

**Columbus City Schools  
Office of Internal Audit**



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**Accounts Payable**

**Audit Report**

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**Report Date: October 29, 2020**

Table of Contents

<b>Title</b>	<b>Page</b>
Executive Summary	3
Audit Objectives	5
Audit Scope	5
Methodologies	5
Background	6
Report Issues and Management Responses	8
Status of Prior Audit Corrective Action Plans	13

**Executive Summary**

The Columbus City Schools (District) Office of Internal Audit (OIA) recently completed an audit of the District’s Accounts Payable process. This general audit evaluated objectives selected by OIA in the areas of internal control, staff training, and technology. We also assessed the status of nine remaining open issues identified during prior audit work to determine whether recommendations have been implemented. Based on the results of our review and testing of the audit objectives, we found four areas where improvements can be made. Implementing the recommendations presented in this report will strengthen the Accounts Payable Department’s internal control environment and increase the efficiency of its processes.

Our audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* established by the Institute of Internal Auditors. Our audit included such procedures as we deemed necessary to provide reasonable assurance regarding the audit objectives. Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. Internal Auditing helps an organization accomplish its objectives through a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

OIA’s audit focused on reviewing both the manual and systematic Accounts Payable processes against best practices. Additionally, OIA reviewed the status of nine recommendations issued in a 2016 audit report. Accounts Payable implemented five of the nine recommendations that were still open as of the initiation of this audit, one of which involved increasing the efficiency of payment to vendors. In an effort to move away from issuing paper checks, which have costs associated with paper, postage, and labor, they worked with the District’s bank to begin offering electronic payments to vendors. Accounts Payable can now make payments through electronic funds transfer, specifically via Automated Clearing House (ACH) or to a virtual card. Paying vendors electronically increases payment timeliness and reduces cost to the District. Additionally, the Treasurer’s Office added the position of Director of Financial Process Improvement to help the Treasurer’s Office implement audit recommendations and other process improvements.

With regard to reviewing the manual and systematic processes, OIA reported three issues and made four recommendations. OIA rated the risk associated with those recommendations as follows:

<b>High</b>	<b>Moderate</b>	<b>Low</b>
1	2	1

During the course of the audit, we made the Accounts Payable and Treasurer’s Office management aware of our issues and recommendations for improvement. Good discussion took place regarding the recommendations. OIA appreciates the cooperation extended to us and the assistance of all staff we interacted with as we performed our audit.

The OIA issues noted during the audit are as follows:

<p><b>Risk Ratings, defined:</b></p> <p><b>1 – High/unacceptable risk requiring immediate corrective action;</b></p> <p><b>2 – Moderate/undesirable risk requiring future corrective action; and</b></p> <p><b>3 – Low/minor risk that management should assess for potential corrective action.</b></p>
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Issues	Risk Rating		
	1	2	3
<b>Objective 1: To identify Accounts Payable processes and determine whether sufficient procedures and internal controls are in place and operating as management intends.</b>			
<b>Issue 1 –</b> Vendor invoices frequently do not include the vendor’s tax identification number as required.			X
<b>Issue 2 –</b> Dual Control Administration is not in place to prevent unauthorized transactions.	X		
<b>Objective 2: To determine whether adequate training tools exist to guide District staff regarding the Accounts Payable process.</b>			
Note: The Treasurer’s Office was in the process of developing an Accounts Payable Handbook during this audit. Therefore, there was not a training process to document and test. The Handbook was distributed to District staff on October 6, 2020.		N/A	
<b>Objective 3: To determine whether technology is being utilized to ensure that the Accounts Payable process is operating as efficiently as possible.</b>			
<b>Issue 3 –</b> Accounts Payable is not taking full advantage of technology to increase the efficiency of its processes.		X	

Issues	Risk Rating		
	1	2	3
<b>Issue 4</b> – The Accounts Payable process could be enhanced to take full advantage of vendor discounts.		X	
<b>Objective 4: To determine the current status of prior audit issues listed as open.</b>			
Five of the nine corrective action plans were implemented.	N/A		

**Audit Objectives**

The objectives of the audit were as follows:

1. To identify Accounts Payable processes and determine whether sufficient procedures and internal controls are in place and operating as management intends;
2. To determine whether adequate training tools exist to guide District staff regarding the Accounts Payable process;
3. To determine whether technology is being utilized to ensure that the Accounts Payable process is operating as efficiently as possible; and
4. To determine the current status of prior audit issues listed as open.

