicts of interest with employees or family members of employees. For example, Purchasing Manual Section 13-3.406 bars employees and immediate family members from doing business with the City.</p>	<p>Observation: City purchasing policies do not directly address potential conflicts of interest between the City and members of the City Council.</p> <p>Additionally, the City does not have a method to detect if City Council members are conducting business with the City.</p> <p>Risk: Inadvertent violation of Missouri state statute.</p>	<p>Revise City purchasing policy to directly address the requirements of the Missouri state statute.</p> <p>To ensure the City is complying with state statute, document potential conflicts of interest as part of the vendor set up process.</p>	<p>Director of Finance</p> <p>We agree with the recommendation. City Charter Sec. 19.16 and City Code Sec. 2-60 go further than state law and prohibit a Council member from having any financial interest, direct or indirect, in any contract with the City or in a sale of land, materials, supplies or services. We will work to update the purchasing policy. In addition, the City will implement an annual process to ensure City payments are not made to Council members or their businesses.</p> <p>Our target date to complete the update of the Financial Control Procedures is October 31st, 2017.</p>

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	Process/Procedure	Observation and Risk	Recommendation	Management Response
6	<p>The Financial Control Procedures of the City read "A person must be authorized to sign accounting documents. Departments may obtain signatory authority for individuals by completing an AP Authorization form and submitting it to the Financial Department."</p> <p>For example, employees would be required to obtain authority in order to sign invoice registers as approval for payments.</p>	<p>Observation: It was noted per discussion with the AP department that the listing of individuals authorized to sign accounting documents has not been updated or maintained.</p> <p>Risk: Improper approval of accounting documents.</p>	<p>Review and revise the listing of individuals approved to sign accounting documents to bring the listing up to date.</p>	<p>Director of Finance</p> <p>This observation is correct and will be remedied by the following action. The control currently in practice is to review the invoice register approval for those employees who have been designated by a department as an approver or by an employee with higher authority by position within a department. The prior practice of maintaining an authorization log did not get updated timely for personnel changes and will no longer be utilized. The Financial Control Procedures will be updated for the current control in practice.</p> <p>Our target date to complete the update of the Financial Control Procedures is October 31st, 2017.</p>

City of Springfield
ACCOUNTS PAYABLE AND CASH DISBURSEMENTS INTERNAL AUDIT
PROCESS IMPROVEMENT OPPORTUNITIES



We noted the following process improvements during our review. These observations are not considered internal control weaknesses; however, we do recommend management consider each observation and take action where appropriate.

	Observation	Process Improvement	Management Response
1	<p>Invoices for goods and services are sent directly to each City department by the vendor. Individual departments are responsible for the following:</p> <ul style="list-style-type: none"> • Entering the received invoice into Oracle; and • Obtaining proper approval via a manual routing so that the invoice can be paid. <p>Each department may have a different process for receiving invoices, approving them, and routing them to AP.</p> <p>The variety of processes may cause unnecessary delays in processing payments. Performing accounting functions in multiple departments is inefficient.</p>	<p>Centralize accounts payable operations in the following areas:</p> <ul style="list-style-type: none"> • Invoice receipt • Entering invoices into Oracle <p>Additionally, consider utilizing the three-way match capabilities in Oracle. A three-way match process allows invoices for approved purchase orders to be paid once items are received on in the system by the requesting department.</p> <p>Implementing these actions would eliminate the need for department approval of invoices.</p>	<p>Director of Finance</p> <p>The Finance department is in support of a centralized accounts payable operation. Many operating efficiencies and control procedures can be achieved via a centralized process. This will require support throughout all city departments and the consolidation of some resources.</p>

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PROCESS IMPROVEMENT OPPORTUNITIES



