Enterprise Resource Planning (ERP) II
Pre-System Implementation
Interim Audit Report

Accounts Payable Module

December 5, 2014

FORT WORTH

City of Fort Worth
Department of Internal Audit

1000 Throckmorton Street
Fort Worth, Texas 76102

Audit Staff

Patrice Randle, City Auditor
Terry Holderman, Assistant City Auditor
Carol Dickey, IT Auditor

Mayor

Betsy Price

Council Members

Sal Espino, District 2
W. B. Zimmerman, District 3
Danny Scarth, District 4
Gyna Bivens, District 5
Jungus Jordan, District 6
Dennis Shingleton, District 7
Kelly Allen Gray, District 8
Ann Zadeh, District 9

The ERP Phase II Pre-System Implementation Audit was conducted as part of the Department of Internal Audit's Fiscal Year 2014 Annual Audit Plan.

Audit Objectives

The objectives of this audit were to:

- evaluate internal control design;

- determine accuracy and completeness of data; and,

- ensure reports generated from the new system are accurate and reliable.

Audit Scope

Our audit covered existing and proposed Accounts Payable processes

Opportunities for Improvement

Ensure adequate separation of duties

Consolidate vendor payment history into a central payment history repository

Assign dedicated staff for the administration of PeopleSoft Financials security

Executive Summary

The Department of Internal Audit conducted a Pre-System Implementation Audit of the Accounts Payable Module within the PeopleSoft Financials system, known as the ERP Phase II project. PeopleSoft Financials is comprised of Accounts Payable, Accounts Receivable, Asset Management, Billing, Cash Management, Contracts, General Ledger, Grants, Project Costing, Purchasing and Inventory. The ERP Phase II project is being implemented to replace outdated and unsupported legacy systems.

The first module reviewed by the Department of Internal Audit was the Accounts Payable (A/P) Module. While an A/P process consists of ordering, receiving, vendor invoicing, vendor payment and vendor payment history reporting, the City of Fort Worth's (CFW) implementation of the PeopleSoft A/P Module is limited to payment processing and 1099-reporting. Ordering and receiving goods and/or services will continue to be processed through the current procurement software (BuySpeed), which will interface with PeopleSoft.

The ERP Phase II project team is dedicated to providing communication to all levels of CFW employees through meetings and on-line communication published on the ERP Phase II project website. In the PeopleSoft A/P Module, departmental personnel will have the ability to run their own reports, resulting in increased efficiencies and timely information. The ERP Phase II project team is also in the process of developing a formal training plan to ensure that employees have adequate system knowledge prior to the go-live date of April 2015.

During our analysis of potential risks, we identified an inadequate segregation of duties that increases the opportunity for theft, and the need to combine vendor history from within two separate systems to obtain accurate vendor payment totals. In addition, we identified areas where process changes could increase operating efficiencies. For example, A/P staff persons manually fold and stuff envelopes for approximately 200 checks each week. While efforts should be made to decrease the number of manual payments, the Financial Management Services Department should consider utilizing the folding and stuffing machine in another department(s) for the processing of manual checks. Also, the processing of recurring payments of the same amount to the same vendor (e.g., leases) could be improved via the use of automated recurring journal vouchers.

It should be noted that since management was in the midst of integration testing, the Department of Internal Audit did not conduct system and security testing. Instead, both will be performed at a later date.

