



Environmental Services Accounts Payable Audit Audit Report

Issued by the
Internal Audit Office
April 23, 2010

**City of El Paso
Internal Audit Office
Environmental Services Accounts Payable Audit**

EXECUTIVE SUMMARY

The Internal Audit Office has concluded its audit of Environmental Services Department Accounts Payable function. We identified internal control weaknesses in the processing and monitoring of transactions completed from September 1, 2009 to December 22, 2009. Based on the results of the audit, four findings were identified to indicate that improvements are needed in order to be in compliance with the City of El Paso Accounts Payable Policies and Procedures. All four of these findings are considered significant in nature.

Listed below is the summary of the four significant findings identified in this report.

1. Environmental Services Accounts Payable function is not obtaining a consistent indication of Management's approval for payment on invoices 69.70% of the time. We noted invoices with a set of initials and date only which is not a clear indication of approval. We also identified invoices that had an "Approved By" stamp with signature and date blocks which clearly indicates an approval.
2. Environmental Services Accounts Payable department is not processing transactions or paying invoices in a timely manner 31.82% of the time.
3. Environmental Services Accounts Payable department is not reconciling Travel Requests 66% of the time.
4. Environmental Services Accounts Payable department is not verifying or recalculating invoices.

For a detailed explanation of each of the findings please refer to the appropriate finding contained in the body of this Audit Report.

BACKGROUND

The 2009-2010 City of El Paso Annual Risk Assessment and Audit Plan identified the Environmental Services Department Accounts Payable function as a high-risk area. The Environmental Services Department through its Solid Waste Division is responsible for weekly residential garbage and recycling collection. It is also responsible for landfill disposal services, special collection services, and operation of five Citizen Collection Stations. The Citizen Collection Sites are utilized for the disposal of bulky items, and Household Hazardous Waste.

The Department through its Compliance Services Division is responsible for Contributing to the City of El Paso's Quality of Life initiatives and preservation of neighborhoods by operating the Code Compliance Program.

The Department's Engineering Division has the responsibility of promoting and ensuring City compliance with environmental regulations and maintaining a safe environment for the City of El Paso.

SCOPE AND METHODOLOGY

The audit objectives for the Environmental Services Department Audit were to determine if,

- Comprehensive written Policies and Procedures governing the Accounts Payable activities have been established;
- Transactions are processed in a timely manner and in accordance with the City of El Paso Policies and Procedures;
- Appropriate documentation is in place to support transactions;
- Initiatives have been implemented to provide services in the most cost-effective and efficient manner;
- The Environmental Services Department operates within budgetary limits, and;
- The Environmental Services Department has implemented adequate internal controls to limit exposure to unauthorized or inappropriate transactions through;
 - Financial and operational information that is reliable and possesses integrity,
 - Operations that are performed efficiently and achieve established objectives,
 - Safeguarding of assets, and
 - Actions and decisions of the Environmental Services Department that are in compliance with laws, regulations and contracts.

The audit period covered September 1, 2009 to December 22, 2009. This audit was a limited scope audit and focused on the Environmental Services Accounts Payable function.

This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

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***SIGNIFICANT FINDINGS, RECOMMENDATIONS,
AND MANAGEMENT’S RESPONSES***

The definition of a significant finding is one that has a material effect on the City of El Paso’s financial statements, identifies an internal control breakdown, a violation of a City procedure, law and/or regulation, which the City is required to follow. Any finding not meeting these criteria will be classified as an “Other Finding”.

Finding: 1

Invoices

The number of vouchers processed for the period September 1, 2009 through December 22, 2009 was 664. We selected a random 10% sample of 66 transactions for review.

Based on our review of 66 invoices, the Environmental Services Accounts Payable function is not obtaining consistent evidence of Management’s approval for payment of 46 out of 66 invoices (69.70%).

Invoice Review	No. of Invoices	Amounts	Invoice Percentages
Invoices with Management Approval Stamp, Signature & Date.	20	\$209,737.95	30.30%
Invoices without clear indication of Management Approval (initials and date only).	46	\$303,587.48	69.70%
Total	66	\$513,325.43	100.00%

Recommendation:

Environmental Services Accounts Payable function should comply with the City of El Paso’s Accounts Payable Manual section 3.0 paragraph 3, which requires invoices to be reviewed for compliance with quoted prices prior to payment. The supervisor, or authorizing official, should sign off on the document to ensure that there is evidence of compliance with the contract or quoted prices.

Management’s Response

In accordance with the City of El Paso’s Accounts Payable Manual section 3.0 paragraph 3, all invoices reviewed were “documented either by a signature or by initializing of the invoice.” Environmental Services Department (ESD) is compliant. However, some invoices utilized a standard stamp while others were approved sans the stamp (signature/initials and date only). Accounts Payable clerks have been instructed to consistently show supervisor authorization via the standardized stamp with signature of the supervisor/authorized person. This will more clearly and consistently document our compliance with Accounts Payable Manual section 3.0 paragraph 3 which requires an indication of management approval.