	Observation	Process Improvement	Management Response
2	<p>The City paid 98.5% of the total invoiced dollars in our testing sample (40 invoices which totaled \$4,813,872) on time or early. However, we noted three invoices (totaling \$70,916, which is 1.5% of the total sampled dollars) were paid past the invoice due date. We confirmed the City did not incur finance charges for these payments.</p> <p>The three sampled invoices were not processed timely in the system by the receiving department. All three invoices were paid in the first disbursement period following receipt by AP.</p>	<p>Ensure invoices are paid on time in order to avoid any unnecessary late charges.</p>	<p>Director of Finance</p> <p>We agree completely with the recommendation and strive to provide prompt payment of all City obligations.</p>
3	<p>Oracle ACH capabilities are not currently integrated with bank systems. As such, ACH or wire payments require significant manual processes, similar to checks.</p>	<p>Explore the possibility of implementing the ACH functionality within Oracle. Confirm no security issues exist that would expose the company to increased risk.</p> <p>The addition of the ACH functionality would allow the City to move more vendors to automatic ACH payments, thus decreasing the amount of manual check processing and the associated risks.</p>	<p>Director of Finance</p> <p>We currently do not have the ACH functionality set up within Oracle to control all electronic payments (must be initiated and approved by authorized users only).</p>

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PROCESS IMPROVEMENT OPPORTUNITIES



	Observation	Process Improvement	Management Response
4	Oracle image retention capabilities are not used for AP documentation, such as invoices.	Explore the Oracle capabilities to store invoice copies within the system. Increased usage of this feature will allow different departments to access invoice copies regardless of where the physical invoice lies in the payment process.	Director of Finance We were unable to utilize Oracle images due to memory constraints of the system. The City will review as additional capacity becomes available.

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APPENDIX A – DISBURSEMENTS ANALYSIS



We performed an analysis to compare the total dollar amount and total number of transactions the City processed within the time period of November 1, 2015 through October 31, 2016. The chart below summarizes this information and shows that checks account for 83% of total dollars and 99% of transactions while ACH/Wire account for 17% of total dollars and only 1% of transactions.

Type	Transaction Total	Disbursement Total	% of Disbursements	% of Transactions
Check	13,030	\$92,865,348	83%	99%
Wire/ACH	189	\$18,849,599	17%	1%
Totals	13,219	\$111,714,947	100%	100%

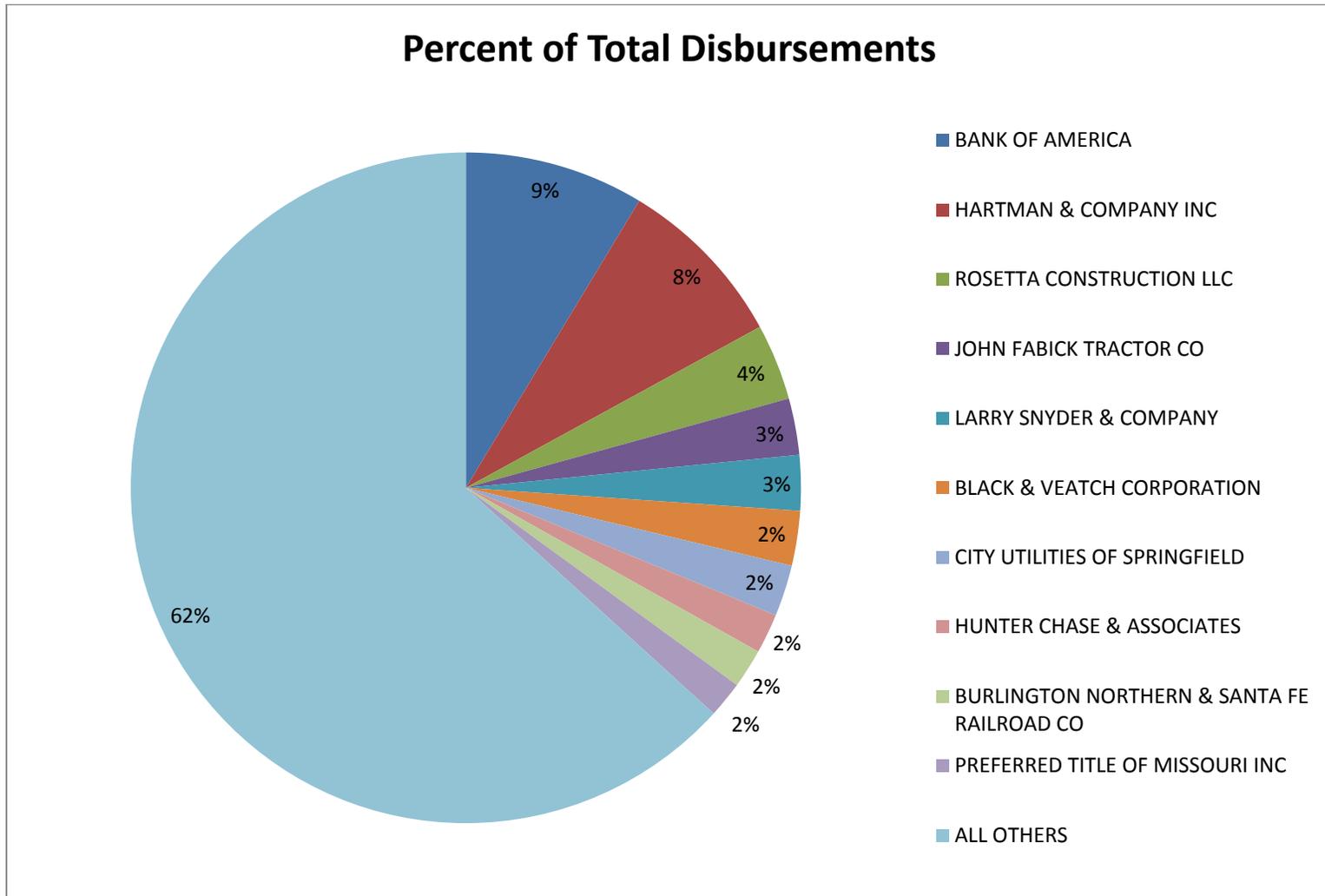
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APPENDIX A – DISBURSEMENTS ANALYSIS