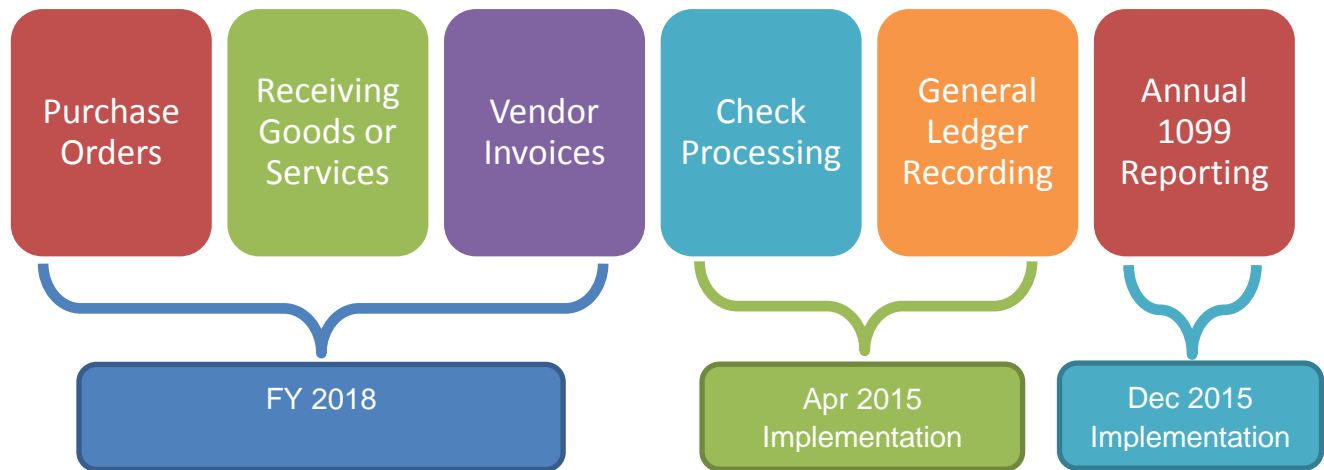Our audit results are discussed in further detail within the Detailed Audit Summary section of this report.

Table of Contents

Table of Contents

Background

As noted within the [Executive Summary](#) section of this report, payment processing and 1099-reporting will be incorporated in the CFW's ERP Phase II project.

The time-line for fully implementing the Accounts Payable Module is noted below.

Purchase Orders	Receiving Goods or Services	Vendor Invoices	Check Processing	General Ledger Recording	Annual 1099 Reporting
FY 2018			Apr 2015 Implementation		Dec 2015 Implementation

- *Purchase Orders, Receiving and Vendor Invoices* - BuySpeed is the CFW's electronic procurement system that is currently used to process purchase requisitions, bids, purchase orders, receiving, and vendor invoices. Upon ERP Phase II implementation, departments will continue to process vendor invoices within BuySpeed. However, BuySpeed will interface into the PeopleSoft A/P module to process payments. Once the vendor payment process has been successfully completed, PeopleSoft A/P payment information will be sent to BuySpeed to update invoice payment information.

- *Check Processing* - Sage is the CFW's check printing system. In order to generate payment by check or through the Automated Clearing House (ACH), Sage currently receives invoice payment information from BuySpeed. Once Sage is replaced with PeopleSoft, check processing will be through PeopleSoft.

- *General Ledger Recording* - PeopleSoft general ledger will replace MARS, the CFW's general ledger system. A/P payments are posted in MARS through the BuySpeed interface.

- *Annual 1099-Reporting* - PeopleSoft will replace the 1099Pro software that is currently being used to create 1099MISC forms for 1099-eligible vendors who were not paid via procurement card. 1099 reporting for eligible vendors who were paid via City procurement card is completed by Chase Bank.

Objectives

The objectives of this audit were to:
- evaluate internal control design;
- determine accuracy and completeness of data; and,
- ensure reports generated from the new system are accurate and reliable.

Scope

Our audit scope covered existing and proposed Accounts Payable processes. The Department of Internal Audit did not conduct system testing because management was in the midst of integration testing. System testing will, therefore, be conducted at a later date. Also, since BuySpeed will interface with PeopleSoft A/P, this interim audit report only summarizes our review of the PeopleSoft A/P module. An evaluation of BuySpeed, and how it interfaces with PeopleSoft, will be provided in a separate interim report.

Methodology

The Department of Internal Audit interviewed Financial Management Services' staff and ERP Phase II project team members to gain an understanding of the current process and processes planned upon implementation of the new software. We also reviewed business process flowcharts and discussed internal controls with the aforementioned staff. Risk areas taken into consideration included the following.

- unauthorized and/or improper vendor payments

- vendor payment delays

- theft of funds

- incomplete and/or inaccurate vendor payment history/information

- inaccurate reporting within the City and to the IRS

We conducted this audit in accordance with generally accepted government auditing standards, except for peer review. 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.

