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INTERNAL AUDIT DEPARTMENT

Audit of Accounts Payable Potential Duplicate Payments

September 2015
Performance Audit
Project P1501

TABLE OF CONTENTS

EXECUTIVE SUMMARY
AUDIT OF ACCOUNTS PAYABLE POTENTIAL DUPLICATE PAYMENTS

INTRODUCTION

Internal Audit Department personnel conducted an audit of Accounts Payable Potential Duplicate Payments. The objectives of this audit were to determine if controls are in place to prevent, detect and resolve potential duplicate payments. Payments made through the Accounts Payable system include operating expenses processed by personnel in the Accounts Payable and Claims departments and capital charges processed by personnel in the Grants and Capital Programs Department. During the scope of our audit (January 1, 2013 through September 30, 2014) approximately $486 million was paid to vendors through the Accounts Payable system by these departments.

We sorted and tested payments made in the Accounts Payable, Claims, and Grants and Capital Programs Departments in an effort to identify potential duplicate payments.

STATEMENT OF OPINION

In our opinion the current process used to help ensure duplicate payments are not processed through the Accounts Payable system is generally effective and the controls that are in place to prevent, detect and resolve potential duplicate payments are generally adequate. Opportunities to improve existing controls are summarized in the observations and recommendations below.

STRENGTHS NOTED DURING THE AUDIT

The following strengths were noted during the audit.

Duplicate Payments Well Controlled

The duplicate payments (totaling $45,045.20) identified during the audit represent only .0093% of the approximately $486 million in total payments processed through the Accounts Payable, Claims, and Grants and Capital Programs departments during the audit period.

Controls in Place to Prevent, Detect and Resolve Duplicate Payments to Vendors

Controls in place to prevent, detect and resolve duplicate payments include the PeopleSoft matching process, PAAC Positive Pay system established with the bank and Claims Department preventive controls. Detective controls include an on-going review process by employees in the Accounts Payable, Claims and Grants and Capital Programs departments as well as the user departments. Controls for resolving duplicate payments include contacting the vendor immediately after a duplicate payment is identified and Port Authority personnel ensuring that a refund or credit for the amount of the duplicate payment is received from the vendor.

SUMMARY OF AUDIT RESULTS, OBSERVATIONS AND RECOMMENDATIONS

OBSERVATION 1 – Duplicate Payments Identified and Credit from Diesel Fuel Supplier

The current status of the 23 separate invoices totaling $45,045.20 in duplicate payments identified during our audit is shown in the table below.

Duplicate Payment Amount	Number of Separate Invoices	Current Status of Recovery
$11,856.20	6	Recovered by PAAC staff prior to the audit.
30,628.05	7	Recovered by PAAC staff during the audit.
2,560.95	10	Refunds or credits have been requested by PAAC staff.
$45,045.20	23	Totals

A credit invoice from the diesel fuel supplier in the amount of $21,990.00 was included in the Accounts Payable Department files; however, this credit had not been taken at the time of our audit because it was not initially entered into the system; therefore, PeopleSoft had no way of knowing that a credit was available. The credit was recovered by staff during the audit period.

If vendor credits are not entered into PeopleSoft and/or vendors do not provide Port Authority with monthly account statements showing amounts due and/or credits available, there is a risk that Port Authority may not recover credit amounts due from vendors.

RECOMMENDATION 1

Accounts Payable personnel should ensure that all credits received from vendors are entered into PeopleSoft and management personnel in the Finance Division should work with personnel in the Purchasing and Materials Management Department to ensure that future contract specifications with vendors supplying diesel fuel include a requirement that these vendors send PAAC monthly statements that would include amounts/credits due.

MANAGEMENT RESPONSE 1

A query has been requested to help identify potential duplicate payments. This will allow us to take a proactive approach in identifying and recovering any duplicate payments made.

Management personnel in the Finance Division will work with personnel in the Purchasing and Materials Management Department to ensure that future contract specifications with vendors supplying diesel fuel include a requirement that the vendor(s) send PAAC monthly statements that include a listing of all unpaid invoices and all credits available to PAAC when the next contract for supplying diesel fuel may be put out for bid.

Target Date for Implementation: July 31, 2016.

OBSERVATION 2 – Duplicate Vendor Numbers Established in PeopleSoft
(This issue was also identified in our Audit of Internal Controls of the Accounts Payable Function in CY 2009; the current status of the recommendation is open)

We noted approximately 90 separate vendors (who had been paid during the audit period) with multiple listings in the same pay group in PeopleSoft's vendor table which received payments from Port Authority (PAAC) during the audit period. Payments made during the audit period to these vendors were reviewed to determine if any duplicate payments were made to these vendors. Only four duplicate payments totaling $2,121.28 were identified during the audit period related to this issue and the vendor names were shared with Accounts Payable personnel for their review.

This issue was also identified in our Audit of Internal Controls of the Accounts Payable function in CY 2009 and we recommended that Accounts Payable personnel should review the vendor list and ensure that each vendor is only listed once in each pay group to reduce the risk of making duplicate payments. Management concurred and stated that staff in the Accounts Payable Department has coordinated with personnel in the I.T. Department to develop queries necessary for reconciling current outstanding checks and that the next step will be to archive the payments, then do vouchers and then review the vendors.

