A Report
to the
Board of
Supervisors

Countywide Audit

Accounts Payable

Countywide Review of Accounts Payable

September ■ 2007

Maricopa County Internal Audit Department

Ross L. Tate
County Auditor

The **County Auditor** is appointed by the Board of Supervisors. The mission of the Internal Audit Department is to provide objective, accurate, and meaningful information about County operations so the Board of Supervisors can make informed decisions to better serve County citizens.

The mission of Maricopa County is to provide regional leadership and fiscally responsible, necessary public services so that residents can enjoy living in a healthy and safe community.

Audit Team Members

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September 14, 2007

Fulton Brock, Chairman, Board of Supervisors
Don Stapley, Supervisor, District II
Andrew Kunasek, Supervisor, District III
Max Wilson, Supervisor, District IV
Mary Rose Wilcox, Supervisor, District V

We have completed a Countywide review of Accounts Payable, which was performed in accordance with the annual audit plan approved by the Board of Supervisors. The specific areas reviewed were selected through a risk assessment process.

Although nothing came to our attention to indicate that the Department of Finance's accounts payable unit did not timely and accurately process payments to County vendors, we reported potential areas of improvement as follows:

- The County's invoice payment process can be improved
- Procedures to maximize interest revenue are not always followed
- The accuracy of the County's Master Vendor File should be periodically reviewed and updated

This report contains an executive summary, specific information on the areas reviewed, and responses to our recommendations. We reviewed this information with the Department of Finance and appreciate the cooperation provided by management and staff. If you have any questions, or wish to discuss the information presented in this report, please contact Richard Chard at 602 506-7539.

Sincerely,

Ross L. Tate

Ross L. Tate
County Auditor

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The Department of Finance (DOF) screens information entered by self-registering vendors in the County's procurement system. Although we noted inaccurate or obsolete vendor data recorded in the system, DOF flags such information as "on hold" so that payments will only be made against valid vendor data. We found one isolated instance where DOF paid a vendor that had two Tax Identification Numbers (TINs) where only one TIN should have existed. With over 60 thousand records in the vendor file, this is an immaterial exception. However, we recommend that DOF periodically review the vendor file to clear out obsolete vendor data.

Introduction

The County has a complex, decentralized accounts payable system. In addition to the 77 County Departments that purchase goods and services from approved vendors, two County Departments, Materials Management (MM) and Finance (DOF), have significant responsibility in obtaining and paying for such goods and services. Procurement of the goods and services is overseen by the Materials Management Department. The Accounts Payable Unit of the Department of Finance has major oversight and monitoring responsibilities for ensuring that payments are processed properly and timely. Changes to the accounts payable process begun July 1, 2006, have placed increased responsibility on the departments purchasing goods and services. Each is required to prepare documents and apply two of three approvals necessary to generate a payment to a vendor.

Background

Accounts Payable is responsible for processing payments for the entire County. Non-payroll expenditures during the period July 1, 2003, through June 30, 2007, comprised about 70% of total expenditures; these non-payroll expenditures were the focus of our audit. In FY04-05, the Maricopa Health Plan (MHP) separated from the County. To improve comparability over the period documented below, MHP expenditures were deducted from non-payroll expenditures. The table below summarizes the amount of net non-payroll expenditures and payment vouchers for FY03-04 through the end of FY06-07.

FISCAL YEAR	PAYMENT VOUCHERS	NET NON-PAYROLL EXPENDITURES
FY03-04	74,751	$1,648,634,117
FY04-05	66,205	$1,374,246,069
FY05-06	69,358	$1,376,538,606
FY06-07	66,699	$1,872,049,926