**Audit Scope**

OIA established the scope of the audit to include a review of basic operational aspects of the processes and evaluation of internal control environments as they relate to the noted objectives. The period of time for the audit included all activity relating to the Accounts Payable processes from July 1, 2019, through July 31, 2020.

**Methodologies**

To accomplish our stated objectives, OIA performed the following tasks as they related to those objectives:

- Reviewed various authoritative literature governing work reviewed;
- Reviewed relevant District Board of Education (BOE) policies and administrative guidelines;

- Reviewed relevant district procedures;
- Reviewed prior relevant audits;
- Interviewed Columbus City Schools (CCS) personnel who handle Accounts Payable activities;
- Observed and documented key processes;
- Reviewed various files and other relevant information; and
- Researched and reviewed accounts payable best practices used by other entities performing similar functions.

### **Background**

The District's Accounts Payable Department is responsible for the payment of all vendor invoices, employee reimbursements (other than payroll), and imprest account reimbursements in a complete, accurate, and timely manner. The Accounts Payable Department is managed by the Accounts Payable Manager, who manages six Account Clerks and reports to the Controller of the District. The Controller reports to the Treasurer/CFO, who is a direct report of the BOE. These reporting relationships are shown in Exhibit 1.

The functions of the Accounts Payable Department are closely tied to the functions of the Purchasing Department. The Purchasing Department reports to the Chief Operations Officer, who reports to the Superintendent/CEO.

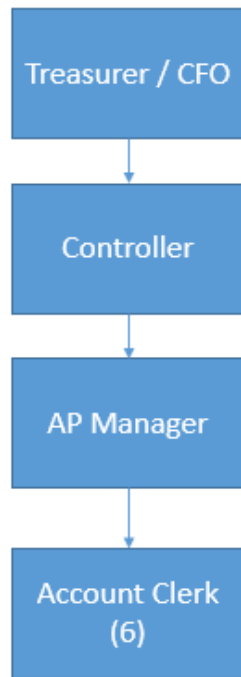
To process financial transactions, Accounts Payable utilizes the Accounts Payable Module of the District's MUNIS enterprise resource planning (ERP) software system. MUNIS is commonly used by school districts to automate accounting processes, such as entering invoices, paying and processing checks, running inquiries and reports, and managing vendor information. Additionally, the system has several control features that help ensure the Accounts Payable function achieves its objectives. For example, MUNIS offers the following tools to assist in the efficient, accurate, and effective delivery of Accounts Payable services:

- Purchase orders (beginning July 1, 2020,) instruct vendors to electronically submit their invoices to the Accounts Payable mailbox.
- After reviewing invoices for necessary criteria, Accounts Payable staff scan the invoices into the MUNIS Workflow Module (Workflow).
- The administrator, or designee, uses Workflow to approve invoices for the department making the purchase.

- The AP Manager uses MUNIS to process the checks issued by CCS or submit the payment file to the District’s bank for issuance of electronic payment.

**Exhibit 1 – Accounts Payable Organization Chart**

Accounts Payable Organization Chart



Accounts Payable pays approximately 90,000 invoices per year and had issued nearly 75,000 payments in 2020 as of the time audit work was performed. Exact invoice amounts are shown in Exhibit 2. The total dollar amount paid by these invoices, as detailed in Exhibit 3, has totaled between approximately \$121 million and \$155 million annually. Invoices are due to be paid to the vendor 30 days after date of issuance, and Accounts Payable pays invoices on average 5 days before they are due. Payment timing by year is detailed in Exhibit 4.