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Responsible Party

Alfredo Chavez, (Acting) Senior Accountant

Implementation Date

June 1, 2010

Chief Internal Auditor's Response

In reviewing the results of our analysis, the invoices in question only contain an initial and date. The initial and date do not indicate an approval was authorized for payment. Invoices that contain the rubber stamp with a signature/initial and date do indicate an approval for payment of the invoices. Therefore, the Environmental Services Department is not in full compliance with the criteria established in the Accounts Payable Manual Section 3.0, Paragraph 3.

Finding: 2

Transactions Processed In A Timely Manner

Based on our review of 66 invoices, the Environmental Services Accounts Payable function is not processing transactions or paying invoices in a timely manner in 21 out of 66 instances (31.82%).

The results of our review is as follows:

Environmental Services Division	Number of invoices reviewed	Number of invoices overdue	Amounts Overdue Invoices	Interest Due to Vendors	Percent of invoices overdue
Compliance	6	3	\$137.85	\$0.10	50.00%
Solid Waste Management	29	9	\$6,889.09	\$19.08	31.03%
Engineering	31	9	\$165,879.91	\$204.25	29.03%
Totals	66	21*	\$172,906.85	\$223.43	31.82%

* 10 of the overdue Invoices were from the same vendor (Northern Imports) for the purchase of safety shoes.

Recommendation:

Environmental Services Accounts Payable function should comply with the Texas' Prompt Payment Law of 1987. Texas Government Code Sec. 2251.021 states payment is overdue on the 31st day after the later of:

- The date the City of El Paso receives the goods under contract.
- The date the performance of the services under contract is completed or,
- The date the City of El Paso receives an invoice for the goods or services.

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Management's Response

During the period under review ESD had a change of personnel in the Accounts Payable division. Invoices were being addressed to individuals instead of to the division. In reference to Northern Imports, 47.6% of the late payments, the invoices were misdirected by the vendor. Instead of being mailed to ESD, they were mailed to City Hall. Upon receipt of a monthly statement it was determined that not all invoices were re-directed from City Hall to ESD. Consequently, by the time invoice copies were acquired, the 30 days to pay had lapsed.

To help reduce the possibility of misdirection of invoicing ESD will instruct all vendors to address invoicing to "Accounts Payable" when using USPS or to an "Accounts Payable – ESD" email account when invoicing via internet. This will avoid mail from following staff persons who may have been reassigned to other departments/locations or who may be out on leave.

All invoices by mail and internet will be logged in a spreadsheet and delivered to an Accounts Payable clerks. The Accounts Payable clerk will distribute the invoices to the appropriate supervisor/authorized person to review for compliance with quoted prices based on the contract and approve payment. The supervisors/authorized persons have been instructed to return the invoice in a timely manner to the Accounts Payable clerk who will reconfirm the amounts. All supervisors/authorized personnel have been notified/reminded of the 30 day prompt payment policy.

Responsible Party

Alfredo Chavez, (Acting) Senior Accountant

Implementation Date

July 1, 2010

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Finding: 3

Travel Requests are not Reconciled

Based on our review, the Environmental Services Accounts Payable function is not properly reviewing Travel Requests in 2 out of 3 instances (66%).

Type of Voucher	Number of Vouchers
Non Travel	63
Travel	3
Total	66

- Two of the three travel requests or 66% had the following exceptions when reviewed against the City's Travel Manual.
 - The reconciliation calculations were incorrect as follows:
 - Three meals were not prorated for travel days as required by the City's Travel Policy.
 - Two travel requests had miscellaneous expenses of \$10.00 charged with no receipts to support the expense.
 - Monies due the City of El Paso that were not paid by the employee within the ten days of return as required by the City's Travel Manual where:
 - \$21.20 due for travel request #1 which is 149 days past due as of 3/19/2010
 - \$24.20 due for travel request #2 which is 120 days past due as of 3/19/2010
 - Motor vehicle rental sales taxes of \$9.08 were paid on a rental car contract. The City of El Paso is exempt from sales tax under Texas Tax Code section 152.084.

Recommendation:

The Environmental Service's Employee should reimburse the City of El Paso \$45.40 for their travel related expenses.

Environmental Services should comply with the City of El Paso's Travel Manual requirements for meal calculations, receipt requirements, and employee reimbursements.

Environmental Services should review its travel related expense on car rentals to avoid payment of State Sales Taxes.

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Management's Response

Travel requests referenced above were reconciled and overpayments (as calculated at the time) were reimbursed to the city prior to the 3/19/2010 audit date. The above reference to: "monies due the City of El Paso" represent a recalculation of per diem amounts and disallowed miscellaneous charges. Environmental Services did not use flight schedules when calculating per diems and consequently over advanced the employee. This was a systemic error identified through audit. In the absence of a full review of all prior department travel reconciliations it would be discriminatory to single out this individual for repayment thus resulting in selective enforcement of the rules.