Detailed Audit Summary

Issues/Risks	Current System	PeopleSoft	Assessment
Unauthorized and/or improper vendor payments	User access within BuySpeed is completed and approved by department management. Authoritative forms are then sent to the Financial Systems Administration Division staff to set up user access in BuySpeed.	User access within PeopleSoft security access will require authorization by departmental management. Roles and permissions will be assigned based on job duties.	*Effective.* NOTE: User roles and permissions will be evaluated by Internal Audit during the system testing phase.
Unauthorized and/or improper vendor payments	A/P appears diligent in maintaining a hard copy invoice authorization list and comparing the list to BuySpeed user permissions to ensure segregation of duties and proper approval.	Authorization for invoice payments will remain the same.	*Effective.* NOTE: Automated approval routings will be evaluated by Internal Audit during the system testing phase.
Unauthorized and/or improper vendor payments	One A/P staff member has vendor maintenance capabilities, invoice approval authority and access to the blank check stock.	PeopleSoft A/P security is under review to set up employee roles and permissions.	*Ineffective.* Duties assigned to the A/P staff member that has access to blank check stock, vendor maintenance and invoice approval should be segregated.

Issues/Risks	Current System	PeopleSoft	Assessment
Vendor payment delays	There is no deposit pre-notification for ACH payments. Instead, the bank reports exceptions to A/P staff the following day. A/P staff then contacts the vendor to request correct bank routing and account information.	PeopleSoft A/P is not configured to issue deposit pre-notifications to the bank.	*Ineffective.*
Theft of funds	If the invoice supporting a reissued check is not canceled in BuySpeed, a payment will automatically be reissued.	A/P staff will determine the need to cancel payment through the PeopleSoft payment maintenance process. After payment posting is completed in PeopleSoft, the payment cancellation creates the reversing entry within PeopleSoft General Ledger.	*Effective.* NOTE: PeopleSoft accuracy and completeness tests will be verified during the audit testing phase.
Theft of funds	When staff identifies the need to void a check, a manual process is required to ensure that the check is voided in the general ledger. The general ledger entry is then fed into BuySpeed for subsequent reissue. If the invoice is not canceled in BuySpeed, a payment will be automatically reissued.	After payment voids are completed within PeopleSoft, the payment cancellation systematically creates the reversing payment entry that will feed to the General Ledger.	*Effective.* NOTE: PeopleSoft accuracy and completeness tests will be verified during the audit testing phase.
Incomplete and/or inaccurate vendor payment information	BuySpeed invoice payments interface with the Sage system to produce A/P checks. Sage interfaces back to BuySpeed to update vendor payment information. BuySpeed interfaces to the MARS general ledger system.	BuySpeed invoice payments will interface into the PeopleSoft A/P module for check processing produced from PeopleSoft. PeopleSoft will interface to BuySpeed after the check processing cycle is completed to update invoice payment information.	*Effective.* NOTE: The BuySpeed interface to PeopleSoft will be verified during the audit testing phase.

Issues/Risks	Current System	PeopleSoft	Assessment
Incomplete and/or inaccurate vendor payment history	There is no one system that consolidates vendor payment reporting into one report. Vendor payment history for procurement card purchases is obtained from the system used by JP Morgan Chase (PaymentNet). Vendor payment history for payments made from BuySpeed is obtained from the City's general ledger system.	PaymentNet information will interface to the PeopleSoft general ledger module. However, at the time of this audit, management had not determined if vendor payment history from BuySpeed and PaymentNet should be included in the PeopleSoft A/P module.	*Ineffective.*
Inaccurate reporting to the IRS	1099PRO software is currently used by the City of Fort Worth to produce annual 1099MISC forms for vendors who meet the IRS' threshold. JP Morgan Chase produces 1099K forms for City vendors paid with city-issued procurement cards.	2015 calendar year-to-date vendor payment data will be converted from BuySpeed. PeopleSoft will then record payment information from go-live date. The PeopleSoft A/P Module will then produce 1099MISC forms for vendors.	*To Be Determined.* NOTE: Accuracy of converted data and vendor payment data within PeopleSoft will be evaluated during the audit testing phase.
Inefficient and labor intensive process for positive pay	The current process that creates the positive pay file is a manual and tedious task. Constant communication efforts are necessary and emails are sent back and forth to A/P and Financial Systems Administration Division staff to either create the positive pay file or correct erroneous records in the file. The bank does not send confirmation to A/P staff when the file has been received.	The new process for positive pay in PeopleSoft A/P will eliminate the manual steps involved and the transmission of the file to the bank will remain the same through the job scheduler.	*Effective.*

Additional Observations

The Department of Internal Audit concluded that the following items should be considered to improve controls and operational efficiencies.

- Require additional check signer(s) and a hand written signature for checks that exceed a certain amount. This control will allow senior level management the opportunity to review large payments prior to the financial transactions being fully executed.

