



Item: AC: I-3

AUDIT AND COMPLIANCE COMMITTEE
Tuesday, November 13, 2018

SUBJECT: REVIEW OF AUDITS: FAU 17/18-4, AUDIT OF ACCOUNTS PAYABLE FOR THE PERIOD OCTOBER 1 THROUGH DECEMBER 31, 2017

PROPOSED COMMITTEE ACTION

Information Only.

BACKGROUND INFORMATION

Objectives of the audit were to determine:

- Adequacy of policies and procedures in place to ensure accurate and timely processing of University obligations on the Workday Finance system; and,
- Compliance with applicable laws, rules and regulations, as well as University policies and procedures and sound business practices.

Three recommendations were made to strengthen controls over the timely processing of invoices and enhancing other controls.

IMPLEMENTATION PLAN/DATE

Management has agreed to implement our recommendations by July 1, 2019.

FISCAL IMPLICATIONS

Not Applicable.

Supporting Documentation:

Audit Report FAU 17/18-4

Presented by: Mr. Morley Barnett, Inspector General

Phone: 561-297-3682

Report No. FAU 17/18-4
Report Issue Date: October 12, 2018

FLORIDA ATLANTIC
UNIVERSITY™

Office of Inspector General

Audit Report: *Accounts Payable*

For the Period October 1 through December 31, 2017

Use of Report

We are employed by Florida Atlantic University. This report is intended solely for the internal use of the State University System and is not intended to be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

**REPORT ON THE AUDIT OF
ACCOUNTS PAYABLE**

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MEMORANDUM

TO: Dr. John Kelly
President

FROM: Morley Barnett
Inspector General

A handwritten signature in cursive script, appearing to read "Morley Barnett", is written over the printed name.

DATE: October 12, 2018

SUBJ: AUDIT OF ACCOUNTS PAYABLE

In accordance with the University's Internal Audit Plan for fiscal year 2017/18, we have conducted an audit of the Accounts Payable function at Florida Atlantic University. The report contained herein presents our scope and objectives and provides comments and conclusions resulting from procedures performed.

We have made three recommendations to address our two findings and one other comment. The responses of the auditee have been incorporated into the report. In accordance with our established procedures, follow-up will be performed subsequent to the issuance of this report to determine effective implementation of our recommendations by management, as applicable.

Please call me if you have any questions.

cc: Vice Presidents
Auditees
FAU BOT Audit and Compliance Committee
Inspector General, Florida Board of Governors
Florida Auditor General

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Executive Summary

In accordance with the University's Internal Audit Plan for fiscal year 2017/18, we have conducted an audit of the Accounts Payable function at Florida Atlantic University for the period October 1 through December 31, 2017. Primary emphasis was placed on evaluating internal controls and examining selected expenditure transactions for the period under review. The audit, among other things, did not involve testing of payroll, purchasing card, employee travel, employee non-travel reimbursements, financial aid, student refund, or interdepartmental expenditures; supplier (vendor) set-up on Workday Finance; or, IRS tax rule compliance, as these areas are (or will be) covered in other audits or special reviews by the OIG and/or the Auditor General's Office.

Our audit objectives were to determine:

- The adequacy of internal controls over the A/P function designed to ensure accurate, timely, and authorized processing of specified university obligations on the Workday Finance system; and,
- Compliance with applicable laws, rules and regulations, university policies and procedures, and sound business practices.

Audit procedures included, but were not limited to, the evaluation of internal controls as those controls relate to the accomplishment of the foregoing audit objectives, as well as the performance of compliance testing on samples of Workday Supplier invoices, in order to determine whether control procedures were operating effectively.

Based on the audit work performed, we are of the opinion that the evaluated Accounts Payable/Settlement Group operations were not always being conducted in general compliance with all applicable laws, rules and regulations, and university policies and procedures. We have identified opportunities for improvement in the following areas:

- Timely payment of Supplier Invoices;
- Submission of Spend Authorizations for Travel Reimbursements; and,
- Verification of supplier's bank account information.

The details of these two findings and one other comment, as well as the suggestions for corrective action, can be found in the Comments and Recommendations, and Other Comments sections of this report.



October 12, 2018

Dr. John Kelly
President
Florida Atlantic University
Boca Raton, Florida

Dear President Kelly:

SCOPE AND OBJECTIVES

In accordance with the University's Internal Audit Plan for fiscal year 2017/18, we have conducted an audit of the Accounts Payable (A/P) function at Florida Atlantic University for the period October 1 through December 31, 2017. Primary emphasis was placed on evaluating internal controls and examining selected expenditure transactions for the period under review. The audit, among other things, did not involve testing of payroll, purchasing card, employee travel, employee non-travel reimbursements, financial aid, student refund, or interdepartmental expenditures; supplier (vendor) set-up on Workday Finance; or, IRS tax rule compliance, as these areas are (or will be) covered in other audits or special reviews by the OIG and/or the Auditor General's Office.

Our audit objectives were to determine:

- The adequacy of internal controls over the A/P function designed to ensure accurate, timely, and authorized processing of specified university obligations on the Workday Finance system; and,
- Compliance with applicable laws, rules and regulations, university policies and procedures, and sound business practices.

Audit procedures included, but were not limited to, the evaluation of internal controls as those controls relate to the accomplishment of the foregoing audit objectives, as well as the performance of compliance testing on samples of Workday Supplier Invoices, in order to determine whether control procedures were operating effectively.

We obtained an understanding of the operations of the A/P/Settlement Group units by reviewing written policies and procedures, interviewing key personnel, observing actual practices, and analyzing key internal controls. Our assessment of compliance with established policies and procedures was based on reviews of pertinent supporting documentation for samples of encumbered/unencumbered Workday Supplier Invoices judgmentally and statistically selected from the Workday Finance system using the *ACL (Audit Command Language)* data analysis software. Populations, sample sizes, and selection methods were determined based on our evaluation of internal controls and assessment of audit risk, the availability of pertinent University records, and other factors including auditor judgment.

We conducted our audit in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

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BACKGROUND

The Accounts Payable (A/P) group is part of the Procurement Services unit of the Controller's Office, and is responsible for the processing and payment of the university's obligations incurred primarily as a result of the procurement of goods and services from suppliers. The primary mission of the A/P group is to ensure all supplier payments are processed timely, accurately, and in compliance with university and state policies and procedures. During the course of the audit, the group was staffed by nine employees under the supervision of the Accounts Payable Supervisor.

As of July 1, 2015, the university began using the A/P application of the Workday Finance system to generate, approve, and pay computer-generated (Workday) invoices based on paper invoices and/or other supporting documentation submitted by suppliers for payment of goods and services. According to management, approximately 10,300 Workday Supplier Invoices totaling an estimated \$42 million were processed for payment by A/P operations during the second quarter of the 2017/18 fiscal year, our audit period.

Certain key online and offline controls have been established for the Workday Finance A/P application to help management achieve the objective of authorized, efficient, and prompt processing of payments to vendors. For example, Workday A/P has built-in workflow controls that, among other things, allow only invoices created and approved on the system to be electronically selected for automated payment processing; detects whenever a supplier submits the same vendor invoice number more than once and will reject the Supplier Invoice entry on Workday to prevent duplicate payments to the same supplier; and, automatically assigns sequential document numbers to supplier invoices created on the system.

COMMENTS AND RECOMMENDATIONS

Current Findings and Recommendations

Untimely Payment of Supplier Invoices

During the audit, testing of transactions and discussions with management indicated that the Controller's Office was monitoring and reviewing supplier invoices in Workday Finance via an Accounts Payable Aging report – the *Financial Aging Detail for Accounting Period by Due Date*. In addition, individual Accounts Payable Specialists were following-up with departments. However, there were instances where payments were made in excess of 40 days as required by Section 215.422, Florida Statutes – *Payments, warrants, and invoices; processing time limits; dispute resolution; agency or judicial branch compliance*. It should be noted that management believes that since the SUS has been delegated authority to make payments directly to its vendors (and not through the State Chief Financial Officer (CFO) via warrant) and, pursuant to Section 1001.705(d), Florida Statutes – *Responsibility for the State University System under s. 7, Art. IX of the State Constitution* – universities are only state agencies for the purposes of the delineation of constitutional lines of authority, the provisions of Section 215.422, Florida Statutes, technically do not apply.

According to management, paper invoices are stamped upon receipt by the Controller's Office and electronic invoices are submitted via a central email address, which are routed to the appropriate Accounts Payable Specialist for input to Workday. Notwithstanding these operating

procedures, we learned that Accounts Payable Specialists were not recording (on Workday) the date of receipt of the vendor's invoice by the Controller's Office. Rather, the date entered into Workday is typically 24-48 hours after receipt in the Controller's Office inbox unless extraordinary circumstances apply.

Compliance testing on a sample of 100 paid Workday Supplier Invoices with vendor invoice dates of 10/1 - 12/31/17 indicated 2 invoices totaling \$12,362 that had not been paid within 40 days of receipt by the Controller's Office. Management indicated that one was due to a delay in the receipt of goods being verified by the College of Business. On a broader level, an analytical review of all paid Workday Supplier Invoices with vendor invoice dates of 10/1 - 12/31/17 indicated 206 invoices totaling \$376,501 that had not been paid within 40 days of receipt by the Controller's Office. Per management, 191 were due to delays in invoice approvals or documented receipts by user departments and 15 were due to delays in change orders being completed.

According to management, the invoice receiving process evolved into a decentralized model upon moving to Workday in July 2015. This process was necessary because only departments can validate receipt of goods and completion of services. Management further explained that in most instances, it is not the internal processes of the Controller's Office which prevent the invoices from being paid timely. Rather, under the current decentralized system of invoice review, it is the departmental approvals and the Workday create/receipt functions which sit in departmental users inboxes untouched, causing the Supplier Invoices to remain In Progress for extended periods of time.