We observed that there are 27 employees and 1 consultant who are able to create vendors and 8 of these 27 employees (3 of which are buyers who can create purchase orders) and 1 consultant are able to both create and approve vendors in PeopleSoft.

The risk of potential duplicate payments increases when vendors are given more than one vendor number in PeopleSoft. In addition, allowing numerous employees and/or consultant(s) to create and approve vendors in PeopleSoft increases the risk that unauthorized or incorrect changes may be made to sensitive vendor data, such as payee name and address. Also, if employees and/or consultant(s) are able to both create and approve vendors in PeopleSoft and/or create purchase orders/award bids/create contracts, proper segregation of duties does not exist.

RECOMMENDATION 2

Staff in the Accounts Payable Department should continue to work with I.T. Department personnel and/or a consultant who has experience with the process necessary to finalize the vendor file clean-up project and appropriate steps should be taken to ensure that, if possible, each vendor is only listed once in each pay group to reduce the risk of making duplicate payments.

Management in the Finance, Claims and Purchasing and Materials Management departments should review the listing of employees who are able to create and/or approve vendors in PeopleSoft to determine if the number of personnel authorized to create and/or approve vendors in PeopleSoft can be reduced. In addition, if feasible, management should ensure that employees and/or consultant(s) who can create vendors in PeopleSoft cannot also approve vendors.

In addition, employees and the consultant who are able to create and/or approve vendors in PeopleSoft should be reminded to perform a due diligence search to determine if information for the vendor and a vendor number already exists before creating a new vendor entry in PeopleSoft.

MANAGEMENT RESPONSE 2

The project to archive vendor information and ensure that each vendor is only listed once in each pay group will be performed in conjunction with the next upgrade of PeopleSoft (which is planned after implementation of the new work order system). In addition, management in the Finance Division will work with I.T. personnel and/or a consultant to ensure that, if possible, each vendor is only listed once in each pay group going forward to help ensure that duplicate vendors are not created.

Target date for Implementation: A target date for completing this project will be provided to Internal Audit personnel prior to the time the new work order system is fully implemented.

In the interim, Accounts Payable Department personnel will inactivate duplicate vendors in PeopleSoft as encountered after they are reviewed with personnel in the user department(s) and the Purchasing and Materials Management Department. Once the vendor is inactive; purchase orders, vouchers and invoices cannot be processed against inactive vendors.

Target date for Implementation: December 31, 2015.

Management in the Finance, Claims and Purchasing and Materials Management departments have finalized their review of employees who are able to create and/or approve vendors in PeopleSoft and have reduced this number.

Target date for Implementation: Implemented.

Employees and the consultant who are able to create and approve vendors in PeopleSoft have been reminded to perform a due diligence search to determine if information for the vendor and a vendor number already exists before creating a new vendor entry in PeopleSoft.

Target date for Implementation: Implemented.

OBSERVATION 3 - Inadequate Segregation of Duties for Processing Payments in the Claims Department

The duties of processing payments in the Claims Department are not adequately segregated. The claims administrator enters claims invoices in PeopleSoft, prints vendor checks, verifies the information on the checks to the information on the pre-register report generated from PeopleSoft, mails the checks to the vendors and, during the audit period, was the only employee in the Claims Department who could enter or change vendor information in PeopleSoft.

The risk of not having the above duties adequately segregated is mitigated by PAAC's Positive Pay system established with the bank, supervisory review of information on the pre-register report and approval of the pay cycle by the director of claims. Although the claims administrator adds new vendors in PeopleSoft, this employee is unable to approve this information (the director of claims approves new vendors added in PeopleSoft).

RECOMMENDATION 3

To increase internal control going forward, we recommend the following:

1) The employee who enters claims invoices in PeopleSoft and prints vendor checks should be a different employee than the one who verifies the information on the checks to the information on the pre-register report and mails the checks to the vendors, and

2) The employee who maintains and reconciles the accounting records should not have access to the checks after they are printed.

MANAGEMENT RESPONSE 3

Management in the Claims Department concurs with the audit recommendation and has recently changed the processes and employees responsible for verifying the check information, mailing the checks and having access to the checks after they are printed.

Target Date for Implementation: Implemented.

FOLLOW UP ON OUTSTANDING RECOMMENDATION FROM PREVIOUS AUDIT

We made several observations/recommendations during the CY 2009 Audit of the Internal Controls of the Accounts Payable Function and only one observation/recommendation remains open. The current status of management's progress in implementing the recommended change is summarized below.

Observation/Recommendation 1 from the CY 2009 Audit of Internal Controls of the Accounts Payable Function

Some vendors were listed multiple times in PeopleSoft's vendor table with different vendor identification numbers. We noted 67 separate vendors with multiple listings in the same pay group in PeopleSoft's vendor table which received payments from Port Authority during 2009. Management has indicated that one of the reasons for duplicate vendor records being established in the system is that when the PeopleSoft financial system was first implemented in 1999, and up until about 2003, all employees in the Purchasing and Materials Management Department were able to establish a new vendor. The former manager of accounts payable stated that she was planning a project to review the vendor file, eliminate duplicate vendor records and archive vendor information for vendors who have had no payments made to them over the most recent three year period.

This issue and the audit recommendation are also noted in Observation 2.

Current status – Open and combined with Observation 2 in the report for follow up.

