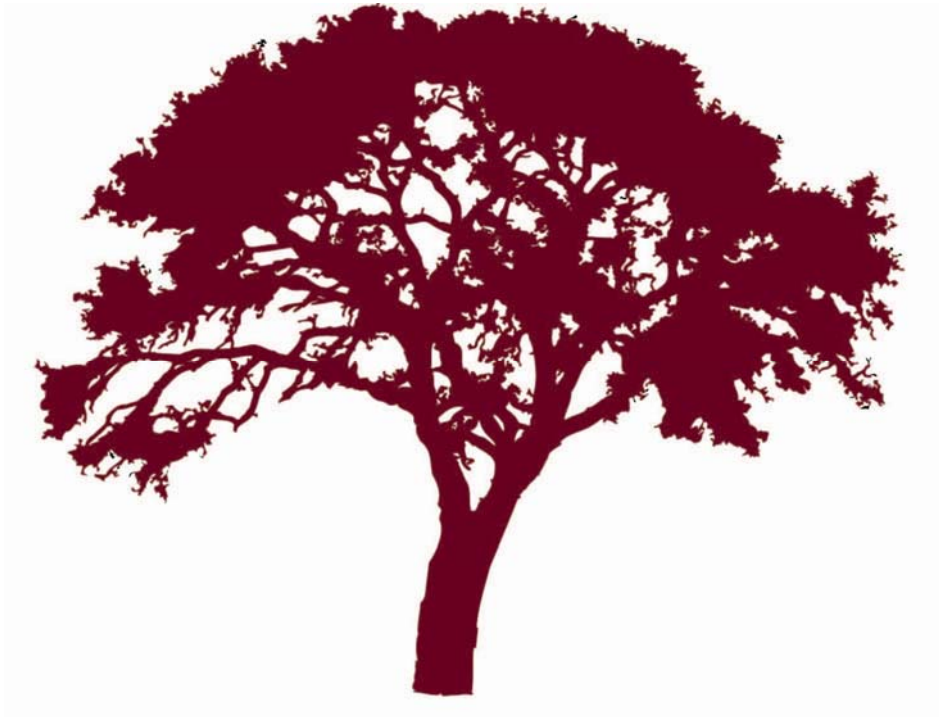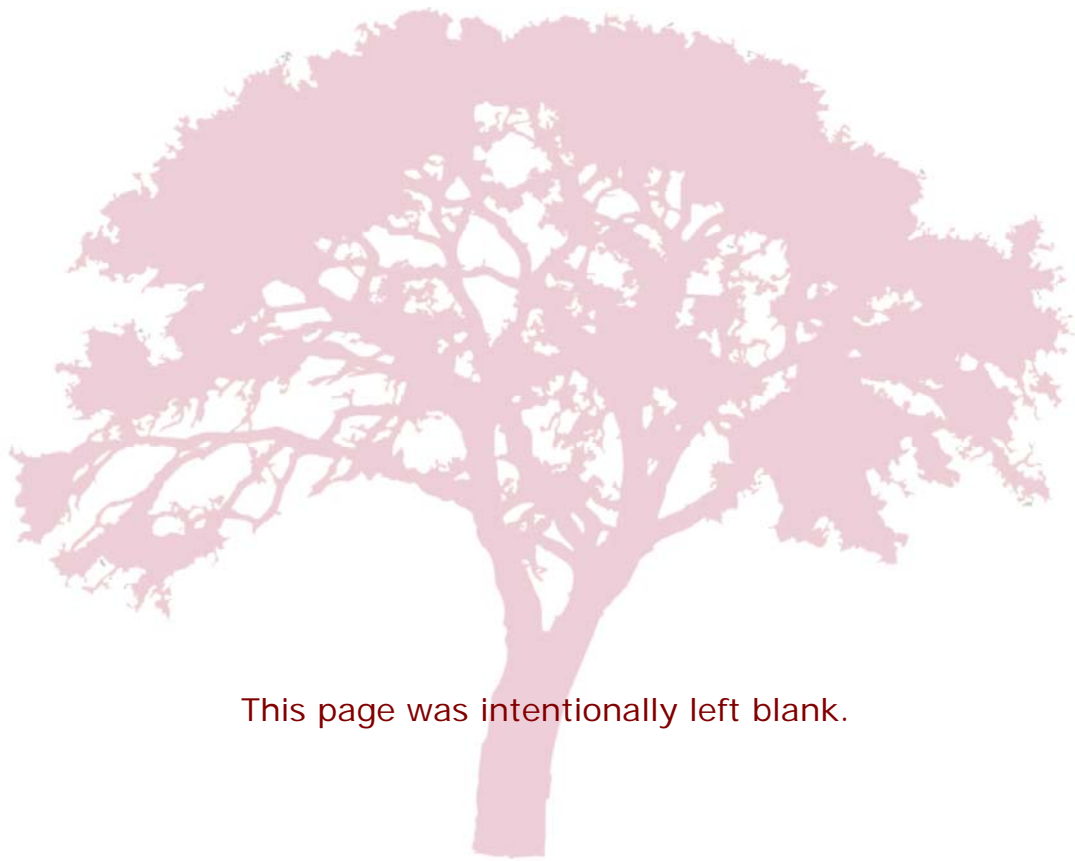# City of Oakland
Office of the City Auditor

Accounts Payable Duplicative Payments and Other Reportable Matters FY 2008-09 and 2009-10

Out of a judgmental sample of 63 payments tested, 16 duplicate payments (or 25 percent of the sample) were identified and totaled $103,554 due to avoidable data entry errors, unclear roles and responsibilities, weak internal controls, and an absence of basic reconciliation processes.

City Auditor
Courtney A. Ruby, CPA, CFE

PERFORMANCE AUDIT

This page was intentionally left blank.

CITY OF OAKLAND

CITY HALL ● ONE FRANK H. OGAWA PLAZA, 4TH FLOOR ● OAKLAND, CALIFORNIA 94612

Office of the City Auditor   (510) 238-3378
Courtney A. Ruby, CPA, CFE   FAX   (510) 238-7640
City Auditor   TDD   (510) 238-3254
                                                              www.oaklandauditor.com

March 28, 2012

OFFICE OF THE MAYOR
HONORABLE CITY COUNCIL
CITY ADMINISTRATOR
CITIZENS OF OAKLAND
OAKLAND, CALIFORNIA

RE: ACCOUNTS PAYABLE DUPLICATIVE PAYMENTS AND OTHER REPORTABLE MATTERS FY 2008-09 AND 2009-10 PERFORMANCE AUDIT

Dear Mayor Quan, President Reid, Members of the City Council, City Administrator Santana, and Oakland Citizens:

Having effective administration of the issuing of payments is essential for any organization, particularly one as established as Oakland. Payment processing is a fundamental and basic operation of the City and a core responsibility of management. As a primary area of risk, it requires vigilant monitoring by the City Administration.

Attached is the Accounts Payable Duplicative Payments and Other Reportable Matters FY 2008-09 and 2009-10 Performance Audit, which evaluated internal controls over duplicative payments for a system that dispersed more than 140,000 payments between FY 2008-09 and 2009-10.

The objectives of the audit were to test a sample of payments and assess internal controls over prevention of erroneous and duplicate payments. Out of a judgmental sample of 63 payments tested, 16 duplicate payments (or 25 percent of the sample) were identified and totaled $103,554. While these findings cannot be projected out to the entire population of payments, they did highlight internal control deficiencies.

Overall, the audit found duplicate payments in the sample occurred due to avoidable data entry errors, unclear roles and responsibilities, weak internal controls, and an absence of basic reconciliation processes. The audit also found that the existing policies and procedures did not sufficiently address preventing erroneous payments nor did they include any policies or procedures regarding the identification of duplicative payments.

Fifteen out of the 16 duplicate payments were identified by the audit or the vendor rather than the City-wide Accounts Payable Unit. As a result of the audit, the City has been able to avoid monetary loss and to recover or identify all duplicative payments that were made to vendors in the sample.

As the City looks to consolidate departments and reduce staff to address budgetary constraints, it is critical that proper internal controls are in place and policies and procedures are clearly outlined for the dispersal of city funds.

Positively, the Administration has agreed to resolve all recommendations outlined in the audit with the exception of one that the Administration did not address in its response. This recommendation dealt with the City Administration addressing the lack of payment controls over the Treasury Division's wire transfer process and providing appropriate, clarifying guidance and procedures.

It is my hope that this report more clearly informs the City Administration, City Council, and City employees on the weaknesses in the City's internal controls over duplicative payments and that these very manageable issues be dealt within an expedient time frame.
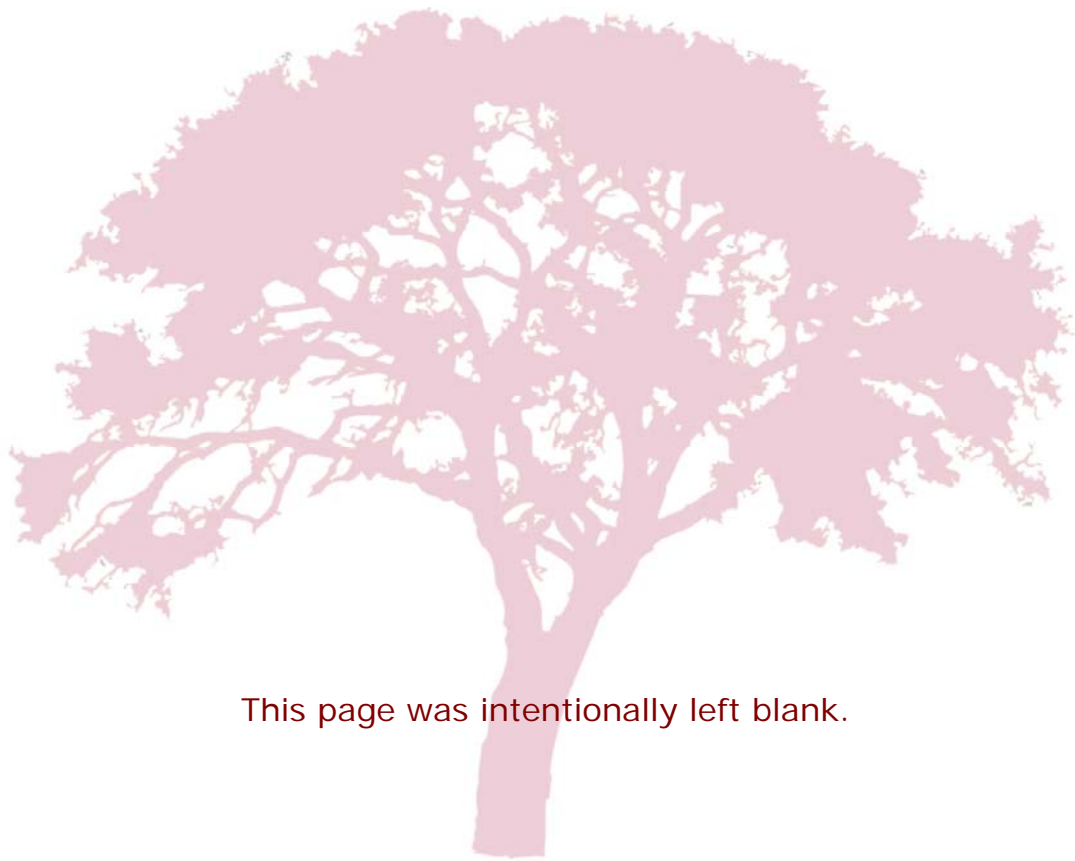

Respectfully submitted,

COURTNEY A. RUBY, CPA, CFE
City Auditor

cc   Scott Johnson, Assistant City Administrator
        Osborn Solitei, Controller

Table of Contents

This page was intentionally left blank.