- Implement reconciliation control to confirm canceled payments have been reversed in the general ledger in a timely manner. This control could help reduce the risk of theft.

- Develop interface integration planning to include development, testing, and user acceptance of BuySpeed invoice payment information to the PeopleSoft A/P module. This control will allow adequate time for interface testing between BuySpeed and PeopleSoft A/P and will help ensure that all data is complete and accurate.

- Consider using the PeopleSoft Financial Gateway (an electronic payment solution used to increase productivity with centralized processing and electronic banking) to transmit the positive pay file to the bank. This control helps to ensure that processes are consistent.

During this audit, the Department of Internal Audit was informed that the Magnetic Ink Character Recognition (MICR) encoding is not printing on the A/P checks. The ERP technical team is in the process of remediating the problem.

Management's Response

The report outlines that the Internal Audit team has assigned an ineffective rating to the evaluation of Unauthorized and/or Improper Payments. Specifically, the assessment indicated that the controls were ineffective as one Accounts Payable (A/P) staff member has access to the blank check stock, vendor maintenance capabilities, and invoice approval. The Department of Finance appreciates Internal Audit bringing this potential control issue to our attention. Upon learning of the finding, the Department of Finance immediately made adjustments. Under the revised authority granted to this staff member, they have the ability to change the remit to addresses for vendors after they are approved by the supervisor. In addition, the same individual has access to blank check stock. However, this individual no longer has invoice approval authority.

The second ineffective rating identified in the report was for vendor payment delays resulting from not using deposit pre-notifications for ACH payments. The bank reports exceptions to the A/P staff who then contact the affected vendors to request corrected bank routing and account information. While we acknowledge that a pre-note process for A/P payments may speed up the delay when issues arise, our current experience is that very few vendors experience a problem. The inclusion of a pre-note process will be something that the department will consider as a future improvement.

The third ineffective rating in the report related to incomplete and or inaccurate vendor payment history. The control identified was that there is no single system that consolidates vendor payment reporting into one report. Vendor payment history for procurement card purchases is obtained from the system provided by JP Morgan Chase and vendor payment history made from Buyspeed is obtained from the City's general ledger system. At the present time, the PeopleSoft implementation team is evaluating the reporting options for multi method payments. It would be our goal to implement a business intelligence tool in the future to allow reporting from multiple data points; however, that will require a substantial investment for the City for which a return on investment has not been calculated.

The following are additional Internal Audit observations that are being considered to improve controls and operational efficiencies:

1) *Add an additional check signer with hand written checks that exceed a material dollar threshold. If a check is required, the addition of another level signature either electronic or hand written would be required when check values reach certain thresholds. The Department of Finance thinks this recommendation has merit and will evaluate the opportunity to implement this with our new system.*

2) *Implement reconciliation control to confirm canceled payments have been reversed in the general ledger system in a timely manner to reduce the risk of theft. This recommendation for cancelled payment reconciliation controls has been implemented. Once the payment is cancelled in Sage, A/P notifies accounting and the adjustments are*

made between SAGE-BSO-MARS. Increased efforts will focus on improving the speed of notification following cancelled payment.

3) *Develop interface integration planning for invoice payment information between People Soft and Buy Speed. Since June, the ERP team has developed an interface integration plan that includes development, testing, and user acceptance of Buy Speed invoice payment information to PeopleSoft A/P module. This plan allows for adequate time for interface testing (See Exhibit A).*

4) *Consider using the People Soft Financial Gateway to transmit the positive pay file to the bank. Phase II efforts by ERP include working with the PeopleSoft Financial gateway to transmit positive pay files to the bank. As recommended, this will ensure that consistent processes are followed.*

5) *The Magnetic Ink Character Recognition (MICR) encoding process is current being reviewed by the ERP team. The issue here is related to getting the MICR to print in what the system believes to be the footer of the page which it prohibits us from accessing. By moving the check to the top 1/3 of the form, the area that the MICR prints in now is part of the main body of the page and we do not have the footer restriction. The team will be testing the printers with new test check stock within the next few weeks.*

