NORTHERN ARIZONA UNIVERSITY

Internal Audit Department

Accounts Payable Audit Report

October 2016
Report Number FY 17-01

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Northern Arizona University
Accounts Payable
Audit Report
October 27, 2016

Summary

Our audit of Accounts Payable is in NAU's Annual Audit Plan for FY 2017. An audit of Purchase Orders was done in FY 2010 and an audit of Accounts Payable using data analytics was done in FY 2015. This audit expands on the FY 2015 review by performing detailed transaction testing. The audit links to NAU's value of integrity and its strategic goal of sustainability and effectiveness.

Background: All funds coming into NAU are considered public funds and are subject to State regulations. Use of public funds is restricted to expenses that promote the public's interests. Public funds may not be expended for gifts and personal expenses. NAU has established policies that supplement State regulations and define the funds and restrictions that apply to common disbursements. For FY 2016, 31,843 transactions were processed, excluding purchasing card transactions. These expenses are categorized by fund as follows.

Fund	FY 16 Expenditures (excludes P-Cards)
State	$ 23,631,961
Local-Designated	31,008,435
Local-Auxiliary	14,818,583
Grants	3,298,650
Unexpended Plant	58,244,210
Agency	37,821,941
Total FY 2016	$168,823,780

Accounts Payable is a unit within Contracting and Purchasing Services (CPS). It reviews invoices and requests for payment to ensure that the amounts agree with the amounts approved by department business units. Prior to authorizing payment, units are responsible for ensuring all forms required for payment and receipts are attached per NAU policies.

Accounts Payable is part of the disbursement cycle that also includes purchasing, receiving, and payment oversight. Departmental business units are required to ensure purchases comply with State and University policies. They are required to enter requisitions, purchase orders, and receiving reports electronically into PeopleSoft

Financials and retain approved requisition, purchase order, receiving documents and related documentation to provide evidence of compliance. For allowable purchases over $5,000, CPS oversees procurement of items in accordance with established policies and procedures.

The Comptroller's Office develops disbursement policies and procedures that supplement State regulations. It maintains functional oversight of NAU's electronic document storage system, OnBase. As part of its compliance reviews and purchasing card analyses, the Office reviews invoices and purchasing card documentation stored in OnBase. The Comptroller's Office also reviews purchasing and disbursement data via queries built in ACL software.

Accounts Payable may authorize payments to vendors in one of the following ways:

Purchase Order. Payment is authorized on purchase orders for goods and services once the requesting department electronically prepares a receiving report and Accounts Payable receives an invoice from the vendor.

Check Requests. Check requests are used to pay third parties for which no Purchase Order has been set up and are processed using a single payment voucher in PeopleSoft. Specifically, check requests are used to: 1) reimburse students, 2) reimburse interviewee expenses, 3) pay for authorized non-employee travel costs, and 4) disburse revenue collected by NAU to vendors. Check requests for student reimbursements, interviewee expenses, and travel for non-employees are generally processed under a generic vendor code (the "Single Payment Vendor"), while check requests made to vendors are processed under the vendor's unique vendor code.

Audit Objective: The objective of this review was to assess NAU's Accounts Payable processes for efficiency and effectiveness.

Scope: The scope of our audit included FY 2016 Accounts Payable transactions related to the purchase of goods and services from external sources. Purchasing card transactions and employee reimbursements were not reviewed.

Methodology: The following procedures were performed to accomplish the audit objectives:

- distributed and reviewed questionnaires to CPS staff to gain an understanding of NAU's disbursement cycle;

- interviewed CPS personnel as needed to ensure an understanding of the processes used to administer Accounts Payable;
- evaluated the Accounts Payable process and procedures for efficiency, effectiveness and compliance with State regulations; and
- judgmentally selected 350 transactions from PeopleSoft Financials to determine if purchases were allowable.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*

Conclusion: NAU's Accounts Payable processes are effective and efficient. Accounts Payable processes are accurately posting dollar amounts to PeopleSoft Financials. Purchase orders and vendor invoices are efficiently and timely processed in PeopleSoft Financials; and the implementation of OnBase enables supporting documentation to be efficiently archived and accessed.

Some opportunities for improvement were noted:

- Library subscriptions should be renewed using purchase orders.

- The OnBase document imaging system should be used to store supporting documentation for all payments authorized by Accounts Payable.

- An appropriate description for payments made using Check Requests for student reimbursements should be reflected in transaction detail reports.

Management is supportive of our recommendations and has actively begun working to implement their identified action items. These recommendations are discussed in the remainder of the report.

Observations: Accounts Payable is utilizing the capabilities of PeopleSoft Financials effectively and efficiently for payments made using purchase orders. The decentralized Accounts Payable model in use requires NAU to rely on sound internal controls at the department level. Audit plans to review departmental controls during future departmental audits.

Contracting and Purchasing Services has drafted an Accounts Payable form which will be the official document to pay speakers and performers. It will replace the current form

used to authorize payment to speakers and performers. The new Accounts Payable form will allow the department to indicate if travel will be reimbursed.