REPORT SUMMARY
ACCOUNTS PAYABLE DUPLICATIVE PAYMENTS AND OTHER REPORTABLE MATTERS FY 2008-09 AND 2009-10 PERFORMANCE AUDIT

OVERVIEW	**Out of a judgmental sample of 63 payments tested, 16 duplicate payments (or 25 percent of the sample) were identified and totaled $103,554 due to avoidable data entry errors, unclear roles and responsibilities, weak internal controls, and an absence of basic reconciliation processes.**

Objective

The Office of the City Auditor conducted a performance audit to evaluate internal controls over duplicative payments for a system that dispersed more than 140,000 payments between FY 2008-09 and 2009-10. The objectives of the audit were to:

- Test a sample of payments for erroneous and duplicate payments

- Assess internal controls over prevention of erroneous and duplicate payments

Key Findings

Approximately $100,000 in duplicate payments were identified from 16 out of 63 matching payment sets (or 25 percent) obtained using a judgmentally-selected sample. Fifteen out of the 16 duplicate payments in the sample were identified by the audit or the vendor rather than the City-wide Accounts Payable Unit. The City-wide Accounts Payable Unit initiated corrective action to have the one duplicate payment it identified reimbursed. The vendors who identified the duplicate payments credited other invoice amounts due or issued a refund check; the City is currently not owed by vendors for any of these duplicate payments. Because the audit only tested a judgmental sample of 63 payments, the audit cannot conclude to the accuracy of the nearly 140,000 payment population that was not tested. The findings from the audit are listed below

- Finding 1: inaccurate data entry rendered Oracle's invoice number control feature ineffective. City-wide Accounts Payable Unit did not enter the correct invoice number into Oracle

- Finding 2: creation of two invoice numbers for the same charge impaired Oracle's invoice number control feature. Departmental accounts payable personnel created different invoice numbers on two payment request forms for the same billing statement charge

- Finding 3: Oracle's invoice number control feature was rendered ineffective when two invoices were entered that only differed by the addition of dashes. Departmental accounts payable personnel submitted the same invoice twice due to vendors sending a second invoice that contained an invoice number that differed from the first invoice

- Finding 4: Roles and responsibilities related to duplicate payment prevention were not clearly defined between the City-wide Accounts Payable Unit and individual City departments

- Finding 5: the existing internal controls to prevent duplicate payments are insufficient, and internal controls to identify duplicate payments are non-existent

- Finding 6: one case study revealed four erroneous payments, totaling $5,431

- Finding 7: incorrect data entry resulted in an overpayment, totaling $9,526.47

Recommendations

To address the audit's findings, the report includes several key recommendations:

Recommendation #1   The City Administration should prepare an Administrative Instruction that:

- Considers a policy of only inputting numbers and letters into Oracle's invoice number field
- Considers a policy that addresses the consistency of invoice number capitalization
- Establishes a uniform methodology that accounts payable personnel across all departments follow when creating an invoice number for invoices or billing statements that do not have an invoice or statement number
- Instructs the departmental accounts payable personnel and City-wide Accounts Payable Unit to prevent duplicate payments when vendors send the same invoice charges with modifications in the invoice number
- Defines the required steps departmental accounts payable personnel and City-wide Accounts Payable Unit take to identify a second invoice for the same charge
- Defines the roles and responsibilities of the City-wide Accounts Payable Unit and the departmental accounts payable personnel
- Directs the City-wide Accounts Payable Unit to verify that the invoice number the departmental accounts payable personnel list on the payment request form matches the invoice number shown on the invoice before the invoice number is entered into Oracle
- Directs the City-wide Accounts Payable Unit to perform another check that their invoice number entry into Oracle matches the invoice number on the payment request form and invoice
- Defines the steps City-wide Accounts Payable Unit should take when an invoice number entry is rejected by Oracle
- Directs the City-wide Accounts Payable Unit to assign departmental accounts payable personnel to reconcile Oracle Supplier Payment History Reports to vendor statements. All reconciliations should be properly reviewed and signed off by management

Recommendation #2   The City-wide Accounts Payable Unit should also ensure that:

- It follows its own procedures, including to only process payment request forms that include original invoices, receipts, or statements and not process payment requests that include insufficient support, such as photocopies

Recommendation #3   The City Administration should review:

- Payment controls over the Treasury Division's wire transfer process and provide clarifying guidance and procedures, if appropriate

Recommendation #4   The City-wide Accounts Payable Unit should:

- Work with the vendor who reported the erroneous payments identified in this section to collect the amount due of $5,431

Recommendation #5   The City-wide Accounts Payable Unit should ensure that it follows:

- Its own procedures, including to only process payment request forms that include original invoices, receipts or statements, and not issue payments to a vendor based on price quotations or documents showing that the goods were already paid for with cash

Recommendation #6   The City Administration should consider:

- The costs and benefits of implementing a three-way match or whether there may be other related controls that could be implemented to ensure the City is only paying the correct amount for goods and services actually received

Recommendation #7   The City Administration should direct:

- Departmental accounts payable personnel in the recommended Administrative Instruction to verify dollar amounts on billing statements and invoices to payment requests to increase the likelihood that data input errors will be identified before payment is issued to the vendor

Introduction

The City of Oakland (City) pays vendors for products and services used to conduct City business. Vendors send invoices or billing statements requesting payment. Two vendors notified the Office of the City Auditor (Office) of having received erroneous or duplicate payments. Risks to the City from making a duplicate payment include the loss of City funds and the possibility that controls over the disbursements process are not working properly. The vendors' notifications and the risks associated with duplicate payments were primary reasons for the Office to conduct this performance audit.

Background

Departmental accounts payable personnel prepare payment request forms for invoices and billing statements sent by vendors. Payment request forms include information such as the vendor name, vendor record number from the City's Oracle financial system (Oracle), invoice number and invoice amount. Departmental accounts payable personnel attach the invoice or other supporting documentation to the payment request form and forward the documents to the Accounts Payable Unit of the Finance and Management Agency (FMA). The Accounts Payable Unit serves as the City-wide vendor payment processing center, which includes entering information from the payment request form into the Oracle financial system.

Oracle has an automatic control feature over invoice numbers, which stops the same invoice number from being used more than once for the same vendor. One purpose of this control is to prevent duplicate invoices from being entered into the system.

Objectives, Scope & Methodology

<u>Audit Objectives</u>

The objectives of the audit were to:

- Test a sample of payments for erroneous and duplicate payments
- Assess internal controls over prevention of erroneous and duplicate payments

<u>Audit Scope</u>

The audit scope encompassed fiscal year (FY) 2008-09 and FY 2009-10.

<u>Audit Methodology</u>

To identify potential erroneous and duplicate payments on a sample basis, the audit obtained payment history reports for FYs 2008-09 and 2009-10 from FMA and used a software program named Audit Commander to identify matches and commonalities in the data. The payment history reports that were tested included the following key fields: invoice number, invoice amount, invoice date, vendor name, vendor record number in Oracle, payment amount and check number.

The audit ran seven tests to identify matching payment sets in Audit Commander. Audit Commander identified approximately 4,000[1] potential matching payments out of a total of 142,140 total payments reported in FMA's payment history reports for FY 2008-09 and FY 2009-10. The audit selected 50 matching payment sets for the audit sample: 25 sets for FY 2008-09 and 25 sets for FY 2009-10.

EXHIBIT 1 lists the different combinations used in the seven tests to identify matching payments. The different combinations involved the following information fields: vendor name, invoice number, invoice amount and invoice date.

EXHIBIT 1: Audit Commander Combinations

Parameters	Matching Payment Sets*
1. Identify matching payment sets with a combination of the same vendor name, invoice number, invoice amount and invoice date.	3
2. Identify matching payment sets with a combination of the same vendor name, invoice number and invoice amount.	5
3. Identify matching payment sets with a combination of the same vendor name, invoice number and invoice date.	9
4. Identify matching payment sets with a combination of the same vendor name, invoice amount and invoice date.	2,896[2]
5. Identify matching payment sets with a combination of the same vendor name and invoice amount, but with similar invoice number. The criteria for the similar invoice number were to find invoice numbers with the same letters and digits only. Differing symbols and spaces in the invoice numbers were ignored.	18
6. Identify matching payment sets with a combination of the same vendor name and invoice amount, but with similar invoice number. The criterion for the similar invoice number was to find invoice numbers with the same letters only. Differing digits, symbols and spaces in the invoice numbers were ignored.	18
7. Identify matching payment sets with a combination of the same vendor name and invoice amount, but with similar invoice number. The criterion for the similar invoice number was to find invoice numbers with the same digits only. Differing letters, symbols and spaces in the invoice numbers were ignored.	1,038[2]
*Note: Resulting number of matching payment sets for FY 2008-09 and FY 2009-10	

1 There were approximately 4,000 matching payment sets. This number does not distinguish whether or not some matching payment sets appeared in the results of more than one Audit Commander combination. Some of the same matching payment sets appeared in the results of more than one of the seven Audit Commander tests.
2 The number of matching payment sets for combinations 4 and 7 are approximate. This information is included to provide a better understanding of the volume of matching payment set results in relationship to each combination.

In general, the combinations that had parameters requiring an exact match increased the possibility of identifying a duplicate payment. Combination 1 had the most stringent matching requirements. Accordingly, Combination 1 yielded the fewest number of matching payment sets with two matches in FY 2008-09 and one match in FY 2009-10.

The audit added thirteen more matching payment sets to the sample. Eleven of these additional sets were payments to vendors that the audit found to have received duplicate payments. The remaining two matching payment sets were judgmentally selected.

The total judgmental audit sample consisted of 63 matching payment sets. These sets were divided between FYs 2008-09 and 2009-10 as shown in EXHIBIT 2.

EXHIBIT 2: Sampled Matching Payment Sets	
Sampled Matching Payment Sets	
FY 2008-09	28
FY 2009-10	35
Total	63

The audit determined whether or not these 63 matching payment sets contained duplicate payments. The audit obtained the payment request forms and their supporting documentation for all the payment transaction sets in the sample. The payment request forms and the supporting documentation for each matching payment set were then compared to identify if the invoice was processed twice. For example, one indication that the same invoice charge was processed twice is when one payment request form had an original billing statement attached and the other payment request form in the matching payment set had a facsimile copy of the same billing statement attached.

To assess internal controls over prevention of erroneous and duplicate payments, the audit conducted first-person observations of the following:

- *Department of Human Resources Management accounts payable personnel preparing a payment request*
- *City-wide Accounts Payable Unit processing a payment request*
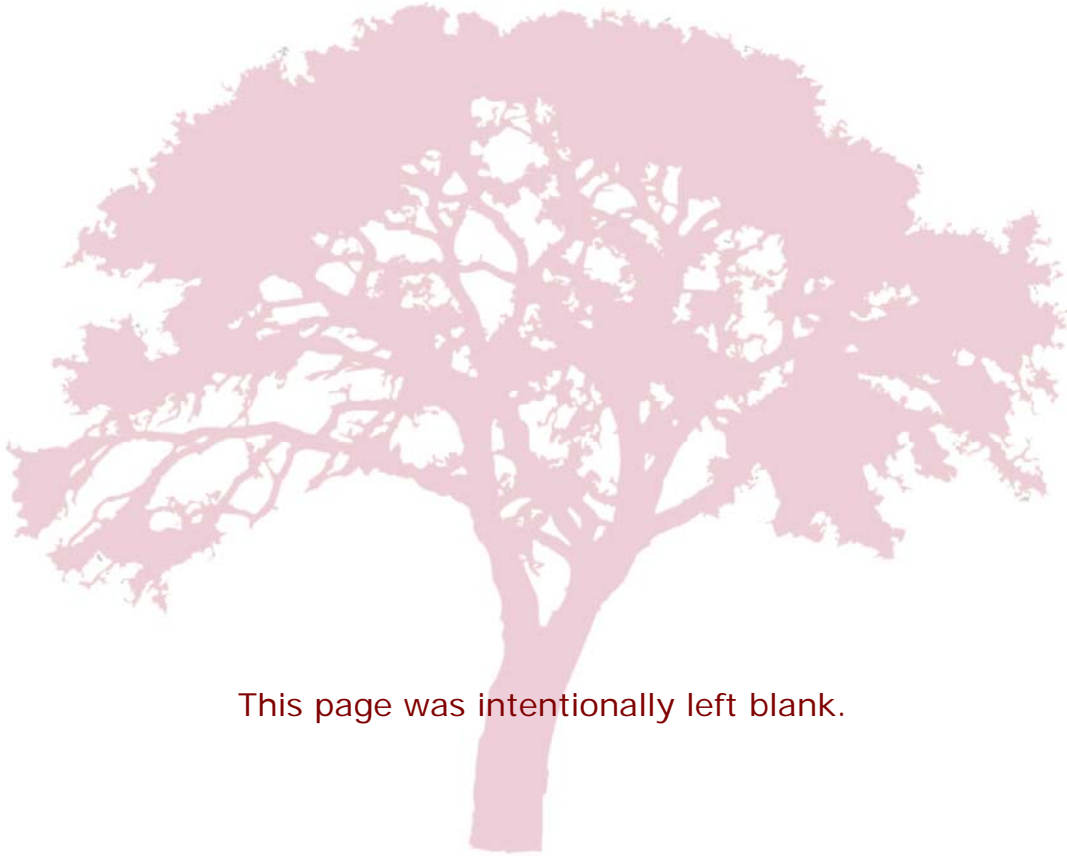
The Office conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that the Office plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the audit findings and conclusions based on the audit objectives. The Office believes that the evidence obtained provides a reasonable basis for the audit's findings and conclusions based on the audit objectives.
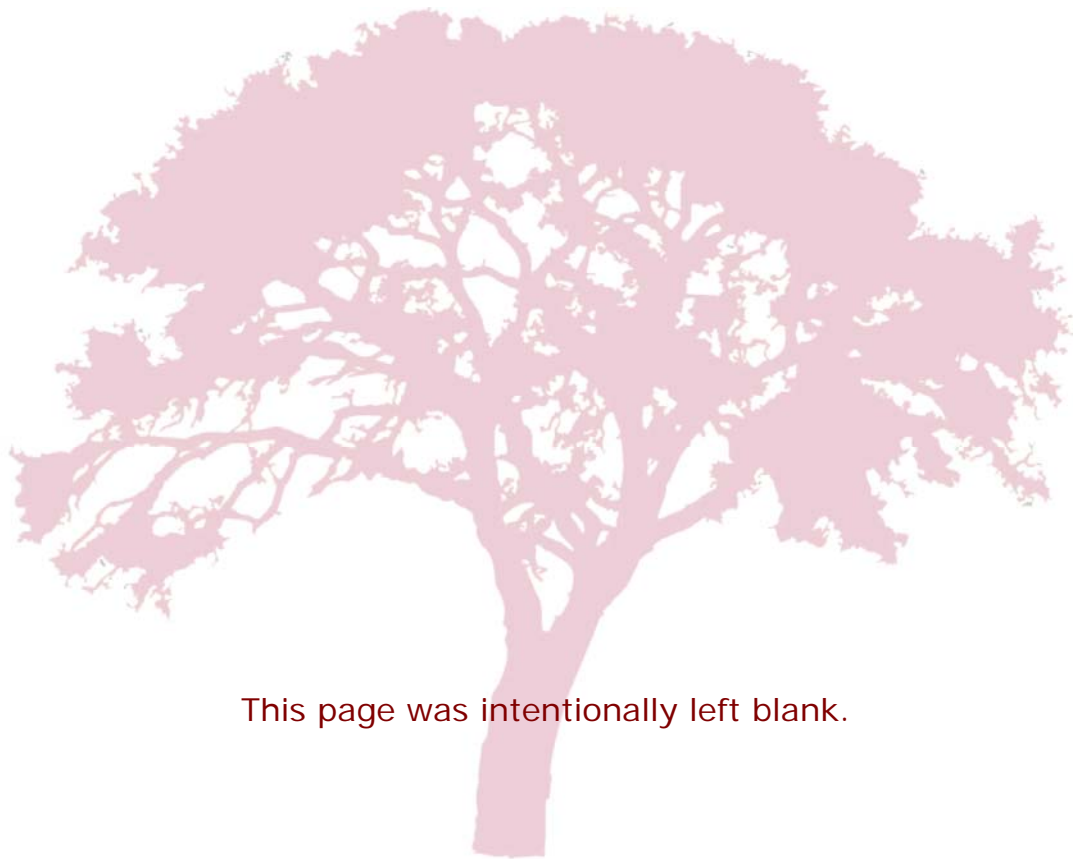
This page was intentionally left blank.