INTRODUCTION

Members of Port Authority of Allegheny County's (Port Authority) Internal Audit Department conducted an audit to identify potential duplicate payments processed through the Accounts Payable system and to determine if controls are in place to prevent, detect and resolve potential duplicate payments. Payments made through the Accounts Payable system include operating expenses processed by personnel in the Accounts Payable and Claims departments and capital charges processed by personnel in the Grants and Capital Programs Department. During the audit period (January 1, 2013 through September 30, 2014) approximately $486 million was paid to vendors through the Accounts Payable system by these departments.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of this audit were to:

1. Identify potential duplicate payments processed through the Accounts Payable system, and

2. Determine if controls are in place to prevent, detect and resolve potential duplicate payments.

The scope of our audit was January 1, 2013 through September 30, 2014.

We report to the assistant general manager of legal and corporate services/general counsel as does the Claims Department. Our independence and objectivity for this audit were not compromised by this reporting relationship. This audit was performed in accordance with United States Government Accountability Office Government Auditing Standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate support for our findings and conclusions based on the audit objectives. We believe that the documentation obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

We sorted and tested payments made in the Accounts Payable, Claims, and Grants and Capital Programs departments in an effort to identify potential duplicate payments as follows:

- All payments during the audit period were sorted first by vendor number and then by invoice number to identify instances when there was a match between the vendor number and the invoice number.

- All payments made during the audit period were then sorted by invoice amount and invoice date to identify instances when the invoice amount and invoice date matched.

- All payments made during the audit period were then sorted by vendor name to identify instances when vendors were assigned more than one vendor number in PeopleSoft

1

within the same pay group (i.e. Accounts Payable, Claims, or Grants and Capital Programs).

- All payments made during the audit period were then sorted by description to identify instances when the same bill of lading number was listed more than once in the description field and payments made to our supplier of diesel fuel were sorted by invoice date (to identify instances when there was a match between the invoice date and the PAAC location receiving the diesel fuel).

STATEMENT OF OPINION

In our opinion the current process used to help ensure duplicate payments are not processed through the Accounts Payable system is generally effective, and the controls that are in place to prevent, detect and resolve potential duplicate payments are generally adequate. Opportunities to improve existing controls are summarized in the observations and recommendations below.

SUMMARY OF AUDIT RESULTS, OBSERVATIONS AND RECOMMENDATIONS

STRENGTHS NOTED DURING THE AUDIT

The following strengths were noted during the audit.

Duplicate Payments Well Controlled

The duplicate payments (totaling $45,045.20) identified during the audit represent only .0093% of the approximately $486 million in total payments processed through the Accounts Payable, Claims, and Grants and Capital Programs departments during the audit period (January 1, 2013 through September 30, 2014).

Controls in Place to Prevent, Detect and Resolve Duplicate Payments to Vendors

Controls in place to prevent, detect and resolve duplicate payments to vendors include the following:

1) The PeopleSoft system is set up to prevent duplicate payments (will not allow a payment to be made to vendors) if there is a match in all of the following:
    a) Business unit,
    b) Vendor identification number,
    c) Invoice number,
    d) Invoice date, and the
    e) Invoice amount.

2) PAAC has a Positive Pay system established with the bank. The Positive Pay system matches specific information on each check presented for payment against a list of checks previously authorized and issued by PAAC. Components of the check must match exactly or the check will not be processed for payment.

3) Claims Department preventive controls include a process in which invoices undergo multiple levels of review to prevent duplicate payment of these invoices which include review of the information in the Claims Department's Riskmaster software when invoices are received, review within the re-pricing vendor's software and an additional supervisory review in Riskmaster prior to payment of the invoices.

4) Detective controls include an on-going review process by employees in the Accounts Payable, Claims and Grants and Capital Programs departments as well as the user departments to help ensure that payments made to vendors are accurate.

5) Controls for resolving duplicate payments include contacting the vendor immediately after a duplicate payment is identified and Port Authority personnel ensure that a refund or credit for the amount of the duplicate payment is received from the vendor.

Refer to Attachment A (Business Process) for additional controls in place to prevent, detect and resolve potential duplicate payments.

OBSERVATION 1 – Duplicate Payments Identified and Credit from Diesel Fuel Supplier

The current status of the 23 separate invoices totaling $45,045.20 in duplicate payments identified during our audit is shown in the table below.

Duplicate Payment Amount	Number of Separate Invoices	Current Status of Recovery
$11,856.20	6	Recovered by PAAC staff prior to the audit.
30,628.05	7	Recovered by PAAC staff during the audit.
2,560.95	10	Refunds or credits have been requested by PAAC staff.
$45,045.20	23	Totals

We noted the following during our review:

1) 13 duplicate payments (totaling $19,765.08) were instances when there was a match between both the vendor number and the invoice number. Although prohibiting vendor payments based on a two-way match of vendor numbers and invoice numbers would provide an additional control in preventing duplicate payments, management has stated that this level of control is not feasible due to the large number of instances when the account number is used as the invoice number (utility bills, etc.). In addition, we noted during this audit that some vendors use the same invoice number when billing charges

for freight and materials separately and that the name of the claimant is often used as the invoice number on worker's compensation claim payments that are made.