It is the department's opinion that the miscellaneous charges without receipts are legitimate charges and do not require reimbursement from the employee. Per the COEP's 2007 Travel Manual, "Porter services or tips shall only be what is reasonable and necessary and should not exceed \$10.00 total. Items under this limit shall not require any receipts". In accordance with this directive, Environmental Services does not require receipts for incidentals less than \$10.00 and has not deviated from the manuals directives. As such no further action is required.

Appropriate staff has been advised of these findings. Additional training to include overall review of the City of El Paso travel manual, per diem prorating, and sales tax exemption rules will be conducted. Additional staff will be cross trained and designated as back-up for travel reconciliations to facilitate timely review.

Responsible Party

Deborah Strom, Department Administrative Manager

Implementation Date

June 3, 2010

Chief Internal Auditor's Response

In reviewing the Travel Requests in question, there is no indication that the \$10.00 was paid for baggage handling. The only support provided is that the \$10.00 was a *Miscellaneous Expense*. Also noted is that the employee was paid a Per Diem rate of \$56.00 and \$71.00 respectively, which should reimburse the employee for meals and incidentals (tips). Therefore the employee is not entitled to claim the additional \$10.00 for baggage handling.

The Environmental Services Department needs to be more critical in their calculation of Per Diem rates and reimbursements to employees in the future. The amounts in question are minimal but could represent a more significant issue in the way travel expenses are handled by the Environmental Services Department.

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Finding: 4

Invoices

Supervisors or authorizing officials are not reviewing invoices for compliance with quoted prices prior to payment.

Invoice # *	X15715201
Vendor	<u>amec</u>
Management Approval Stamped and Signed	Yes
Amount Due	\$73,469.99
Amount Due After Review of Contracted Amounts	\$72,416.12
Difference **	\$1,053.87
Net Overpayment ***	\$462.28

* This invoice was not paid promptly and included in the calculation for finding #2.

** While reviewing amounts on invoices against amounts listed in the contracts one exception was noted from the selected sample. Invoice # X15715201, from a vendor named **amec**, we identified where the hourly rates for a Clerk 1 and Clerk 2 position were misapplied resulting in an over charge of \$67.50. Also, we were unable to locate support documentation for an equipment rental charge of \$986.37. The result was an over charge of \$1,053.87 or 1.43% of the invoice amount of \$73,469.99.

*** Environmental Services Accounts Payable made an attempt to collect the \$1,053.87 but an employee calculation error resulted in an overpayment to the vendor of \$462.28.

Recommendation:

Environmental Services Accounts Payable function should comply with the City of El Paso's Accounts Payable Manual section 3.0 paragraph 3, which requires invoices to be reviewed for compliance with quoted prices prior to payment. The supervisor, or authorizing official, should sign off on the document to ensure that there is evidence of compliance with the contract or quoted prices.

Management's Response

The supervisor or authorized personnel will review invoices for compliance with quoted prices prior to approval for payment. Accounts Payable clerks will then re-calculate all invoices. Any invoice that conflicts with quoted prices will be rejected and returned to vendor for re-invoicing. The replacement invoice will have to be issued with a current date. Engineering has all the Environmental Contracts now available in multiple areas. The electronic version is found in Engineering Documents and Records (P:\ENGINEERING DOCUMENTS AND RECORDS\1000GeneralCityFacilities) and three hardcopies are available: in the Engineering Library; the Engineering Files; and in the finance division of ESD. ESD's Engineering division currently scans all contracts to the P-drive allowing access to confirm quoted prices based on contract terms.

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Responsible Party

Accounts payable oversight - Alfredo Chavez, (Acting) Senior Accountant
Engineering contract compliance – Miguel Parra, Engineering Division Manager

Implementation Date

June 1, 2010

INHERENT LIMITATIONS

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may deteriorate.

CONCLUSION

Based on the results of this Audit, we have concluded that there are internal control weaknesses in the Environmental Services Accounts Payable functions as evidenced below:

1. There is a lack of obtaining Management's Approval on a consistent format for invoice payment.
2. The Environmental Services Accounts Payable function is not complying with Texas' Prompt Payment Law of 1987.
3. There is a failure to perform Travel Request reconciliations at the Environmental Services Accounts Payable function.
4. There is a lack of verifying and recalculation of invoice amounts within the Accounts Payable function at Environmental Services.

The implementation of the recommendations provided in this Audit Report should assist Environmental Services in making improvements in their Accounts Payable function.

We wish to thank the management and staff of Environmental Services for their assistance and courtesies extended throughout this audit.

Signature on File
Edmundo S. Calderon, CIA, CGAP, MBA
Chief Internal Auditor

Signature on File
Daryl Olson
Senior Auditor

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