



Accounts Payable Audit

Report Date: March 28, 2024

Internal Audit Department

**OCERS Internal Audit
Accounts Payable Audit
March 28, 2024**

Table of Contents

Audit Objective and Scope.....	1
Conclusion and Executive Summary.....	1
Background.....	2
Observation Details.....	3

Audit Objective and Scope

The objective of this audit was to provide an independent review of the design and operating effectiveness of the controls management has in place over Accounts Payable (e.g., from vendor management to General Ledger recording).

The scope of the audit included accounts payable transactions from January 2022 through June 2023, on a sample basis.

The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board. This was the first audit of this process by Internal Audit.

Conclusion / Executive Summary

Opinion: <i>Satisfactory</i>

Overall, Internal Audit found the controls in Accounts Payable to be operating and designed effectively to help ensure accurate and complete payments. We noted two observations related to vendor management, the accounts payable accrual, and records retentions. For further detail of the below observations please see page three.

<p>Priority Observations</p> <div style="border: 1px solid black; background-color: #4a7ebb; color: white; padding: 5px; text-align: center; width: 40px; margin: 5px auto;">0</div> <p>Important Observations</p> <div style="border: 1px solid black; background-color: #4a7ebb; color: white; padding: 5px; text-align: center; width: 40px; margin: 5px auto;">2</div>	<p>Priority Observations</p> <p>None</p> <p>Important Observations</p> <ol style="list-style-type: none"> 1. Finance Management should formalize the review of (1) the Vendor Master File list in the Enterprise Resource Planning System (ERP) and (2) the quarterly accounts payable accrual. 2. A network folder containing 2014 Accounts Payable related files had not been deleted.
--	---

Internal Audit sampled 60 accounts payable transactions from 2,069 transactions totaling \$17 million dollars during our audit scope. Internal audit:

- Reviewed accounts payable transactions for evidence of dual level of review and authorization by Finance management.
- Reviewed accounts payable transactions for evidence of line of business management approval.
- Verified that accounts payable transactions were recorded correctly on the General Ledger.

- Reviewed supporting documentation for clerical accuracy.
- Verified that new vendors added and updates to existing vendor information within the ERP system were reviewed and authorized by management.
- Reviewed user access controls over the ERP are monitored for proper segregation of duties.
- Reviewed physical security over OCERS check stock for adequacy.
- Reviewed accounts payable documentation for compliance with OCERS records retention policy.

Background

In January 2022, the Finance Department converted to a new ERP system, included in the ERP system is an Accounts Payable module. During mid-2022 OCERS also began using a separate expense application to eliminate manual, paper-based expense reports; the expense application is integrated with the ERP system. Beginning in early 2023, OCERS also outsourced accounts payable check printing and mailing to the operating bank's payment manager module. Key controls within the accounts payable process include an automated requirement in the ERP system for dual approval by Finance Department managers or higher for all account payable payments and segregated approvals in the ERP system for vendor management.

During the scope of our audit of January 2022 through June 2023, the Finance Department processed 2,069 accounts payable transactions totaling \$17 million dollars. Currently, there are 415 active vendors in the ERP system, encompassing business vendors, employees, and board members.

Copies to OCERS:

S. Delaney	T. Bowman
S. Jenike	L. Barker
M. Murphy	Audit Committee Members
B. Shott	
M. Serpa	

Observations	Action Plan / Responsible Party / Completion Date
<p style="text-align: center;">Important Observations</p> <p>1. Finance Management should formalize the review of (1) the Vendor Master File list in the ERP system and (2) the quarterly accounts payable accrual.</p> <p>Currently there are 415 active vendors in the ERP system. Management does perform a review of these vendors on a spot check or random basis. However, per discussion with Finance, the review of the Vendor Master List file containing all active vendors for potential duplicate vendor names, vendors whose status should be potentially inactivated, or for terminated employees is not formalized with the manager's signoff.</p> <p>In addition, per Finance, the manager's review of the quarterly accounts payable accrual is performed by the manager as part of close procedures. However, the manager's review of the accrual balance is not evidenced with a manager's signoff. The accrual balance was \$159,711 as of quarter ending September 2023.</p> <p>An existing mitigating control includes dual approval by Finance managers for all payments to vendors and employees.</p> <p>Risk: There is a lack of a sign-off evidencing a review performed by the Finance manager.</p>	<p>Action Plan:</p> <ol style="list-style-type: none"> 1. During the implementation of the ERP system, Finance purged inactive vendors from its previous accounting system, importing only active vendors into the new system that went live in 2022. Finance continues to review processes and procedures for improvement and starting in January 2024, as recommended by Internal Audit, we formally documented the annual review of the Vendor Maintenance List for the year ended December 2023 identifying vendors that could potentially be made inactive if they continue to have no activity during 2024. 2. Quarterly reconciliation of accrued payables is completed each quarter. The Accounts Payable Accountant prepares the accrual entries. The Finance Manager reviews the entries and the accrual balance for accuracy. Going forward, beginning with 4th quarter 2023, a sign-off will be noted within the file. <p>Responsible Party: Tracy Bowman, Director of Finance</p> <p>Completion Date:</p> <ol style="list-style-type: none"> 1. Review for 2023 was completed on January 9, 2024. 2. Review and sign-off of 4th quarter reconciliation was completed on January 18, 2024.

Observations	Action Plan / Responsible Party / Completion Date
<p>2. A network folder containing 2014 Accounts Payable related files had not been deleted.</p> <p>The Finance Department had gone through a purge of its files to help meet the new Record Management Policy requirements. Upon our review of the department's network folders, we noted one instance of a file folder that did not comply with the retention period of seven years.</p> <p>Risk: As per the Record Retention Policy, <i>holding records beyond the records retention schedule is costly, lessens OCERS efficiency for responding to public records requests, and makes it more difficult to find the records needed for OCERS business needs.</i></p>	<p>Action Plan:</p> <p>During 2022, the Finance Team reorganized the department's accounting folders and purged a large number of documents and folders in adherence with the Records Management Policy. The files in question were missed in the original purging of records and have since been deleted.</p> <p>As part of the Legal Department's year-end request for an annual certification of compliance with the Records Management Policy for each department, the Finance Director emails all Finance Team Members to confirm that they are in compliance with the policy. As part of this compliance and to maintain records within the required retention period, all Finance Team members will purge files at the end of June each year, after the financial audit and other external reporting have been completed.</p> <p>Responsible Party:</p> <p>Tracy Bowman, Director of Finance</p> <p>Completion Date:</p> <p>The 2014 folder was deleted on January 3, 2024.</p>

Categories of Observations (Control Exceptions):

Priority Observations:

These are observation(s) that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise OCERS' reputation or integrity. Management is expected to address Priority Observations brought to its attention immediately.

Important Observations:

These items are important to the process owner and they do impact the control environment and/or could be observations for improving the efficiency and/or effectiveness of OCERS' operations. Management is expected to address within six to twelve months.

Management's Responsibility for Internal Control

Management has primary responsibility for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls. Control systems shall be continuously evaluated by Management and weaknesses, when detected, must be promptly corrected. The criteria for evaluating an entity's internal control structure are the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework. Our Internal Control Audit enhances and complements, but does not substitute for department management's continuing emphasis on control activities and self-assessment of control risks.

Internal Control Limitations

Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in the department's operating procedures, accounting practices, and compliance with OCERS' policies.

Audit Report Opinions:

Satisfactory:

No issues or a limited number of “Important Observations” (typically no more than two Important Observations).

Opportunities for Improvement:

Multiple issues classified as “Important Observations” (typically two or more Important Observations) with no more than one “Priority Observation”.

Inadequate:

Usually rendered when multiple issues are classified as “Priority” (typically one or more Priority Observations), together with one or more other issues classified as “Important Observations”. The Priority Observations identified have a major effect on processes, plan sponsors/members, financials, and/or regulatory requirements.