CITY OF HAMILTON
INTERNAL AUDIT REPORT 2015-13
CORPORATE SERVICES – ACCOUNTS PAYABLE (CONTINUOUS AUDITING PILOT)

OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
WebCenter Training & Utilization WebCenter is the City of Hamilton online approval system for Accounts Payable (AP) invoices. Invoice approvers and Financial Administrators (F&As) throughout the organization are assigned to the system for the purpose of accurately routing invoices and approving invoices for payment. AP offers both initial and refresher training opportunities for all system users, and provides a system manual, available online via the eNet. When reviewing WebCenter training records and evaluating user knowledge, several common exceptions were noted: • Staff were unaware of further WebCenter training opportunities. Some approvers received no formal initial WebCenter training at all. • No clear approval/routing time expectations were communicated by management or during WebCenter training.	1. That initial WebCenter training is made mandatory for all new system users. 2. That all WebCenter users be made directly aware of further training opportunities (e.g. annual general e-mail advising of further training sessions). 3. That management consider how timeline expectations for F&A staff and approvers can be better communicated for consistency across the organization.	Joint response to be submitted by the Accounts Payable and Finance & Administration Sections. Joint response to be submitted by the Accounts Payable and Finance & Administration Sections. Joint response to be submitted by the Accounts Payable and Finance & Administration Sections.

CORPORATE SERVICES – ACCOUNTS PAYABLE (CONTINUOUS AUDITING PILOT)
AUGUST 2016

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Average Invoice Approval Time Accounts Payable is targeting an organization-wide 30 day average invoice approval timeline. These 30 days include time for AP routing, F&A routing and invoice approval. The approval process includes having the approver review the invoice, ensure the goods or services have been received and approve the invoice for payment.	4. That Finance regularly monitor the average approval time for each Department and identify approvers far exceeding the timeline expectation. An action plan, for how to remedy approvers that consistently exceed the 30-day target is needed to make this monitoring process effective.	Response to be submitted by the Finance & Administration Section.
In reviewing reports capturing City-wide approval timeline data from the WebCenter system, it was found during audit fieldwork that the average days for approval from invoice date was 38.83 days.	5. That routing/approval metrics be incorporated into Performance Accountability and Development (PAD) forms for approvers that handle a high volume of invoices, for F&A team members and others positions, as appropriate.	Joint response to be submitted by the Accounts Payable and Finance & Administration Sections.

CORPORATE SERVICES – ACCOUNTS PAYABLE (CONTINUOUS AUDITING PILOT)
AUGUST 2016

OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
Detection of Duplicate Payments The main systems used in the process are WebCenter and PeopleSoft Financial; both of which have been designed to continually scan and prohibit duplicate payment processing. In addition to system controls, AP management also generates monthly reports from PeopleSoft comparing invoice details (e.g. identical invoice numbers and invoice dates) to ensure potential duplicate invoices are detected prior to payment. During audit testing, some areas of elevated risk were noted: • Invoices are loaded to WebCenter through the OFR (Oracle Forms Recognition) system in batches (up to 10 invoices per batch) and are scanned against the pre-existing OFR collection of invoices for duplication. They are not scanned against invoices within the batch. This may allow duplicate invoices within the same batch to proceed undetected through the payment process.	6. That management explore OFR's capability of scanning invoices against the other invoices within the same batch.	Response to be submitted by the Accounts Payable Section.

CORPORATE SERVICES – ACCOUNTS PAYABLE (CONTINUOUS AUDITING PILOT)
AUGUST 2016

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Detection of Duplicate Payments (Cont'd.) • WebCenter scans for possible duplicates by matching exact values for all three of the following: invoice date, invoice number and vendor number. A minor difference (e.g. invoice: 01234 and invoice: 01234*) would proceed undetected.	7. That management evaluate the feasibility of refining the duplicate checking parameters in WebCenter to include flagging potential duplicates with similar invoice numbers, when the vendor numbers and invoice amounts are identical.	Response to be submitted by the Accounts Payable Section.
• The PeopleSoft duplicate reports generated by management, are generally completed for a one month period at a time (e.g. June 1 – June 30) and therefore, possible duplicate payments approved within a different month (e.g. March 31 and April 1) are not detected by this method.	8. That management develop annual duplicate checking reports that use the current parameters; however, exclude potential duplicate invoice payments approved within the same month. (In addition to the monthly reports already indicated.)	Response to be submitted by the Accounts Payable Section.
• Monthly duplicate reports include EDI (Electronic Data Interchange) sources from departments. These invoices are solely maintained at the Department level and are not easily accessible for review by Accounts Payable staff.	9. That management direct possible duplicates of EDI source invoices to the department level for review. This may be in addition to any review that Accounts Payable Management wishes to implement.	Response to be submitted by the Accounts Payable Section.

CORPORATE SERVICES – ACCOUNTS PAYABLE (CONTINUOUS AUDITING PILOT)
AUGUST 2016

OBSERVATIONS OF EXISTING YSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
Approver Limits – Updating and Compliance Approvers in the WebCenter system are assigned approval limits in accordance to their job title. Exemptions to these standard amounts are to be accompanied by a "notification of signing authority" form with the appropriate leader level sign off, and are maintained at the Department level with F&A staff.		
A review of a sample of 20 approver amounts was conducted and three exceptions were identified where an increased approval limit was not supported with an appropriate sign off.	10. That all approver amount level increase requests be accompanied by a "notification of signing authority" form and verified by Accounts Payable that the appropriate level of management has signed off. The forms should be maintained by Accounts Payable for reference.	Joint response to be submitted by the Accounts Payable and Finance & Administration Sections.
A review of a sample of 15 invoices received by Accounts Payable originating from the Q: drive (pre-approved invoices from the Departments) identified two cases where invoices were approved beyond the approver's limit. Signing authority forms reviewed did not permit the amounts approved.	11. That all pre-approved invoices received from the Q: drive be cross referenced with approver signing authority levels and forms to ensure compliance before processing. If Accounts Payable wishes to continue the long term practice of exempting certain high-value ongoing payments from signing authority (e.g. Rent), a policy or amendment to the procurement policy should be passed.	Response to be submitted by the Accounts Payable Section.
Neither the PeopleSoft nor WebCenter systems are currently monitoring possible invoice payment splitting by approvers as a means to bypass their approval limits.	12. That management explore the feasibility and system capabilities of monitoring for potential invoice payment splitting to ensure approvers are in compliance with their designated limits.	Response to be submitted by the Accounts Payable Section.

CORPORATE SERVICES – ACCOUNTS PAYABLE (CONTINUOUS AUDITING PILOT)
AUGUST 2016

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<u>Vendor Discount Opportunities for Early Payment</u> Discounts offered by vendors for early invoice payment may be a savings opportunity and incentive for Departments to expedite their approval process.	13. That Procurement negotiate early payment savings opportunities for all new and, if feasible, existing vendors.	Response to be submitted by the Procurement Section.
Presently, early discounts realized or lost are not actively monitored by Accounts Payable management, as these opportunities have been rarely realized to date. Management should further investigate potential opportunities associated with vendor discounts. In 2013, the Toronto Auditor General identified that the City of Toronto loses over $200,000 annually by not taking advantage of vendor discounts.	14. That Management develops reports in PeopleSoft to continually monitor the amount ($) of discounts realized and the value of discounts lost (e.g. the report may be broken down by Department, and if possible by approver). Departments should be credited back any discounts received as an incentive for ongoing timely invoice approvals.	Joint response to be submitted by the Accounts Payable and Finance & Administration Sections.