**Exhibit 2 – Total Number Invoices Paid**

Fiscal Year	Number of Invoices Paid
2017	93,147
2018	88,867
2019	88,424
2020	74,599

**Source:** MUNIS SQL Server Reporting Services > Financials Live > AP Invoice History

**Exhibit 3 – Total Dollar Amount of Invoices Paid**

Fiscal Year	Dollar Amount of Invoices Paid
2017	\$121,771,884.79
2018	\$129,130,888.10
2019	\$154,263,134.25
2020	\$143,666,101.73

**Source:** MUNIS SQL Server Reporting Services > Financials Live > AP Invoice History

**Exhibit 4 – Average Days Paid from Due Date ((Paid Date – Invoice Date) + 30)**

**Note:** Payment due 30 days from date of invoice.

Fiscal Year	Average Days Paid Before Due
2017	(7.26)
2018	(4.03)
2019	(5.50)
2020	(4.06)

**Source:** MUNIS SQL Server Reporting Services > Financials Live > AP Invoice History

**Results of the Accounts Payable Audit – Issues and Recommendations:**

**Issue 1 – Vendor invoices frequently do not include the vendor’s tax identification number as required. (Low)**

Accounts Payable has an invoice review process during which staff ensure that each vendor invoice contains all elements required by the District Terms and Conditions. The District Terms and Conditions, last revised in October 2017, are provided to the vendors so that they know how to request payment from the District for goods or services rendered. The elements that are required on every invoice include the following:

- Vendor federal tax identification (ID) number
- Vendor name and address
- Invoice remittance address
- Billing period (if applicable)
- Location where work was completed
- Unit cost
- Extended cost
- Description of items or services purchased



- Purchase order number
- Performance standards (if applicable)

OIA reviewed a sample of 18 invoices to verify the presence of the above items. There was only one element omitted frequently: 15 of the 18 invoices reviewed did not include the federal tax ID number on the invoice. When auditors inquired as to why this might be the case, AP management explained that all vendors must submit a Form W-9 before doing business with the District. AP management determined that the tax ID number included on the Form W-9 was sufficient. Further, many vendors prefer not to include their tax ID number on invoices when they use a social security number, rather than an Employer Identification Number assigned by the Internal Revenue Service. However, the District Terms and Conditions have not been updated to reflect the current practice of tax ID numbers no longer being required on invoices.

When an invoice is missing required elements—tax ID number or otherwise—Accounts Payable staff must conduct a manual process to look up the information and add it to the invoice. This can cause delay in invoice processing and therefore timely approval of the invoices and, ultimately, timely payment to vendors.

### **Recommendation**

1. Accounts Payable management should work with Purchasing Office management to update the District Terms and Conditions to clarify the required invoice elements and remove elements that are no longer necessary. Additionally, Accounts Payable management should communicate with vendors as exceptions arise in order to minimize repetitive exceptions from the same vendor. This will help to expedite the Accounts Payable staff processing of invoices and minimize manual lookup of information that should be on the invoice.

**Management Response:** The Treasurer's office will request that Purchasing remove from the District Terms and Conditions the Federal Tax ID as a required element for invoices. A/P staff currently contacts vendors regarding missing, relevant information on invoices.

**Process Owner:** Jenny Vanover, Director of Financial Process Improvement

**Implementation Date:** November 30, 2020

### **Issue 2 – Dual Control Administration is not in place to prevent unauthorized transactions. (High)**

In February 2020, Accounts Payable management began offering vendors the option of being paid by the District electronically rather than by check. To add this capability, the Treasurer's Office worked with Fifth Third Bank to implement a payment automation solution provided by the bank's technology partner, AvidXchange. The AvidXchange

technology enables electronic payments using ACH or a virtual card.<sup>1</sup> As a result, the Treasurer's Office has reduced the number of checks it issues as part of the Accounts Payable payment process.

