



CITY OF WILMINGTON

ePayables Review

Internal Audit Review

December 16, 2020

City Auditor's Office

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City Auditor
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Highlights

Why We Did This Audit

The Internal Audit Department (IA) performed a scheduled audit of ePayables. The audit was in accordance with the 2020 Internal Audit Plan.

Methodology

The objectives were met thru interviewing staff, reviewing existing procedures/practices for ePayable vendor setup, payment and reconciliation. Analysis of user access, detailed testing of ePayable vendors and analysis of rebate calculation spreadsheet.

Audit Review Committee:

Ronald Pinkett, Chair

Ciro Adams
Marchelle Basnight
Angelique Dennis
Bud Freel
Tanya Washington

Objective and Scope

As part of our audit plan, Internal Audit (IA) conducted a Performance Audit of the City's ePayables process. The audit objectives were to determine whether adequate operational and system controls are in place to ensure that payments are appropriately and timely prepared; transactions are properly recorded; accounts are properly reconciled; and to ensure that e-payments are made in accordance with City of Wilmington policies and procedures. The scope of the audit included ePayable activity for the period of July 1, 2019 to June 30, 2020. 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

The City's Accounts Payable (A/P) department processes all vendor payments. ePayables also referred to as Virtual Card payment is an alternative payment mechanism implemented with Bank of America (BoFA) for A/P to provide payment to participating City vendors through their financial institution. ePayables should not be confused with P-Cards. With ePayables, the City does not issue cards to employees, instead a unique virtual card number is assigned to each participating vendor at the time of enrollment. ePayables utilizes an invoice-based process. Because ePayables utilize an invoice-based process, the approval process is the same as any other invoice received by the City, it must be approved through the workflow process in Munis. With ePayables, there is no monthly/cycle spend limit. The ePayable virtual card is intended to accommodate one invoice, or a collective total representing a batch of invoices from one supplier. A virtual card has no available limit (the supplier cannot charge the card account) until the City approves the invoice(s) and initiates payment for the total amount. ePayables also differs from ACH payments; whereas ACH transactions post directly to the vendors bank account (direct deposit) and with ePayables, the vendor receives a remittance advice via email to notify them that the money is available to process the payment via the BoFA Works application. A benefit of ePayables is that it provides a new source of revenue for the general fund by way of an annual rebate received from BoFA. Additional benefits include, reduced cost associated with traditional paper checks (check stock, MICR toner, envelopes and postage) and reduced risk of fraud and theft since the cards are not physical and cannot be stolen or re-used. Timely processing and approval of invoices is key to the efficiency and success of the ePayables program.

Vendors pay a fee to BoFA to participate in the ePayables program so if the invoice turnaround is not timely, saving a few days due to ePayables will not be enough incentive for vendors to continue paying the fee. In today's digital world, paper checks are becoming less used and ePayables provides an alternative payment method that provides benefits to both buyers and suppliers.

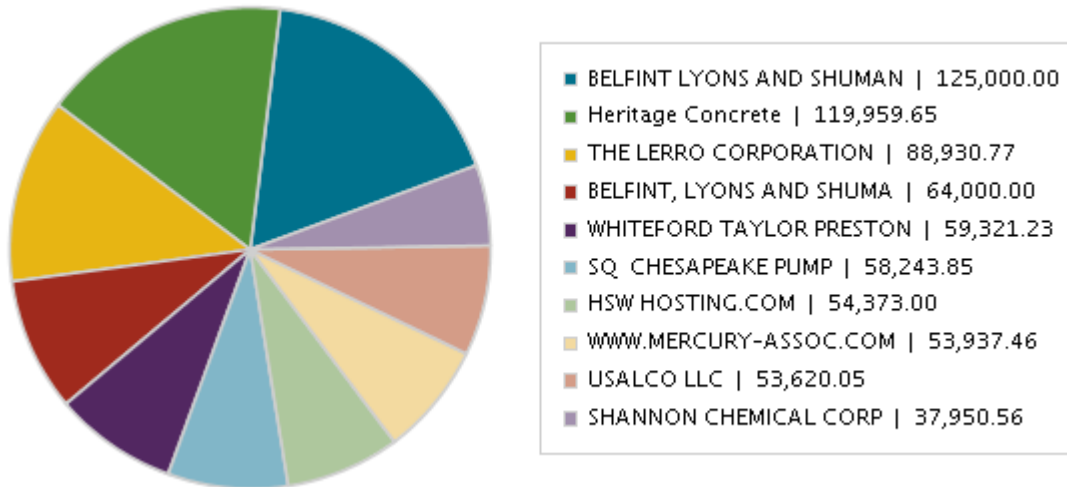
Key Statistics

Currently the City pays 23 vendors via ePayables with an additional 11 that are enrolled in the ePayable program but are instead being paid via another means (check or ACH).

