

AUDITOR GENERAL

Halifax Regional Municipality



Management of Accounts Payable Audit

April 2021

April 26, 2021

The following audit of **Management of Accounts Payable**, completed under section 50(2) of the Halifax Regional Municipality Charter, is hereby submitted to the Audit and Finance Standing Committee of Regional Council.

Respectfully,

Original signed by

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Auditor General
Halifax Regional Municipality

Table of Contents

Audit Overview	3
Audit Results.....	4
Implemented Controls Operating Effectively; Gaps Need to be Addressed	4
Accounts payable functions follow documented policies and procedures	4
Regular monitoring of invoice data entry	5
Lack of controls for one-time vendor account	5
Improvements needed to prevent processing and paying duplicate invoices	6
Lack of Performance Measures and Targets	8
Background.....	9
About the Audit	10
Appendix 1 – Recommendations and Management Responses.....	11
Contact Information	13

Management of Accounts Payable Audit

Most accounts payable functions are effectively managed
Certain areas require improvements

Complies with documented policies and procedures



- Travel claims, journal entries, payment processing, and manual invoices



Performs regular invoice data entry monitoring

Accounts Payable staff enter vendor information and invoice in some instances

- Increased risk of fraud



Improvements needed in monitoring for duplicate payments



- 25 duplicate payments identified – \$70,259

Lack of performance measures and targets



Auditor General Halifax Regional Municipality

April 2021 | Management of Accounts Payable Audit

Audit Results

Most accounts payable functions are effectively managed; certain areas require improvement. Travel claims, journal entries and payment processing comply with documented policies and procedures. Manual purchases are appropriately approved and there is regular monitoring of invoice data entry and approvals. However, accounts payable staff enter vendor information when processing an invoice to the one-time vendor account; these duties are usually separated as part of minimizing fraud risk. Additionally, improvement is needed in monitoring duplicate payments.

Accounts Payable processes invoice payments in a timely manner and takes advantage of discounts offered by vendors for early payment. However, there are no performance measures and targets established to monitor Accounts Payable operating efficiency and effectiveness.

Implemented Controls Operating Effectively; Gaps Need to be Addressed

Accounts payable functions follow documented policies and procedures

Accounts Payable has documented policies and procedures for processing travel claims, journal entries, payments, and manual purchases. However, not all policy exceptions and required approvals are documented.

We tested 125 samples and did not identify any issues.

- Five out of five travel advances were compliant with policy.
- All 30 out-of-town travel claims tested were compliant with policy.
- All 60 journal entries were appropriately approved.
- All 30 payment runs tested were appropriately reviewed and approved.

We also sampled 120 manual purchases and found all but one were properly approved; all were accurately entered. HRM's Procurement Policy exempts some purchases and expenditures from the public procurement process; these

Purchase Order and Manual Purchase

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Purchase Order:

- Purchase initiated by business unit and processed by Procurement
- Payment approved by business unit, verified by Procurement, and invoice processed by Accounts Payable

Manual Purchase:

- Purchases exempt from Procurement Policy, for example, training and education, legal services, and utilities
- Initiated and processed by business unit
- Payment approved by business unit, invoice verified and processed by Accounts Payable

payments are processed manually by Accounts Payable. All other purchases should go through the procurement process and be paid through a purchase order.

We found 109 of 120 manual purchases were compliant with policy. Another nine manual purchases were not listed as exemptions but were reasonably paid as a manual purchase. The remaining two should have gone through the procurement process. However, as the business units had already made the purchases, Accounts Payable processed the payments.

Regular monitoring of invoice data entry

Accounting staff regularly monitor invoices to verify they are appropriately approved and accurately entered in HRM's financial system. Accounts Payable reviews these results and investigates discrepancies.

- There is daily monitoring of all invoices over \$50,000. We sampled 30 reports and found all were complete and reviewed.
- Invoices under \$50,000 are monitored twice a month; staff review a sample of approximately 120 invoices. Between April 1, 2019 and mid-March 2020, all five reports we sampled were reviewed and approved.

During audit planning, management told us the bi-monthly monitoring was not performed in the early stages of work from home, between mid-March and September 2020, due to Covid-19. Monitoring has since been completed for these dates.