2) Credit Invoice #808359A from our diesel fuel supplier (dated August 13, 2014) in the amount of $21,990.00 was included in the Accounts Payable Department files; however, this credit had not been taken at the time of our audit. The PeopleSoft system is set up to automatically take credits when invoice amounts entered into PeopleSoft equal or exceed credit amounts entered into PeopleSoft. In this instance; however, since the credit amount was initially not entered into the system, PeopleSoft had no way of knowing that a credit was available. This credit, which is part of the $30,628.05 recovered by PAAC staff during the audit, was taken on February 25, 2015. (Management stated that this vendor is not required to send PAAC monthly statements of amounts/credits due and that this credit would have been taken prior to the audit if statements had been received).

Business Impact:

If vendor credits are not entered into PeopleSoft and/or vendors do not provide Port Authority with monthly account statements showing amounts due and/or credits available, there is a risk that Port Authority may not recover credit amounts due from vendors.

RECOMMENDATION 1

Due to the significant amount of diesel fuel purchased by PAAC, management personnel in the Finance Division should work with personnel in the Purchasing and Materials Management Department to ensure that future contract specifications with vendors supplying diesel fuel include a requirement that these vendors send PAAC monthly statements that would include amounts/credits due. In addition, Accounts Payable personnel should ensure that all credits received from vendors are entered into PeopleSoft.

MANAGEMENT RESPONSE 1

A query has been requested to help identify potential duplicate payments. This will allow us to take a proactive approach in identifying and recovering any duplicate payments made.

Management personnel in the Finance Division will work with personnel in the Purchasing and Materials Management Department to ensure that future contract specifications with vendors supplying diesel fuel include a requirement that the vendor(s) send PAAC monthly statements that include a listing of all unpaid invoices and all credits available to PAAC when the next contract for supplying diesel fuel may be put out for bid.

Target Date for Implementation: July 31, 2016

**OBSERVATION 2 – Duplicate Vendor Numbers Established in PeopleSoft
(This issue was also identified in our Audit of Internal Controls of the Accounts Payable
Function in CY 2009)**

We noted approximately 90 separate vendors (who had been paid during the audit period) with multiple listings in the same pay group in PeopleSoft's vendor table which received payments from Port Authority (PAAC) during the audit period. (Note that we identified 23 additional duplicate vendors which were established in more than one pay group and four vendors that have more than one taxpayer identification number. We did not consider them to be exceptions because PeopleSoft requires vendors in different pay groups to have unique vendor identification numbers (vendor numbers) for each pay group and more than one vendor numbers is required when vendors have more than one taxpayer identification number). A total of 53 of the above 117 vendors assigned duplicate vendor numbers had a similar vendor ordering address and vendor remitting address information in PeopleSoft. Payments made during the audit period to these vendors were reviewed to determine if any duplicate payments were made to these vendors. Only four duplicate payments totaling $2,121.28 were identified during the audit period related to this issue and the vendor names were shared with Accounts Payable personnel for their review.

This issue was also identified in our Audit of Internal Controls of the Accounts Payable function in CY 2009 and we recommended that accounts payable personnel should review the vendor list and ensure that each vendor is only listed once in each pay group to reduce the risk of making duplicate payments. Management concurred and stated that staff in the Accounts Payable Department has coordinated with personnel in the I.T. Department to develop queries necessary for reconciling current outstanding checks and that the next step will be to archive the payments, then do vouchers and then review the vendors.

We observed that there are 27 employees and 1 consultant who are able to create vendors and 8 of these 27 employees (3 of which are buyers who can create purchase orders) and 1 consultant are able to both create and approve vendors in PeopleSoft.

Business Impact:

The risk of potential duplicate payments increases when vendors are given more than one vendor number in PeopleSoft. In addition, allowing numerous employees and/or consultant(s) to create and approve vendors in PeopleSoft increases the risk that unauthorized or incorrect changes may be made to sensitive vendor data, such as payee name and address. Also, if employees and/or consultant(s) are able to both create and approve vendors in PeopleSoft and/or create purchase orders/award bids/create contracts proper segregation of duties does not exist. The risk of making duplicate payments is mitigated by a matching process currently in place in which payments cannot be made to vendors when all of the information in five fields (business unit, vendor number, invoice number, invoice date, and invoice amount) is identical.

RECOMMENDATION 2

Staff in the Accounts Payable Department should continue to work with I.T. Department personnel and/or a consultant who has experience with the process necessary to finalize the vendor file clean-up project and the appropriate steps that should be taken in PeopleSoft to ensure that, if possible, each vendor is only listed once in each pay group to reduce the risk of making duplicate payments.

Management in the Finance, Claims and Purchasing and Materials Management departments should review the listing of employees who are able to create and/or approve vendors in PeopleSoft to determine if the number of personnel authorized to create and/or approve vendors in PeopleSoft can be reduced. In addition, if feasible, management should ensure that employees and/or consultant(s) who can create vendors in PeopleSoft cannot also approve vendors.

In addition, employees and/or consultant(s) who are able to create and/or approve vendors in PeopleSoft should be reminded to perform a due diligence search to determine if information for the vendor and a vendor number already exists before creating a new vendor entry in PeopleSoft.

MANAGEMENT RESPONSE 2

The project to archive vendor information and ensure that each vendor is only listed once in each pay group will be performed in conjunction with the next upgrade of PeopleSoft (which is planned after implementation of the new work order system). In addition, management in the Finance Division will work with I.T. personnel and/or a consultant to ensure that, if possible, each vendor is only listed once in each pay group and that a process is developed going forward to help ensure that duplicate vendors are not created within the same pay group when a vendor identification number has already been established for that vendor.