During the audit, NAU's Policy, CMP 421-02, Interviewee and Non-Employee Reimbursements, was revised by the Comptroller's Office to correspond to the State of Arizona Accounting Manual, Section 65, Vendor and Other Non-employee Travel, which states that reimbursements are to be based on actual receipts, not to exceed State meal reimbursement rates.

The control standards we considered during this audit and the status of the related control environment are provided in the following table.

General Control Standard (The bulleted items are internal control objectives that apply to the general control standards, and will differ for each audit.)	Control Environment	Recommen-dation No.	Page No.
Reliability and Integrity of Financial and Operational Information			
• Voucher payments are timely and accurately posted to PeopleSoft Financials.	Reasonable to Strong Controls in Place		
• Documentation supports the charges posted to PeopleSoft Financials.	Reasonable to Strong Controls in Place		
Effectiveness and Efficiency of Operations			
• Purchase requisitions and receipts are matched to purchase orders prior to payment.	Reasonable to Strong Controls in Place		
• The Accounts Payable process is efficient.	Reasonable to Strong Controls in Place		
• All relevant supporting documentation is retained in a central repository and records are easily identified.	**Opportunity for Improvement**	2, 3	6, 7
• The document retention process is efficient	Reasonable to Strong Controls in Place		
• Usage of check requests is limited and does not replace the need for purchase orders.	Reasonable to Strong Controls in Place	1	6

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We appreciate the assistance of the staff of Contracting and Purchasing Services.

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Audit Results, Recommendations and Responses

1. Library subscriptions should be renewed using purchase orders.

Condition: Seven sampled items, representing library subscriptions and totaling expenses of $89,760 were paid using only Check Requests. One vendor was paid $1,243,475 during FY 2016 without a purchase order.

Criteria: Subscriptions over $5,000 should be processed using a purchase order per University procurement policies.

Cause: Prior to the implementation of PeopleSoft Financials, the Cline Library directly uploaded subscription renewals to the financial system and requested payment using Check Requests.

Effect: Library subscriptions that total over $5,000 are not procured in compliance with University procurement regulations.

Recommendation: CPS should work with the Cline Library to ensure that purchasing policies for procurements of library subscriptions are followed.

Response: Contracting and Purchasing Services and the Cline Library have implemented the recommendation.

2. Supporting documentation for disbursements should be retained in a central repository.

Condition: Not all documents supporting payment of transactions that have been authorized by Accounts Payable are retained in OnBase.

- Accounts Payable files paper copies of invoices and supporting documentation for payments made using a Check Request.
- There is no evidence in OnBase of approved departmental purchase requisitions and purchase orders that may provide details regarding the terms and conditions of the services or quality and quantity of the goods purchased.
- Purchases of bottled water require approval from Facility Services to ensure they are not a personal expense. However, the approval is a purchasing document and retention is required at the department level for departmental purchases that are

less than $5,000 and in Purchasing if the purchase is greater than $5,000. There is no evidence of approval from Facility Services stored in OnBase.

- NAU's Business Food-Meal Purchase Authorization form is required before Accounts Payable authorizes payment but the document is not always obtained or uploaded to OnBase to provide evidence of management approval.

Criteria: OnBase should be the central repository for all documentation supporting payments authorized for payment by Accounts Payable.

Cause: OnBase functionality to upload check request documentation, requisitions, purchase orders, receiving reports, and other supporting documentation has not been developed.

Effect: Processes to ensure compliance with State regulations and University policies are inefficient and inconsistent.

Recommendation: OnBase functionality should be developed to allow all relevant supporting documentation to be uploaded into OnBase.

Response: Non-PO documentation in OnBase is expected to be available with the roll out of "quick voucher" functionality in PeopleSoft Financials. We anticipate to go-live in spring, 2017.

3. **An appropriate description for payments made using Check Requests for student reimbursements should be reflected in transaction detail reports.**

Condition: Student reimbursements represent 32 of the 65 Check Request payments sampled using the Single Payment Vendor code. Student reimbursements are not identifiable from other payments made using the Single Payment Vendor code in the Transaction Detail reports. All payments using the Single Payment Vendor code reflect the identical vendor ID number and descriptions. The student's ID (in lieu of a vendor name or ID) is not reflected in the PeopleSoft Transaction Detail report.

Criteria: Student reimbursements should be descriptive in the Transaction Detail report.

Cause: Accounts Payable is not entering a description for payments when using the Single Payment Vendor code

Effect: It is inefficient to research student reimbursements in PeopleSoft.

Recommendation: Accounts Payable should enter a description for Check Request payments. This information may also help to segregate student reimbursements from other third party reimbursements.

Response: As of October 26, 2016, Accounts Payable changed its business process to require entry of the description for all payments against Check Requests. AP is working with Information Resource Management department to see if the vendor information can be included in the Transaction Detail Report. AP will update this response when we determine if it can be added.

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This report is intended for the information and use of the Arizona Board of Regents, NAU administration, the Arizona Office of the Auditor General, and federal awarding agencies and sub-recipients.