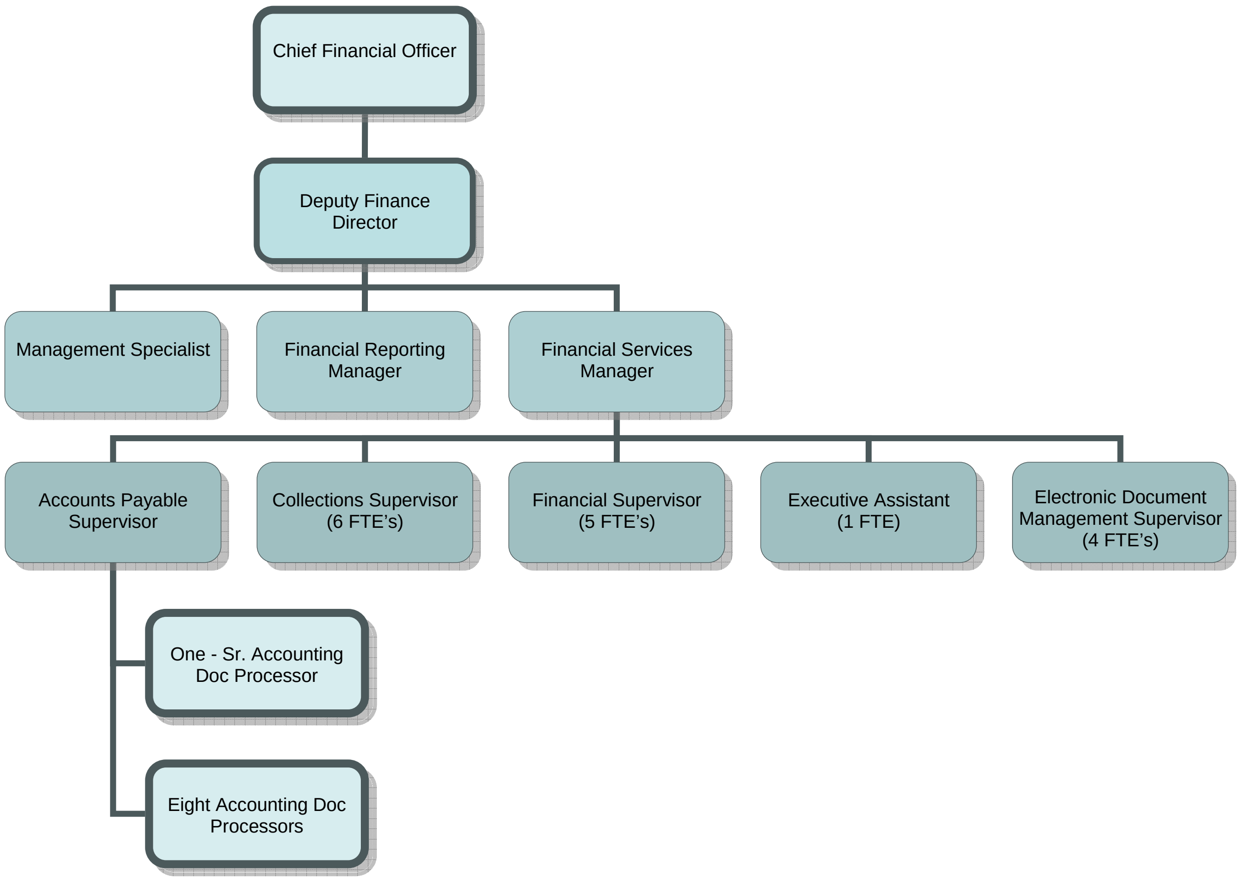
Source: County General Ledger and Audit Analysis

Mission and Goals

The mission of the Department of Finance (DOF) is to provide financial information and services to Maricopa County Government so it can effectively manage its resources. The DOF has ten goals listed in its Managing for Results (MFR) web page. Within the Department of Finance, the goal of the Accounts Payable Unit is to properly and timely pay bona fide vendors who have provided goods and services to Maricopa County.

Organization

DOF has 51 full time equivalent employees (FTEs) and two major functions: (1) financial reporting, and; (2) financial services. The Accounts Payable Unit is a part of DOF and is included in the financial services function. The Accounts Payable Unit has 8 employees, including the Accounts Payable Supervisor. The following organization chart documents the current structure of the Financial Services function and more specifically the DOF's Accounts Payable Unit.



Accounts Payable Process

The initial step in the procurement of goods and services for Maricopa County occurs when prospective vendors self-register their organizations through Materials Management's (MM's) BuySpeed website. Vendors must supply certain information, including a properly completed Form W-9, Request for Taxpayer Identification Number, and Certification. This information is added to the County's Master Vendor File.

To ensure that the vendor information contained on the Master Vendor File is correct, a DOF employee verifies that the Taxpayer Identification Numbers (TINs) and associated Form W-9 information, submitted by vendors to Materials Management, agree to the TINs and associated Form W-9 information on an Internal Revenue Service (IRS) website for those same vendors.

MM employees negotiate with prospective vendors offering to provide goods and services that County Departments are authorized to purchase at specified levels of quality and price. MM employees approve vendors to supply the County with goods and services based on rigorous criteria contained in the County's Procurement Code. These criteria are designed to obtain the best value for the expenditure of taxpayer dollars. Once MM employees have approved vendors to offer specific goods and services to the County at specific prices, vendor information is loaded into the County's Financial System, Advantage, and price agreements (contracts) are executed between the County and its vendors.

With the exception of direct payments, Advantage requires department employees purchasing goods and services to properly complete a purchase order, a receiver, and a payment voucher before payment can be made.

There are four types of purchase orders, all of which encumber funds:

- The Contract Price Agreement is used when the commodity, vendor, and price agreement relationship is already established.
- The Service Contract is used for Article 5 procurements which are under the control of the County Engineer. Article 5 defines the requirements and authorities for Procurement and Contract activities associated with the design, Construction, reconstruction and remodel of County facilities. This Article also applies to the Procurement of various Professional Services required by the County to meet its needs related to the design, Construction, reconstruction and remodel of County facilities.
- The Decentralized document is used to purchase goods and services through the Certified Agency Procurement Aide (CAPA) process; such purchases are limited by dollar amount and commodity type.
- For purchases of goods and services that are not on County contract, the Central Purchase Order document is used in combination with a Requisition document.

Department employees must also apply two levels of approval to these documents. In general, Level One approvers are those employees who enter documents on-line while Level Two approvers are managerial employees.

The Receiver document is completed after the goods or services have been ordered and received. The quantity of goods received as well as their condition upon arrival at the County must be recorded on the document. Receivers require two levels of approvals by department employees.

Once the on-line documents have been successfully entered and approved and invoices and other supporting payment voucher documentation have been submitted, Accounts Payable Unit employees generally exercise the final and most critical internal control in the accounts payable process by applying (or not applying) Level Three approval to payment vouchers. A given payment voucher and associated invoice will not generate a vendor payment without Level Three approval. For various reasons, including HIPAA and confidentiality, six County departments/agencies are permitted to apply Level Three approvals on their own payment vouchers. Advantage then produces one of three different payments types: (1) Automated Disbursements (ADs); (2) Electronic Fund Transfers (EFs), or; (3) Manual Warrants (MWs).

Direct payments also generate ADs, EFs, or MWs; however direct payments do not require purchase orders nor do they require receivers. Direct payments are used for recurring expenditures, including monthly rental payments, leases, utilities, jail bonds and petty cash. Direct payments are also used to pay vendors for Board of Supervisors approved Agenda items, as well as payments for M-vendors. M-vendors, e.g., jurors and election workers, are miscellaneous payees set up in the Master Vendor File.

Scope and Methodology

The purpose of this audit was to determine whether or not the County paid its obligations properly and in a timely manner to vendors providing goods and services to the County. Non-payroll expenditures initiated through payment vouchers were the focus of the audit. Specific objectives were to determine if:

- Use tax or sales tax on goods purchased by the County was properly computed and paid, with consideration to applicable exemptions
- Required information submitted online by vendors to Materials Management during the vendor registration process and entered on the County's Master Vendor File was inaccurate or fictitious
- The same invoice was paid more than once to the same vendor for the same goods and/or services provided by that vendor
- Invoices were paid too quickly, failing to maximize the County's interest revenue
- There are risks present in the accounts payable process that have not yet been identified or that have not been adequately addressed with a viable corrective action plan
- Payments processed using the County's direct payment process were properly documented and were properly paid
- There were any potentially fraudulent payments to vendors
- There were inappropriate or fraudulent payments to active employee/vendors in FY06-07

To address the objectives we:

- Sampled non-payroll expenditure transactions from the County's general ledger during the period July 1, 2006, through February 28, 2007, and followed them from the beginning of the accounts payable process to the end, i.e., from Materials Management to user departments through the Department of Finance's Accounts Payable Unit, tracing and agreeing them to relevant supporting documentation
- Sampled vendor file records during the period July 1, 2006, through February 28, 2007
- Used computer aided audit techniques, i.e., Benford's analysis and Audit Command Language (ACL), to search the entire population of the County's Master Vendor File (60,958 records), Master Payroll File (13,666 records), and general ledger non-payroll expenditures during the period July 1, 2006, through May 31, 2007

The audit was conducted countywide; the population included all Maricopa County Departments and non-payroll payment vouchers. Because other external auditors have been engaged to examine expenditures pertaining to Article 5 of the Maricopa County Procurement Code, Procurement of Construction and Related Architect/ Engineer/Consultant Services, these expenditures were not included within the scope of this audit. Expenditures for personal services and associated benefits pertaining to County employees were not included because such expenditures have been examined separately. Finally, because Procurement Card purchases were examined in a recently completed Internal Audit Department audit of Materials Management, these expenditures were not included within the scope of this audit.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Accounts Payable Reported Accomplishments

The Department of Finance provided the following information for inclusion in this report.

- Implemented an Electronic Document Management Program (EDMP) using a software program entitled OnBase to reduce off-site storage costs, utilize valuable existing floor space more effectively, and create a paperless document retrieval system. This program has been a complete success and exceeded our original expectations. The EDMP:

  - OnBase houses the following Accounts Payable electronic images as opposed to paper copies: payment vouchers, 1099's, W-9's, Electronic Fund Transfer registration forms, vendor invoices, and purchase orders. Special note, the DOF has back scanned all FY 2005-06 payment vouchers – this is an unexpected benefit and will result in a cost savings as associated with Iron Mountain records storage.

  - OnBase is interactive with Advantage. This functionality retrieves all payment document images currently housed in OnBase while working in the Advantage financial system. This enhancement resulted in effective use of staff time.

  - The use of OnBase converted approximately 600 sq. ft. of previous Accounts Payable file space into usable workspace for staff.

  - The use of OnBase has enhanced records management and retrievability of documents.

- During this past year our department has worked with consultants to develop a paperless payment process to eliminate unnecessary paper handling and duplicate data entry. The software has been developed and currently in the testing stages. We have selected the following five departments to conduct the beta testing: Human Services, Risk Management, Animal Care & Control, Facilities Management, and Department of Finance. Departmental testing will begin in October.

- The Department of Finance has focused efforts in increasing the number of Electronic Fund Transfer (EFT) payments to vendors. At the onset of the project only 79 vendors received their payments electronically. To date, there are a total of 648 vendors registered for EFT. This enhancement has reduced postage and unnecessary handling of paper.

- Automation of the payment process associated with Pitney Bowes postage charges. The new process retrieves the invoice information electronically from Pitney Bowes directly and creates the payments in Advantage. This enhancement has resulted in staff efficiencies for both Facilities Management and the DOF.

- Changes to the operations of Accounts Payable during the last 12 months have resulted in the following:

  - The DOF AP Team consistently has processed payments within 2 business days upon receipt. Our standard turnaround time is 3 – 5 business days.

  - No overtime was necessary for the FY 2006-07 close. In prior years, DOF staff worked overtime to process the increased volume of payment documents prior to the final close. In addition, the DOF AP Team maintained our standard turnaround time with the additional volume.

Issue 1 Invoice Processing

Summary

Although no duplicate payments were detected in our testing, system control weaknesses in the County's financial system (Advantage) could allow the same invoice to be paid twice. Edit checks should be added to the system.

Potential Duplicate Payments

Although we did not find any duplicate payments in our sample, there is a potential for paying the same invoice more than once. A combination of factors contributes to this weakness.

Vendors are geographically disbursed with different mailing addresses; therefore, a given vendor may have more than one vendor code on the Master Vendor File. However, the vendor should have only one Federal Identification Number or Taxpayer Identification Number.

All invoices associated with a given payment voucher are identified using an invoice number; however, invoice numbers may not be unique. A given invoice number may reference more than one invoice from more than one vendor.

Advantage software has edits that monitor the combination of vendor code and invoice number. Advantage will not permit the invoice to be paid more than once if the combination of vendor code and invoice number has already been paid. However, it is possible that one vendor with different vendor codes could be paid more than once for the same invoice (with the same invoice number) if submitted for payment.

Recommendation

Advantage should be reprogrammed to ensure that system edits reference TIN, vendor code, invoice number and dollar amount, to preclude duplicate payments prior to processing payment vouchers.

Issue 2 Invoice Payment Process

Summary

Maricopa County paid certain invoices prior to due dates specified on those invoices. The County lost an estimated $16,057 in interest revenue because it did not invest the cash paid prior to due dates in short term securities. The County should pay invoices, especially invoices for large dollar amounts, on or about their due dates.

Background

In recent years, Department of Finance management made a concerted effort to earn prompt payment discounts by paying invoices within the discount periods (if any) offered on vendor invoices. Employees involved in the accounts payable process have been made aware that there are costs associated with paying invoices too slowly. It appears that employees involved in the accounts payable process may not be aware that there are costs associated with paying invoices too quickly, i.e., subsequent to prompt payment discount periods (if any) but prior to the due dates specified on vendor invoices. In the case of construction progress payments, some invoices were paid prior to the due dates specified by Arizona Revised Statutes (ARS).

