



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

Office of the City Auditor
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December 19, 2013

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

**RE: AUDIT RECOMMENDATION FOLLOW-UP REPORT FOR THE ACCOUNTS
PAYABLE DUPLICATIVE PAYMENTS AND OTHER REPORTABLE MATTERS FY
2008-09 AND 2009-10 PERFORMANCE AUDIT**

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

The Office of the City Auditor (Office) is required to report the status of its audit recommendations to the City Council (Council). In March 2012 the Office released the Accounts Payable Duplicative Payments and Other Reportable Matters FY 2008-09 and 2009-10.

The audit contained seven recommendations addressing internal controls to prevent erroneous and duplicate payments. The Office's follow-up found that the City Administration and the City-wide Accounts Payable Unit have closed all seven recommendations.

Audits are an objective assessment of whether or not public resources are responsibly and effectively managed to achieve intended results. The impact of an audit's recommendations is achieved when the City Administration ensures prompt and proper implementation, increased accountability, and proper safeguarding of City assets. Therefore, it is critical that the City Administration act upon its responsibility to Oakland residents through timely implementation of audit recommendations.

It is only when the City's leadership prioritizes the timely implementation of audit recommendations that the City delivers on our promise to the public - to serve as effective stewards of the City's assets and continue to be deserving of the public's trust. I want to express our appreciation to the City Controller and staff for their cooperation and commitment to addressing the concerns highlighted in the audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Courtney A. Ruby". The signature is written in black ink and is positioned above the printed name.

COURTNEY A. RUBY, CPA, CFE
City Auditor

RECOMMENDATION STATUS SUMMARY

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

OVERVIEW

The Office of the City Auditor (Office) follows up on the recommendations of all audits to determine if they have been implemented by the Office of the City Administrator (Administration) or City Council (Council). Recommendation follow-ups increase accountability and ensure improvements identified by the audits are addressed.

Summary of Process

The purpose of the follow-up process is to assess the implementation status of audit recommendations and when supported, close the recommendations. The Office reviews supporting documentation submitted, conducts interviews, and when applicable performs on-site visits. The table below shows the three implementation status categories for recommendations.

Open	The recommendation has not been addressed or implemented.
Partially Closed	The recommendation has been partially addressed and implemented; however, part of the recommendation remains open. Further work is needed to close the recommendation.
Closed	The recommendation has been fully addressed and implemented.

Audit Overview

In March 2012, the Office released the Accounts Payable Duplicative Payments and Other Reportable Matters FY 2008-09 and 2009-10 Performance Audit. The objectives of the audit were to test a sample of payments for erroneous and duplicate payments as well as assess internal controls over prevention of these types of payments.

The audit found that approximately \$100,000 in duplicate payments was identified from 16 out of 63 payments based on a judgmentally-selected sample. For example, the audit found:

- Inaccurate data entry rendered Oracle's invoice number control feature ineffective.
- Creation of two invoice numbers for the same charge impaired Oracle's invoice number control feature.
- Oracle's invoice number control feature was rendered ineffective when two invoices were entered that only differed by the addition of dashes.
- Roles and responsibilities related to duplicate payment prevention were not clearly defined between the City-wide Accounts Payable Unit and individual City departments.
- The existing internal controls to prevent duplicate payments are insufficient and internal controls to identify duplicate payments are non-existent.

In response to these findings, the audit provided seven recommendations to the Administration and the City-wide Accounts Payable Unit. These recommendations, as well as their implementation status can be found in the table on the following page.

Summary of Results

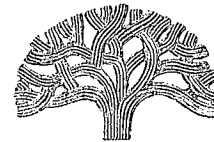
The March 2012 Accounts Payable Duplicative Payments and Other Reportable Matters FY 2008-09 and 2009-10 Performance Audit contained seven recommendations. The Office's recommendation follow-up process found that the Administration and the City-wide Accounts Payable Unit have closed all seven recommendations.

