



CITY OF WILMINGTON

Cash Disbursements

Internal Audit Review

February 9, 2018

City Auditor's Office

Terence J. Williams
City Auditor
(302) 576-2165

Highlights

Why We Did This Audit

The Internal Audit Department (IA) performed a scheduled audit of Cash Disbursements. The audit was in accordance with the 2016 Internal Audit Plan.

Methodology

The objectives were met by assessing prior audit findings, analyzing cash disbursement trends, testing of 45 randomly selected disbursements, reviewing checks outstanding over 100 days; evaluating user attributes for the MUNIS system, detailed analysis of credits issued, duplicate payments, invoice liquidation, workflow attributes in MUNIS; and through discussions with City personnel

Audit Review Committee:

Robert C. Johnson, Chair
Ciro Adams
Marchelle Basnight
Angelique Dennis
Bud Freel
Ronald Pinkett
Tanya Washington

Objective and Scope

As part of our audit plan, we conducted a Performance Audit of Cash Disbursements for the period commencing July 1, 2015 through June 30, 2016. Our objectives were to determine whether adequate controls exist surrounding cash disbursements, to provide reasonable assurance that payments are accurate, timely, and practical; and to determine if 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 our audit in accordance with Generally Accepted Government Auditing Standards ("GAGAS"). These 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.

Background

Purchases are coordinated in through the Finance department. 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. If total expenditures exceed \$75, a purchase order should be requisitioned. According to Finance's "Request for Check" policy: "The department requesting the goods or services is required to prepare, approve, and forward one of the following documents depending on the dollar amount of the items being purchased: a Request for Check Form (for items less than \$75.00) or a Purchase Requisition for items greater than \$75."

City code grants the Procurement division of Finance the authority to evaluate purchase orders (Part 1, Article VI, Chapter 1, Section 6-116 (a) (1) of the City for Wilmington, Delaware code grants the Procurement division of Finance with 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 department management authorize purchase orders through the MUNIS Workflow Management System.

Invoices for goods and services should be sent by vendors directly to the accounts payable division of Finance. Invoice information is then recorded in MUNIS by accounts payable personnel. In order for payments to be disbursed to vendors, department management approves invoices through MUNIS Workflow. Checks are then disbursed to vendors.

Purchase order amounts are liquidated based on the cash disbursements. The purchase order continues to liquidate until the full amount of the purchase order has been reached. If total invoiced expenses are to exceed the purchase order limit by \$51 or more, a purchase order limit increase should be completed for authorization by Procurement and department management. (Section 1, provision B of Finance’s 08/10/06 "Accounts Payable Procedures" states that: "Invoices entered will not exceed the Purchase Order total by more than \$50.00. To exceed this amount the Finance Department, Accounts Payable Division will notify the Department to make a request to the Purchasing Department that a change is to be made to the Purchase Order.”)

Key Statistics:

	FY16	FY15
DISBURSEMENTS		
# of Checks	9,285	8,911
Payments	\$96.4M	\$85.3M

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.

Risk Ranking:		(See Attachment B for full rating definitions)			
Process/Area	Process Owner	1 Strong Controls	2 Controlled Effectively	3 Controlled Improvement Required	4 Significant Improvement Required
Accounts Payable	Patrick T. Carter John D’Amelio Velda Jones- Potter			√	
Invoice Processing	Roseanne Prado			√	
Purchase Orders	John D’Amelio			√	

Accounts Payable

- Control weaknesses have not been addressed from the prior year’s Audit 14-03 “Cash Disbursements Audit,” regarding how stale-dated checks are handled. The following issues were noted as of March 2016, a total of 62 stale-dated checks were identified as outstanding over 120 days including checks that were outstanding prior to fiscal year 2016.
- Noncompliance exists with the COW Finance Policy, in regards to how printed checks are delivered. COW checks are provided to City personnel via hand delivery to vendors. This is a violation of Finance policy, which states that all checks should be mailed. Finance personnel take possession of the checks during the printing and mailing process. The responsibilities of check custody, bookkeeping, and reconciliation are not fully segregated among separate individuals.
- Controls need strengthening surrounding how vendors are setup in MUNIS and how payments are being processed. Three sets of duplicate payments totaling \$150 were identified in MUNIS, due to one vendor being setup in the system with multiple vendor accounts.

Invoice Processing

4. Contract terms and conditions were not consistently being adhered to surrounding invoices payments. Two out of 45 (4%) invoices tested, had invoice amounts that did not match the pricing terms of the contract.
5. Inconsistent controls exist surrounding scanning supporting documentation into MUNIS. Six out of 45 (13%) invoices selected for testing had documentation that was missing in MUNIS such as, four invoices were missing contracts, one invoice was missing the fee schedule and one invoice was:
 - Missing a purchase order increase form.
 - Controls need strengthening surrounding enforcing workflow approval limits for unauthorized employees. For instance, two employees were able to approve invoices that exceeded their dollar threshold.
 - Improvement is still needed regarding the timely recording of Credit Memos. One out of 10 (10%) credit memos were not recorded within six months of its receipt. In the prior audit, Management indicated it would revise the manual to address credit memos, but this issue still exists.
6. Controls need strengthening surrounding enforcing workflow approval limits for unauthorized employees. For instance, two employees were able to approve invoices that exceeded their dollar threshold.
7. Improvement is still needed regarding the timely recording of Credit Memos. One out of 10 (10%) credit memos were not recorded within six months of its receipt.

Purchase Orders

8. Noncompliance exists with the City of Wilmington (COW) Purchase Order (PO) Policy, due to POs not being authorized prior to the actual purchase occurring. Four out of 45 (9%) invoices tested, had POs that were not approved prior to the purchase of goods or services.
9. Controls surrounding POs need strengthening, due to increases not being properly authorized, and PO limits not being properly liquidated. For instance, there were 12 occurrences where a PO limit was exceeded, and the increase was not authorized. In addition, based on inquiry and observation of an adhoc Finance report, 11 out of 12 (92%) items were identified as liquidation issues however they were not addressed by the Finance department.

Management Responses to Audit Recommendations

Summary of Management Responses

Recommendation #1: Finance and Treasury Management should work together to finalize a stale-dated check policy. Monthly, Treasury should monitor whether un-cashed checks over 120 days outstanding are canceled and reissued.

Management response & action plan: Management did not provide a response to this finding.

No response

Completion Date: TBD

Recommendation #2: Treasury should consider retaining control of all checks after printing. Prior to mailing, Finance personnel should provide documents to Treasury for attachment. In accordance with Finance and Treasury policy, it is also recommended that checks be mailed to vendors in all circumstances.

Agree

Treasurer's Office response & action plan: A new Vendor Check Disbursement Policy has been implemented wherein the City Treasurer's Office retains custody of all checks after printing. Prior to mailing, Finance personnel bring to the Treasurer's Office all documents that must be attached to checks and, are given access to only those checks requiring documents in a secured location under oversight of Treasurer's Office staff. Checks are placed in the mail in accordance with policy.

Completion Date: Completed.

Recommendation #3: Finance Management should ensure that vendors only have a single account in MUNIS and that invoices are not being paid more than once. In addition, Management should provide and document training to staff concerning duplicate payments.

Management response & action plan: Management did not provide a response to this finding.

No response

Completion Date: TBD.

Recommendation #4: Management should ensure that all relevant supporting documentation is scanned and available in MUNIS in a timely manner.

Management response & action plan: Management did not provide a response to this finding.

No response

Completion Date: TBD

Recommendation #5: Management should reinforce the importance of scanning supporting documentation into MUNIS.

No response

Management response & action plan: Management did not provide a response to this finding.

Completion Date: TBD.

Recommendation #6: Management should provide refresher training for employees and enforce the workflow approval limits for all expenditures.

No response

Management response & action plan: Management did not provide a response to this finding.

Completion Date: TBD.

Recommendation #7: Finance should apply vendor credits in a timely manner. Moreover, the Policy Manual should be updated to reflect how to treat credit memos in the guidelines.

No response

Management response & action plan: Management did not provide a response to this finding.

Completion Date: TBD.

Recommendation #8: Management should ensure that prior to making purchases; City departments should submit requisitions for either a Request for Check or PO. Finance should continue to report all purchases that occurred without preauthorization to the Purchase Review Committee. In addition, the Purchase Review Committee should consider taking proactive steps to ensure the number of purchases without adequate pre-authorization is reduced.

No response

Management response & action plan: Management did not provide a response to this finding.

Completion Date: TBD.

Recommendation #9: Management should reinforce the importance of adhering to the COW Code and following Finance Policy surrounding PO limit increases. Finance should continue working with the Department of Integrated Technology to identify and address the causes of the unbalanced liquidations. In addition, they should increase their efforts in proactively monitoring and addressing all instances of partially liquidated invoices.

No response

Management response & action plan: Management did not provide a response to this finding.

Completion Date: TBD.

Audit Team

Brian T. Stickels, Staff Auditor

Yvette R. Johnson, Senior Auditor

Tamara Thompson, Audit Manager