Target date for Implementation: A target date for completing this project will be provided to Internal Audit personnel prior to the time the new work order system is fully implemented.

In the interim, the Accounts Payable Department personnel will inactivate duplicate vendors in PeopleSoft as encountered after they are reviewed with personnel in the user department(s) and the Purchasing and Materials Management Department. Once the vendor is inactive; purchase orders, vouchers and invoices cannot be processed against inactive vendors.

Target date for Implementation: December 31, 2015

Management in the Finance, Claims and Purchasing and Materials Management departments have finalized their review of employees who are able to create and/or approve vendors in PeopleSoft and have reduced this number. The number of employees authorized to create vendors in PeopleSoft has been reduced from 27 to 9, the number of employees authorized to approve vendors in PeopleSoft has been reduced from 14 to 9 and the number of employees

authorized to both create and approve vendors in PeopleSoft has been reduced from 8 to 2. These 2 employees require this ability because in order to award events in e-business, the employee must have the ability to create vendors in PeopleSoft. In addition, one consultant has the ability to both create and approve vendors in PeopleSoft (which management stated is needed as part of the implementation of the new work order system). This risk has been mitigated by having a report generated for management review of any vendors created in PeopleSoft by the current employees and a consultant having the ability to both create and approve vendors in PeopleSoft.

Target date for Implementation: Implemented

Employees and the consultant who are able to create and approve vendors in PeopleSoft have been reminded to perform a due diligence search to determine if information for the vendor and a vendor number already exists before creating a new vendor entry in PeopleSoft.

Target date for Implementation: Implemented

OBSERVATION 3 - Inadequate Segregation of Duties for Processing Payments in the Claims Department

The duties of processing payments in the Claims Department are not adequately segregated. The claims administrator enters claims invoices in PeopleSoft, prints vendor checks, verifies the information on the checks to the information on the pre-register report generated from PeopleSoft and mails the checks to the vendors. Also, checks that have been printed are locked in a cabinet until they are mailed out and only the director of claims and the claims administrator have keys to this cabinet.

In addition, during the audit period, the claims administrator was the only employee in the Claims Department who could enter or change vendor information in PeopleSoft. Management stated that another employee is being cross-trained to enter vendor information in PeopleSoft.

The risk of not having the above duties adequately segregated is mitigated by the following:

1) PAAC has a Positive Pay system established with the bank. Management stated that the positive pay system would generate an exception if specific information were changed. In addition, the Positive Pay system matches specific information on each check presented for payment against a list of checks previously authorized and issued by PAAC. Specific information on the check must match exactly or the check will not be processed for payment.
2) After the information on the pre-register report is verified, PeopleSoft generates a final register report that is provided to the director of claims for review. If no additional changes are needed to the final register report, the director of claims approves the pay cycle in PeopleSoft.
3) The claims administrator adds new vendors in PeopleSoft but is unable to approve this information (the director of claims approves new vendors added in PeopleSoft).

RECOMMENDATION 3

To increase internal control going forward, we recommend the following:

1) The employee who enters claims invoices in PeopleSoft and prints vendor checks should be a different employee than the one who verifies the information on the checks to the information on the pre-register report and mails the checks to the vendors.

2) The employee who maintains and reconciles the accounting records should not have access to the checks after they are printed.

MANAGEMENT RESPONSE 3

Management in the Claims Department concur with the audit recommendation and has recently changed the processes for verifying the check information, mailing the checks and having access to the checks after they are printed as follows:

- After the claims administrator prints the claims checks, another employee in the department now verifies the check information to the pre-register report and also mails the checks after they have been printed.

- Only the worker's compensation supervisor and the director of claims have access to the keys to the cabinet in which the printed claims checks are stored prior to being mailed.

Target Date for Implementation: Implemented.

ADVISORY COMMENT 1 – Cancelled Checks Could Not Be Located in File and Original Checks Not Consistently Stamped "VOID"

Of a total of 126 invoices that were included as part of our testing and were cancelled in PeopleSoft, we noted the following:

- 114 (91%) of the invoice cancellations either had the original cancelled check in file stamped "void" on the face of the check or documentation was in file from the bank that a stop payment had been placed on the check,
- 4 (3%) of the invoice cancellations for which the voided check could not be located in file, and
- 8 (6%) of the invoice cancellations (paid on six separate checks) where the original check in file was not stamped "void".

To verify that voided checks which could not be located in file and original checks in file that were not stamped as "void" had not been cashed, personnel in the Finance Division:

- Reviewed bank image-on-demand portal printouts for the 12 months (after the check dates) for check numbers 574330 and 574542 totaling $1,134.36 (61% of the total of $1,862.36 of voided checks that could not be located in file) and confirmed that these checks were not identified as having been cashed,

- Reviewed bank image-on-demand portal printouts for the 12 months (after the check date) for check number 575812 totaling $6,336.89 (63% of the total of $10,122.54 of original checks in file not stamped as "void") and confirmed that this check was not identified as having been cashed, and

- Verified that check numbers 574330, 574542 and 570515 totaling $1,806.36 were not included in the bank's positive pay system (the bank therefore had no record that these were Port Authority checks and therefore would not have authorized these checks to be paid).

