

Office of the City Auditor

Report

Duplicate Payments Analysis

November 2010



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Executive Summary

Duplicate payments are one of several types of overpayment errors that can occur within the accounts payable process. Although duplicate payments are generally not fraud related, this type of overpayment still represents a vulnerability to any organization, and a loss if undetected.

A general benchmark for duplicate payment errors is .1 percent (.001) of the annual invoice payments.¹ For an organization the size of Long Beach with over \$780 million in annual invoice payments, this could result in \$780,000 in duplicate payments.

We recently concluded an analysis of over 300,000 disbursement vouchers for the City's 22 departments using ACL audit analytics software for the period from October 1, 2006 through August 31, 2009. We used ACL (audit analytics) software with defined search criteria to identify possible duplicate payments. Based on our findings, we are happy to report that the City's duplicate payment error rate is approximately .005 percent (.00005). Invoices that were identified as possible duplicate payments were forwarded to departments for confirmation and subsequent collection.

As a result of our procedures, we identified the following issues:

- The City could further reduce the risk of duplicate payments by establishing citywide policies and procedures over invoice processing and invoice numbering conventions. (Finding #1)
- In total, we discovered \$59,906 in duplicate invoice payments of which \$33,810 has been collected. (Finding #2)
- Enhanced system documentation when resolving duplicates will improve tracking and reimbursement. (Finding #3)

Recommendations to strengthen controls over the invoice payment process and to reduce the likelihood of duplicate payments are included in this report.

We thank Department Management and the Accounts Payable Section of Financial Management for their cooperation and proactive efforts in identifying and facilitating the collection of overpayments.

¹ The CPA Letter/Business & Industry, AICPA, April, 2003

Background

Duplicate Payments

The City's FAMIS system, like most accounts payables platforms, has a built-in control to detect and prevent payment of duplicate invoice numbers. However, the system is not robust enough to prevent the duplicate payments that result from human error. Typically, an invoice entry will include vendor number, invoice number, invoice date, and invoice amount. If any of these fields are entered inconsistently, the system's control will be ineffective. Additionally, the number of vendor invoices without defined invoice numbers increases the probability of duplicate payments.

The City's error rate of .005% includes the new duplicates identified during this analysis as well as duplicates discovered during our testing but previously resolved by management. Our analysis was designed to identify duplicates using certain criteria; however, it is not a guarantee that all duplicate payments were identified.

The City has multiple payment options in place, i.e. wire transfer, procurement cards, direct payments, purchase order payments, etc. We tested voucher payments made using the City's direct payment process or purchase orders. Our test work excluded wire transfers, procurement cards, investments, payroll and worker's compensation payments. The risk of duplicate payments generally increases if more than one platform is used to pay a vendor.

Invoice Processing

We reviewed invoices processed² through Accounts Payable, a Section in the Financial Management Department's Accounting Operations Division. Accounts Payable is responsible for ensuring that payments are processed timely, and properly authorized in compliance with City Policies and procedures. We also reviewed payments made by the Water, Harbor and Energy departments who manage their own internal accounts payable operations.

Departments are responsible for ensuring funds are available and obtaining proper approvals before procuring goods or services.³ Departments must review and approve their invoices as well as ensure the invoices have not been previously paid. In addition, departments must confirm receipt of goods or services, prices and total charges before forwarding invoices to Accounts Payable for payment. Only original invoices or certified original invoices are acceptable.

² Excludes wire transfers, investments, payroll, and worker's compensation payments

³ Refer to the City Administrative Regulations and P-Card Policies and Procedures for policies on purchases, Direct Payments, wire transfers and purchasing cards.

Accounts payable reviews the invoice to ensure it includes supervisor approval and a purchase order number. If the information is correct and the invoice has not been previously paid, Accounts Payable processes the invoice for payment. Accounts Payable inputs data from the invoice, creates an electronic voucher and prepares a payment voucher packet that includes the invoice and supporting documentation.

The Disbursements Desk Analyst in the Office of the City Auditor performs the final review of the payment voucher for compliance with City policies and procedures and contract payment terms. A payment voucher is held and an audit exception is issued when a payment does not comply with City policies or contractual terms.

Objective, Scope, Methodology

The objective of our analysis was to identify duplicate payments made to vendors for the period from October 1, 2006 through August 31, 2009. We tested voucher payments made using the City's direct payment process or purchase orders. Our test work excluded wire transfers, procurement cards, investments, payroll and worker's compensation payments. To accomplish our objective, we performed the following procedures:

- Obtained a schedule of all vouchers created during the analysis period from FAMIS, the City's Financial System.
- Used ACL, a proprietary computer audit software, to identify possible duplicate payments using "same vendor, invoice number and invoice amount" as the criteria.
- Manually selected vouchers identified using the following criteria:
 - Vouchers that may have an incorrect invoice number (i.e., additional characters, similar characters, transposed, etc.); and
 - Vouchers that may have been paid to certain vendors erroneously.
- Researched the possible duplicate payments that were manually selected.
 - Evaluated information in FAMIS to verify that the vouchers were related to paid invoices, and reviewed electronic notepads to determine previously resolved duplicate payments.
 - Examined the invoices and supporting documentation for each paid voucher.

- Notified City departments of duplicate payments found to facilitate collection of overpayments and requested each department to follow up with our Office on the status of each item.
- Reviewed follow-up documents and FAMIS data to confirm vendor reimbursements of duplicate payments.

Results of Analysis

Issue #1: The City could further reduce the risk of duplicate payments by establishing citywide policies and procedures over invoice processing and invoice numbering conventions.

