



OBM | Office of Internal Audit

Office of Budget and Management
Ohio Shared Services
Accounts Payable Audit

Audit Period: July 1, 2010 through October 31, 2010



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Executive Summary

Background

In 2009, the Office of Budget and Management (OBM) implemented Ohio Shared Services (OSS), to process financial transactions. OSS partners with state agencies to define and analyze common transactions that occur at the agency level. OSS processes the following transactions: accounts payable, travel expense reimbursements, and maintenance of the State's vendor database.

In the past, each state agency processed invoices and initiated payments for purchases of goods and services. As of October 1, 2009, for participating agencies, the accounts payable function is managed electronically and processed by a single standalone agency, Ohio Shared Services, a division of OBM. Accounts payable functions provided by OSS to participating agencies include: invoice management; voucher processing, voucher maintenance, voucher receipt, and document retention. OSS currently provides services to eight state agencies.

During the audit, OIA identified opportunities for OSS to strengthen internal controls and improve business operations. A summary, along with detailed observations, have been provided. OIA would like to thank OSS 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 assurance work related to the Accounts Payable. This work was completed between August 17, 2010 and November 16, 2010. The scope of this audit included the following areas:

- Accounts Payable

The following summarizes the objectives of the review along with a conclusion on the effectiveness of management's internal controls.

Objective	Conclusion ¹
Evaluate the design and effectiveness of controls over Invoice Processing.	Well-controlled with Improvements Needed – See observation 1
Evaluate the design and effectiveness of controls over the Vouchering and Payment Process.	Improvements Needed – See observations 2 and 3
Evaluate the adequacy of performance metrics designed to aide management in achieving its goals and objectives including communication of performance to participating agencies.	Well Controlled

¹ Refer to [Appendix A](#) for classification of audit objective conclusions.



Summary of Observations

The Summary of Observations includes 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 above.

No	Observation	Risk ²
1.	Deleted Vouchers – Accounts payable voucher processing for participating State agencies is managed electronically and processed by Ohio Shared Services (OSS). Participating agencies also process invoices using the same system (OAKS) and, therefore, possess the same roles and access as OSS personnel. Currently, participating agency personnel may delete vouchers created by OSS.	Moderate
2.	Quality Assurance Review - For five out of 25 transactions selected for testing, the QA auditor failed to properly categorize the vouchers as passed or failed. In addition, the QA was not performed on a timely basis, limiting the ability of OSS to take corrective action before voucher payment. Furthermore, there is not currently a written policy or procedure in place to provide personnel with guidance on the steps to be taken when an item fails the QA process. Although OSS has the QA process in place, it is currently not designed to detect errors before payment. Moreover, there is no other supervisory review of transactions at OSS before payment.	Moderate
3.	Prompt Payment - For 17 out of 50 transactions selected for testing, the vendor invoices were not paid within thirty days after the state agency received proper invoices. The payments ranged from one to 36 days late.	Moderate

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.

² Refer to [Appendix A](#) for classification of audit observations.



Detailed Observations and Recommendations

Observation 1 – Voucher Deletion Role

An effective vouchering process requires maintaining proper roles and access to the system utilized. Voucher deletion should be limited to only the necessary personnel.

Accounts payable voucher processing for participating State agencies is managed electronically and processed by Ohio Shared Services (OSS). Participating agencies also process invoices using the same system (OAKS) and; therefore, possess the same roles and access as OSS personnel. Currently, participating agency personnel may delete vouchers created by OSS.

The lack of proper roles and access to voucher deletion increases the risk of improper deletion, which could create rework and lengthen the payment period, causing untimely payment or nonpayment of valid invoices.

Recommendation

Revisit the voucher deletion role and consider limiting access to only the necessary personnel.

Management Response

We are in concurrence although this is viewed as a low risk since compensatory controls exist in the way of inquiries from unpaid vendors. Currently, employees from participating agencies are able to delete OSS-created vouchers. This can potentially result in the improper or unintended deletion of vouchers and thereby jeopardize invoice payments to vendors. Also, the same ability to delete vouchers exists with OSS associates and accordingly similar concerns are present. In order to strengthen internal controls, the voucher deletion role for OSS-created vouchers should ideally be limited to OSS Coaches and Team Captains. These aforementioned items will be reviewed with RACM for implementation purposes.

Risk	Remediation Owner	Estimated Completion Date
Moderate	Business Transformation Program Mgr.	June 2011



Observation 2 – Quality Assurance Review

A review of work product is required to ensure its quality and accuracy. One way to satisfy the review is through a quality assurance audit process. An effective quality assurance audit process includes performing audit procedures on all selected sample items accurately, and timely. Furthermore, findings and corrective actions should be properly addressed and documented, thereby ensuring the quality of the work performed as well as compliance with laws and regulations, including OAC 126-3-01 and ORC 126.3.

Effective October 1, 2010, OSS has implemented an improved quality assurance audit process (QA) where a sample of the completed vouchers for a day will go through QA the following day. For five out of 25 transactions selected for testing, the QA auditor failed to properly categorize the vouchers as passed or failed. In addition, the QA was not performed on a timely basis, limiting the ability of OSS to take corrective action before voucher payment. Furthermore, there is not currently a written policy or procedure in place to provide personnel with guidance on the steps to be taken when an item fails the QA process. Although OSS has the QA process in place, it is currently not designed to detect errors before payment. Moreover, there is no other supervisory review of transactions at OSS before payment.