AUDIT RESULTS

This page was intentionally left blank.

Overview

Overall, the audit found that duplicate payments in the sample occurred when a second payment request was processed for an invoice already paid through a prior request. One of the reasons these duplicate payments were not caught by Oracle's invoice number control was because the invoice numbers were not exact matches, and slight variations between the two invoice numbers entered into the Oracle system allowed a duplicate payment to occur. The audit found 16 duplicate payments out of the 63 payment sets tested in the sample (or approximately 25 percent of the sample). This percentage cannot be projected to the City's total number of payments because the audit selected a judgmental sample that had a high indication of containing duplicate payments. The total dollar amount of the duplicate payments was $103,554, with more information for each payment provided in EXHIBIT 3.

EXHIBIT 3: Duplicate Payments Identified by the Audit Sample

Duplicate Payment Vendor Description	Duplicate Amount Paid	Requesting Department[3]
1. Shipper	$40.58	DIT
2. Office Supplies	$355.56	DIT
3. Telecommunications Provider	$2,530.04	DIT
4. Health Benefits Administrator	$548.70	DHRM
5. Health Benefits Administrator	$1,184.21	DHRM
6. Health Benefits Administrator	$27,721.26	DHRM
7. Health Benefits Administrator	$3,874.38	DHRM
8. Shipper	$9.18	DHRM
9. Janitorial Supplier	$474.12	FMA
10. Fitness Instructor	$900.00	DHRM
11. Health Benefits Administrator	$10,852.50	DHRM
12. Janitorial Supplier	$317.59	FMA
13. Health Benefits Administrator	$43,328.71	DHRM
14. Elevator Inspector	$210.00	OPL
15. Elevator Inspector	$210.00	OPL
16. Fuel Supplier	$10,996.84	PWA
Total Duplicate Amount: $103,554		

---

3 The abbreviations in the fourth column stand for the following:

DHRM = Department of Human Resources Management FMA = Finance and Management Agency
DIT = Department of Information Technology OPL = Oakland Public Library
PWA = Public Works Agency

EXHIBIT 4 shows some examples of matching payments sets that were identified during the audit. The differences in how the invoice numbers were entered into Oracle are shown in the column titled "Oracle Invoice Number." Not all of these matching payment sets resulted in duplicate payments.

EXHIBIT 4: Examples of Matching Payment Sets from Audit Commander				
Vendor description[4]	Oracle[5] Invoice Number	Invoice Amount	Invoice Date	City's Check or EFT date
Fitness Instructor	yoga102508	$900.00	10/25/08	11/17/08
Fitness Instructor	YOGA102508	$900.00	10/25/08	12/18/08
Community Art Contractor	9429.DOC	$2,000.00	1/8/09	2/9/09
Community Art Contractor	9429.doc	$2,000.00	2/19/09	3/4/09
Community Services Consultant	JAN-FEB, 2010	$1,500.00	2/28/10	3/19/10
Community Services Consultant	Jan-Feb, 2010	$1,625.00	2/28/10	3/19/10
Telecommunications Provider	00002092956	$2,530.04	8/7/08	9/10/08
Telecommunications Provider	0000209296	$2,530.04	8/7/08	9/30/08
Elevator Inspector	G026497OA	$210.00	2/11/10	3/23/10
Elevator Inspector	G-026497-OA	$210.00	3/27/10	4/15/10
Janitorial Supplier	603838.1	$317.59	5/19/10	6/4/10
Janitorial Supplier	603838-1	$317.59	5/19/10	6/11/10

Additionally, the audit found:

- Fifteen out of the 16 duplicate payments in the sample were identified by the audit or the vendor rather than the City-wide Accounts Payable Unit
- The City-wide Accounts Payable Unit initiated corrective action to have the one duplicate payment it identified reimbursed
- The vendors who identified the duplicate payments credited other invoice amounts due or issued a refund check; the City is currently not owed by vendors for any of these duplicate payments

---

4 Although the name of the vendor is provided in the Audit Commander results, this audit report omits the vendor's name and uses a description of the vendor instead.

5 Audit Commander was case sensitive. The Oracle invoice number control feature differentiated the upper and lower cases of the same letters as unique entries. Accordingly, the invoice numbers 'yoga102508' and 'YOGA102508' are near-matching, but unique entries in Oracle whereas Audit Commander considered these two invoice numbers to be the same.

Duplicative Payments	Out of a judgmental sample of 63 payments tested, there were 16 duplicate payments identified (25 percent of the sample), totaling $103,554.

Out of a judgmental sample of 63 payments tested, there were 16 duplicate payments identified, totaling $103,554. The following section explains the reasons for duplicative payments (using examples from the sample) and identifies other deficiencies in internal controls. As illustrated in the following charts, examples of duplicative payments are outlined from vendor invoice to payment issuance. Findings 1 through 3 address entry errors of duplicative payments, while findings 4 and 5 address deficiencies in administrative processes and procedures.
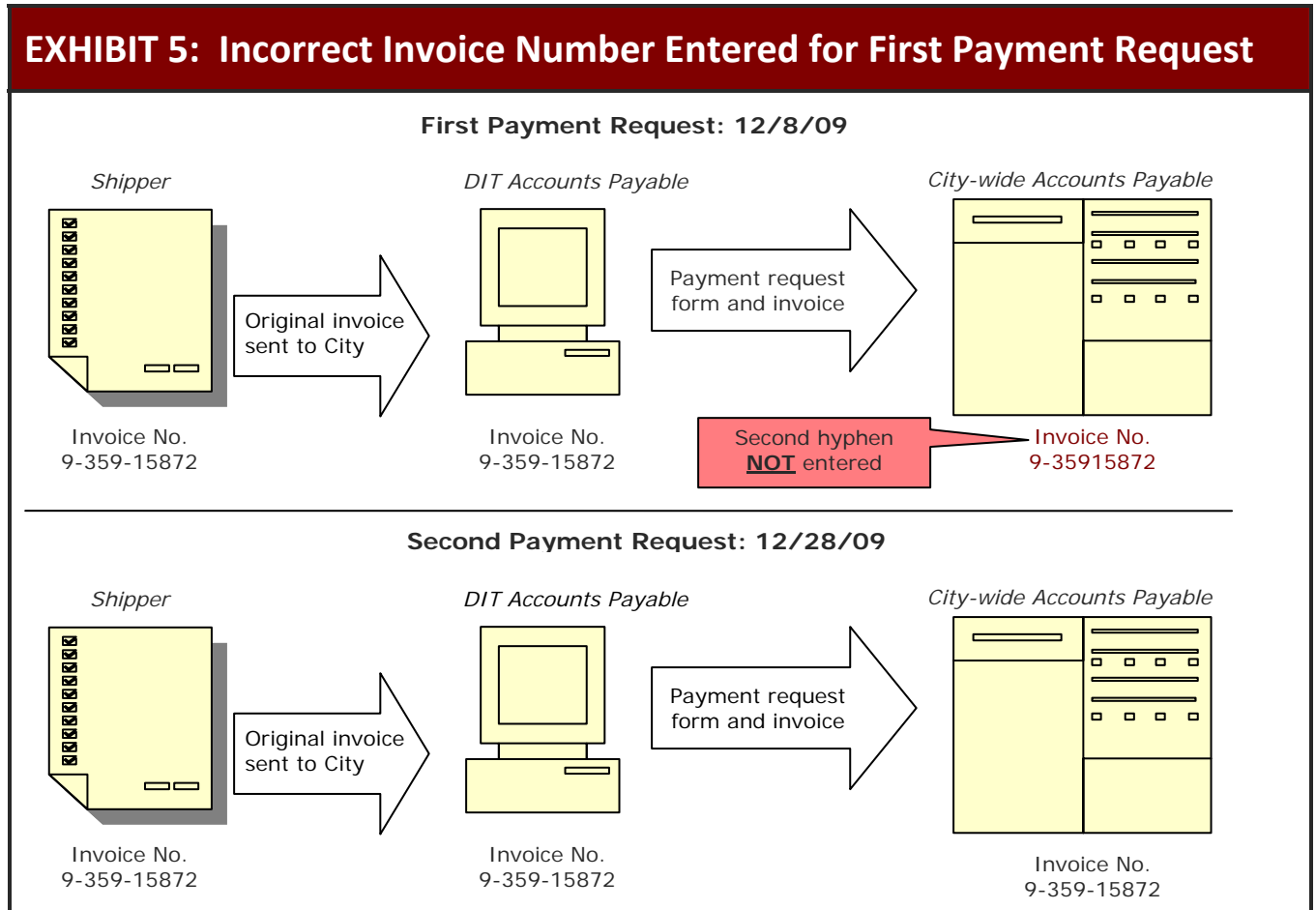
Finding 1

Inaccurate data entry rendered Oracle's invoice number control feature ineffective. The City-wide Accounts Payable Unit did not enter the correct invoice number into Oracle.

The audit found that Oracle's invoice number control feature did not prevent duplicate payments because the City-wide Accounts Payable Unit did not enter the invoice number as shown on the invoice. Inaccurate data entry rendered Oracle's invoice number control feature ineffective. Incorrect invoice numbers entered by the City-wide Accounts Payable Unit into Oracle were primarily responsible for 11 out of the 16 duplicate payments in EXHIBIT 3 (Rows 1-10 and 12).

One example of an incorrect entry the City-wide Accounts Payable Unit made is the duplicate payment in the amount of $40.58 represented by Row 1 of EXHIBIT 3. DIT accounts payable personnel prepared a payment request form including the invoice number 9-359-15872, which appeared on the shipper's invoice. The audit found the invoice attached to the payment request form was the original. The City-wide Accounts Payable Unit incorrectly entered the invoice number into Oracle as 9-35915872 without the second hyphen between the digits '9' and '1', resulting in payment of $40.58.

The shipper sent a second invoice after the first invoice was past due. DIT accounts payable personnel prepared another payment request form using the same invoice number 9-359-15872, which appeared on the shipper's second invoice. The audit found the invoice attached to the payment request form was the original. The City-wide Accounts Payable Unit correctly entered the invoice number into Oracle as 9-359-15872. Oracle did not reject the entry because the second hyphen made this entry unique from the invoice number entered for the first payment request, resulting in a duplicate payment of $40.58. The audit found that the shipper identified the duplicate payment (rather than the City-wide Accounts Payable Unit) and initiated reimbursement by issuing a refund check in the amount of $40.58.

EXHIBIT 5 illustrates the invoice numbers appearing on the documents used to process the initial payment and the duplicate payment. The step highlighted in red identifies an error that allowed a duplicate payment to occur.