There are a number of benefits associated with using ACH or virtual card for vendor payment. First, issuing fewer checks saves the District money from the actual cost of the checks and the postage and envelopes required to mail them out. Second, the District has received more than \$36,000 in monthly rebates from Fifth Third Bank generated when vendors choose the ACH or virtual card option. Third, vendors receive payment faster since checks have a lag of 10 days while electronic payment has a lag of only 3 days. A significant number of vendors appear to be choosing the electronic payment option; during the 6-month period after AvidXchange was launched, the District issued approximately 2,600 checks but made more than 4,400 payments to vendors by ACH or virtual card.

Despite these benefits, auditors identified a security weakness associated with the way the AvidXchange technology was set up. Prior to implementation of the system, the Treasurer's Office entered into an agreement with Fifth Third Bank. One part of the Fifth Third Channel Administrator Agreement Request Form included the opportunity to establish or decline dual control administration for the two identified District Administrators. Dual control administration would require the approval of both identified Administrators to manage user access and delegate authority rights for the enabled Channel Services. The agreement stated in part:

"For the security of your accounts and information, Fifth Third Bank **strongly recommends** enabling Dual Control Administration."

The Treasurer's Office staff did not enable dual control administration, determining that it was not necessary based on the fact that no transactional access was applicable to the bank account tied to the AvidXchange system. However, auditors maintain that by not having dual controls in place to manage user access and delegate authority rights, the risk increases that someone can gain access to the Channel Services offered by Fifth Third Bank and make unauthorized transactions.

### **Recommendation**

2. Treasurer's Office staff should enable Dual Control Administration on the Fifth Third Channel Administrator Agreement Request Form. This will help strengthen the internal control environment by providing an additional layer of security for the Fifth Third Bank account and minimize the opportunity for an individual to gain unauthorized access.

**Management Response:** A request has been made to Fifth Third to enable the Dual Administration Control.

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<sup>1</sup> Virtual card is a form of business-to-business payment that uses existing credit card payment networks to move money between suppliers and buyers. There is no physical credit card involved. Rather, a 16-digit credit card number is created for one-time purchases at a set amount and with an expiration date.

**Process Owner:** Michael McCammon, Controller

**Implementation Date:** November 30, 2020

**Issue 3 – Accounts Payable is not taking full advantage of technology to increase the efficiency of its processes. (Moderate)**

Many Accounts Payable processes that have traditionally been performed manually can now be streamlined through the use of systematic controls, saving AP staff considerable amounts of time. As part of our audit work, we evaluated the Accounts Payable Department's use of technology and found that they are not taking full advantage of available enhancements.

Some of the tools we looked for evidence of use of include three-way match, electronic payment to vendors, vendor payment discounts, electronic submission of employee reimbursements, and electronic submission of invoices from vendors through vendor self-service. We found that Accounts Payable is using electronic payment to vendors (as explained in Issue 2) as well as a systematic workflow process for most invoice approvals, but there are many more enhancements that the Department can be leveraging.

Many school districts and other government agencies, including the State of Ohio's procurement office, use technology to enhance their AP processes. Further, recent reviews of the District's MUNIS system and an opportunity study conducted by consulting firm Rea and Associates have recommended that the District embrace technology to increase efficiency. MUNIS does have the functionality for many of the technology enhancements recommended by these studies, including the following:

- 3-way match (purchase order, receiving document, and invoice)
- Systematically ensuring the District takes advantage of vendor payment discounts
- Electronic request, submission, and approval of employee reimbursements
- Electronic submission by vendors of invoices through vendor self-service

Not taking advantage of all available technology enhancements leaves Accounts Payable staff in the position of continuing to perform processes manually, which are time intensive. Some of these time-intensive activities include contacting end users—including high-level administrators—to verify receipt of goods and services, date stamping and manually entering invoices into MUNIS, conducting vendor inquiries when invoices are missing purchase order numbers, manually scanning supporting documentation, and maintaining spreadsheets to track expense reimbursements. These types of activities not only increase the risk of errors but they take up time that could be redirected to more critical Accounts Payable functions.