Lack of controls for one-time vendor account

There is a lack of monitoring to detect potential misuse of the one-time vendor account. Vendors should be added to the accounting system by staff who are not responsible for processing invoices. This control, which would separate setting up vendors and paying invoices, is a good practice to help protect against fraud. At HRM, many vendors are set up this way. However, for the one-time vendor account, Accounts Payable staff enter vendor information when processing an invoice. This bypasses the control and increases the risk of fraud as Accounts Payable staff are entering the invoice and the vendor information.

There is no documented policy for when the one-time vendor account can be used. Staff told us they use this account if it has not already been used for that vendor or if the vendor does not have an existing account. We analyzed 11,317 transactions posted to the one-time vendor account from April 1, 2016 to February 22, 2021 to identify possible duplicate vendors. (Note these are instances of a vendor in the system more than once or paid more than once through the one-time vendor account. These are not duplicate invoice payments.) We found 466 duplicate vendors; there could be additional duplicate vendors in the one-time vendor account that were not identified in our analysis. Examples we found include:

- annual insurance invoices for 2017, 2018, 2019 and 2020;
- payments to vendors with existing vendor accounts; and

- grants issued in two parts (e.g. 80% paid in August and 20% paid in January).

There is no formal monitoring of the one-time vendor account. Management said invoices processed to this account are included in regular invoice monitoring. However, this is not sufficient because it does not target the one-time vendor account, or the fraud risk associated with it.

Recommendation 1

Finance, Asset Management, and Information, Communication and Technology should determine if using the one-time vendor account is worthwhile, considering whether the benefits outweigh the risks. If use of the one-time vendor account continues, management should document when the one-time vendor account can be used and regularly monitor this account.

Management Response

Agreed. The use of the one-time vendor is worthwhile in that the majority of the vendors set up under the one-time vendor account are those with which HRM does not have a lasting business relationship with. Management will document the rules around usage of the one-time vendor account and is implementing monitoring of all payments to mitigate the risks involved.

Improvements needed to prevent processing and paying duplicate invoices

We found instances in which Accounts Payable processed and paid duplicate invoices. During the audit period, 122,328 invoices were processed. We scanned these invoices and identified 116 potential duplicates. We selected 30 and found 25 were duplicates; resulting in overpayments of \$70,259.

- 15 of the 25 duplicates, totalling \$38,003, had not been identified by Accounts Payable and were still outstanding as of January 2021.
- The remaining 10, totalling \$32,256, were repaid to HRM before we began our testing.

Note – this was not an exhaustive process; there could be duplicate payments that were not picked up.

Recommendation 2

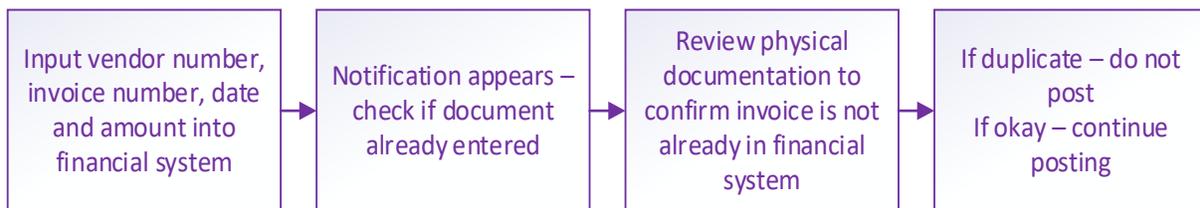
Finance, Asset Management, and Information, Communication and Technology should perform an analysis to identify duplicate payments issued and address outstanding duplicate payments.

Management Response

Agreed. Management has continued to collect on the outstanding amounts, having \$4,800 remaining to collect, and are working with the individual vendors to do so. Management is continuing to analyze past payments to confirm whether further duplicate payments exist and is reviewing business processes to identify potential duplicate payments going forward. Additionally, the implementation of the new SAP S/4 HANA will allow for configuration of the system to better aid in the identification of potential duplicate payments in the future.

There are gaps in controls to prevent processing and paying duplicate invoices. Management said HRM’s financial system notifies staff when they input identical invoice details to an invoice already paid. We confirmed this notification appears. However, as staff click through various fields to process an invoice, the notification can be missed, and the invoice will be processed. We found 13 of the 25 duplicates we identified had identical details to an invoice already paid. Management said staff should review the physical documentation to confirm an invoice is not a duplicate before continuing to process.

Duplicate Invoice Notification Process



There is no formal monitoring to detect duplicate invoices and payments. Management said they could identify duplicate invoices during their monthly review of outstanding payables or when processing payments. This monitoring is not adequate to detect duplicate invoices that were not paid in the same month, which means duplicate payments can go unidentified.

