OBM | Office of Internal Audit

Department of Administrative Services Accounts Payable Audit

Audit Period: July 2017 through June 2018

Results Summary:

Objective	Conclusion
Identifying Late Payments and Calculating Interest Due	**Well-Controlled with Improvement Needed**
Accurately, Completely, and Timely Pay and Record Payments for Utility Invoices	**Well-Controlled with Improvement Needed**
Reduce the Dollar Amount of Late Interest Paid Due to Late Invoice Payments	**Improvement Needed**

* Refer to Appendix A for classification of audit objective conclusions.

Report number: 2019-DAS-03 **Issuance date: September 20, 2018**

Executive Summary

Background

According to Ohio Revised Code § 126.30, state agencies that fail to make payments for purchases by the required payment date must pay an interest charge to the supplier, unless the amount of the interest charge is less than ten dollars. The required payment date is 30 days from receipt of a proper invoice. The interest charge on amounts due must be paid for the period beginning on the day after the required payment date and ending on the day that payment of the amount due is made. The interest charge is calculated at the interest rate established by the Department of Taxation. For state fiscal year 2018, the Department of Administrative Services (DAS) paid approximately $12,000 in interest. DAS manages 11 state owned properties and 163 radio towers located throughout the State. DAS receives and processes the various utility invoices for the properties, including: electric, phones, water, gas, trash, and internet. In state fiscal year 2018, DAS paid approximately $16 million for utilities.

During the audit, OIA identified opportunities for DAS to strengthen internal controls and improve business operations. OIA conforms with the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank DAS staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

Scope and Objectives

OIA staff was engaged to perform an assurance audit related to the controls over the agency's accounts payable process. This work was completed July through September 2018. The scope of this audit included the following Accounts Payable processes:

- Interest identification and calculation for late payments.
- Utility invoices and payments.

Audit Period: State Fiscal Year 2018

The following summarizes the objectives of the review:

- Evaluate the design and effectiveness of controls for identifying late payments and calculating interest due.
- Evaluate the design and effectiveness of controls to accurately, completely, and timely pay and record payments for utility invoices.
- Evaluate the design and effectiveness of controls to reduce the dollar amount of late interest paid due to late invoice payments.

Detailed Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions.

Observation 1 – Late Payment Monitoring

ORC §126.30 (A) states payment should be made on an invoice by "the date on which payment is due under the terms of a written agreement between the state agency and the person or, if a specific payment date is not established by such a written agreement, thirty days after the state agency receives a proper invoice for the payment due. A well-designed system of controls to monitor the timeliness of voucher payment should include procedures to monitor invoices received to ensure payments are made within required periods. The system of controls should also include methods for evaluating the causes of late payments and addressing potential issues to prevent future late payments. According to DAS Office of Finance Policy/Procedure "Monitoring Vouchers to Prevent Late Payments", the Accounts Payable Financial Analysts are responsible for informing the business offices when vouchers are awaiting approval.

In reviewing the process of monitoring late payments and performing an annual review of late payment interest paid, the following issues were noted:

- Financial Analysts send notices to the appropriate divisions for each voucher received when the voucher is received, five days after received, 10 days after received (with the Supervisor copied), and 13 days after received (with Supervisor and Deputy Director copied). The e-mails are to be saved in a Fiscal folder in Outlook. However, from a sample of ten interest payments (totaling $1,968) during state fiscal year 2018 due to late payments, Financial Analysts did not send notices to the divisions.
- During daily reviews of open vouchers, the Financial Analyst Supervisor reviews the open vouchers to determine the number of open vouchers that exceed seven days. If the Financial Analyst Supervisor determines a further review is necessary, she runs an OAKS voucher pending report. The Financial Analyst Supervisor reviews all payments on the report that exceed seven days from receipt of the invoice to determine if the Financial Analysts have performed the appropriate follow-up. Documentation of this review, however, is not maintained.
- The Finance Project and Performance Manager performs an annual review of the late payment interest transactions to evaluate key performance indicators in the transactions. The Finance Project and Performance Manager attempts to identify sections with frequent occurrences of late payments and to identify the most common issues noted for interest payments. Common issues identified include: holding invoices for fleet purchases until funding has been received from other state agencies, invoices