Below is a summary of the ten largest vendors by dollar amount for the period November 1, 2015 through October 31, 2016. The next page shows this information in a visual representation as a pie chart. As discussed in process improvement opportunity number three, converting payments for some vendors to ACH could provide the City with cost savings by eliminating manual processes.

Vendor Name	ACH/Wire/Check	# of Transactions	Invoice Totals	Percent of Total Disbursements
BANK OF AMERICA	ACH/Wire	62	\$9,667,800	9%
HARTMAN & COMPANY INC	Check	44	\$9,364,906	8%
ROSETTA CONSTRUCTION LLC	Check	6	\$4,104,910	4%
JOHN FABICK TRACTOR CO	Check	18	\$3,035,663	3%
LARRY SNYDER & COMPANY	Check	11	\$2,982,908	3%
BLACK & VEATCH CORPORATION	Check	23	\$2,941,599	3%
CITY UTILITIES OF SPRINGFIELD	Check	87	\$2,760,551	2%
HUNTER CHASE & ASSOCIATES	Check	18	\$2,146,859	2%
BURLINGTON NORTHERN & SANTA FE RAILROAD CO	Check	22	\$2,100,133	2%
PREFERRED TITLE OF MISSOURI INC	ACH/Wire	3	\$1,954,280	2%
ALL OTHERS	ACH/Wire/Check	12,977	\$70,655,338	62%
TOTALS		13,219	\$111,714,947	100%

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Below is a summary of the ten vendors with the largest number of checks or ACH/wires for the period November 1, 2015 through October 31, 2016. Converting some of these vendors to ACH payments or asking the vendor to consolidate invoices could save the City time and money.

Vendor Name	ACH/Wire/Check	# of Transactions	Invoice Totals	Percent of Total Checks/ACH
SOUTHWESTERN BELL TELEPHONE COMPANY	Check	152	\$645,669	1.15%
AFFORDABLE HOUSING ACTION BOARD OF SPRINGFIELD INC	Check	126	\$426,628	0.95%
PETTY CASH CUSTODIAN	Check	99	\$36,885	0.75%
CITY UTILITIES OF SPRINGFIELD	Check	87	\$2,760,550	0.66%
BTC PROPERTIES	Check	80	\$275,169	0.61%
SAMS CLUB	Check	73	\$67,898	0.55%
COPY PRODUCTS INC	Check	68	\$334,321	0.51%
FEDERAL EXPRESS CORPORATION	Check	68	\$25,390	0.51%
AHAB	Check	62	\$250,163	0.47%
STATE OF MISSOURI	Check	57	\$707,127	0.43%
ALL OTHERS	ACH/Wire/Checks	12,347	\$106,185,147	93.4%
TOTALS		13,219	\$111,714,947	100%