Processes are currently being reviewed for enhancement modifications in conjunction with the system integration work that is being performed.
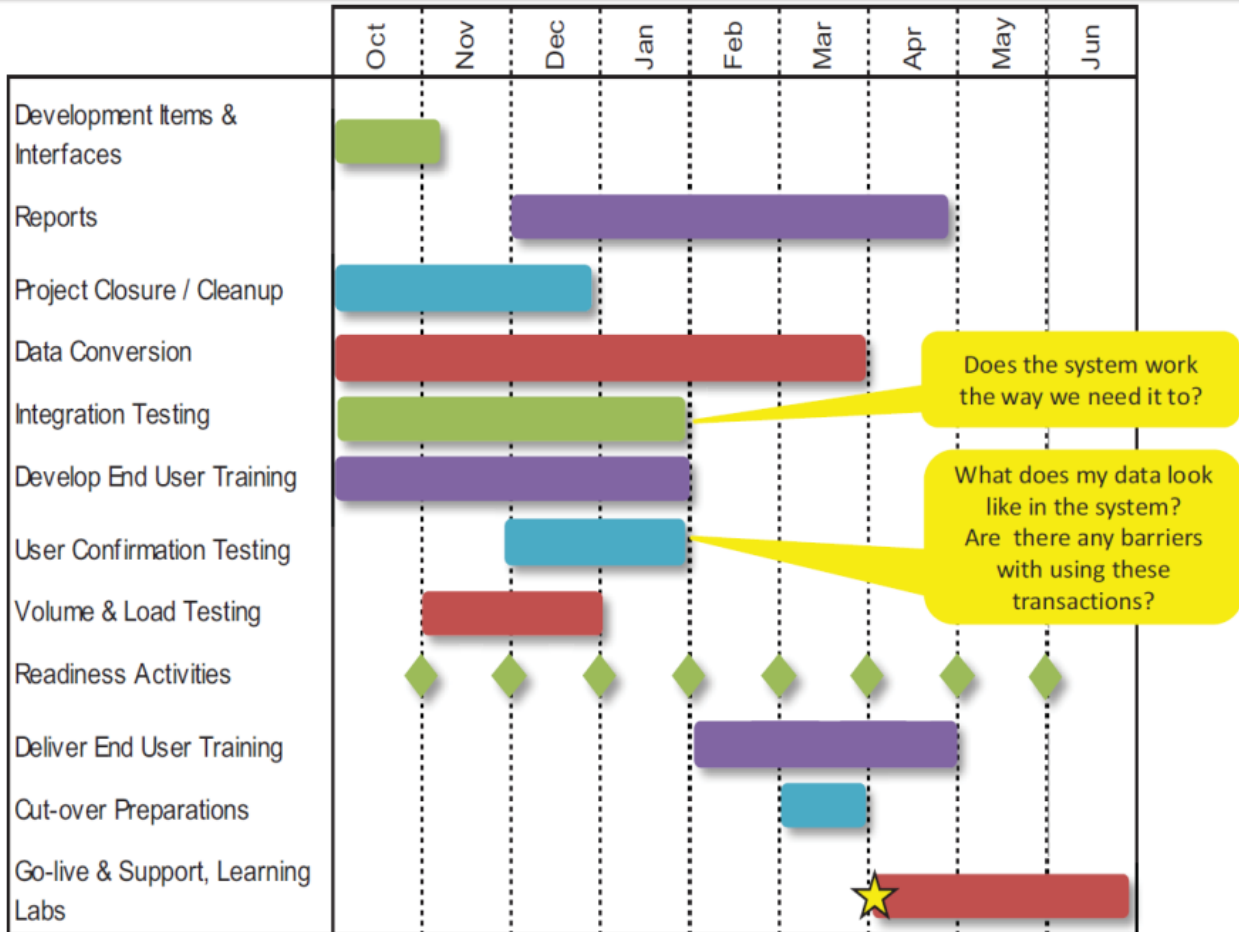
Acknowledgements

The Department of Internal Audit would like to thank the Financial Management Services Department for their cooperation and assistance during this audit.

What's Next?

The Department of Internal Audit will:

1. review software testing documentation to ensure that:

    -   test results support the existence of necessary internal controls and desired results; and,
    -   data produced from the system is accurate, reliable and timely;

2. revisit audit recommendations made within this interim report to determine whether management has taken steps to mitigate risks or has made a decision to assume the risks noted; and,

3. review the City's procurement System (BuySpeed) to ensure that data interfaced from BuySpeed to PeopleSoft A/P is reliable.

Once the Department of Internal Audit has completed its audit of all modules scheduled for audit, an audit report summarizing our complete audit results will be issued.