Recommendation No. 1

In order to ensure timely payments are made to vendors by the Controller's Office, we recommend management continue to communicate with the departments in an effort to improve its monitoring and follow-up efforts for unpaid supplier invoices in Workday.

Management's Response

Action Plan:

The Controller's Office will create a Workday report that shows the number of days since an unapproved invoice was received and created in Workday. The Controller's Office will review the report weekly and follow up with approvers on any invoices that are 20 days or more old. In addition, the Controller's Office will work with FHIS to implement automatic email notifications from Workday to an approver once an invoice has been in the approver's Inbox for 10 days. Furthermore, the Controller's Office will work with General Counsel to adopt a regulation for prompt payment terms.

Implementation Date:

July 1, 2019

Responsible Auditee:

Jessica Cohen, Ass't Vice President & University Controller

Non-Submission of Spend Authorizations for Travel Reimbursements

According to the FAU Expense/Travel Policies and Procedures (May 2018), all FAU travel requires an approved Spend Authorization to be on file for anyone traveling on behalf of the University. The provisions of the travel policies and procedures apply to all authorized University travelers, including employees (full and part-time), students, and candidates for employment, consultants or independent contractors. In addition, the Procurement Services Payment Types schedule indicates that a Spend Authorization is required for non-employees being reimbursed for travel expenses via a Supplier Invoice.

Compliance testing of a judgmentally selected sample of 165 paid Workday Supplier Invoices with vendor invoice dates of 10/1 - 12/31/17 indicated 7 invoices totaling \$5,559.05 where the payee (supplier) was an authorized person as defined by Florida Statute 112.061, who was being reimbursed for travel expenses. Although appropriate FAU employees had approved these reimbursements via Supplier Invoices, they had not submitted Spend Authorizations on Workday naming the authorized persons in the memo field as required by the University's Travel Policy.

Recommendation No. 2

We recommend management ensure approved Spend Authorizations are submitted on Workday for all required non-employee travel as indicated in the current FAU travel and accounts payable policies and procedures.

Management's Response

Action Plan:

The Controller's Office will create and document a process to ensure that Spend Authorizations are submitted for authorized travelers in all cases where they are required by FAU policies and Florida Statutes.

Implementation Date:

December 31, 2018

Responsible Auditee:

Jessica Cohen, Ass't Vice President & University Controller

Other Comments

Non-Verification of Supplier's Bank Account Information

Under current procedures, the initial set-up or subsequent changes to the supplier's bank account information used for direct deposit payments require the Settlement Group of the Procurement Services unit to email an authorized supplier representative a link to a secure website where he/she is able to complete and submit an electronic ACH enrollment form. This form is used to

start, change, or stop direct deposits, and solicits the appropriate banking information from the supplier necessary for Settlement Group personnel to securely retrieve it from the website and update the supplier's record on Workday. For supplier bank account change requests, Settlement Group personnel will call back the verified supplier representative to confirm the request prior to emailing the link to the secure website. Additionally, the change form has been modified to have the supplier enter in the old banking information as well as the new.

Although the abovementioned process was effective in terms of identifying the source of the request as originating from the supplier entity, we noted the Controller's Office could add and enhance current procedures in place (such as the secure enrollment form) to authenticate the supplier's bank account information prior to initiation of direct deposits. With additional procedures, the Controller's Office will have more assurance that the bank account indicated on the supplier's ACH enrollment form actually belongs to the supplier and not a third party. Options for verification could include a secure pin or other secondary form of authentication.

Recommendation No. 3

In order to mitigate the risk of erroneous or fraudulent direct deposit payments to third parties, we recommend management enhance procedures to ensure the veracity of the bank account information indicated on the electronic ACH enrollment forms submitted by suppliers.

Management's Response

Action Plan:

The Controller's Office will investigate the use of the Workday Supplier Portal to determine whether there are capabilities to improve the verification of banking information received from suppliers. If it is determined that the Workday Supplier Portal is not beneficial in this regard, the Controller's Office will investigate if an alternative secondary form of authentication could be added to the current process.

Implementation Date:

July 1, 2019

Responsible Auditee:

Jessica Cohen, Ass't Vice President & University Controller

Prior Audit Recommendations

Our examination generally includes a follow-up on findings and recommendations of prior internal audits, where the subjects of such findings are applicable to the scope of the current audit being performed.

Within the past three years, our office has not conducted any audits related to the Accounts Payable function. Accordingly, a follow-up on prior audit findings is not applicable.

CONCLUSION

Based on the results of the testwork performed, we are of the opinion that the evaluated Accounts Payable/Settlement Group operations were not always being conducted in general compliance with all applicable laws, rules and regulations, and university policies and procedures. We believe the recommendations made are cost-beneficial to implement, and will serve to strengthen the overall internal control environment pertaining to the University's Accounts Payable function.

We wish to thank the staffs of the University Controller's Office for their cooperation and assistance which contributed to the successful completion of this audit.



Morley Barnett, CPA, CFE
Inspector General

Audit Performed By: Mike Hewett, CIA, CGAP, CBA, CFSA
Allaire Vroman