| City of Wilmington E-Payables Program | | | | |
|---------------------------------------|------------------|-------------------|---------------------|---------------------|
| Month | Purchase Volume | # of Transactions | Average Transaction | Total Open Accounts |
| Jul-19 | \$10,556 | 11 | \$960 | 34 |
| Aug-19 | \$71,806 | 27 | \$2,659 | 34 |
| Sep-19 | \$41,941 | 11 | \$3,813 | 34 |
| Oct-19 | \$89,181 | 19 | \$4,694 | 34 |
| Nov-19 | \$71,545 | 22 | \$3,252 | 34 |
| Dec-19 | \$86,583 | 15 | \$5,772 | 34 |
| Jan-20 | \$52,859 | 18 | \$2,937 | 34 |
| Feb-20 | \$165,205 | 17 | \$9,718 | 34 |
| Mar-20 | \$139,643 | 13 | \$10,742 | 34 |
| Apr-20 | \$79,276 | 13 | \$6,098 | 34 |
| May-20 | \$65,714 | 14 | \$4,694 | 34 |
| Jun-20 | \$40,751 | 8 | \$5,094 | 34 |
| Total | \$915,060 | 188 | | |
| Monthly Avg | \$76,255 | 16 | \$5,036 | 34 |

Source: Bank of America

Top 10 Vendors



Dates: 07/01/2019 – 06/30/2020

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 / Area Owner | 1 Strong Controls | 2 Controlled Effectively | 3 Controlled - Improvement Required | 4 Significant Improvement Required |
| Software Security | Demond May Roseanne Prado John D'amelio | | | | ✓ |
| Invoice Processing | Roseanne Prado John D'amelio | | | ✓ | |
| Policies & Procedures | Roseanne Prado John D'amelio | | | ✓ | |
| Reconciliation | Roseanne Prado John D'amelio | | | ✓ | |
| User Access | Roseanne Prado John D'amelio | | | ✓ | |
| Vendor Management | Roseanne Prado John D'amelio | | | ✓ | |

Software Security

1. Unsecure software is being utilized to upload payment information to Bank of America Works.

During an initial walkthrough with a staff accountant regarding the journal entry and reconciliation process for ePayables, IA was informed the software used to upload the payment warrant to Bank of America (BofA) Works is FileZilla, an open source software. Based on IA's discussion with the City's Director of Information Technologies, surrounding concerns with the use of FileZilla for uploading information to BofA Works, it was determined that a more secure software be utilized.

Invoice Processing

2. Controls need strengthening regarding timely processing of invoices because discounts are being forfeited, due to payments not being made within the eligible time to receive the discount

For instance, Heritage Concrete invoices offered a discount, if payment was made within 15 days of the invoice date. IA analyzed each of their invoices for fiscal year 2020 to calculate the missed savings. It was determined that if each discount was taken during our sample selection, a total savings of \$2,549 could have been realized.

We also noted that 33 of 163 invoices reviewed were paid within the discount period; however, the discount was not taken.

In addition, it took an average of approximately 32 days for payments to be made after the invoice date:

- Fifty-nine invoices were paid after 30 days
- Two invoices were paid greater than 100 days after invoice date

Policies & Procedures

3. Improvement is needed surrounding staff having access to ePayable Policies and Procedures (P&Ps).

Based on discussions with both the Accounting Manager and Procurement Manager they stated, “For Accounts payable, Invoices with an ePayable payment method are processed the same way as any other invoice that is paid by check or ACH, they go through workflow in Munis.” However, after a subsequent communication with the Deputy Finance Director, IA was provided the following two documents: 1) ePayables Procedure-Munis (002) and 2) How to upload csv to ePayables.

