



CITY AUDITOR REPORT ACCOUNTS PAYABLE DATA ANALYSIS - PURCHASE ORDER & INVOICE CONTROL WEAKNESSES MAY 10, 2023

BACKGROUND/INTRODUCTION

To help facilitate Finance team worktime needed to accomplish the Workday system implementation, the City Auditor deferred some portions of planned 2022 Overtime audit testing. In this time period, initial work was begun on the ongoing accounts payable data analysis initiative - specifically, Purchase Orders (POs), vendor invoice receipt, and payment activity were analyzed.

EXECUTIVE SUMMARY

Enhancements added to this year's analysis work detected *multiple* significant control weaknesses. These weaknesses relate to the transaction processing in the current E1 financial system, which is due to be retired on December 31, 2023. At the request of the Council Audit Liaison group, the Auditor then expanded this analysis work, to further search for potential control exception causes and/or unauthorized spending.

The detected control weaknesses relate to **security-sensitive areas which could be used to conduct unauthorized spending or misappropriation of funds.** Due to this security-sensitive exposure, **Kansas Open Records Act Disclosure Exceptions provided by K.S.A. 45-221 (a) (16) apply.** Accordingly, ***details of these weaknesses were shared only with City Management and Council Audit Liaison group members.*** The following page 2 'Summary Finding Information' provides overview information on the weakness areas.

Extensive review of a large dataset (**see details at Appendix 1, page 5**) spanning payable activity in the 6 ¼ years from January 2016-March 2022 was conducted. A limited group of invoice billing/payment history with data anomalies was confirmed with vendors, and no exceptions were detected. Confirmation, testing and analysis:

- ***did not detect any apparent misappropriation of funds, but***
- ***did detect that the system would allow transaction processing to circumvent intended approval, ordering, and receipt controls, and***
- ***did detect segregation of duties weaknesses which would allow E1 Accounts Payable roles to perform purchase order changes and payment amount changes***

The majority of these control weaknesses are:

- present at the **E1 system level**, and
- relate to controls which ***are not in use/occurring***

It is significant to note that the weaknesses' extent and related exposure cannot be fully identified because:

- the E1 system **cannot be successfully queried to identify and quantify system activities which are not in use and/or documented** – the limited nature of queries and documentation in E1 means such documentation is not produced

In response to the identified weaknesses, the Finance and Economy management teams **have developed actions plans to prevent and/or limit the exposure for unauthorized activity and loss.** These plans are detailed at pages 2-4. ***Summary results of the number and dollar amount of any exceptions detected through future implementation of these corrective actions will be reported to the Council Audit liaison group after each quarter end, until the E1 system is decommissioned.***

SUMMARY FINDING INFORMATION

(Detail finding information poses security-sensitive risks and is not provided in this report, based on Kansas Open Records Act Disclosure Exceptions provided by K.S.A. 45-221 (a) (16)).

This analysis project noted control weaknesses in the areas of:

- Purchase Order (PO) approval
- Receipt of goods/services
- Reconciliation of liability for items/goods received
- Vendor invoice review and approval
- Use of lump sum authorized 'blanket' purchase orders
- Independent vendor bidding/quotes
- Accounts Payable segregation of duties
- E1 system activity documentation

MANAGEMENT RESPONSE

Undergoing an audit is always a valuable time to dig into current processes and controls. The Economy focus area worked extensively with the City Auditor to provide all required data and respond to all questions in a timely manner. This final report provided Economy Management with the opportunity to respond below to the identified control weaknesses.

Control Area: Purchase Order (PO) approval

MANAGEMENT RESPONSE: In configuration of the current E1 system, controls were built to balance efficiency and expediency in approval route development and assignment. There are currently system limitations within E1 that will be addressed in Workday. However, in the interim, we are centralizing all changes of approval routes as well as documenting any changes that are made and the reason for them. Additionally, Economy Staff will randomly sample and audit invoices prior to payment to verify proper approvals occurred within E1 until it is retired in early 2024. Our current development of the Workday ERP system shows significant enhancement in security and approval routes tracking. These configurations and controls are being shared with the City Auditor to allow for additional considerations/enhancements.

Control Area: Receipt of goods/services

MANAGEMENT RESPONSE: Of the payments examined by our team that were brought to our attention by the auditor, the payments were found to have been corrected. Incorrect vendors and overpayments made were refunded to the City. For the duration of our time in E1, Economy staff will randomly sample and audit invoices paid. This review will look for any items receipted against documentation and entry to ensure they align with payment within E1 until it is retired in early 2024. Economy Management will be focusing efforts on providing enhanced training to employees entering and approving these transactions in the financial system regarding the responsibilities and required back-up documentation. A checklist is currently in development to provide an easy resource of key steps in the procure to pay process that will aid in a consistent approach across the city.

