



Item: AF: I-1a

AUDIT AND FINANCE COMMITTEE
Wednesday, April 20, 2011

**SUBJECT: REVIEW OF AUDITS: FAU 10/11-3, AUDIT OF ACCOUNTS PAYABLE FOR
THE PERIOD JULY 1 THROUGH SEPTEMBER 30, 2010**

PROPOSED COMMITTEE ACTION

Information Only

BACKGROUND INFORMATION

Objectives of the audit were to determine:

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

Two recommendations were made to strengthen controls over the processing of high-dollar invoices and improve documentation for vendors who choose to accept electronic payments.

IMPLEMENTATION PLAN/DATE

Management agreed to implement both recommendations by April 1, 2011.

FISCAL IMPLICATIONS

Not Applicable

Supporting Documentation: Audit Report FAU 10/11-3

Presented by: Mr. Morley Barnett, Inspector General

Phone: 561-297-3682

Report No. FAU 10/11-3
Report Issue Date: March 21, 2011

FLORIDA ATLANTIC
UNIVERSITY™

Office of Inspector General

Audit Report: *Accounts Payable*
For the Period July 1 through September 30, 2010

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.

BOCA RATON • DANIA BEACH • DAVIE • FORT LAUDERDALE • JUPITER • PORT ST. LUCIE

**REPORT ON THE AUDIT OF
ACCOUNTS PAYABLE**

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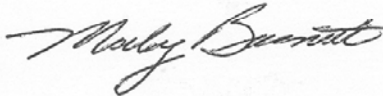
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MEMORANDUM

TO: Dr. Mary Jane Saunders
President

FROM: Morley Barnett
Inspector General



DATE: March 21, 2011

SUBJ: AUDIT OF ACCOUNTS PAYABLE

In accordance with the University's Internal Audit Plan for fiscal year 2010/11, 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 findings. Management has already taken appropriate corrective action to effectively implement one of the recommendations. The responses of the auditee to the other two recommendations 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 these two recommendations by management.

Please call me if you have any questions.

cc: University Provost
Senior Vice Presidents
Vice Presidents
Auditees
FAU BOT Audit and Finance 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 2010/11, we have conducted an audit of the Accounts Payable (A/P) function at Florida Atlantic University for the period July 1 through September 30, 2010. Primary emphasis was placed on evaluating internal controls and examining selected expenditure transactions for the period under review. The audit did not involve testing of payroll, purchasing card, travel, construction, financial aid, grants & contracts, or interdepartmental expenditures, as these areas are covered in other audits or special reviews by the Office of Inspector General (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 university obligations on the Banner 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 Banner invoice transactions 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 operations were being conducted in general compliance with all applicable laws, rules and regulations, university policies and procedures, and sound business practices. However, we identified opportunities for improvement in the following areas:

- Authentication of vendor bank account information for direct deposit of payments;
- Independent management oversight of high-dollar Banner invoices; and,
- Proper segregation of conflicting computer duties.

The details of these findings, as well as the suggestions for corrective action, can be found in the Comments and Recommendations section of this report.



March 21, 2011

Dr. Mary Jane Saunders
President
Florida Atlantic University
Boca Raton, Florida

Dear President Saunders:

SCOPE AND OBJECTIVES

In accordance with the University's Internal Audit Plan for fiscal year 2010/11, we have conducted an audit of the Accounts Payable (A/P) function at Florida Atlantic University for the period July 1 through September 30, 2010. Primary emphasis was placed on evaluating internal controls and examining selected expenditure transactions for the period under review. The audit did not involve testing of payroll, purchasing card, travel, construction, financial aid, grants & contracts, or interdepartmental expenditures, as these areas are covered in other audits or special reviews by the Office of Inspector General (OIG) and/or the Auditor General's Office.

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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 Banner invoice transactions in order to determine whether control procedures were operating effectively.

We obtained an understanding of the university's A/P operations 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 expenditure transactions statistically selected from the Banner 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.

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

BACKGROUND

The Accounts Payable section is a unit of the University Controller's Office, and is responsible for the processing and payment of the university's obligations incurred as a result of the procurement of goods and services from vendors. The primary mission of the A/P unit is to ensure all vendor payments are processed timely, accurately, and in compliance with university and state policies and procedures. During the course of the audit, the unit was staffed by 15 employees under the supervision of an Assistant Controller. In addition, an employee of the Accounting & Finance unit of the Harbor Branch Oceanographic Institute (HBOI) has been granted update access to the Banner Finance A/P module for the purpose of processing minor invoices (i.e., amounts of \$1,000 or less) for vendors of HBOI.

The university currently uses the A/P application of the Banner Finance system to generate, approve, and pay computer-generated (Banner) invoices based on paper invoices and/or other supporting documentation submitted by vendors for payment of goods and services provided to departments. According to management, approximately 10,400 Banner invoices totaling an estimated \$46.1 million were processed for payment by A/P operations during the first quarter of the 2010/11 fiscal year, our audit period.

Certain key online and offline controls have been established for the Banner Finance A/P application to help management achieve the objective of authorized, efficient, and prompt processing of payments to vendors. For example, Banner A/P has built-in controls that, among other things, allow only invoices created and approved on the system to be electronically selected for automated payment processing; prohibit the use of the same vendor invoice number for more than one payment to the same vendor; and, automatically assign sequential document numbers for invoices created on the system. Additionally, A/P audit desk personnel are required to review the propriety of the supporting documentation for all Banner invoices in excess of \$1,000, and electronically approve such invoices originated on the system by A/P input clerks.

COMMENTS AND RECOMMENDATIONS

Current Findings and Recommendations

Need for Supplemental Independent Managerial Review of High-Dollar Banner Invoices

Under current established practice, all Banner invoices in excess of \$1,000 are routed to an invoice audit (approval) queue on Banner Finance where they are required to be reviewed and electronically approved by an employee other than the Accounts Payable (A/P) clerk who generated the invoice on the system. Once approved on the system, the Banner invoices are selected for payment by a Check Desk clerk who is responsible for processing the check/direct deposit payments to the vendors.

Currently, all high-dollar Banner invoices (i.e., invoices of \$500K or more) are automatically routed to the abovementioned invoice audit queue where only two A/P supervisory/managerial

employees – an Assistant Controller and A/P Coordinator – had the authority to electronically approve Banner invoices of \$500K or more. Although this automated control provided assurance of supervisory involvement in the transaction, we noted that the aforementioned employees were not independent reviewers to the extent that they had the conflicting computer capabilities of being able to both generate and approve Banner invoices in excess of \$1,000 on the system. According to management, these employees were restricted to approving Banner invoices, but because of system limitations, the conflicting computer access was operationally necessary in order for them to effectively perform, as needed, certain supervisory actions for outstanding invoices on the system.

Recommendation No. 1

To enhance existing controls, we recommend that written procedures be developed and implemented to facilitate an independent managerial/supervisory review of the supporting documentation for all high-dollar invoices generated on the system. Options for documenting the review could include the initialing and dating of manual records, such as the vendor invoice or the Banner A/P invoice selection report, or online approval of the Banner invoice in the audit queue on the system, by the designated supervisor/manager.

Management's Response

Action Plan:

Management has agreed to create and implement written procedures to include an approval by the Assistant Vice President for Finance and University Controller, or her designees for all invoices over \$500,000.

Implementation Date: April 1, 2011

Responsible Auditee: Stacey Semmel, Assistant Vice President – Finance, & University Controller

Non-Verification of Vendor Bank Account Information

Under current procedures, all university vendors who elect to be paid via direct deposit must submit a properly completed and signed *ACH Enrollment Form – Authorization Form for Electronic Funds Transfer* to the Controller's Office. The form is used to start, change, or stop direct deposits, and solicits the appropriate banking information from the vendor necessary for the Check Desk of the Controller's Office to effect ACH payments to the vendor's bank account.

Notwithstanding the importance of the aforementioned authorization form, we noted that the Controller's Office currently had no procedures in place to authenticate the vendor's banking information prior to the initiation of direct deposits to the bank account specified on the form. Without proper verification procedures, the Controller's Office has no assurance that the bank account indicated on the vendor's ACH form actually belongs to the vendor. Options for verification could include requiring the vendor to submit a voided bank check or deposit slip, or

a signed letter from their bank verifying the indicated bank account information.

Compliance testing of a statistically selected sample of 97 Banner invoices – involving 82 vendors – processed during the audit period, indicated the following results relating to vendor ACH enrollment documentation:

- For 37 of the 47 vendors paid via ACH (direct deposit), the vendors had not submitted appropriate documentation, e.g., a voided bank check or deposit slip, or a signed bank letter, to verify the bank account information indicated on the authorization forms;
- The *ACH/EFT Vendor Enrollment Form* on file for one of the aforementioned 47 vendors was not signed by an authorized representative of the vendor (the form was not signed at all); and,
- For another of the 47 aforementioned vendors, an email (from the vendor) indicating the bank account information to be used for electronic payments was relied upon instead of the required ACH enrollment form.

During the course of the audit, we found no indication that the bank account information on file for the abovementioned 47 vendors paid via ACH was inaccurate or erroneous.

Recommendation No. 2

In order to mitigate the risk of erroneous, unauthorized, or fraudulent direct deposit payments to third parties, we recommend management ensure that vendor requests to initiate, stop, or change direct deposits are consistently submitted on a properly completed and signed-off ACH enrollment form. In addition, as a proactive measure, management should develop and implement appropriate procedures to provide reasonable assurance of the veracity of the banking information indicated on the ACH enrollment forms submitted by vendors.

Management's Response

Action Plan:

Management has agreed to amend and add wording to the ACH enrollment form, which will encourage vendors to opt for the inclusion of a voided check or Bank Letter, so that the accuracy of routing information being entered may be more precisely verified. Additionally we will add checkboxes for vendors to signify whether the form is for new, change or deleted accounts.

Implementation Date: April 1, 2011

Responsible Auditee: Stacey Semmel, Assistant Vice President – Finance, & University Controller

Corrective Action Already Taken

Conflicting Banner Finance Computer Capabilities

Based on a review - conducted during the course of the audit – of the Banner Finance access for employees of the Accounts Payable (A/P) unit, as well as other employees of related units of the Controller's Office and the Accounting & Finance unit of the Harbor Branch Oceanographic Institute (HBOI) with access to Banner A/P functions, we noted the following instances of conflicting computer duties:

- Two employees of the A/P unit - the Assistant Controller and A/P Coordinator - had the capability to process checks/direct deposit payments on the Banner Finance system which conflicted with their online authority to approve Banner invoices on the system. According to management, these employees had been granted the Banner check/direct deposit processing capability for use on a back-up basis only; and,
- An A/P clerk at the HBOI Accounting & Finance unit had the capability of being able to generate and approve Banner invoices (of \$1,000 or less) and create/maintain vendor records on the system. Potentially, the employee could process a Banner invoice (of \$1,000 or less) based on a paper invoice submitted by a fictitious vendor created by the employee.

During the course of the audit, management took appropriate corrective action to delete the Banner Finance check/direct deposit processing access of the abovementioned Assistant Controller and A/P Coordinator, and the vendor maintenance update access of the HBOI A/P Clerk. To the extent that we were able to verify that this corrective action had been taken prior to the completion of audit fieldwork, no further action or response from management is deemed necessary.

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 audit tests performed, it is our opinion that the evaluated A/P operations were being conducted in general compliance with applicable laws, rules and regulations, university policies and procedures, and sound business practices. We believe the control enhancements recommended are cost-beneficial to implement, and will serve to strengthen the overall internal control environment pertaining to the review, approval, and processing of payments to vendors.

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

A handwritten signature in cursive script, reading "Morley Barnett".

Morley Barnett, CPA, CFE
Inspector General

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