containing incorrect purchase orders being held while waiting for corrected invoices instead of rejecting the invoices, and delays in project manager approvals. Late payments were also primarily attributed to processes for paying invoices for the Ohio Benefits System (Integrated Eligibility) which involves multi-agency invoice reviews and approvals, causing additional time. The results of the analysis are provided to management once complete. However, methods for evaluating the common explanations provided by divisions for reasonableness are not performed. The Finance Project and Performance Manager communicates the analysis results to Fiscal, but currently there is no discussion with the divisions regarding common issues to determine necessary steps or training to ensure issues are corrected or improved.

Failure to pay invoices timely increases the likelihood of paying interest to suppliers, reducing the funds available for other uses. Lack of communication of current issues detected, methods for preventing recurring issues, and training to address issues may not improve invoice review and approval processes and workflows to timely pay invoices.

Recommendation

Evaluate actual procedures performed and documented procedures to ensure the work performed accomplishes the goal of preventing payment of late payment interest. Determine the procedures that best accomplish the goal, document the procedures, communicate to all employees, and ensure the procedures are utilized. Ensure the procedures include documented follow-up with divisions for all late vouchers and steps to ensure follow-up is occurring. Implement processes to ensure procedures are followed, document and maintain evidence of all discussions held with the business offices. Evaluate interest paid on late payments to identify common issues and ensure all sections are properly trained to prevent the issues from occurring in the future. Evaluate all fiscal procedures to ensure purchase orders, controlling board approval, and funding is available prior to receipt of invoices.

Management Response

DAS recognizes and agrees with several of the observations and following recommendations. In regard to the ten interest payment samples there are several exceptions that cause some of these to not follow our regular processing procedure. Six of the ten were pre-processed using a pre-processing form. Those forms act as the approval and receive sign-off from the business offices so no additional email is necessary. One of the ten was an Integrated Eligibility invoice and the agency approval is controlled by the OIT business office and in OAKS at the second level, no additional email is necessary. Another one of the ten has a signed approval on the invoice so no email was necessary. The remaining two vouchers appear to be missed. We will take this as an opportunity to reiterate the necessity in receiving program approval. We will also update our procedures, so the above exceptions are noted in our policy.

DAS is pleased to note that we have made great improvements to several key processes while this audit was on-going. Notably, the Huntington Fleet Lease payments revised process which is to have Fleet receive the invoices, send them to OSS and Fiscal Services approves them when they arrive. The explanation that the Invoice date drives the payment date has made this process much smoother. The previous process did not include Fiscal Services in the approval workflow, so this provides more transparency and more value to the agency. Secondly, the capital payments made through the CI process is being monitored at several stages to make sure that no invoices are lost or waiting for further approvals from the project managers. DAS will look at our Accounts Payable processes and add the clarifications discussed above. We will also use that opportunity to expand, clarify, and revise the procedures with these recommendations in mind. These updates will be completed and submitted to the DAS Project & Performance team by December 31, 2018. Fiscal will categorize each interest payment, possibly by program or type of late payment, for all divisions. We will go over these in our monthly meetings and communicate to impacted divisional programs quarterly with a performance type report of number of late paid vouchers and interest paid. The communication will be sent from Fiscal to the programs, copying the DAS CFO, the Business Office, and the Projects and Performance Manager. This can be effective immediately.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Fiscal Services Manager Projects and Performance Manager	December 31, 2018

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

* Refer to Appendix A for classification of audit observations.

Appendix A – Classification of Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
Well-Controlled with Improvement Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Improvement Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Major Improvement Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
Moderate	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee