



# City of Wilmington Cash Disbursements Internal Audit Review

January 19, 2023

## City Auditor's Office

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## Highlights

### *Why We Did This Audit*

The Internal Audit Department (IA) performed a scheduled audit of Cash Disbursements (CDs). The audit was conducted in accordance with the FY23 Audit Plan.

### *Methodology*

The objectives were met by reviewing prior year audit findings, discussion, and interviews with Accounts Payable, Procurement, Wage Tax, and Treasury staff. Review of AP policies and procedures, analyzing disbursement trends, testing of 100 randomly selected disbursement checks and 25 wage tax refunds, and analysis of purchase order liquidation, and user access in Munis.

### *Audit Review Committee:*

Ronald Pinkett, Chair  
Angelique Dennis  
Chris Johnson  
Mona A. Parikh  
James Spadola  
Tanya Washington

## *Objective and Scope*

As part of our audit plan, we conducted a Performance Audit of CDs for the period commencing July 1, 2017, through June 30, 2021. Our objectives were to determine whether adequate controls exist surrounding CDs, to provide reasonable assurance that payments were accurate, timely, and practical; and to determine whether adequate controls exist to protect against duplicate payments to vendors. IA believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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 during this engagement provides a reasonable basis for our findings and conclusions based on our audit objectives.