EXHIBIT 5: Incorrect Invoice Number Entered for First Payment Request

First Payment Request: 12/8/09

Shipper
Invoice No.
9-359-15872

Original invoice sent to City

DIT Accounts Payable
Invoice No.
9-359-15872

Payment request form and invoice

City-wide Accounts Payable
Invoice No.
9-35915872

Second hyphen **NOT** entered

Second Payment Request: 12/28/09

Shipper
Invoice No.
9-359-15872

Original invoice sent to City

DIT Accounts Payable
Invoice No.
9-359-15872

Payment request form and invoice

City-wide Accounts Payable
Invoice No.
9-359-15872

Another example of an incorrect entry the City-wide Accounts Payable Unit made is the duplicate payment in the amount of $3,874.38 represented by Row 7 of EXHIBIT 3. DHRM accounts payable personnel prepared the first payment request form including an invoice number of 826401-0002 5/10, which appeared to be based on the DHRM accounts payable personnel's method of creating invoice numbers when the vendor does not provide one. No billing statement from the health benefits administrator showing an amount due of $3,874.38 was attached to the payment request form. Instead, DHRM accounts payable personnel prepared and attached a spreadsheet showing the calculation of the number of enrollees multiplied by the monthly fee per enrollee as the amount due to the health benefits administrator. City-wide Accounts Payable Unit incorrectly entered the invoice number into Oracle by replacing the space between the digits '2' and '5' with the digit '0' as well as removing the '/' between the digits '5' and '1'. The invoice number entry of 826401-00020510 resulted in payment of $3,874.38.

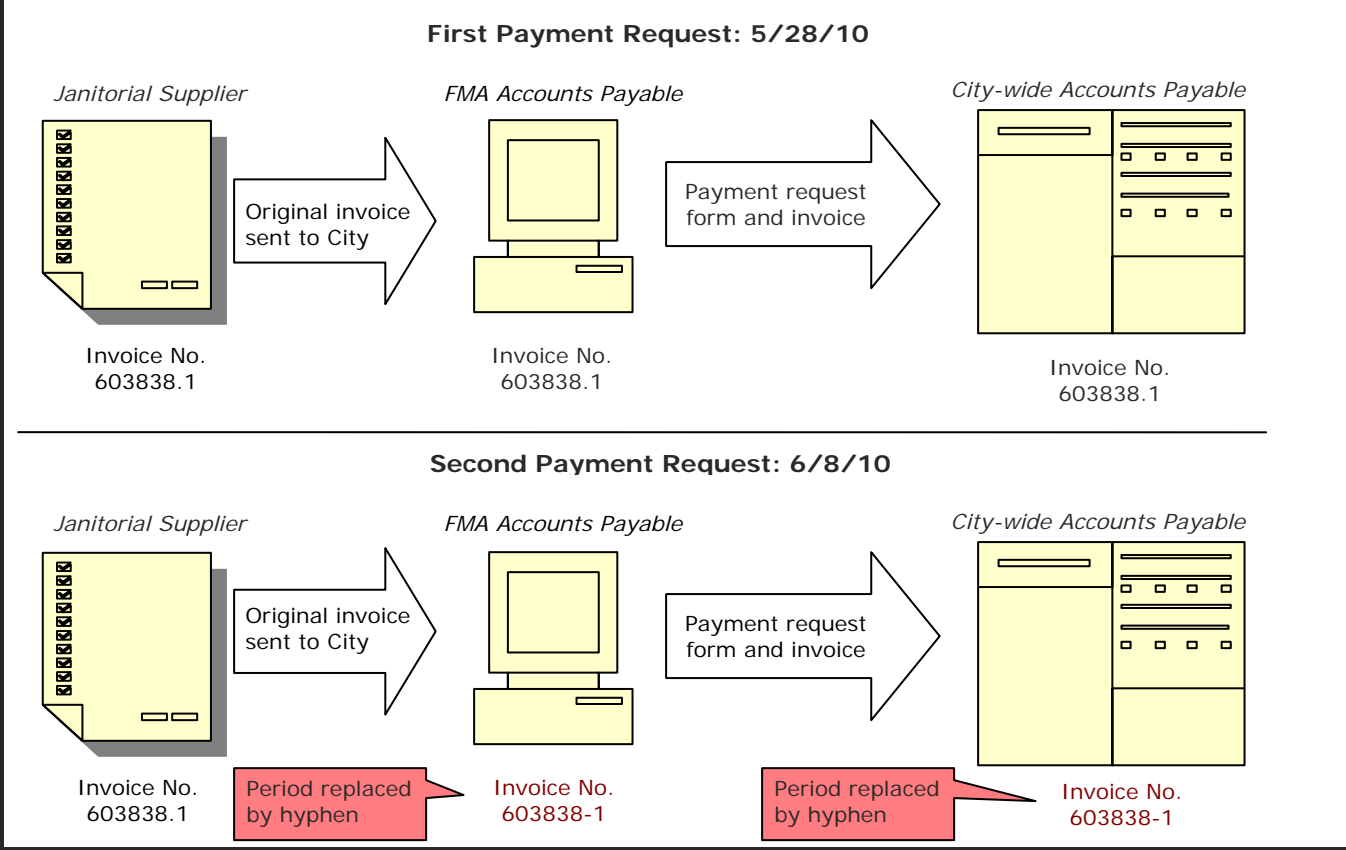## EXHIBIT 6:   Incorrect Invoice Number Entered for First and Second Payment Requests

First Payment Request: 5/17/10

DHRM Accounts Payable

City-wide Accounts Payable

No billing statement attached to payment request

Payment request form

Invoice No.
826401-0002 5/10

Space replaced by '0' and "/" removed

Invoice No.
826401-00020510

Second Payment Request: 6/9/10

Health Benefits Administrator

DHRM Accounts Payable

City-wide Accounts Payable

Original billing statement sent to City

Payment request form and billing statement

No number on billing statement

Invoice No.
826401-0002 5/10

Same as above, plus second hyphen and '1' entered

Invoice No.
826401-00020510-1

What did the payment processing procedures require as appropriate supporting documentation for a payment request?	The audit found the procedures stated the <u>original</u> invoice, receipt and/or statement must be attached. The procedures instructed City-wide Accounts Payable Unit to notify the department of missing documentation and return what the department had submitted.

As shown in EXHIBIT 6, DHRM accounts payable personnel prepared another payment request form including the same invoice number of 826401-0002 5/10. The audit found that the billing statement attached to the payment request form was the original. The health benefits administrator did not provide a statement number. The City-wide Accounts Payable Unit entered the invoice number into Oracle as 826401-00020510-1. Oracle's invoice number control feature did not reject this second invoice because the additional hyphen and the digit '1' made this entry unique from the first payment request, resulting in another payment of $3,874.38. The audit found that the health benefits administrator identified the duplicate payment rather than the City-wide Accounts Payable Unit and initiated reimbursement by applying the amount of $3,874.38 to subsequent balances due from the City.

In this next example, FMA accounts payable personnel received an invoice from a janitorial supplier for $317.59 and prepared a payment request form. The City-wide Accounts Payable Unit correctly entered the invoice number 603838.1 into Oracle, resulting in a payment of $317.59 to the vendor.

EXHIBIT 7: Incorrect Invoice Number Entered on Second Payment Request

First Payment Request: 5/28/10

Janitorial Supplier → Original invoice sent to City → FMA Accounts Payable → Payment request form and invoice → City-wide Accounts Payable

Invoice No. 603838.1 | Invoice No. 603838.1 | Invoice No. 603838.1

Second Payment Request: 6/8/10

Janitorial Supplier → Original invoice sent to City → FMA Accounts Payable → Payment request form and invoice → City-wide Accounts Payable

Invoice No. 603838.1 | **Period replaced by hyphen** → Invoice No. 603838-1 | **Period replaced by hyphen** → Invoice No. 603838-1

Did the payment processing procedures address how to proceed if an invoice number is rejected by Oracle?	The audit found that the procedures did not contain instructions addressing how to proceed if an invoice number entry is rejected by Oracle.

As illustrated in EXHIBIT 7, approximately a week later, FMA accounts payable personnel prepared a second payment request form for the same $317.59 invoice, in which it incorrectly stated the invoice number 603838-1. The invoice number 603838-1 did not match the invoice number on the supporting invoice, which used a period instead of a hyphen, 603838.1. The City-wide Accounts Payable Unit entered the incorrect invoice number, from the payment request form, 603838-1, into Oracle. Oracle's invoice number control feature did not reject this duplicate invoice because one invoice number used a period and the other contained a hyphen. The result was a duplicate payment of $317.59 issued to the vendor. The audit could not discern if either of the physical invoices attached to the two payment request forms were photocopies. After the audit identified the duplicate payment, the janitorial supplier sent the City a statement

showing that the amount of $317.59 was deducted from other balances due from the City.

Another duplicate payment that was identified during the audit similarly had an incorrect invoice number entered into Oracle by the City-wide Accounts Payable Unit. A health benefits vendor was paid a duplicate payment of $10,852.50, represented by Row 11 of EXHIBIT 3. However, in this instance, even though the statement number was inaccurately entered into Oracle by the City-wide Accounts Payable Unit, the inaccurate entry did not cause the duplicate payment because the FMA Treasury Division (Treasury Division) had already paid the vendor by wire transfer before the payment documentation was received by the City-wide Accounts Payable Unit and input into Oracle. According to the City-wide Accounts Payable Unit, it is standard process for the Treasury Division to make wire transfer payments and then submit the payment request forms and supporting documentation to the City-wide Accounts Payable Unit for processing in Oracle. By contrast, when standard-issue paper checks are used, the City-wide Accounts Payable Unit receives the payment request forms and supporting documentation before payment is made.

However, in this instance, had the City-wide Accounts Payable Unit accurately entered the second statement number into Oracle, the Oracle invoice number control feature would have rejected the number as a duplicate, which should have raised concern that there may have been a duplicate invoice and/or wire transfer payment.

In this example, DHRM accounts payable personnel prepared a payment request that correctly used the statement number 2633003. The Treasury Division received the payment request and made a wire transfer payment to the vendor in the amount of $10,852.50. The Treasury Division then forwarded the payment documentation, including the payment request form and a photocopy of the billing statement, to the City-wide Accounts Payable Unit. The City-wide Accounts Payable Unit correctly input the statement number, 2633003, into Oracle. Two months later, DHRM accounts payable personnel prepared a second payment request for $10,852.50 using the same statement number, 2633003. DHRM attached a photocopy of the same billing statement to this payment request. The Treasury Division received the payment request, made another wire transfer payment to the vendor in the amount of $10,852.50, and forwarded the payment documentation to the City-wide Accounts Payable Unit. Upon receipt of this documentation, the City-wide Accounts Payable Unit incorrectly entered the statement number from the payment documentation into Oracle. The City-wide Accounts Payable Unit entered 2633003A into Oracle, not 2633003. Oracle's invoice number control feature would have automatically identified the statement number included in the second payment documentation as a duplicate had the City-wide Accounts Payable Unit accurately entered the statement number. The audit found that the health benefits administrator identified the duplicate payment and initiated reimbursement to the City, rather than the City-wide Accounts Payable Unit identifying this error.

Recommendation

For the duplicate payments attributable to this finding, the City-wide Accounts Payable Unit incorrectly entered the invoice number into Oracle, which rendered Oracle's invoice number control feature ineffective. The audit recommends that an Administrative Instruction address prevention of duplicate payments primarily caused by the City-wide Accounts Payable Unit's incorrect invoice number entries into Oracle. As part of the Administrative Instruction, the City-wide Accounts Payable Unit should consider establishing the following:

- Establish a policy of only inputting numbers and letters into Oracle's invoice number field. Removing blank spaces and special characters such as hyphens and periods from a vendor's invoice number would help increase the consistency of how invoice numbers are entered into Oracle and would allow Oracle's invoice number control to better prevent duplicate invoices

- Create a policy that addresses the consistency of invoice number capitalization – for example, requiring that all letters included in an invoice number are capitalized when they are entered into Oracle that would allow Oracle's invoice number control to better prevent duplicate invoices

The City-wide Accounts Payable Unit should also ensure that:

- It follows its own procedures, including only processing payment request forms that include original invoices, receipts, or statements and not processing payment requests that include insufficient support, such as invoice photocopies

Additionally, the City Administration should:

- Review the payment controls over the Treasury Division's wire transfer process and provide clarifying guidance and procedures, if appropriate.