When invoices are cancelled in PeopleSoft, the original cancelled check should be retained in file and should consistently be stamped "void" on the face of the check or documentation from the bank should be consistently retained in file that a stop payment had been placed on the check.

FOLLOW UP ON OUTSTANDING RECOMMENDATION FROM PREVIOUS AUDIT

We made several observations/recommendations during the CY 2009 Audit of the Internal Controls of the Accounts Payable Function and only one observation/recommendation remains open. The current status of management's progress in implementing the recommended change is summarized below.

Observation/Recommendation 1 from the CY 2009 Audit of Internal Controls of the Accounts Payable Function

Some vendors were listed multiple times in PeopleSoft's vendor table with different vendor identification numbers. We noted 67 separate vendors with multiple listings in the same pay group in PeopleSoft's vendor table which received payments from Port Authority during 2009. Management has indicated that one of the reasons for duplicate vendor records being established in the system is that when the PeopleSoft financial system was first implemented in 1999, and up until about 2003, all employees in the Purchasing and Materials Management Department were able to establish a new vendor. The former manager of accounts payable stated that she was planning a project to review the vendor file, eliminate duplicate vendor records and archive vendor information for vendors who have had no payments made to them over the most recent three year period.

We recommended that Accounts Payable personnel should review the vendor list and ensure that each vendor is only listed once in each pay group to reduce the risk of making duplicate payments. Management concurred and stated that staff in the Accounts Payable Department has coordinated with personnel in the I.T. Department to develop queries necessary for reconciling current outstanding checks and that the next step will be to archive the payments, then do vouchers and then review the vendors. This issue is also noted in Observation 2.

In Observation 2, management responded that the project to archive vendor information and ensure that each vendor is only listed once in each pay group will be performed in conjunction

with the next upgrade of PeopleSoft (which is planned after implementation of the new work order system).

Current status – Open and combined with Observation 2 in this report for follow up.

ACKNOWLEDGEMENTS

Internal Audit Department staff thanks Ed Typanski, Director, Grants and Capital Programs, Sarah Scharding, Manager, Grants Accounting, Manny Martinez, Manager, Accounts Payable Todd Stoker, Director, Claims and Erik McKibben, Manager of Architecture and Development for their cooperation and assistance during this audit.

Participating internal auditors were Rick Thimons, Maria Nickerson, Willie Westbrook and Sheila Dillard.

9/25/15

_____   _____
Sheila Dillard, Director of Internal Audit   Issue Date:

Disclaimer:

This report is intended solely for the information and use of Port Authority management for decision making purposes. It is not intended for use by any other party.

ATTACHMENT A – Business Processes

The information below (related to the business processes and the controls and processes in place to prevent, detect and resolve potential duplicate payments) was obtained from a review of three separate internal control questionnaires (one with the director of capital grants and programs and the manager of accounts payable, one with the director of claims and the claims administrator, and one with the director of capital grants and programs and the manager of grants accounting). The business processes and the controls and processes identified as a result of the review of these internal control questionnaires are as follows:

Preventive Controls (Business Processes):
A) Accounts Payable Department Invoice Review and Approval Process (Preventive Controls)
1) The authorization levels for invoice approval are based on the updated limits of authority.
2) All checks over $10,000 print first and require two signatures (One of these signatures is that of the chief financial officer, director of grants and capital programs or director of financial planning and budgets and the other signature is that of an officer, or the chief executive officer).
3) Checks under $10,000 include an electronic signature of the chief financial officer.
4) Coded invoice payment amounts in excess of $500 are approved by the director of grants and capital programs.
5) The chief financial officer reviews all travel advances and invoices for legal services.
6) Purchase order vouchers require a match between the purchase order information and invoice information prior to payment.
7) The voucher number and date processed are recorded on the invoice (or on the request for voucher) to signify that the invoice has been entered into PeopleSoft. The check, the invoice, and the request for voucher are collated and filed signifying the invoice has been paid.
8) PeopleSoft takes into account all credits and adjustments when calculating the current payment amount due.
9) Once a vendor is set up to be paid by EFT, all payments to that vendor are made through EFT and it is very difficult to reverse the process and pay vendors by check. In order to change the method a payment, a new voucher must be created in PeopleSoft and there are no vendors in PeopleSoft that are set-up to be paid both by EFT and by check.
10) If a vendor wanted to change the payment method from EFT to receiving a check, this would raise a red flag and the reason for this request would be discussed with the vendor.

B) <u>Claims Department Invoice Review and Approval Process (Preventive Controls)</u>

1) Multiple levels of preventive controls are in place within the Claims Department which provide assistance in identifying potential duplicate payments prior to payment as follows:

    a) When invoices are received in the Claims Department, worker compensation technicians or liability technicians review the information in Riskmaster to determine if the invoice has already been paid.

    b) The invoices are then sent to the vendor for re-pricing and they are reviewed within the vendor's software to determine if they have already been paid.

    c) When the invoices are entered into Riskmaster, the claims administrator and/or the supervisor responsible for approving the invoice review the information in Riskmaster again to ensure that the invoice has not already been paid.

2) All invoices in the Claims Department are individually manually approved, entered by the claims administrator in PeopleSoft, are batched and a pre-register report is generated from PeopleSoft.