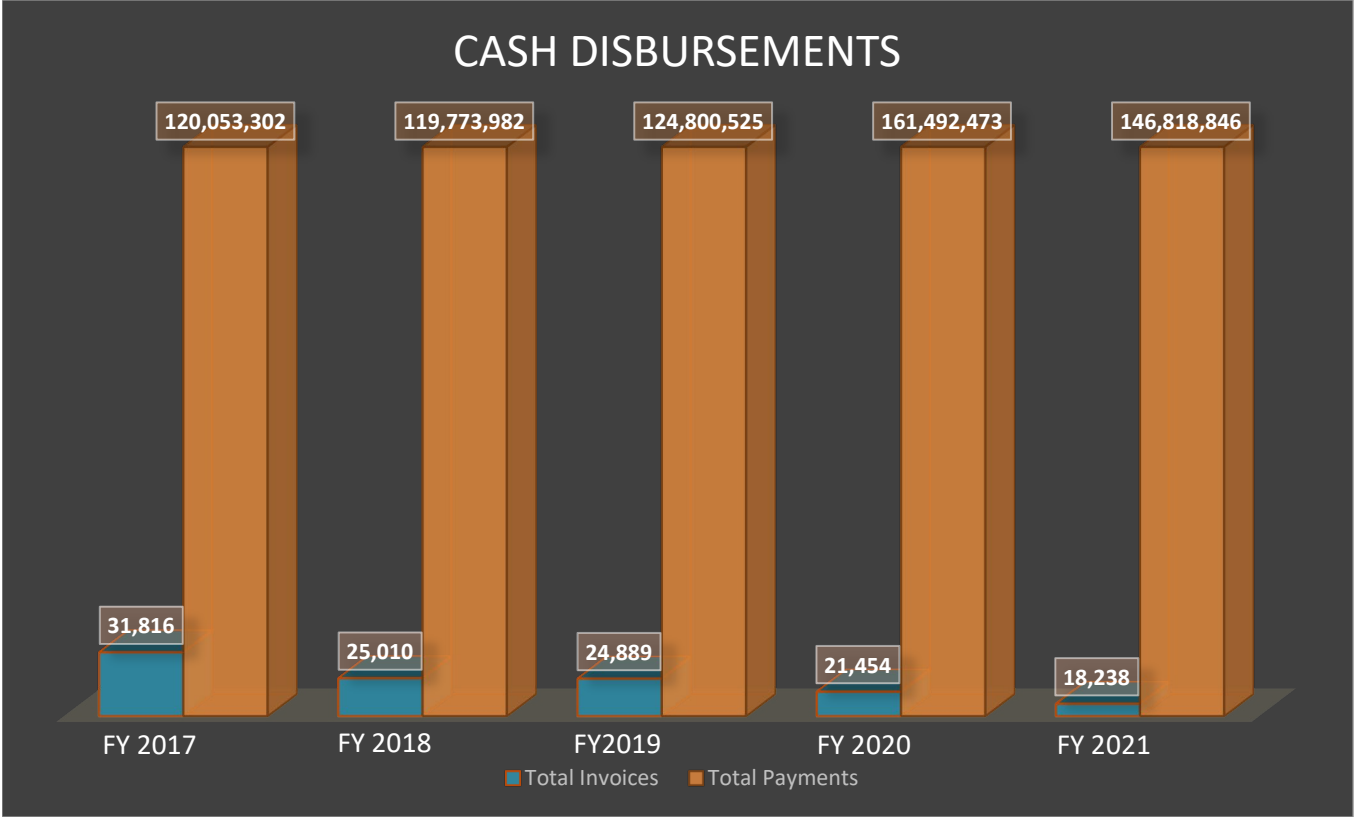
## *Background*

CDs are the outflow of cash paid in exchange for the provision of goods or services. Disbursements can be made in multiple forms; however, the City of Wilmington's (CoW) Accounts Payable (AP) Division processes payments by check, electronic funds transfer (ACH) and ePayables. Additionally, the CoW uses Purchase Cards (P-Cards) as a form of disbursement by departments for swift purchases needed within the department. The use of P-cards eliminates the process of AP for processing invoices or creating request for checks. APs are invoices for goods and services rendered to the city for payment. The term, *invoice*, refers to the original vendor prepared bill that must be submitted for payment. The process for CDs is a shared responsibility amongst city departments, divisions, AP, Treasury and Procurement.

Purchases are coordinated within the Finance department. Check requests are used to initiate payment for services or goods that cannot be processed using P-Cards. If total expenditures are \$75 or less, a Request for Check form should be prepared, authorized, and submitted to Finance by the City department completing the purchase. When total expenditures are \$75-\$14,999, a purchase order (PO) should be requisitioned. City code grants the Procurement Division of Finance the authority to evaluate PO's (Part 1, Article VI, Chapter 1, Section 6-116 (a) (1) of the CoW, Delaware code grants the Procurement Division the ability to ensure that: "All purchases, other than purchases for stock and all deliveries from such stock shall be made only upon proper requisition.")

Both Procurement personnel and Management can authorize POs through the Munis Workflow Management System. When the goods/services have been rendered to the requesting department; the vendor emails or mails an invoice to AP for payment remittance. Invoice information is then recorded in Munis by the AP clerk. For payments to be disbursed to vendors, department Management must approve invoices through Munis Workflow; payments are then disbursed to vendors. PO amounts are liquidated based on the CDs. The PO continues to liquidate until the full amount of the PO has been reached.

**Key Statistics:**



*Chart of Total Invoices and Payments for FY17-FY21(Munis – Invoice History by Org)*

## ***What we found***

### **Key Findings**

Following are key issues that resulted in a process/area to be risk rated a three or four. See Attachment A for the detail of these and all comments identified during the review.

<b><i>Risk Ranking:</i></b>		<b>(See Attachment B for full rating definitions)</b>			
<b>Process/Area</b>	<b>Process Owner</b>	<b>1 Strong Controls</b>	<b>2 Controlled Effectively</b>	<b>3 Controlled Improvement Required</b>	<b>4 Significant Improvement Required</b>
Accounts Payable	Cynthia Ford				✓
Segregation of Duties	John D'amelio				✓
Stale Checks	DaWayne Sims				✓
User Access	Roseanne Prado				✓
Vendor Management	John D'amelio				✓
Duplicate Payments	Cynthia Ford			✓	
Invoice Processing	Cynthia Ford			✓	
Purchase Orders	John D'amelio			✓	

### **Accounts Payable**

1. Noncompliance exists with the City of Wilmington (CoW) Accounts Payable (AP) Policy section 1.3 Prompt Payment Act, due to invoices not being paid in a timely manner. For instance, 27 out of 100 (27%) invoices were not processed within 30 days. Thirteen late payments were due to departments sending invoices late to AP.

### **Segregation of Duties**

2. Controls over user access of the city's vendor master files (VMF) need to be strengthened, due to employee's outside of Procurement being able to make changes to the VMF. The Procurement Division should be the only division who has access to make changes in the Vendor File. It was noted that another staff member within Finance had access to Vendor Maintenance and was able to make changes to the Vendor File.