### **Recommendations**

3. Treasurer's Office management should collaborate with Purchasing Office management to explore technology opportunities and enhancements, including those noted in a previous internal audit and the Rea and Associates opportunity study, to increase the efficiency and effectiveness of the current Accounts Payable processes. Taking advantage of these features will increase efficiency, enabling District staff to spend more time performing critical functions.
4. Treasurer's Office management should collaborate with Purchasing Office management to explore how best to ensure discount information is taken advantage of and entered into MUNIS so the Accounts Payable staff can ensure invoice totals are net of discounts.

**Management Response:** The Treasurer's Office has reviewed and explored technology opportunities relative to the accounts payable procedures. This resulted in the implementation of the AvidXchange program. The programs mentioned in the recommendations were previously evaluated and determined to either not provide a significant enough improvement to the current process to proceed or could potentially cause delays in the existing procedures. As improvements are made and "bugs" are addressed within these potential technology improvements, the department will continue to review them and implement as is appropriate.

The Purchasing department is responsible for vendor management. Payment terms entered into the Munis system, either by the vendor or the Purchasing Department, will automatically be executed as payments are approved.

Vendors register and update their profiles using Vendor Self Service. Vendor discounts can be added to the vendor profile in MUNIS by the vendor at any time.

**Process Owners:** Stan Bahorek, Treasurer/CFO and Annette Morud, Senior Executive Director

**Implementation Date:** The Treasurer's office explores "technology opportunities and enhancements" on an ongoing basis, however, is not committing to the implementation of any specific enhancement at this time. The Purchasing Department will need to respond relative to any plans for vendor management and recording payment terms in MUNIS.

**Current status of prior corrective action plans listed as open. (see table below)**

<b><u>Issue</u></b>	<b><u>Original Due Date</u></b>	<b><u>Status</u></b>	<b><u>New Date</u></b>
Development of written business objectives	June 30, 2017	Implemented	N/A
Development of written procedures	June 30, 2017	Implemented	N/A
Sufficient documentation, review, & approval	Immediate	Implemented	N/A
Invoice approval prior to payment	Immediate	Implemented	N/A
Efficiency of AP process (checks)	Immediate	Implemented	N/A
Establishment of metrics	June 30, 2017	Not Implemented	October 31, 2020
Training tools for approvers	Ongoing	Not Implemented	October 31, 2020
Timeframe to review/approve invoices in workflow	July 1, 2016	Not Implemented	October 31, 2020
Access review and role alignment to job duties	September 1, 2016	Not Implemented	October 31, 2020

**Current status explanations for corrective action plans that have not been implemented:**

Establishment of Metrics:

- Accounts Payable has metrics established; however, the Department has not implemented a periodic review of the metrics.

Training Tools for Approvers:

- Accounts Payable does not have established training tools for District invoice approvers. This was to be included as part of the development of the Accounts Payable Handbook.

Timeframe to Review/Approve Invoices in Workflow:

- Accounts Payable does not have an established timeframe to approve invoices in Workflow. This was to be included as part of the development of the Accounts Payable Handbook.

Access Review and Role Alignment to Job Duties:

- The Treasurer's Office is not performing a periodic review of vendor field changes performed by the Accounts Payable Manager, which are outside the Manager's job duties. The Accounts Payable Manager made 1,511 vendor field changes during FY20, of which 829 of those changes were for regular outside vendors utilized by the district for direct purchase of goods and services, which should be changed by Purchasing and not Accounts Payable. As such, the management corrective action plan was not fully implemented.