Untimely QA and the lack of QA accuracy increase the risk of improper or inaccurate voucher processing and paying expenses that do not meet statutory requirements. In addition, the lack of formal documented procedures increases the risk of inconsistent, inefficient, and ineffective operations.

Recommendation

Consider revising the quality assurance audit procedures to include written policies and procedures addressing items that have failed the quality assurance audit process. In addition, management should consider developing procedures to ensure the accuracy and timeliness of the QA process.

Management Response

The post transaction QA review is not designed to catch errors before payment is made on vouchers but rather to provide feedback to associates as part of the high-performance culture established at OSS. Errors that are made by associates have generally no impact on the timeliness or accuracy of the payment itself. There are two rare errors that are considered fatal errors which consist of the amount and vendor to be paid. Under this potential scenario, a vendor may not get paid or may get paid for a vastly different amount. It should be noted that compensatory controls exist from an enterprise perspective in the way of agency approval of vouchers.



However, OSS will formalize this process through written policies and procedures. Additionally, OSS will study the possibility of reallocating QA responsibilities from Coaches to other available staff.

Furthermore, OSS has initiated Success Strategy Plans for under-performing associates that require a review of their vouchering by a mentor before it is approved for processing. This is an attempt to be pro-active as much as possible with identifying errors before the payment is made without significantly increasing the cost of operations.

Risk	Remediation Owner	Estimated Completion Date
Moderate	Business Transformation Program Mgr.	June 2011



Observation 3 – Prompt Payment

The Ohio Administrative Code (OAC) 126-3-01, Prompt Payment Requirements, state that “Each state agency shall make prompt payment (i.e. the date of payment is before or no later than the required payment date) for all equipment, materials, goods, supplies, or services which it purchases, leases, or otherwise acquires from any vendor”. The statute defines the required payment date as the date or time when payment is due according to a written agreement between the parties or thirty days after the state agency receives a proper invoice for the amount if a specific payment date or time is not established. The Ohio Revised Code 126.3, Interest on late payments for goods and services, states “Any state agency that purchases, leases, or otherwise acquires any equipment, materials, goods, supplies, or services from any person and fails to make payment by the required payment date shall pay an interest charge to the person unless the amount of the interest charge is less than ten dollars”.

Effective July 1, 2010, the invoice date selected for input on OSS processed vouchers is the arrival date of an invoice at Ohio Shared Services, otherwise known as the scan date. This date could be later than the date when the invoice is first received by a state agency if the invoice is not sent directly to OSS. For 17 out of 50 transactions selected for testing, the vendor invoices were not paid within thirty days after the state agency received proper invoices. The payments ranged from one to 36 days late.

The untimely payment of vendor invoices causes noncompliance with statutory requirements as well as creating potential interest liability to the state agency as they are required to pay interest on late payments for goods and services as required by the statute.

Recommendation

Management should consider revisiting their policies and procedures on the invoice date and working with the participating agencies to increase the timeliness of the invoice delivery to OSS to ensure a timely payment.

Management Response

As a part of the drive toward standardization which is a key tenet of shared services organizations, OSS implemented an invoice date protocol that was intended to establish a uniform date of receipt for all invoices received by OSS.

This protocol has worked well with invoices directly received by OSS from the vendor but not necessarily for invoices that are first sent to agencies (pre-processed invoices) by the vendor and are then eventually forwarded to OSS by the agency. For pre-processed invoices, an agency may take from a few days to a few weeks or more before forwarding such invoices to OSS for payment. The typical turnaround time for creating vouchers at OSS is only 2 days on the average except at year-end.



Also, agencies wanted certain dates used as invoice dates on pre-processed invoices which appeared to vary in comparison to other agencies. This created the possibility of OSS associates having to choose between several dates as the invoice date depending on which agencies invoice it was and thereby hindering efficiency and productivity.

However, OSS will pursue the option of revising the governance statute for invoice date so that OSS is designated as the official point of entry for all invoices for participating agencies. This would also help continue the standardization efforts at OSS in addition to complying with the governance statute.

Risk	Remediation Owner	Estimated Completion Date
Moderate	Business Transformation Program Mgr.	June 2011



Appendix A – Classification of Audit Objective Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Major Improvements 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.
Improvements 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.
Well-controlled with Improvements Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	State Audit Committee, Senior Management, Department Management
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.	State Audit Committee, Senior Management, Department Management
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Department Management, Senior Management (Optional), State Audit Committee (Not reported)



Appendix B – Audit Follow-up Procedures

OIA will periodically follow-up on management's plans to remediate high and moderate risk audit observations. Follow-up activities may generally be broken down into three categories:

- Detailed** Detailed follow-up is usually more time-consuming and can include substantial audit customer involvement. Verifying and testing procedures implemented as well as substantiating records are examples. The more critical audit observations usually require detailed follow-up.

- Limited** Limited follow-up typically involves more audit customer interaction. This may include actually verifying procedures or transactions and, in most cases, cannot be accomplished through memos or telephone conversations with the audit customer but requires onsite observation or testing.

- Informal** This is the most basic form of follow-up and may be satisfied by review of the audit customer's procedures or an informal telephone conversation. Memo correspondence may also be used. This is usually applicable to the less critical observations.

Low risk audit observations will not result in an OIA audit follow-up, although these observations will be factored into the continuous risk assessment process for future OIA engagements.