### **Stale Checks**

3. Noncompliance still exists with the Treasury Policy Manual # 2-221. This is a repeat finding from prior years, Cash Disbursement Audits (14-03 & 16-12) as well as the Treasury Review Audit 19-11. Treasury staff are not able to provide a stale check report, which created a scope limitation preventing IA from being able to review the process mentioned in their department's policy manual.

### **User Access**

4. Controls over user access to the AP Module needs to be strengthened. Inactive employees' access was not deactivated in Munis which has led to potential SODs issues. The AP Division should be the only division who has access to make changes in the AP Module. After a review of all permissions, It was noted that previous employees still had access. Additionally, other Finance staff had access to the AP creating segregation of duties concerns.

### **Vendor Management**

5. Vendor setup controls in Munis need strengthening Thirty-six out of 100 (36%) vendors have outdated information in their vendor file such as addresses, company name changes, and the payment/banking source to name a few. Five vendors also had multiple names or different variations to the business name in Munis.

### **Duplicate Payments**

6. Controls surrounding duplicate payments need strengthening. Two out of 25 (8%) disbursements reviewed were duplicate payments. One of the duplicate payments was paid from a Request for Check (RFC) in conjunction with a Purchase Order (PO) and was over the threshold for using a RFC.

### **Invoice Processing**

7. Control weaknesses were identified during the review of invoices. Nine out of 100 (9%) invoices did not have a receiving report or itemized invoice to fully be aware of what services/items were received. Five out of 100 (5%) vendor names and the description of services in Munis - Vendor file do not match what is on the invoice. One out of 100 (1%) invoices reviewed were not scanned into Munis and included no supporting documentation. There was only an email chain from the department to AP instructing what PO to use for payment.

### **Purchase Orders**

8. Noncompliance exists surrounding how POs were processed. For instance, RFC were used in lieu of POs which is not consistent with the threshold limit of \$75 or less. Additionally, there were instances of RFC and PO used in conjunction. Five out of 100 (5%) used RFC instead of submitting a Requisition for a PO. Multiple instances of RFC and POs were used for the same vendor One PO was submitted six months after services was rendered.

### **Additional Observation**

The AP Division accepts copies of invoices with handwritten PO#. AP should only be accepting the original unaltered invoice.

## Summary of Management Responses

### *Management Responses to Audit Recommendations*

**Recommendation #1:** Best Practices suggests that invoices should always be prioritized in order by the due date and payment terms. This will help the city reduce or eliminate late payment fees.

If there are disputes with invoices causing delays, departments should keep a log and track the dispute and the resolution. If the vendor habitually sends an invoice late or has constant disputes with invoicing the CoW should consider using a different vendor to avoid disruption in payment processing.

**Management response & action plan:** The Department of Finance acknowledges the finding. To improve vendor adherence to city terms spelled out in their purchase orders for submitting their invoices to the AP department which should include their current PO number to ensure timely invoice processing, the Finance Department has reached out to individual departments whose vendors have been identified as non-compliant and we have instituted a bi-annual training program for all city departmental fiscal staff.

#### **According to Best Accounts Payable Practices:**

##### **1. Recognizing the Receipt of an Invoice.**

When an accurate, complete, and correct invoice is received it is accepted by being date-stamped and entered into Munis workflow for approvals.

##### **2. Processing Payment:**

Invoices are processed for payment based on their invoice date and their vendor terms, both of which are set within Munis and do not require any manual prioritization or manipulation. The system accurately ages and will identify invoices for payment as they are due.

**Completion Date:** Completed

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**Recommendation #2:** IT should create and/or update a P&P known as deny all approach. Under the Deny All approach, no one gets access unless they specifically need it. With this mindset, IT reviews incoming requests, determining additional access on a need to have, case-by-case basis. This will minimize risk exposure of employees granting and gaining access unnecessarily.

**Management response & action plan:** The Department of Finance acknowledges the finding. On a specific past occasion and due to limited resources, the Finance Department did authorize an internal accounting staff member to assist on a project, which has been completed with access

removed. Management has communicated the I.T. Director that the City's Vendor file access is limited to the Procurement Division personnel only and requested a lock on the database to block any unauthorized user access.