Foregone Interest from Construction Contracts

For progress payments on construction contracts, ARS specify that, in general, Maricopa County has 21 days from the time that the invoice is submitted by the contractor to the County to the time that payment is due to the contractor.

For our sample, we estimate that the County lost $16,057 in foregone interest revenue by paying progress payments on construction contracts prior to due dates specified by ARS. By doing this, the Maricopa County Treasurer lost the opportunity to invest an amount of cash corresponding to the payment amount prior to the due date at short term investment rates. The short term investment rate used to compute the interest revenue lost was 3.22%.

During fiscal year 2008, , the County will change the way it conducts business relating to the accounts payable process. The plan is that all invoices pertaining to the purchase of goods and services by the County will initially come to the DOF rather than to the various County Departments. The DOF will image the invoices and distribute them to appropriate County Departments for processing. This change will be an opportunity for the DOF to better control the timeliness of vendor payments as outlined in Recommendation B below. DOF management states the transition will take place slowly and over a period of time as to not to disrupt the business activities of our County.

Recommendations

The Department of Finance should:

A. Educate all employees involved in the accounts payables process regarding the propriety and timeliness of paying vendors.

B. In conjunction with the planned change to have all invoices sent directly to DOF, consider creating an invoice tracking system, especially for large dollar invoices, in order to better manage the payment process. When large dollar invoices come to the DOF, DOF employees could record information such as vendor name, invoice number, invoice date, payment due date, payment terms, and potential (prompt payment) discounts offered. This will enable the County to better manage its cash, paying its vendors neither too quickly (resulting in lost interest revenue) nor too slowly (resulting in poor relationships with the vendor community and possible lost prompt payment discounts).

Issue 3 Master Vendor File

Summary

The Department of Finance (DOF) screens information entered by self-registering vendors in the County's procurement system. Although we noted inaccurate or obsolete vendor data recorded in the system, DOF flags such information as "on hold" so that payments will only be made against valid vendor data. We found one isolated instance where DOF paid a vendor that had two Tax Identification Numbers (TINs) where only one TIN should have existed. With over 60 thousand records in the vendor file, this is an immaterial exception. However, we recommend that DOF periodically review the vendor file to clear out obsolete vendor data.

Finding

We reviewed the County vendor file for vendors incorrectly registered with more than one Tax Identification Number (TIN). The vendor file contained over 60 thousand records. We identified one vendor that had two TINs with expenditures posted to each of the TINs. The total paid against both TINs was less than $6,000. Overall, this exception appears to be an isolated case. For other vendor records, the vendor file includes information that appears to be inaccurate or obsolete. The incorrect data generally occurs because vendors self-registrar in the procurement system. We observed that DOF designates these items as "on hold" so that payments will not process against them.

Methodology

Using Audit Command Language (ACL), auditors analyzed substantially the entire Master Vendor File; there were 60,954 records. The ACL query identified those vendors with the same or similar address (city, state and zip code) and the same or similar vendor name with a different TIN.

Recommendation

We recommend that DOF review the vendor file periodically to eliminate inaccurate or obsolete data.

Department Response

ACCOUNTS PAYABLE AUDIT RESPONSE
DEPARTMENT OF FINANCE September 13, 2007

Issue 1 – Invoice Processing:

Although no duplicate payments were detected in our testing, system control weaknesses in the County's financial system (Advantage) could allow the same invoice to be paid twice. Edit checks should be added to the system.

Response: Concur.

Recommendation: Advantage should be reprogrammed to ensure that system edits reference TIN, vendor code, invoice number and dollar amount, to preclude duplicate payments prior to processing payment vouchers.

Response: Concur.

Although there were no duplicate payments identified during the audit, the Department of Finance (DOF) recognizes that there is always an opportunity for enhancement. The DOF will coordinate with the Office of Enterprise Technology to determine if these changes are feasible.