A citywide invoice processing policy ensures invoices are routed consistently, proper approvals are obtained, and the risk of duplicates due to input errors is minimized. Adhering to policies with properly established controls reduces the risk of duplicate payments. There is no citywide policy over invoice processing that includes: vendor invoice routing, proper invoice approvals, requiring original or certified original invoices, establishing invoice numbering conventions, department responsibilities, and Accounts Payable responsibilities.

Issue #2: In total, \$59,906 in duplicate payments was identified of which \$33,810 has been collected.

Our review of over 300,000 vouchers produced by the 22 City departments resulted in the identification of 69 possible duplicate payments totaling \$59,906. Management has confirmed \$45,696 in duplicates, and confirmation of the additional \$14,210 is pending.

Our Office has maintained communications with departments' management and the Accounts Payable Section to ensure that vendors were notified of the duplicate payments and proper reimbursements to the City were made. A total of \$33,810 has been reimbursed to the City, and continued collection efforts are in process.

Based on the analysis of vouchers and corresponding invoices for the period October 1, 2006 through August 31, 2009, duplicate payments were primarily the result of the following system input errors:

1. Typographical errors when entering invoice numbers (i.e., transposed numbers, additional or missing characters/numbers);
2. Inconsistent invoice numbering conventions (i.e., hyphens, space, and backslash were used interchangeably);

3. Incorrect vendor number input resulting in payments to the wrong vendor; and
4. Vendor issuing two invoices with different numbers for the same product or service.

Table 1 below summarizes the duplicate payments that were identified.

Table 1: Summary of Duplicate Payments Identified

Department	Confirmed Duplicate	Pending Management Confirmation	Total Identified	Total # of Items	Amount Collected	Amount Outstanding
Airport	\$ 528.58	\$ 1,283.10	\$ 1,811.68	4	\$ 226.02	\$ 1,585.66
City Auditor	190.00	-	190.00	1	190.00	-
Community Development*	2,750.48	-	2,750.48	5	590.00	2,160.48
Financial Management	315.01	-	315.01	1	-	315.01
Fire	1,433.07	-	1,433.07	3	1,433.07	-
Gas	204.85	-	204.85	1	-	204.85
Harbor	209.03	-	209.03	1	209.03	-
Health*	1,767.76	3,106.14	4,873.90	7	1,659.80	3,214.10
Human Resources	650.00	-	650.00	1	650.00	-
Parks, Rec & Marine*	-	6,865.32	6,865.32	13	-	6,865.32
Police	705.20	1,486.71	2,191.91	4	-	2,191.91
Public Works	27,003.75	1,468.33	28,472.08	23	18,913.32	9,558.76
Tech Services	3,445.59	-	3,445.59	2	3,445.59	-
Water	6,492.88	-	6,492.88	3	6,492.88	-
Totals	\$ 45,696.20	\$ 14,209.60	\$ 59,905.80	69	\$ 33,809.71	\$ 26,096.09

Issue #3: Enhanced system documentation when resolving duplicates will improve tracking and reimbursement.

Duplicate payments that are resolved are not properly documented in the FAMIS system, making it difficult to determine if a duplicate is resolved or remains unpaid. Since our analysis, some departments recorded information on resolved duplicate payments in the electronic notepads of the corresponding vouchers in FAMIS.

Recommendations

1. Develop a citywide policy and procedure over invoice processing incorporating vendor invoice routing, proper invoice approvals, invoice numbering conventions, requirement for original or certified original invoices, department responsibilities, and Accounts Payable responsibilities.
2. Pursue collection of outstanding duplicate payments not yet reimbursed.
3. Work with the Technical Systems Division to determine if system controls, such as requiring the input of both the purchase order number and the first four digits of the vendor number, can be implemented to prevent payments to the wrong vendors.
4. Record vendor reimbursements in the electronic notepads of both duplicate vouchers in FAMIS to provide proper tracking of vendor repayments as well as ensure that the City has been properly reimbursed for duplicate items.

Appendix A

Management Response

Financial Management Department

Appendix A



City of Long Beach
Working Together to Serve

Memorandum

Date: November 1, 2010
To: Janet Day, Deputy City Auditor
From: Stephen W. Hannah, City Controller
Subject: Response to the Duplicate Payments Analysis Report

SWH

Recommendation 1:

Develop a citywide policy and procedure over invoice processing incorporating vendor invoice routing, proper invoice approvals, invoice numbering conventions, requirement for original or certified original invoices, department responsibilities, and Accounts Payable responsibilities.

Management Response:

The Department of Financial Management concurs with intent of the recommendation.

The Department of Financial Management is preparing a new Administrative Regulation that incorporates guidance covering the areas specified in the above recommendation.

Recommendation 2:

Pursue collection of outstanding duplicate payments not yet reimbursed.

Management Response:

The Department of Financial Management concurs and is already acting upon the above recommendation.

Recommendation 3:

Work with the Technical Systems Division to determine if system controls, such as requiring the input of both the purchase order number and the first four digits of the vendor number, can be implemented to prevent payments to the wrong vendors.

Management Response:

The Department of Financial Management, working with Technology Services, will see if a system modification can be developed and implemented that would provide a significant enhancement to remedy this issue. Financial Management will also look to develop additional manual controls and reports that can be used by departments to identify duplicate payments on an annual basis.

Janet Day, Deputy City Auditor

November 9, 2010

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Recommendation 4:

Record vendor reimbursements in the electronic notepads of both duplicate vouchers in FAMIS to provide proper tracking of vendor repayments as well as ensure that the City has been properly reimbursed for duplicate items.

Management Response:

The Department of Financial Management concurs with the intent of the recommendation.

Language will be added to the aforementioned Administrative Regulation to require notepad entry's for all duplicate payment related vouchers.