**Completion Date:** Completed

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**Recommendation #3:** On a monthly basis, Treasury staff should monitor whether uncashed checks over 120 days outstanding were canceled and reissued. This functionality is available in Munis and should be used to monitor and process stale AP checks.

**Management response & action plan:**

**Completion Date:** TBD

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**Recommendation #4:** Best practices suggest limiting access and establish internal controls by granting specific employee's access.

Management should work with IT to verify whether permissions are removed when an employee is no longer employed with the CoW or changes positions.

**Management response & action plan:** The Department of Finance acknowledges the finding. All previous employees who should not have had access has been removed as of 12/7/22 by the IT department staff. The function of deactivating staff from this system is performed by the Finance Admin during the exit process.

The two other Finance employees outside of the AP staff that have access to this module, need these permissions to post AP disbursements to the GL and void checks. No further action is needed.

**Completion Date:** Completed

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**Recommendation #5:** Procurement should perform an annual vendor audit to ascertain whether information is up to date and accurate. During this time, they should request updated information from vendors and organize vendor data by updating or removing unnecessary information from the vendor master file.

**Management response & action plan:** December 31, 2023

**Completion Date:** The Department of Finance acknowledges the finding. Management has purchase V.S.S. (Vendor Self-Service) a Munis module that updates the vendor database in compliance with I.R.S. rules and regulations as well as provides several control features needed to be compliant. Management is preparing to roll out this upgrade in technology, by working

along with the IT Department for support and implementation of the project, before the close of this year.

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**Recommendation #6:** AP must follow its policies regarding the acceptance of invoices from vendors to prevent errors.

If there is a PO for a vendor, RFC should not be used to add or supplement payment.

AP should consider transitioning to utilizing ePayables to help reduce manual invoices and potential duplicate payments.

**Management response & action plan:** The Department of Finance acknowledges the finding. The Accounting manual does not allow payment for a Request for Check if there is an applicable purchase order in Munis.

Audit Sampling #1 was from the year-end invoice batch where RFCs are more commonly used to process payments as purchase orders close or will no longer be available to increase funding. We will be doing a more robust search of this information prior to processing the year-end request for checks.

Audit Sampling #2. The Munis system does recognize and kick back duplicate invoice numbers if inputted into the system. Unfortunately, in case the letters “RFC” was added to the end of the actual invoice number which confused the system into believing it was a different invoice number all together and therefore payment was issued. This incident is currently being reviewed and rectified. The Finance department will no longer be using this method of identifying RFCs for end of year invoices going forward.

**Completion Date:** Completed

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**Recommendation #7:** Best practices for internal controls suggest a three-way matching process be utilized which requires comparing the PO, receiving information and the invoice. If they match the invoice should be approved for payment. This will also help with determining whether an invoice should be paid partly or in full.

**Management response & action plan:** The Department of Finance acknowledges the finding.

**Process and Procedure:**

1. Receiving reports and packing slips are not scanned into Munis.
2. Three way-match is not an active module in Munis.
3. Finance does not issue partial payments.



The vendor names are set up by the Procurement Division according to the company's documents provided. AP will continue to ensure they are correctly matched with the invoice we are processing.

At times documents does not correctly attach, and if pulled and found missing we will locate the original and reattach.

City-wide training has been provided by the Finance Department in October 2022. This training advised all user to be more descriptive in the initial set-up of the purchase order process which flows into the AP process. Therefore, we look forward to improved processing of invoices that come into the AP division.

**Completion Date:** Completed

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**Recommendation #8:** Management should ensure that policy is being followed; City departments should submit requisitions for a PO as per RFC and PO policies.

POs and RFC should not be used together, this can lead to erroneous payment.

**Management response & action plan:** The Department of Finance acknowledges the finding. Per the policy Requests for Checks are used to initiate payment for services or goods that do not require a purchase order (PO) and cannot be processed using a City of Wilmington P-Card. A PO is required for any purchase of goods or service \$5,000 or greater. Management has put in place an ongoing six-month (twice a year) training class to education users on the City's best practice procedures when it comes to requisition requirements.

**Completion Date:** Completed

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### **Audit Team**

Nicole Sammons-Johnson, Senior Auditor  
Tamara Thompson, Audit Manager