Finding 2

> **Creation of two invoice numbers for the same charge impaired Oracle's invoice number control feature. Departmental accounts payable personnel created different invoice numbers on two payment request forms for the same billing statement charge.**
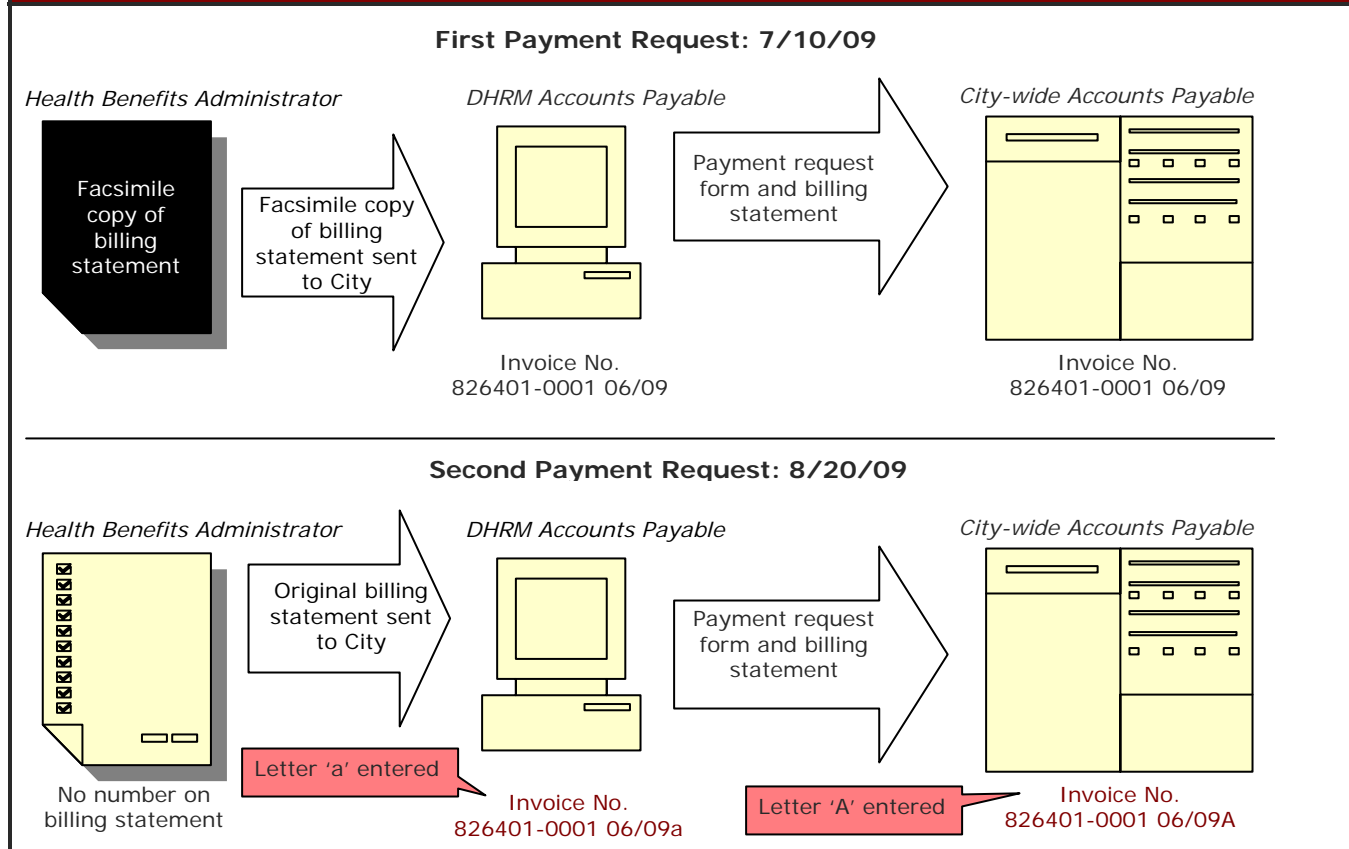
The audit found that Oracle's invoice number control did not prevent a duplicate payment because departmental accounts payable personnel created two different invoice numbers for a billing statement that did not provide an invoice number. This reason is primarily responsible for one out of the 16 duplicate payments in EXHIBIT 3 (Row 13).

DHRM accounts payable personnel prepared the first payment request form including an invoice number of 826401-0001 06/09, which appeared to be based on the DHRM accounts payable personnel's method for creating invoice numbers. The audit found that the billing statement attached to the payment request form was a facsimile copy sent by the vendor. The City-wide Accounts Payable Unit entered the same invoice number into Oracle, which resulted in payment of $43,328.71.

As shown in EXHIBIT 8, DHRM accounts payable personnel prepared another payment request form including an invoice number of 826401-0001 06/09a. The addition of the letter 'a' at the end made this invoice number unique from the invoice number created for the first payment request. The audit found that the

billing statement attached to the payment request form was the original. The City-wide Accounts Payable Unit entered the invoice number 826401-0001 06/09A into Oracle, which did not reject it because the capital letter 'A' made the invoice number unique from the invoice number entered for the first payment request, resulting in another payment of $43,328.71. The audit found that the health benefits administrator identified the duplicate payment (rather than the City-wide Accounts Payable Unit) and initiated reimbursement by applying the amount of $43,328.71 to subsequent amounts due from the City.

EXHIBIT 8: Different Invoice Numbers on Payment Request Forms

First Payment Request: 7/10/09

Health Benefits Administrator

Facsimile copy of billing statement

Facsimile copy of billing statement sent to City

DHRM Accounts Payable

Invoice No. 826401-0001 06/09

Payment request form and billing statement

City-wide Accounts Payable

Invoice No. 826401-0001 06/09

Second Payment Request: 8/20/09

Health Benefits Administrator

No number on billing statement

Original billing statement sent to City

DHRM Accounts Payable

Letter 'a' entered

Invoice No. 826401-0001 06/09a

Payment request form and billing statement

Letter 'A' entered

City-wide Accounts Payable

Invoice No. 826401-0001 06/09A

Did the payment processing procedures address invoices with no invoice numbers?	The procedures did not address how departmental accounts payable personnel should process invoices without invoice numbers.

For the duplicate payment attributable to this finding, DHRM accounts payable personnel incorrectly created different invoice numbers on two payment request forms for the same billing statement charges. In this situation, the Oracle invoice number control would not have been able to prevent a duplicate payment because the City-wide Accounts Payable Unit would not have had an invoice number on the billing statement to check against the number DHRM accounts payable personnel created.

Recommendation

To address this deficiency, the City Administration should include in the recommended Administrative Instruction a uniform methodology for accounts payable personnel across all departments to follow when creating an invoice number for invoices and billing statements that do not have an invoice or statement number.

Finding 3

> Oracle's invoice number control feature was rendered ineffective when two invoices were entered that only differed by the addition of dashes. Departmental accounts payable personnel submitted the same invoice twice due to vendors sending a second invoice that contained an invoice number that differed from the first invoice.

The audit found that Oracle's invoice number control did not prevent duplicate payments because vendors sent two invoices for the same invoice charge. The invoice numbers were slightly different from each other. Departmental accounts payable personnel prepared payment requests for both invoices and City-wide Accounts Payable Unit processed both payment requests. The disparate invoice numbers from the vendor were primarily responsible for three out of the 16 duplicate payments in EXHIBIT 3 (Rows 14-16).

An example of two invoices with different invoice numbers sent by the vendor is the duplicate payment (in the amount of $210) represented by Row 14 of EXHIBIT 3. Oakland Public Library (OPL) accounts payable personnel prepared a payment request form including the invoice number G026497OA, which appeared on the elevator inspector's invoice. The audit found that the invoice attached to the payment request form was the original. The City-wide Accounts Payable Unit correctly entered the invoice number into Oracle as G026497OA, resulting in payment of $210.

The elevator inspector sent a second invoice after the first invoice was past due. As shown in EXHIBIT 9, OPL accounts payable personnel prepared another payment request form including the invoice number G-026497-OA, which appeared on the elevator inspector's second invoice. The two hyphens made this invoice number unique from the invoice number on the prior invoice the elevator inspector sent. The audit found that the invoice attached to the payment request form was also the original. City-wide Accounts Payable Unit correctly entered the second invoice number into Oracle as G-026497-OA, which did not reject it because the two hyphens made this entry unique from the invoice number entry made for the first payment request, resulting in another payment of $210. The audit identified the duplicate payment rather than the City-wide Accounts Payable Unit. During the course of the audit, the elevator inspector issued a refund check in the amount of $420. The additional $210 in the amount of the check was to reimburse the other duplicate payment amount of $210 represented by Row 15 of EXHIBIT 3.

EXHIBIT 9: Different Invoice Numbers on Two Invoices for the Same Charge

First Payment Request: 3/8/10

Elevator Inspector → Original invoice sent to City → *OPL Accounts Payable* → Payment request form and invoice → *City-wide Accounts Payable*

Invoice No. G026497OA → Invoice No. G026497OA → Invoice No. G026497OA

Second Payment Request: 4/9/10

Elevator Inspector → Second invoice sent to City → *OPL Accounts Payable* → Payment request form and invoice → *City-wide Accounts Payable*

Invoice No. G-026497-OA — **Two hyphens entered** → Invoice No. G-026497-OA → Invoice No. G-026497-OA

Did the payment processing procedures address what to do when a vendor sends a second invoice because the first was past due?	The audit found that the procedures did not provide instructions for what to do when a vendor sends a second invoice because the first was past due.

Did the payment processing procedures address how to prevent input of a second invoice with an invoice number that was unique from the first invoice number?	The audit found that the procedures did not address situations when a vendor sends a duplicate invoice with a slightly different invoice number.

For the duplicate payments attributable to this finding, vendors sent two invoices for the same charge with invoice numbers that differed slightly due to the addition of dashes to the number. Departmental accounts payable personnel prepared payment requests for both invoices received. The Oracle invoice number control feature would not have been able to prevent a duplicate payment in this situation because the invoice number on the first invoice was unique from the invoice number on the second invoice.

Recommendation

In addition to the recommendations for the first finding that the City Administration develops an Administrative Instruction to address the consistency of invoice numbering, the audit also recommends that the City Administration include in the Administrative Instruction the steps required to identify a second invoice for the same charge. Additionally, the Administrative Instruction should include procedures on how to prevent duplicate payments when vendors send the same invoice charges with modifications in the invoice number.

Finding 4

> **Roles and responsibilities related to duplicate payment prevention were not clearly defined between the City-wide Accounts Payable Unit and individual City departments.**

The audit referred to the City-wide Accounts Payable Unit's payment processing procedures when assessing the sample results. These procedures applied to both departmental accounts payable processes and City-wide Accounts Payable Unit processes. However, no Administrative Instruction existed that comprehensively defined the roles and responsibilities of the City-wide Accounts Payable Unit and departmental accounts payable personnel. Administrative Instructions are management directives issued by the City Administration that define the operating policies and procedures applicable to City departments. By contrast, the audit noted the existence of an Administrative Instruction that defined the roles and responsibilities of the City-wide Accounts Receivable Unit and departmental accounts receivable personnel. The City-wide Accounts Payable and Accounts Receivable Units are both managed by FMA.

Specifically, the existing procedures did not include sufficient procedures that supported the Oracle invoice number control feature as a mechanism to prevent duplicate payments. The insufficient duplicate payment prevention procedures contributed to the ways that the internal controls surrounding the Oracle invoice number control feature were deficient.

Recommendation

The audit recommends that the Administrative Instruction:

- Defines the roles and responsibilities of the City-wide Accounts Payable Unit and the departmental accounts payable personnel

The Administrative Instruction should include procedures that:

- Direct the City-wide Accounts Payable Unit to verify that the invoice number the departmental accounts payable personnel wrote on the payment request form matches the invoice number shown on the invoice before the invoice number is entered into Oracle

- Direct the City-wide Accounts Payable Unit to perform another check that their invoice number entry into Oracle matches the invoice number on the payment request form and invoice

- Define the steps the City-wide Accounts Payable Unit should take when an invoice number entry is rejected by Oracle

Finding 5

> **The existing internal controls to prevent duplicate payments are insufficient, and internal controls to identify duplicate payments are non-existent.**

As described in the previous findings, the City Administration's existing controls for preventing duplicate payments were deficient. Additionally, the City Administration also needs to improve its identification of duplicate payments that have potentially been made.

The audit noted that the City-wide Accounts Payable Unit initiated corrective action for one of the 16 duplicate payments in the sample. The fitness instructor issued a refund check in the amount of $900 after the City-wide Accounts Payable Unit identified the duplicate payment represented by Row 10 of EXHIBIT 3.

An organization reconciling its own accounts payable records to vendor statements is an accounts payable industry best practice. Oracle Supplier Payment History Reports are one of the City's accounts payable management reports that are readily available to each department. These reports list the check (or other payment reference) numbers and associated dollar amounts issued to a vendor. Oracle Supplier Payment History Reports also list the invoice numbers and corresponding invoice amounts paid by check or electronic funds transfer. Reconciliation of vendor transactions involves comparing this information in the Supplier Payment History Report to the billing and crediting activity for the City's account shown on the vendor statement and researching differences in a timely manner.

The audit surveyed the five departments affected by duplicate payments in the sample, contacting a total of seven individuals from the departmental accounts payable personnel. The survey asked each staff member for an example of a reconciliation performed using the Oracle Supplier Payment History Report. None of the departmental accounts payable personnel provided a sufficient example of a reconciliation they performed. As a result, it appears that these five departments are not reconciling their accounts payable records using an essential Oracle management report.

The duplicate payment represented by Row 16 of EXHIBIT 3 is an example of the effectiveness of vendor statement reconciliations. After the audit identified the matching payment set as containing a possible duplicate payment, the fuel supplier provided PWA accounts payable personnel with an AR Transaction Report. The report showed that the fuel supplier applied a credit in the amount of $10,996.84. The fuel supplier had sent the City two invoices for the same charges equaling $10,996.84. The credit canceled one of the two invoice amounts. PWA accounts payable personnel were unaware that the fuel supplier applied the credit memo to the City's account until after receiving the fuel supplier's report. Oracle Supplier Payment History Report for the fuel supplier revealed that the credit amount of $10,996.84 was not recorded by the City. Since the City paid both invoices in the amount of $10,996.84 each, PWA accounts payable personnel applied the $10,996.84 credit amount against other invoice amounts due to the fuel supplier.

Recommendation

Internal control improvements are needed to identify duplicate payments that potentially have been made. These recommendations address deficiencies in internal controls that are designed to prevent duplicate payments. To identify potential duplicate payments, the audit recommends that the City Administration direct the City-wide Accounts Payable Unit to assign departmental accounts payable personnel the responsibility of reconciling Oracle Supplier Payment History Reports to vendor statements. The roles and responsibilities related to reconciling the vendor statements and setting the frequency of how often to perform the reconciliations should be included in the recommended Administrative Instruction.

Duplicative Payments Conclusion

The audit found that approximately 25 percent, or 16 out of 63 judgmentally sampled transactions sets, contained a duplicate payment. The total dollar amount of the duplicate payments was $103,554. The primary cause for over half the duplicate payments (11 out of the 16) was the City-wide Accounts Payable Unit's incorrect invoice number entry into Oracle. The City-wide Accounts Payable Unit inputs over 60,000 invoice numbers into Oracle per year with limited staffing. However, the roles and responsibilities related to duplicate payment prevention were not clearly defined between the City-wide Accounts Payable Unit and the individual departments. Furthermore, the City's accounts payable process did not have sufficient internal controls over verification and reconciliation of vendor transactions.

The findings necessitate improved written policies and procedures over the accounts payable function to prevent duplicate payments. The audit recommends the City Administration prepare an Administrative Instruction that defines the roles and responsibilities of the City-wide Accounts Payable Unit and the departmental accounts payable personnel and that addresses internal control deficiencies.

The findings also necessitate corrective action to identify duplicate payments that have potentially been made. The audit recommends that the City Administration direct the City-wide Accounts Payable Unit to assign departmental accounts payable personnel the responsibility of reconciling the City's Oracle Supplier Payment History Reports to vendor statements on a regular basis. Such reconciliations should be reviewed and signed off by management.

<table>
<tr><td>**Erroneous Payments**</td><td>**The audit identified erroneous payments and one overpayment in the sample**</td></tr>
</table>

The audit also found other issues not captured under the scope of testing for duplicate payments and have included these issues as other reportable matters. EXHIBIT 10 details a case study, in which $5,431 in erroneous payments were reported by one vendor.

EXHIBIT 11: Other Reported Erroneous Payments Case Study

Reason for Reported Erroneous Payment, According to the Vendor…	Erroneous Payment
1. The vendor sent a price quotation for items the vendor could provide to the City. The vendor did not submit an invoice. The City paid the vendor for the amount shown on the price quotation. The City payment processing procedures require payment requests to be based on original invoices, receipts or statements. A price quotation is not an invoice, receipt or statement. The City should follow its procedures and not make a payment based on a price quotation. <u>No goods were provided, yet a payment was made.</u>	$5,066.30
2. A City employee went to the vendor's office and purchased an item using cash on site. The vendor provided a purchase receipt that stated Cash Sale. The copy of the purchase receipt did not have a purchase order number. The City utilized the copy of the Cash Sale purchase receipt to process a check payment for the same item that was already reportedly paid for by cash. The City should ensure that it does not issue a payment to a vendor based on a cash sale receipt. A cash sale receipt indicates that an item has already been paid. <u>No goods were provided, yet a payment was made.</u>	$86.99
3. A City employee picked up and later returned an item. The vendor had provided an invoice for the item. The City paid the invoice. Accordingly, the City appears to have paid for an item that was returned by the City employee. <u>Ultimately, no goods were provided, yet a payment was made.</u>	$68.83
4. A City employee was given an invoice for the items he/she picked up. The invoice had some erroneous information on it: among them were an incorrect invoice number and an incorrect amount due of $208.92. The vendor mailed a corrected invoice that included the correct invoice number and correct amount due of $209.89. City accounts payable staff processed both the erroneous and corrected invoices for payment because they had different invoice numbers. Both invoices were accepted in Oracle. The City mailed a check to the vendor, which included payment for both the incorrect invoice amount of $208.92 and the correct invoice amount of $209.89. <u>Ultimately, the City paid for two items but only was provided one.</u>	$208.92
Total	**$5,431**

Finding 6

Issues with these erroneous payments were first brought to the attention of City when the vendor notified the Office of these payments. This case study highlights issues with processing payments without proper documentation and inventory management.

As outlined in the case study, the City did not follow its own policies and procedures for the payments in the first two examples by paying an invoice without appropriate documentation. In the third example and according to the vendor, the City paid for an item it did not keep. This highlights issues with payment processing and inventory management, specifically reconciling actual inventory with payment records.

In the fourth example, the vendor reported that the City received one item but actually paid for the item twice. As described in the duplicate payment section, Oracle's system control was rendered ineffective because the invoices for the same product utilized two separate invoice numbers. However, inventory management, including reconciliation of actual inventory with payment, may have assisted in indentifying this erroneous payment.

While the City utilizes a two-way match internal control, it appears that in this instance, this process was insufficient in preventing erroneous payments to this vendor. To address the deficiencies outlined in this case study, the City may benefit by the utilization of stronger internal controls.

In 2006, the City discontinued use of a matching system that compares three aspects of a purchase, or a three-way match. These procedures stipulated that before the City-wide Accounts Payable Unit can issue payment to the vendor, there must agreement among:

- Purchase order or release
- Receiving information
- Invoice information

According to the City Administration, the three-way match was discontinued because it was deemed to be too cumbersome.

Recommendation

The audit recommends that the City-wide Accounts Payable Unit work with the vendor who reported the erroneous payments identified in this section to collect the amount due of $5,431. The audit also recommends that the City-wide Accounts Payable Unit ensure that it follows its own procedures, including only processing payment request forms that include original invoices, receipts or statements, and not issuing payments to a vendor based on price quotations or documents showing that the goods were already paid for with cash.
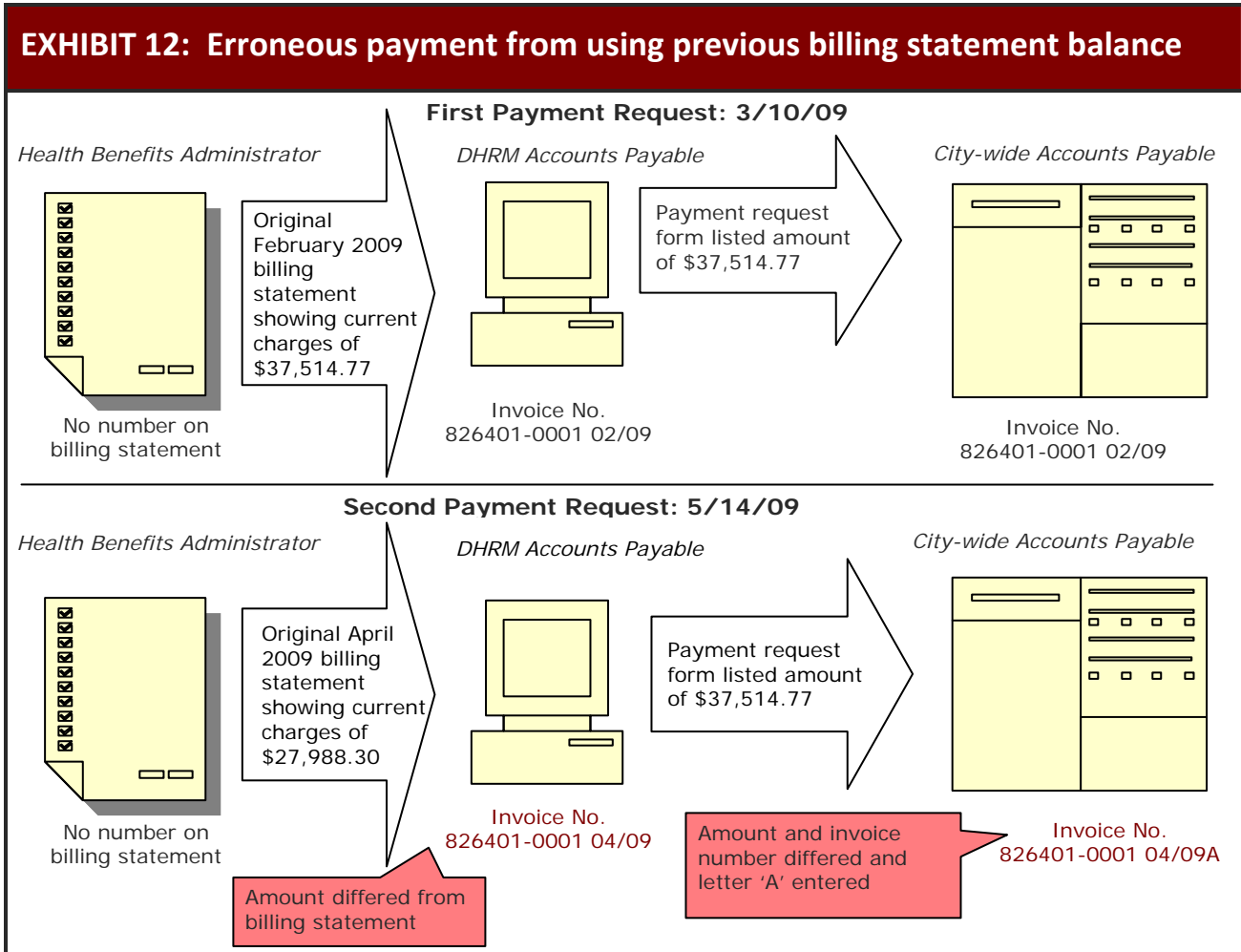
The audit recommends that the City Administration consider the costs and benefits of re-instituting a three-way match or determine whether or not there may be other related controls that could be implemented to ensure the City is only paying the correct amount for goods and services actually received.

Finding 7

Incorrect data entry resulted in an overpayment, totaling $9,526.47.

Another reportable matter arose from the audit testing. EXHIBIT 12 describes a matching payment set in the sample that contained an overpayment to a vendor.

The overpayment is distinguished from a duplicate payment in that the same billing statement was not paid twice. Rather, DHRM accounts payable personnel requested the same payment amount on two different billing statements from the health benefits administrator although the billing statements had different amounts due. The same requested payment amount was the higher of the two amounts shown on the billing statements.

EXHIBIT 12: Erroneous payment from using previous billing statement balance

First Payment Request: 3/10/09

Health Benefits Administrator

Original February 2009 billing statement showing current charges of $37,514.77

No number on billing statement

DHRM Accounts Payable

Invoice No. 826401-0001 02/09

Payment request form listed amount of $37,514.77

City-wide Accounts Payable

Invoice No. 826401-0001 02/09

Second Payment Request: 5/14/09

Health Benefits Administrator

Original April 2009 billing statement showing current charges of $27,988.30

No number on billing statement

DHRM Accounts Payable

Invoice No. 826401-0001 04/09

Amount differed from billing statement

Payment request form listed amount of $37,514.77

City-wide Accounts Payable

Invoice No. 826401-0001 04/09A

Amount and invoice number differed and letter 'A' entered

DHRM accounts payable personnel prepared two payment request forms in the amounts of $37,514.77 each. The audit found that the billing statement attached to the first payment request showed current charges of $37,514.77. The audit found a different billing statement attached to the second payment request, which showed current charges of $27,988.30. Accordingly, the second payment request was overpaid by the difference between the $37,514.77 requested and the $27,988.30 amount due. The overpayment amount was $9,526.47. The billing statements attached to both payment request forms were original copies. Also, the health benefits administrator did not provide statement numbers on either billing statements.

The health benefits administrator applied the overpayment to subsequent balances due from the City. The City is not owed by the health benefits administrator for this overpayment.

Recommendation The audit recommends that the Administrative Instruction direct departmental accounts payable personnel to verify dollar amounts on billing statements and invoices to payment requests to increase the likelihood that data input errors will be identified before payment is issued to the vendor.

FINDINGS	
The audit found the following:	
Finding 1	Inaccurate data entry rendered Oracle's invoice number control feature ineffective. City-wide Accounts Payable Unit did not enter the correct invoice number into Oracle.
Finding 2	Creation of two invoice numbers for the same charge impaired Oracle's invoice number control feature. Departmental accounts payable personnel created different invoice numbers on two payment request forms for the same billing statement charge.
Finding 3	Oracle's invoice number control feature was rendered ineffective when two invoices were entered that only differed by the addition of dashes. Departmental accounts payable personnel submitted the same invoice twice due to vendors sending a second invoice that contained an invoice number that differed from the first invoice.
Finding 4	Roles and responsibilities related to duplicate payment prevention were not clearly defined between the City-wide Accounts Payable Unit and individual City departments.
Finding 5	The existing internal controls to prevent duplicate payments are insufficient, and internal controls to identify duplicate payments are non-existent.
Finding 6	One case study revealed four erroneous payments, totaling $5,431.
Finding 7	Incorrect data entry resulted in an overpayment, totaling $9,526.47.

This page was intentionally left blank.