Recommendation 3

Finance, Asset Management, and Information, Communication and Technology should monitor for duplicate invoices and payments and take appropriate corrective action.

Management Response

Agreed. Management is reviewing business processes and system capabilities to identify duplicate payments. Additionally, the implementation of the new SAP S/4 HANA will allow for configuration of the system to better aid in the identification of potential duplicate payments in the future.

Lack of Performance Measures and Targets

Accounts Payable does not have performance measures or targets. Performance measures allow management to track efficiency and effectiveness of program objectives and identify areas for improvement.

Although there are no performance measures used, we found Accounts Payable pays invoices in a timely manner and obtains early payment discounts from vendors. During the audit period, 98% of invoices were paid within 30 days of when the invoice was entered; 73% were paid within 30 days of the invoice date. Additionally, 89% of discounts available for early payment were obtained; discounts totalled \$70,560. These are examples of possible accounts payable performance indicators.

Recommendation 4

Finance, Asset Management, and Information, Communication and Technology should develop accounts payable performance measures and targets and regularly monitor and report results.

Management Response

Agreed. Work has commenced in the Corporate Planning group to identify additional KPI's that can be used to monitor the effectiveness and efficiency of work being done. Additionally, it is expected that the implementation of SAP S/4 HANA will provide new capabilities to measure and report on KPI's.

Background

The Accounts Payable section of Finance, Asset Management, and Information, Communication and Technology is responsible for the accurate and timely processing and payment of invoices for all HRM business units.

Accounts Payable processes invoices, travel claims and journal entries. Invoices are processed manually or through a purchase order. Accounts Payable staff are responsible to verify approvals for manual invoice purchases. Procurement staff verify approvals for purchase orders; these approvals were not included in the audit scope.

Fiscal Year	Number of Manual Purchases	Value of Manual Purchases	Number of Purchase Orders	Value of Purchase Orders
2018-19	23,459	\$317 million	66,780	\$324 million
2019-20	25,280	\$329 million	63,143	\$320 million

About the Audit

We completed a performance audit of the management of accounts payable. The scope did not include SAP access controls, purchase order invoice approvals, purchasing card purchases and external vendor file maintenance. These processes were audited in prior audits completed within the past two years.

The purpose and objective of the audit was to determine if HRM effectively manages its accounts payable functions. Our role is to express an independent audit opinion of this area.

We developed the criteria for this audit. These were discussed with, and accepted as appropriate by, management of Finance, Asset Management, and Information, Communication and Technology.

1. Accounts payable controls should be adequately designed and operating effectively.
2. Accounts payable policies, processes and procedures should be documented and reviewed regularly.
3. Accounts payable functions should comply with documented policies and procedures.
4. Monitoring activities should be implemented to ensure the timely and accurate processing of payments.

Our audit period was April 1, 2019 to September 30, 2020. Information from outside the audit period was considered as necessary.

Our audit approach included: review of internal policies and procedures; data analysis; examination of invoices, travel claims and other documentation on a sample basis; and interviews with Business Unit management.

This audit was conducted in accordance with the Canadian Standard on Assurance Engagements (CSAE) 3001 Direct Engagements published by the Chartered Professional Accountants of Canada.

We apply CPA Canada's Canadian Standard on Quality Control 1. Our staff comply with the independence and ethical requirements of the Chartered Professional Accountants of Nova Scotia Code of Conduct.

Appendix 1 – Recommendations and Management Responses

Recommendation 1

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Recommendation 2

Finance, Asset Management, and Information, Communication and Technology should perform an analysis to identify duplicate payments issued and address outstanding duplicate payments.

Management Response

Agreed. Management has continued to collect on the outstanding amounts, having \$4,800 remaining to collect, and are working with the individual vendors to do so. Management is continuing to analyze past payments to confirm whether further duplicate payments exist and is reviewing business processes to identify potential duplicate payments going forward. Additionally, the implementation of the new SAP S/4 HANA will allow for configuration of the system to better aid in the identification of potential duplicate payments in the future.

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Recommendation 4

Finance, Asset Management, and Information, Communication and Technology should develop accounts payable performance measures and targets and regularly monitor and report results.

Management Response

Agreed. Work has commenced in the Corporate Planning group to identify additional KPI's that can be used to monitor the effectiveness and efficiency of work being done. Additionally, it is expected that the implementation of SAP S/4 HANA will provide new capabilities to measure and report on KPI's.

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