3) Before the audit, the claims administrator verified that the information on the pre-register report agreed with the information on the invoices and initialed this report. During the audit, this process was changed and the current process is that after the claims administrator prints the claims checks, other personnel in the department now verify the check information to the pre-register report and also mail the checks after they have been printed.

4) The claims administrator verifies that there is not another payment for the same date and amount to a particular vendor when entering invoice information into PeopleSoft prior to payment.

5) In the Liability Unit, the technician manually reviews and approves invoices and enters the claims information into Riskmaster (a claims based software that includes claims information including the adjuster's notes, the bus information and accident information - Riskmaster does not interface with PeopleSoft).

6) The supervisor approves liability claims/invoices up to $2,000 manually and in Riskmaster (supervisor initials in Riskmaster).

7) The director of claims approves liability claims/invoices in excess of $2,000 manually and in Riskmaster (director initials in Riskmaster).

8) Worker's Compensation claims/invoices in excess of $2,000 are manually approved by the supervisor and worker's compensation claims/invoices in excess of $5,000 are manually approved by the director of claims; however, they are not approved in Riskmaster.

9) PeopleSoft generates a final register report that includes the check number of the payment.

10) The final register report is reviewed by the director of claims. If no additional changes are needed, the director approves the pay cycle in PeopleSoft (automated approval).

11) The claims administrator prints vendor, worker's compensation and liability claims checks (which are dated on the invoice due date and are locked in a cabinet until the due date). Sometimes checks are given to the director of claims or the adjuster (if they need to meet someone or deliver the check) on the due date of the payment. The invoices are returned to the appropriate adjuster and are placed in the files. Before the audit, only the director of claims and the claims administrator had keys to this cabinet. This process has been changed and the current process is that only the worker's compensation supervisor and the director of claims have access to the keys to the cabinet in which the printed claims checks are stored prior to being mailed.

C) <u>Grants & Capital Program Invoice Review and Approval Process (Preventive Controls)</u>

1) Technical Support staff review and verify the accuracy of the invoice math and the quantity to the purchase order and the status of the purchase order and attach the Engineering/Technical Support Division Consultant's Invoice Routing Sheet for every invoice. Engineers in the Technical Support and Capital Programs Department review and approve charges (i.e. verify that the amounts charged are correct and the required services have been performed for each invoice). The AGM of Engineering & Technical Support approves the charges before vendors can be paid.

2) The director of grants and capital programs receives approved invoices from the Technical Support and Capital Programs Department.

3) The approved invoices from Engineering are given to the senior accountant (grants) who reviews and codes these invoices and returns the invoices to the manager of grants and capital programs for review. The coded invoices are then given to the director of grants and capital programs for approval.

4) Personnel in the Grants & Capital Accounting Department process payments of amounts due to vendors. The accounting personnel are not responsible for approving the charges or verifying work completion. The manager of grants and capital accounting verifies that all required approvals have been obtained based on the PAAC approved Limits of Authority.

5) The director of grants and capital programs returns approved invoices to the senior accountant (grants) for Accounts Payable data entry into the PeopleSoft system. The senior accountant (grants) copies all approved invoices and returns approved copies for the Engineering & Technical Services files. The manager of grants accounting then reviews and approves the vouchers which were entered in PeopleSoft and initiates the drawdown of federal funds via the Federal Transit Administration ECHO drawdown process.

6) The director of grants and capital programs approves the Federal Transit Administration ECHO drawdown request which was completed by the manager of grants and capital accounting.

7) The manager of grants accounting requests the funds required from the Federal Transit Administration, via the ECHO drawdown, and requests the funds for the State and County portions of the invoices being paid.

a) The manager of grants and capital accounting prints the capital checks, reviews the accounts payable interface to generate the bank positive pay file, and loads the positive pay file on the bank web site. Federal Transit Administration disbursement requirements require funds are paid to vendors within 3 days of drawdown.

b) The senior accountant (grants) takes the printed checks and attaches the packet of voucher information to the checks for review by the check signators. The senior accountant (grants) secures the first and second signatures on the checks before handing the checks over to the senior accountant (operations) for dispersal (mailing) to vendors.

8) The director of grants and capital programs signs checks (first signator) on all checks in excess of $10,000; these checks are also signed by one of the assistant general managers as the second signator.

9) The senior accountant (operations) verifies the check information to the capital check register, initials the check register as evidence of this review, and mails almost all of the checks generated from PeopleSoft (approximately one or two checks each quarter is picked up by the vendor. When picking up the check, the vendor must sign a release form which is attached to the voucher detail maintained in file).

10) The senior accountant (grants) records the funds obtained in the general ledger and provides edited journal entries to the manager of grants and capital accounting for review, approval and posting to the general ledger.

11) Checks are printed approximately once each week.

D) Accounts Payable Department Process for Adding New Vendors (Preventive Controls)

1) The accounts payable clerks enter new vendors and vendor information in PeopleSoft and the manager of accounts payable approves this information electronically in PeopleSoft. (New vendors and vendor information can also be added into PeopleSoft by the claims administrator and by two buyers working in the Purchasing and Materials Management Department).

2) The manager of accounts payable is unable to enter new vendors and vendor information in PeopleSoft and the accounts payable clerks are unable to approve this information in PeopleSoft.