RECOMMENDATIONS

Recommendation #1 The City Administration should prepare an Administrative Instruction that:	
	Considers a policy of only inputting numbers and letters into Oracle's invoice number field
	Considers a policy that addresses the consistency of invoice number capitalization
	Establishes a uniform methodology that accounts payable personnel across all departments follow when creating an invoice number for invoices or billing statements that do not have an invoice or statement number
	Instructs the departmental accounts payable personnel and the City-wide Accounts Payable Unit to prevent duplicate payments when vendors send the same invoice charges with modifications in the invoice number
	Defines the required steps departmental accounts payable personnel and the City-wide Accounts Payable Unit take to identify a second invoice for the same charge
	Defines the roles and responsibilities of the City-wide Accounts Payable Unit and the departmental accounts payable personnel
	Directs the City-wide Accounts Payable Unit to verify that the invoice number the departmental accounts payable personnel list on the payment request form matches the invoice number shown on the invoice before the invoice number is entered into Oracle
	Directs the City-wide Accounts Payable Unit to perform another check that their invoice number entry into Oracle matches the invoice number on the payment request form and invoice
	Defines the steps City-wide Accounts Payable Unit should take when an invoice number entry is rejected by Oracle
	Directs the City-wide Accounts Payable Unit to assign departmental accounts payable personnel to reconcile Oracle Supplier Payment History Reports to vendor statements. All reconciliations should be properly reviewed and signed off by management

Recommendation #2 The City-wide Accounts Payable Unit should also ensure that it:	
	Follows its own procedures, including to only process payment request forms that include original invoices, receipts, or statements and not process payment requests that include insufficient support, such as photocopies
Recommendation #3 The City Administration should review:	
	Payment controls over the Treasury Division's wire transfer process and provide clarifying guidance and procedures, if appropriate
Recommendation #4 The City-wide Accounts Payable Unit should:	
	Work with the vendor who reported the erroneous payments identified in this section to collect the amount due of $5,431
Recommendation #5 The City-wide Accounts Payable Unit should ensure that:	
	It follows its own procedures, including to only process payment request forms that include original invoices, receipts or statements, and not issue payments to a vendor based on price quotations or documents showing that the goods were already paid for with cash
Recommendation #6 The City Administration should consider:	
	The costs and benefits of implementing a three-way match or whether there may be other related controls that could be implemented to ensure the City is only paying the correct amount for goods and services actually received
Recommendation #7 The City Administration should direct:	
	Departmental accounts payable personnel in the recommended Administrative Instruction to verify dollar amounts on billing statements and invoices to payment requests to increase the likelihood that data input errors will be identified before payment is issued to the vendor

ADMINISTRATION'S RESPONSE

This page was intentionally left blank.

February 22, 2012

Courtney Ruby, City Auditor
City of Oakland, California
Frank Ogawa Plaza, 4th Floor
Oakland, California 94612

RE: Response to Accounts Payable Performance Audit

Dear City Auditor Ruby:

I'm pleased to provide you with the City Administration's response to the Accounts Payable Duplicate Payment and Other Reportable Matters Performance Audit. We welcome performance audits conducted in a fair and impartial manner. However, we are concerned that after several meetings between the Administration and the auditor's staff which involved reviewing the draft audits, staff reiterated on several occasions the concern that the audit results present an over exaggerated and overemphasized deficiency performance, which is grossly misleading. The actual deficiency is approximately 0.0012 percent as opposed to 25 percent indicted in the audit. In other words, of the 142,000 invoices processed during the two year period under audit representing approximately $1.3 billion of payments, 99.9988% were considered compliant.

- On page 7 of the audit states, *"The audit found 16 duplicate payments out of the 63 payment sets tested in the sample or approximately 25 percent of the sample"*. The 63 payments were selected from approximately 142,000 invoices after an "audit commander" was used to detect duplicate payments. Therefore, the 25 percent is misleading. The actual percentage should be only 0.0012 percent of the total invoice population.

- The City recovered all the duplicate payments, thus there was no monetary loss on the part of the City. This should be in the report summary of the audit not the conclusion section.

Attached to this cover letter is the City's detailed response on audit findings, recommendations and audit process.

I look forward to working with your office to target key issues identified in the audit process that could result in ways to improve the accounts payable process.

Sincerely,

Scott P. Johnson
Assistant City Administrator

Cc: Deanna Santana, City Administrator
    Joseph T. Yew, FMA Director/City Treasurer
    Osborn K. Solitei, Controller
    Gregoria Torres, Assistant Controller

ACCOUNTS PAYABLE AUDIT
RESPONSE TO CITY AUDITOR'S FINDINGS & RECOMMENDATIONS:

I. Key Findings

A. Approximately $100,000 in duplicate payments were identified from 16 out of 63 matching payment sets.

(1) *Response: The audit covers FY 2008-09 and FY 2009-10 vendor payments involving approximately 142,000 invoices amounting to $1.3 billion. The Auditor used an audit software program named "Audit Commander" to identify payment transactions with matching attributes, such as same name, invoice amount and invoice date. Of the total population, 63 matched transactions of possible duplicate payments were indentified and only 16 transactions proved to be duplicates or overpayments. This is about 0.01 percent of the total population. Out of the total duplicates or overpayments of $103,534, a total of $87,509 was made to one vendor (Vision Service Plan), who has a contract with the City to provide vision plan services for City employees and for which the payments were applied to the following month's invoice. In addition, the City recovered all the overpayments.*

B. Either the vendors or the audit identified 15 out of 16 of the duplicate payments in the sample rather than the Citywide Accounts Payable Unit.

(3) *Response: The Accounts Payable Unit processes volumes of invoices/transactions on a daily basis. This process includes reviewing the payment requests for use of proper account codes, authorized signatures (for approving the payment) and sufficient documentation. Staff also verifies that the invoice number on the payment request form matches the attached invoice. Staff relies on the Oracle System built-in feature to detect when an invoice has already been paid. In addition, departmental Accounts Payable personnel who submit the payment requests are required to maintain copies of payment requests and supporting documentation so that they have a record of what invoices have been submitted for payment. They are expected to utilize the Oracle AP Module to check on a status of an invoice before it is submitted for payment. Thus, duplicate payments should not happen.*

C. Vendors who identified these duplicate payments credited other invoice amounts due or issued a refund check; the City is not owed by vendors for any of these duplicate payments.

(2) *Response: We concur with this finding.*

1

D. Internal controls surrounding the Oracle invoice number control feature had three deficiencies that contributed to these duplicate payments-inaccurate data entry, creation of two invoice numbers for the same charge, and different invoice numbers for the same charge.

(4)

Response: The deficiencies listed above are caused by human errors and should have no bearing on the accuracy of the invoice number control feature. The proposed Administrative Instruction (AI) will set the policy and guidelines in establishing invoice numbers. This will standardize the invoice creation process and prevent the use of the same invoice number twice and different invoice numbers for the same item.

E. Citywide written polices and procedures regarding prevention of duplicate payments were insufficient and written policies and procedures regarding identification of duplicate payments were non-existent.

(5)

Response: There are separate written procedures for processing payables, including the following Administrative Instructions:

> *Direct payments (AI 1021)*
> *Travel Policy (AI 120)*
> *Petty Cash Reimbursements (AI 1013)*
> *Purchasing Cards (AI 1055)*
> *Tuition Reimbursement (AI 552)*
> *Use of City Vehicles (AI 4402)*

However, there is no Administrative Instruction (AI) that collects and presents the policies and procedures for all types of vendor payments in one official document.

F. Additionally, one vendor who had invoices that were not included in the sample reported receiving erroneous payments in the amount of $5,431 from the City.

(6)

Response: The department believes that these invoices were legitimate at the time they were processed for payment based on the information and the signatures on the supporting documents. Unfortunately, this could not be verified since the supervisor who approved the invoices has left the City.

II. Key Recommendations:

A. Prepare an Administrative Instruction that defines roles, responsibilities and necessary internal control procedures for the City-wide Accounts payable unit and the accounts payable personnel of departments

Response: We agree with this recommendation. An Administrative Instruction (AI) will be issued soon.

B. As part of the Administrative Instruction, the City-wide Accounts Payable Unit should also consider the following:

      i). Establish a policy of inputting numbers and letters into Oracle's invoice number field.

      ii). Create a policy that addresses the consistency of invoice number capitalization

Response: *We agree with this recommendation. These proposed policies will be incorporated in the Administrative Instruction.*

C. Consider the costs and benefits of implementing a three-way match or whether there may be other related controls that could be implemented to ensure that the City is only paying the correct amount of goods and services actually received.

Response: *The three-way match has been discontinued because it was found to be cumbersome and un-necessary. This was replaced by the two-way match.*
In addition, most of the duplicate payments listed on the report are direct payments and did not require a three-way match because no purchase orders are needed in direct pays.

D. The Citywide Accounts Payable Unit work with the vendor who reported erroneous payments to collect the amount due of $5,431.

Response: *A letter has already been sent to the vendor requesting for a refund of the erroneous payment.*

E. The Citywide Accounts Payable Unit ensures that it follows its own procedures, including to only process payment request forms that include original invoices, receipts or statements, and not issue payments to a vendor based on price quotations or documents showing that the goods were already paid for with cash.

Response: *This recommendation has already been implemented. Accounts Payable staff has been directed to comply with this procedure.*

F. The City Administration direct departmental accounts payable personnel in the recommended AI to verify dollar amounts on billing statements and invoices to payment requests to increase the likelihood that data input errors will be identified before payment is issued to the vendor.

Response: *We concur with this recommendation. In fact, several departments, e.g. Public Works Agency, Finance & Management Agency, etc. are already doing this.*

3

III. Conclusion:

1. The City recovered all the duplicate payments, thus there was no monetary loss on the part of the City.

2. The City's annual financial statement audits conducted by the external auditors do not show any adverse findings in major areas, including payables.

3. The release of the final audit report took longer that it should (about 18 months), considering the scope of the audit. This long delay has raised concerns on the timeliness and relevance of this report. During the past year, several system enhancements were initiated and implemented, including the Procure-to-Pay and electronic invoicing. These systems have built-in controls that would prevent duplicate payments and/or unauthorized purchases. We have also included measures in our internal procedure that will prevent duplicate payments. Below is a chronology of events:

Chronology of the audit events:

1. July 30, 2010	Received Letter from the City Auditor regarding Accounts Payable Performance Audit
2. March 1, 2011	Received City Auditor's Preliminary Findings for the Accounts Payable Duplicate Payment Performance Audit
3. March 10, 2011	Met with City Auditor's Office staff to discuss preliminary findings.
4. October 4, 2011	Received preliminary draft report on the Accounts Payable Duplicate Payment and Other Reportable Matters Performance Audit. Relevant sections of this report were distributed to affected City departments on October 18, 2011.
5. October 21, 2011	Met with City Auditor's staff to discuss draft report. Follow-up meetings were held on November 17 and December 9, 2011.
6. December 15, 2011	Received revised draft report. Sent response/comments on December 21, 2011.
7. January 12, 2012	Received revised draft report.
8. January 23, 2012	Received final draft report

⑧

4
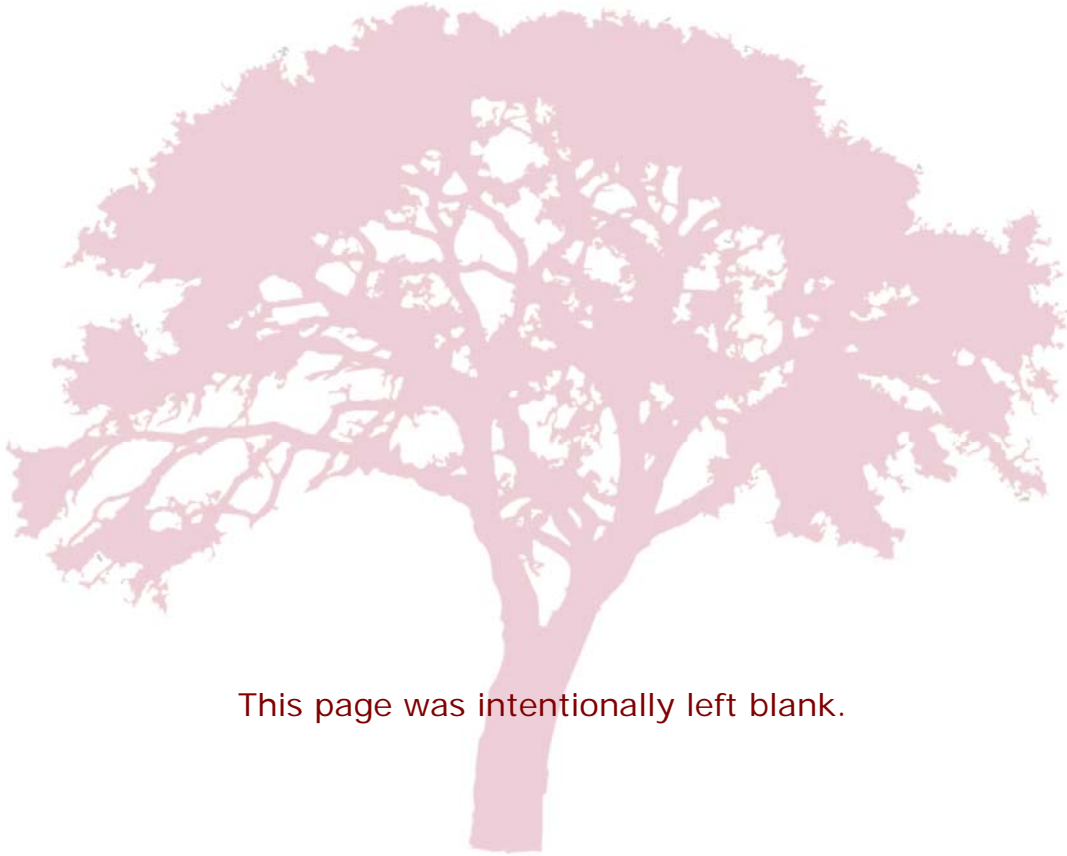
This page was intentionally left blank.