Reconciliation

4. Lack of reconciliations are being performed by the City with regards to monthly transactions being used by BofA to calculate the rebate amount paid to the City

Based on a discussion with the Principal Analyst, the bank provides the Actual Rebate Calculation as well as the Rebate Forecast for each year. Per the Analyst “the rebate is determined and calculated based on the transactions of a pool of companies, the City would not have access to validate that information.” IA partially agrees with this statement. Although the City will not be able to know the percentage used for the rebate or the transaction that are deemed Large Ticket Interchange Transactions, the City is capable of filling in the Purchase Volume and Transaction Count, which can then be compared to the spreadsheet provided by the bank for accuracy. IA was able to fill in the amounts for June – October 2020 by extracting the information from the Bank of America Works application.

User Access

5. Controls need strengthening surrounding user access to unauthorized information.

It was noted during an analysis of users that there was a 3-week period before a user was removed from the BofA Application after the user transferred to a new position in a new department, which no longer required access to the application

Vendor Management

6. Control weaknesses exist surrounding reconciling the City's vendor management active vendor listing with BofA.

Per the vendor listing provided by the Finance Director, of vendors paid via ePayables there are 23 vendors that the City currently pays via ePayables; however, a report downloaded from BofA Works called Card Status states there are 34 active accounts. The difference of 11 active vendors consists of, one vendor being in STOP status in Munis and the remaining 10 vendors are in active status in Munis but paid via printed check or EFT. In addition, Brandywine Graphics, was listed as vendor #37309 per the Finance Directors list, but as #488 per BofA Works. Further research reflected a note within Munis to stop use of #488 and use #37309.

Additional Observations

1. When reviewing the fee and rebate agreement signed between the City and Bank of America Works, it was noted that the rebate rate is calculated based on a cumulative total of spending by the Upper Mid Atlantic Public Service Cooperative. When Internal Audit inquired about documentation provided by Bank of America Works related to the Upper Mid Atlantic Public Service Cooperative, we were informed that the Bank does not provide that information. IA believes it is in the best interest of the City to have documentation that defines the cooperative and the City should also request documentation that shows the total spent by the cooperative each year in order to verify the correct rate is being utilized when calculating the rebate due to the City.
2. Through inquiry of Management, Internal Audit noted that no vendors have been added to the E-Payables program since the initial setup. The City should develop a procedure for adding vendors to the E-Payables program. The procedure should be documented and include an E-Payable Request Form for vendors interested in enrolling into the program.

Management Responses to Audit Recommendations

Summary of Management Responses

Recommendation #1: Management should discontinue the use of FileZilla to upload payment information to BofA Works and communicate with the Department of Information of Technologies to implement a more secure software platform to upload payment information to BofA Works.

Management response & action plan:

Completion Date:

Recommendation #2: Management should instruct Accounts Payable to be vigilant of discounts offered by vendors and to make attempts to take advantage of the discount offered. Management should also inform Accounts Payable staff that ePayable invoices need to be processed in a timelier manner.

Management response & action plan:

Completion Date:

Recommendation #3: Management should ensure the two documents (1. How to upload csv to ePayables and 2. ePayables Procedure-Munis (002)) are made part of Finances approved P&Ps and ensure that the staff members involved with these processes are informed of and provided a copy of the P&Ps. The procedures need to be defined with respect to reconciliations, uploading and journal entries pertaining to Bank of America (BofA) Works ePayables. P&Ps are important because they ensure that continuity is kept even if there is change in staff. The P&Ps provide the needed instruction on how to complete tasks.

Management response & action plan:

Completion Date:

Recommendation #4: Management should assign a member of accounting or procurement to fill in the monthly amounts for purchase volume and number of transactions within the rebate calculation spreadsheet template. This information can be used to view spending trends per month from year to year and can also be used to verify the rebate calculation spreadsheet submitted by the bank.

Management response & action plan:

Completion Date:

Recommendation #5: Management should develop and define procedures for removing a user when a user no longer requires access to the BofA application. In addition, a periodic review of users should be completed to ensure that they still require access to the application.

IA also recommends that current and new users complete the following two webinars: 1) Managing Your Virtual Payables Program (focuses on information that Program Administrators can use to effectively manage their virtual payables program) and 2) Reconciling Your Virtual Payables Program (intended for Proxy Reconcilers and Accountants and provides information for reconciling and exporting transaction data). Both webinars are considered best practices by BofA Works for anyone managing or reconciling the Virtual Payables program and are available at no cost.

Management response & action plan:

Completion Date:

Recommendation #6: Management should require a regular review or data cleansing of vendors between the Munis financial system and BofA's Works application. Vendor information in both systems should be identical.

Management response & action plan:

Completion Date:

Audit Team

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Tamara Thompson, Audit Manager