3) The process for setting up a vendor to be paid by Electronic Fund Transfer (EFT) is as follows:

a) Step 1 – The manager of accounts payable enters the new bank code and ABA routing number into the vendor file,

b) Step 2 – The accounts payable clerk updates the bank options and payment method. The process continues through to the pre-note phase where the banking information is verified the next time the EFT process is run, and

c) Once the banking information is verified as correct, the vendor is approved and payments can be made through EFT.

E) <u>Claims Department Process for Adding New Vendors (Preventive Controls)</u>
   1) The claims administrator enters new vendors and vendor information in PeopleSoft and the director of claims approves this information electronically in PeopleSoft. The claims administrator is unable to approve vendor information in PeopleSoft.
   2) New vendor information forms are not required prior to adding new vendors to PeopleSoft and Riskmaster. Vendor information is typically obtained from vendor invoices. Original bills containing the vendor name and address are retained in the Claims Department files.
   3) The director of claims and the claims administrator document the new vendor request and approval process via email.
   4) The information required includes the vendor name and the vendor address.
   5) The manager of accounts payable provides the claims administrator with a list of the vendors in PeopleSoft for which taxpayer ID numbers are required.
   6) Verification that the person on the claim file is the same as the person on the invoice helps to confirm the legitimacy of vendors.
   7) The claims administrator is the only employee in the Claims Department who can enter or change vendor information in PeopleSoft. The director of claims is cross-training the worker compensation supervisor to enter vendor information in PeopleSoft.

F) <u>Grants & Capital Programs Process for Adding New Vendors (Preventive Controls)</u>
   1) Grants & Capital Programs Department personnel do not enter or approve new vendors in PeopleSoft. New vendors are added by accounts payable clerks and new vendors are approved by the manager of accounts payable when needed for the Grants & Capital Programs Department.

G) <u>PeopleSoft Preventive Controls (Accounts Payable, Claims and Grants & Capital Programs Departments)</u>
   1) The PeopleSoft system is set up to prevent duplicate payments (will not allow a payment to be made to vendors) if there is a match in all of the following:
      a) Business unit,
      b) Vendor identification number,
      c) Invoice number,
      d) Invoice date, and the
      e) Invoice amount.

(The above control does not prohibit payments from being made to a vendor when one of these five fields does not match).

   2) Purchase order voucher payment amounts cannot exceed purchase order authorized amounts in PeopleSoft.

H) Preventive Controls (Potential Area For Improvement)
    1) There are still numerous instances when some vendors were listed multiple times in PeopleSoft's vendor table with different vendor identification numbers. Queries have not yet been developed to start the PeopleSoft process of archiving checks, vouchers, and vendors.

Detective Controls (Business Processes):

A) Accounts Payable Department Detective Controls
    1) The review to identify potential duplicate payments is on-going; there is no formal periodic review process. Potential duplicate payments are sometimes identified before the vendor is paid as part of the normal review process.
    2) Bank reconciliations are the responsibility of the manager of operational accounting.

B) Claims Department Detective Controls
    1) The review to identify potential duplicate payments is on-going; there is no formal periodic review process. Potential duplicate payments are sometimes identified before the vendor is paid as part of the normal review process.
    2) The director of claims and the claims administrator perform a manual review/comparison of the information on the master summary reports (which list all Claims Department vendor payments) generated each month in PeopleSoft and Riskmaster and adjustments are made as necessary to assure that payment totals balance.
    3) Monthly reconciliations worksheets are retained in file to document the reconciliation performed.

C) Grants & Capital Programs Department Detective Controls
    1) Vendors receiving payment from the Grants & Capital Programs Department are paid by grant, where there are specific dollars designated for specific projects. Approximately 98% to 99% of payments made by the Grants & Capital Programs Department are made through purchase orders.
    2) An on-going verification process is performed by personnel in the Grants & Capital Programs Department which includes verification that all checks issued by their department have been cashed.

Controls for Resolving Duplicate Payments (Business Processes):

A) Accounts Payable Department Controls for Resolving Duplicate Payments

    1) The vendor is contacted or the vendor contacts us concerning the potential duplicate payment.

    2) The vendor then either sends the check back to PAAC or, if the check was cashed, the vendor sends PAAC one of the vendor's checks and this check is deposited to PAAC's bank account.

    3) Checks returned to PAAC are voided and are cancelled in PeopleSoft and at the bank.

B) Claims Department Controls for Resolving Duplicate Payments

    1) The claims administrator advises adjusters if there is a possible duplicate payment. The adjuster and/or supervisor review the invoice and payment. If it is a duplicate, the payment is not entered in Riskmaster or is voided in Riskmaster and not entered in PeopleSoft.

    2) If PAAC overpays an invoice or overpays for a service provided, the Claims Department requests that the check be returned if it has not been cashed or that a refund check be sent to PAAC if it has been cashed.

    3) The claims administrator contacts the vendor by phone in an effort to recover duplicate payments. The director of claims or an adjuster will follow-up with the vendor if the duplicate payment doesn't get recovered after the phone call.

    4) The Legal Department could be asked to get involved with the recovery if necessary.

C) Grants & Capital Programs Department Controls for Resolving Duplicate Payments

    1) The only duplicate payments identified by the Grants & Capital Programs Department personnel have been charges from Federal Express, when the same charge was sent to two different PAAC employees. (The manager of grants & capital programs has been working with personnel to recover these payments and has stated that credits may be taken on current invoices if Federal Express does not respond to PAAC within a reasonable amount of time).