RESPONSE TO THE ADMINISTRATION'S RESPONSE

The Office of the City Auditor (Office) provided a draft report to the City Administration (Administration) for review and comment. The Administration's comments and details regarding the actions it has taken or plans to implement in response to the report's recommendations have been included in the previous section of the report. This section of the report provides clarification to the Administration's responses.

The Office maintains that the audit report findings and conclusions are accurate and that the City paid approximately $100,000 in duplicate payments that were identified from 16 out of 63 matching payment sets tested using a judgmentally-selected sample. Further, these duplicate payments were the result of the City-wide Accounts Payable Unit incorrectly entering the invoice numbers into Oracle, which rendered Oracle's automated, invoice number control feature ineffective. The Office also maintains that the audit is reported in a fair and impartial manner, in accordance with Generally Accepted Government Auditing Standards.

Below is the Office's clarification to the Administration's responses. The reference numbers in the left column correspond directly to the reference numbers placed in the Administration's response.

Reference	Administration's Response	The Office's Response
1	*The audit results present an over exaggerated and overemphasized deficiency performance, which is grossly misleading. The actual deficiency is 0.0012 percent as opposed to 25 percent indicated in the audit. In other words, of the 142,000 invoices processed during the two year period under audit representing approximately $1.3 billion of payments, 99.9988% were considered compliant.*	The audit identified approximately 4,000 potential matching payments out of a total of 142,140 total payments for FY 2008-09 and FY 2009-10. Out of these 4,000 potential matching payments, the audit selected a judgmental sample of 63 payments. Of those 63 payments tested, 16 payments (or 25% of the sample) were confirmed as duplicate payments. See report pages 4 and 9 for more details. Because the audit only tested a judgmental sample of 63 payments, neither the audit nor the Administration can conclude on the accuracy of 99.9988% of the payment population that was <u>not</u> tested. The audit can only conclude on the 63 payments tested. There are several sentences in the report that clearly state that the audit results are based on a judgmental sample. See report pages 1, 5, 11, and 22. However, the Office has agreed to add an additional sentence to the Report Summary to add further clarity that the results cannot be projected to the entire population of payments.
2	*The City recovered all the duplicate payments, thus there was no monetary loss on the part of the City. This should be in the report summary.*	As a result of the Office's audit, the City has been able to recover or identify all duplicate payments that were made to vendors and avoid monetary loss. The Report Summary does state that there is no monetary loss on page 1.

③	*The Accounts Payable Unit processes volumes of invoices/transactions on a daily basis. This process includes reviewing the payment requests for use of proper account codes, authorized signatures (for approving the payment) and sufficient documentation. Staff also verifies that the invoice number of the payment request form matches the attached invoice. Staff relies on the Oracle system built-in feature to detect when an invoices has already been paid. In addition, departmental Accounts Payable personnel who submit the payment requests are required to maintain copies of payment requests and supporting documentation so that they have a record of what invoices have been submitted for payment. They are expected to utilize the Oracle AP module to check on a status of an invoice before it is submitted for payment. Thus, duplicate payments should not happen.*	The Administration's response outlines its policies and procedures for processing vendor payments. However, the audit found that the City's existing processes did not sufficiently address preventing or identifying duplicate payments. As a result the audit included recommendations on areas that the City should address to help ensure that it is both preventing and identifying duplicate payments. For a summary of the audit recommendations see report pages 2 and 27.
④	*In response to the finding that the internal controls surrounding the Oracle invoice number control feature had deficiencies that contributed to the duplicate payments, the Administration responded:* *The deficiencies listed above are caused by human errors and should have no bearing on the accuracy of the invoice number control feature. The proposed Administrative Instruction (AI) will set the policy and guidelines in establishing invoice numbers. This will standardize the invoice creation process and prevent the use of the same invoice number twice and different invoice numbers for the same item.*	Internal controls address both system controls and controls related to human processes. Due to insufficient controls over the City's vendor payment process (human error) the overall effect was that Oracle's automated invoice number control was being rendered ineffective. This finding addresses both system controls and process controls over the City's payment process. See report pages 7 through 22.

⑤	*In response to the finding that the City's policies and procedures regarding the prevention of duplicate payments are insufficient and the policies and procedures regarding the identification of duplicate payments are non-existent, the Administration responded:* *There are separate written procedures for processing payables, including the following Administrative Instructions: Direct payments (AI 1021), Travel Policy (AI 120), Petty Cash Reimbursements (AI 1013), Purchasing Cards (AI 1055), Tuition Reimbursement (AI 552), Use of City Vehicles (AI 4402). However, there is no Administrative Instruction (AI) that collects and presents the policies and procedures for all types of vendor payments in one official document.*	The audit found the City's existing policies and procedures, including the AI's listed in the Administration's response, did not sufficiently address prevention of duplicate payments nor did they include any policies or procedures regarding the identification of duplicate payments. See report pages 7 through 22.
⑥	*In response to the finding that one vendor who had invoices that were not included in the sample reported receiving erroneous payments in the amount of $5,431 from the City, the Administration responded:* *The department believes those invoices were legitimate at the time they were processed for payment based on the information and the signatures on the supporting documents. Unfortunately, this could not be verified since the supervisor who approved the invoices has left the City.*	It is unclear to the Office why the Administration and the department would believe and/or still maintain that the invoices are legitimate when: • The vendor self-reported that it received erroneous payments from the City for goods it did not deliver to the City; and • The bulk of the erroneous payments made to the vendor were based on inappropriate supporting documentation, per the City's policies and procedures. For example, one erroneous payment was paid from a vendor document that was clearly marked as a "Quotation." Another erroneous payment was issued from a document that was clearly marked as "Cash Sale" and reflected a balance due of $0.00.
⑦	*In response to the audit recommendation that the Administration considered the costs and benefits of implementing a three-way match or whether there is other related controls that could be implemented to ensure that the City is only paying the correct amount for goods and services actually received, the Administration responded:* *The three-way match has been discontinued because it was found to cumbersome and un-necessary. This was replaced by the two-way match. In*	The audit report acknowledges that the three-way match was discontinued by management in 2006. The report has been updated to include a sentence clarifying that the reason for discontinuing the three-way match was because the process was cumbersome (see report page 24). However, the Office's recommendation had already taken this into consideration which is why the recommendation states that the Administration should <u>consider</u> the costs and benefits of implementing the three-way match or whether there is other related controls that could be implemented to ensure that the City is only paying the correct amount for goods and

	addition, most of the duplicate payments listed on the report are direct payments and did not require a three-way match because no purchase orders are needed in direct pays.	services actually received (see report pages 2 and 24) Further, the recommendation to consider implementing a three-way match was in relation to the "Other Reportable Matters: Erroneous Payments" section of the report. This section identified other erroneous payments made by the City that were not duplicate payments. If the City used unique purchase orders for each order, a three-way match would create additional controls that may catch erroneous payments like the ones identified in this section.
8	*The release of the final audit report took longer than it should (about 18 months) considering the scope of the audit. This long delay has raised concerns on the timeliness and relevance of the report.*	The Office agrees that it would have liked to issue the audit report earlier than March 2012. However, the bulk of the time expended on this audit (approximately one year) was due to the back-and-forth review process of working with the Administration to ensure the report was technically accurate. There were many factors that affected the timeliness of the audit, including the departments' and Administration's lack of responsiveness as well as delays due to audit staffing. For example, during this review process the Office received additional information from both the Administration and departments, which had not been previously provided to the Office during audit survey or fieldwork. One department took approximately four months to provide the additional information identified during the review process. Going forward the Office will better ensure that audits similar to the Accounts Payable audit are structured differently as well as ensuring that the Office receives more timely information and responses from the Administration and departments.

SUMMARY OF ACTIONS NECESSARY TO CLOSE THE REPORT

The "Summary of Actions Necessary to Close the Report" provides our analysis of the City Administration's (Administration) proposed actions required to close the report. The status of each of the seven recommendations at the time of management response for this report is six recommendations are resolved and one recommendation is unresolved. The Administration has either implemented or agreed to implement 86 percent of the recommendations that were provided in the report.

Recommendation #1   The Administration should prepare an Administrative Instruction that:

- Considers a policy of only inputting numbers and letters into Oracle's invoice number field

- Considers a policy that addresses the consistency of invoice number capitalization

- Establishes a uniform methodology that accounts payable personnel across all departments follow when creating an invoice number for invoices or billing statements that do not have an invoice or statement number

- Instructs the departmental accounts payable personnel and City-wide Accounts Payable Unit to prevent duplicate payments when vendors send the same invoice charges with modifications in the invoice number

- Defines the required steps departmental accounts payable personnel and City-wide Accounts Payable Unit take to identify a second invoice for the same charge

- Defines the roles and responsibilities of the City-wide Accounts Payable Unit and the departmental accounts payable personnel

- Directs the City-wide Accounts Payable Unit to verify that the invoice number the departmental accounts payable personnel list on the payment request form matches the invoice number shown on the invoice before the invoice number is entered into Oracle

- Directs the City-wide Accounts Payable Unit to perform another check that their invoice number entry into Oracle matches the invoice number on the payment request form and invoice

- Defines the steps City-wide Accounts Payable Unit should take when an invoice number entry is rejected by Oracle

- Directs the City-wide Accounts Payable Unit to assign departmental accounts payable personnel to reconcile Oracle Supplier Payment History Reports to vendor statements. All reconciliations should be properly reviewed and signed off by management

Resolved – The Administration agrees with this recommendation and stated an Administrative Instruction (AI) will be issued soon (p. 35 and 36). Although the Administration did not address some of the specific sub-recommendations in its response, the Administration agreed to the main recommendation to prepare the AI as noted.

To close this recommendation, the Administration should provide the AI to the Office of the City Auditor (Office) by September 30, 2012.

Recommendation #2 The City-wide Accounts Payable Unit should also ensure that: • It follows its own procedures, including to only process payment request forms that include original invoices, receipts, or statements and not process payment requests that include insufficient support, such as photocopies	**Resolved** – The Administration agrees with this recommendation and has already directed accounts payable staff to comply with this procedure (p. 36). **To close this recommendation, the Administration should provide evidence supporting its communication with accounts payable staff to the Office by September 30, 2012.**
Recommendation #3 The Administration should review: • Payment controls over the Treasury Division's wire transfer process and provide clarifying guidance and procedures, if appropriate	**Unresolved –** The Administration did not address this recommendation in its response. **To close this recommendation, the Administration should provide clarifying guidance and procedures for the Treasury Division's wire transfers. The Administration should provide evidence of the updated procedures to the Office by September 30, 2012.**
Recommendation #4 The City-wide Accounts Payable Unit should: • Work with the vendor who reported the erroneous payments identified in this section to collect the amount due of $5,431	**Resolved –** The Administration agrees with this recommendation and stated that it has already sent a letter to the vendor requesting a refund for the erroneous payments (p. 36). **To close this recommendation, the Administration should provide evidence, supporting that the refund for $5,431 was collected, to the Office of by September 30, 2012.**

Recommendation #5 The City-wide Accounts Payable Unit should ensure that it follows: • Its own procedures, including to only process payment request forms that include original invoices, receipts or statements, and not issue payments to a vendor based on price quotations or documents showing that the goods were already paid for with cash	**Resolved** – The Administration agrees with this recommendation and has already directed accounts payable staff to comply with this procedure (p. 36). **To close this recommendation, the Administration should provide evidence supporting its communication to accounts payable staff to the Office by September 30, 2012.**
Recommendation #6 The Administration should consider: • The costs and benefits of implementing a three-way match or whether there may be other related controls that could be implemented to ensure the City is only paying the correct amount for goods and services actually received	**Resolved –** The Administration agrees with this recommendation and stated that it has considered the three-way match and finds it to be cumbersome and unnecessary (p. 36). **No action necessary to close this recommendation.**
Recommendation #7 The Administration should direct: • Departmental accounts payable personnel in the recommended Administrative Instruction to verify dollar amounts on billing statements and invoices to payment requests to increase the likelihood that data input errors will be identified before payment is issued to the vendor	**Resolved –** The Administration agrees with this recommendation and stated that several City departments are already performing this verification procedure (p. 36). **To close this recommendation, the Administration should provide the AI to the Office by September 30, 2012.**

Unresolved status indicates no agreement on the recommendation or the proposed corrective action. Implementation of the proposed corrective action forthcoming from the auditee.

Partially Resolved status indicates partial agreement on the recommendation or the proposed corrective action. Implementation of the proposed corrective action forthcoming from the auditee.

Resolved status indicates agreement on the recommendation and the proposed corrective action. Implementation of the proposed corrective action forthcoming from the auditee.