Implementation Status of Recommendations

#	RECOMMENDATION	STATUS	EXPLANATION/FOLLOW-UP
1	The City Administration should prepare an Administrative Instruction that defines a process to prevent duplicate payments, including but not limited to: considering only inputting numbers and letters; capitalization consistency; establishing a methodology for creating invoice numbers; defining the roles and responsibilities of the City-wide Accounts Payable Unit and the departmental accounts payable personnel; and requiring reconciliation to ensure accuracy.	Closed	<p>In February 2013, the Administration implemented Administrative Instruction (AI) 1304, which addresses the Office's audit recommendations regarding the accounts payable process.</p> <p>The Office found that while a few sub-recommendations were not directly addressed in the AI, overall, the AI provides sufficient controls to ensure that invoice numbers are entered correctly and duplicate payments are prevented. Additionally, beyond the control processes established in the AI, the Administration also has been monitoring for duplicate payments. Since March 2012 when the audit was released, the Administration has used Audit Commander Software to test for possible duplicate payments three times. According to the Administration, while using Audit Commander is not sustainable, it is looking into other similar tools to test for duplicate payments.</p> <p>As a result of the Administration's control processes, this audit recommendation is closed.</p>
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.	Closed	The City-wide Accounts Payable Unit developed and implemented accounts payable processing standards. These standards clarify that only payments with original invoices and sufficient support can be processed.
3	The City Administration should review payment controls over the Treasury Division's wire transfer process and provide clarifying guidance and procedures, if appropriate.	Closed	The Administration's AI 1304 established review procedures over the Treasury Division's wire transfers.
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.	Closed	The City-wide Accounts Payable Unit sent a letter to the vendor on March 15, 2012 to collect the amount due. The vendor reimbursed the full amount, \$5,431, on April 2, 2012.

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.	Closed	The City-wide Accounts Payable Unit developed and implemented accounts payable processing standards. These standards clarify that only payments with original invoices can be processed.
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.	Closed	In its response to the draft audit report, the City Administration conveyed the three-way match had been discontinued because it was found to be cumbersome and unnecessary. AI 1304 also includes controls over verifying what was received and what was billed. The Office determined no further action from the City Administration was necessary to close this 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.	Closed	AI 1304 requires that the supervisor/manager/authorized signer within a department: 1) Review the payment request form and supporting documentation and ensure that services were rendered or work has been performed. 2) Approve and sign the payment request form.

CITY OF OAKLAND



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Office of the City Administrator
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December 6, 2013

The Honorable Courtney Ruby
Oakland City Auditor
1 Frank Ogawa Plaza, 4th Floor
Oakland, California 94612

RE: Accounts Payable Audit Recommendation Follow-up

Dear City Auditor Ruby:

This letter is a response to the "Accounts Payable Audit Recommendation Follow-up", dated December 2, 2013. The City Administrator's Office has responded in detail to the Accounts Payable Audit on February 22, 2012. The Administration has also cooperated with the Auditor's Office on the audit recommendation follow-up process, which found that the Administration has addressed and closed all of the audit's recommendations.

In summary, the audit contained seven recommendations, which the Administration has addressed through a series of improved and revised processes and procedures. Specifically:

- The Administration has adopted Administrative Instruction (AI)1304 on February 1, 2013, which addressed the audit's recommendations regarding the accounts payable process;
- The City-wide Accounts Payable unit developed and implemented accounts payable processing standards, which clarify that only payments with original invoices and sufficient support can be processed;
- The Administration's AI 1304 established review procedures over the Treasury Division's wire transfers;
- The City-wide Accounts Payable unit addressed erroneous payment matter with a specific vendor and recovered the full amount of \$5,431 due to the City;
- The Administration has implemented controls for the verification of received/billed goods and services, which are included in the AI 1304;
- The Administration has also established a requirement that the supervisor/manager/authorized signer within a department reviews, approves, and signs the payment request and supporting documentation to ensure that services were rendered, which should further strengthen the City's internal control processes.

FILED
CITY AUDITOR'S OFFICE
DECEMBER 10 2013

In conclusion, the City Administration is in agreement with the "Accounts Payable Audit Recommendation Follow-up" report, which found that all the recommendations identified in the Accounts Payable Audit have been implemented and closed.

Sincerely,



Deanna Santana
City Administrator

c: Osborn Solitei, Controller