To further enhance this countywide program, the DOF and the Office of Enterprise Technology (OET) have developed a new paperless accounts payable process using a software product entitled OnBase. The software has an additional level of edit at the time the invoice is submitted at the beginning of the payment process. The DOF will have the responsibility to index invoices in OnBase with the Vendor Name, Vendor Number, Invoice Number, Invoice Date, and Invoice Amount. This will ensure a consistent methodology for establishing invoices in the payment cycle. OnBase uses a combination of Vendor Name, Vendor Number, and Invoice Number. In the event that any combination of these results in a positive match, the DOF has the immediate opportunity to further evaluate the invoice as a duplicate prior to being submitted to the individual department for payment.

Target Completion Date: The roll out of the new process will occur over approximately one year. Anticipated completion date is November 2008.

Benefits/Costs: The benefits are a strengthened and consistent payment processing method Countywide. The costs associated with the OET Service Request (SR) are undetermined as it will take "man hours." As with all SR's, it will be prioritized based upon our current needs and/or situation.

Issue 2 – Invoice Payment Process:

Maricopa County paid certain invoices prior to due dates specified on those invoices. The County lost an estimated $16,057 in interest revenue because it did not invest the cash paid prior to due dates in short term securities. The County should pay invoices, especially invoices for large dollar amounts, on or about their due dates.

Response: Concur.

Recommendation A: Educate all employees involved in the accounts payables process regarding the propriety and timeliness of paying vendors.

Response: Concur.

Historically, the County has struggled to obtain prompt payment discounts and in many cases have been late in making payments. The focus of the DOF has been to process payments as quickly as possible. However, as a result of our efforts, we have created another opportunity for improvement.

The DOF will include additional information in our training curriculum regarding payment processing timeliness.

Target Completion Date: The information will be included in the next training session scheduled for December 12, 2007.

Benefits/Costs: The benefits are a strengthened and consistent payment processing method Countywide. In addition, the County will maximize the use of funds during the overnight investment process and achieve increased interest income. There will be minimal costs associated with these changes.

Recommendation B: In conjunction with the July 1, 2008, planned change to have all invoices sent directly to DOF, consider creating an invoice tracking system, especially for large dollar invoices, in order to better manage the payment process. When large dollar invoices come to the DOF, DOF employees could record information such as vendor name, invoice number, invoice date, payment due date, payment terms, and potential (prompt payment) discounts offered. This will enable the County to better manage its cash, paying its vendors neither too quickly (resulting in lost interest revenue) nor too slowly (resulting in poor relationships with the vendor community and possible lost prompt payment discounts).

Response: Concur.

The OnBase software is already equipped with an invoice tracking system. An additional phase of the project includes increasing the functionality. The DOF has already defined the need to include additional indexing information to track and monitor invoices. The initial phase of the project indexes invoices by the following: Vendor Name, Vendor Number, Invoice Number, Invoice Date, Purchase Order Number, and Invoice Amount.

The subsequent phase of the project will include the following additional index fields: Payment Due Date and Payment Terms (potential discounts). The OnBase software will utilize these fields to calculate potential discounts and optimal payment due dates. We have considered including a default indexed field that would represent an estimated short term investment rate such as 3.22% (rate used by Internal Audit during analysis). By including this field, a processor would have all available information necessary to make a solid financial decision.

Target Completion Date: July 2008.

Benefits/Costs: The benefit is enhanced management of cash resulting in increased interest revenue. There will be minimal costs associated with these changes.

Issue 3 – Master Vendor File:

The Department of Finance (DOF) screens information entered by self-registering vendors in the County's procurement system. Although we noted inaccurate or obsolete vendor data recorded in the system, DOF flags such information as "on hold" so that payments will only be made against valid vendor data. We found one isolated instance where DOF paid a vendor that had two Tax Identification Numbers (TINs) where only one TIN should have existed. With over 60 thousand records in the vendor file, this is an immaterial exception. However, we recommend that DOF periodically review the vendor file to clear out obsolete vendor data.

Response: Concur.

Recommendation: We recommend that DOF review the vendor file periodically to eliminate inaccurate or obsolete data.

Response: Concur.

In an on-going effort to ensure accurate data, the DOF initiated the utilization of a reporting tool entitled Business Objects to review not only new vendor information, but, historical information as well. The implementation of the Buy Speed Vendor Registration software has impacted the Advantage system and our functionality. It is our goal to continue to work with Materials Management to ensure timely and accurate vendor relationships are established.

Target Completion Date: The Business Objects reports have already been created and in trial stages.

Benefits/Costs: The benefits are accurate vendor information in Advantage. There will be minimal costs associated with these changes.

Approved By :

Department Head/Elected Official **Date**

County Manager 9/14/07 **Date**