Control Area: Reconciliation of liability for items/goods received

MANAGEMENT RESPONSE: Economy Management is adding an additional monthly reconciliation to provide additional review of receipting to analyze amounts and timing. Anything unusual will be investigated to confirm cause and ensure accuracy.

Control Area: Vendor invoice review and approval

MANAGEMENT RESPONSE: Economy Management will be focusing efforts on providing enhanced training to employees entering and approving these transactions in the financial system regarding the responsibilities and required back-up documentation. A checklist is currently in development to provide an easy resource of key steps in the procure to pay process that will aid in a consistent approach across the city.

Control Area: Use of lump sum authorized “blanket” purchase orders

MANAGEMENT RESPONSE: Economy Management will be focusing efforts on providing enhanced training to employees entering and approving these transactions in the financial system regarding the responsibilities and required back-up documentation. A checklist is currently in development to provide an easy resource of key steps in the procure to pay process that will aid in a consistent approach across the city. Additionally, Economy Staff will randomly sample and audit invoices prior to payment. Our team will review invoices and confirm they are linked to existing blanket orders or purchase orders, if applicable, and ensure they have proper authorization and documentation until E1 is retired in early 2024.

Control Area: Independent vendor bidding/quotes

MANAGEMENT RESPONSE: In the Fall of 2022, the City filled a vacant Procurement Specialist position and designated our Financial Strategy Manager to oversee procurement and focus attention on addressing and resolving procurement-related concerns and process improvements. We are currently in the process of reviewing our procurement policies and putting together recommendations for policy and process improvements. Enhancements we are exploring include:

- Adding notes and bid numbers assigned by Suppliers in Workday to identify related companies.
- Tracking original bids compared to final costs to better be able to identify vendors with frequent change orders.
- Minimum annual review by procurement of all open purchase orders to ensure appropriate personnel are reviewing open purchase orders and either closing or identifying corrections on a timely basis.

Along with the enhancements outlined above, the City will require an updated training for City employees that touch the purchasing process to ensure employees are knowledgeable on the procurement policy and can identify city resources available for guidance. This training will become required for any employee who is given access to enter or approve payments or purchase orders within the financial system.

Control Area: Accounts Payable segregation of duties

MANAGEMENT RESPONSE: Economy Management is adding an additional monthly reconciliation to provide additional review of receipting to analyze amounts and timing. Anything unusual will be investigated to confirm cause and ensure accuracy. Upon the Workday implementation, system controls will provide the adequate level of segregation. All system configurations and controls will be shared with the City Auditor to allow for additional considerations/enhancements based on feedback received.

Control Area: E1 system activity documentation

MANAGEMENT RESPONSE: Economy Management agrees E1 activity documentation is inadequate. Until the retirement in early 2024, the additional review, reconciliation, and outside documentation will be our mitigating controls to ensure our continued stewardship of Olathe resources. Workday contains standard system audit reports that Economy Management will review with the City Auditor to confirm they meet the documentation needs going forward and to determine if any additional customization is needed.

APPENDIX 1
OVERVIEW OF DATA/INFORMATION REVIEWED FOR
ACCOUNTS PAYABLE APPROVAL, RECEIPT AND PAYMENT CONTROL WEAKNESS/RISK EXPOSURE

- To review payable data for the risk of potential irregularity risk posed by system control weaknesses detected, a large Purchase Order dataset **with the following characteristics** was extracted from the E1 financial system:
 - Dates of activity in queried dataset: **6 ¼ year period of 1/1/2016 – 3/31/2022**
 - # of Purchase Orders over 6 ¼ year period: **39,427**

- A large invoice dataset in this period was also subject to review; this data **excluded PCard transactions and recurring monthly payments to utility companies for electrical and gas power used on city property. This invoice dataset's characteristics were:**
 - # of invoices received and paid against Purchase Orders over 6 ¼ year period: **143,552**
 - Amount of invoices received and paid over 6 ¼ year period: **\$837,457,157**

- The above datasets were subjected to both automated and manual tests for control effectiveness and data anomalies, including the examination of:
 - **PO approval trails,**
 - **Attached invoice documentation,**
 - **Purchase Order cancellation and receipt documentation,**
 - **Blanket Purchase Order review,**
 - **Duplicate invoice review and testing, and**
 - **Purchase Order change controls and processes**

- Additionally, **confirmation of billing/payments to vendors was conducted for a focused group of invoices with noted data anomalies.**