



RICHMOND OFFICE of the CITY AUDITOR

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AUDIT OF

Richmond Public Schools ACCOUNTS PAYABLE DIVISION

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OFFICIAL GOVERNMENT REPORT

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Richmond City Council

The Voice of the People Richmond, Virginia

Office of the City Auditor

Executive Summary

May 18, 2015

The Honorable Members of the Richmond Public School Board

Subject: Richmond Public Schools – Accounts Payable Division Audit Report

The City Auditor’s Office has completed an audit of the Richmond Public Schools’ (RPS) Accounts Payable Division. The Accounts Payable Division is responsible for accurately and timely processing vendor payments. The following information represents workload data for the Accounts Payable Division:

Description	FY 2012	FY 2013
Number of invoices and credit memos	38,000	34,000
Total Disbursements	\$106 million	\$109 million

In their 2008 audit of this function, the City Auditor’s Office had identified significant internal control weaknesses and non-compliance with regulations, policies, and procedures. RPS has made improvements since the last audit.

Based on the audit procedures followed, this audit concluded that:

- The controls over the accounts payable function needed improvement
- We found no occurrence of fraud, waste and abuse. However, if occurring, it might not be detected in a timely manner.

Several factors contributed to the above conclusions, such as:

- The auditor observed three sets of procedures in place for vendor set up or changes to vendor records. The documentation and approval requirements for vendor record

modification were inconsistent in these procedures. Thirty five vendor record change transactions of the selected 50 transactions were not properly supported. Also, it is unclear if the changes were reviewed and approved by a supervisor. Unauthorized changes to vendor records could lead to fraud and loss of resources.

- The Accounts Payable staff had access levels that would allow them to perform transaction input and editing capabilities, and making changes to the vendor database. This situation can be abused.
- Departmental invoices are internally created documents generally used to pay for expenses for which vendor invoices are not expected or vendors do not accept a purchase order. The auditor observed that these payments were not always appropriately approved and adequately supported.
- It was noted that replacement payments for ninety-five invoices were issued prior to issuing stop payments for the original check, or removing checks from the positive pay file or from the commercial card listing. Although it did not occur, the risk existed that the vendors could have received and cashed both the original and the replacement payments.
- Eleven of 49 employee reimbursements totaling approximately \$7,500 were not sufficiently documented to demonstrate that expenses were incurred and reimbursements were warranted. The majority of these payments were related to travel expenditures. Unlike the City of Richmond, RPS staff are not required to provide supporting documentation and receipts for these expenditures upon returning from travel.
- Bank reconciliations were not performed in a timely manner. The Senior Accountant responsible for this function was promoted and this task was assigned to another Senior Accountant, who did not fully understand the bank reconciliation process.
- Auditor reviewed five manual checks totaling approximately \$1 million and did not find any evidence of approval by Finance Director, COO or Superintendent.
- RPS has two credit card accounts for incurring routine expenditures. It was noted that supporting documentation for purchases totaling approximately \$4,300 was not available. Also, a credit card for a former employee was used for purchases of approximately \$1,300 after the cardholder left employment with RPS.
- RPS did not comply with Internal Revenue Services (IRS) 1099 Reporting requirements and RPS' policies and procedures for payments of at least \$1.9 million.

The City Auditor's Office appreciates the cooperation of the RPS Accounts Payable's staff. Responses to the recommendations made in this report are enclosed. Please contact me for questions or comments on this report.

Sincerely,

Umesh Dalal

Umesh Dalal, CPA, CIA, CIG
City Auditor

cc: Dr. Dana Bedden, Superintendent
The Richmond City Audit Committee
The Richmond City Council

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COMPREHENSIVE LIST OF RECOMMENDATIONS

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Introduction, Objectives, and Methodology

Introduction

The City Auditor's Office has completed an audit of the Richmond Public Schools' (RPS) Accounts Payable Division. This audit covers the 18 month period ended December 31, 2013. The objectives of this audit were to:

- Evaluate the efficiency and effectiveness of operations
- Determine the existence and effectiveness of internal controls
- Verify compliance with laws, regulations, and policies

The auditors conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those Standards require that the auditors plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions based on the audit objectives. The auditors believe that the evidence obtained provides a reasonable basis for their findings and conclusions based on the audit objectives.

Methodology

Auditors performed the following procedures to complete this audit:

- Interviewed management and staff;
- Reviewed and evaluated relevant policies and procedures and tested for compliance;
- Reviewed and analyzed accounts payable data;
- Conducted a walkthrough of the accounts payable process; and
- Performed other tests, as deemed necessary.

Management Responsibility

RPS management is responsible for ensuring resources are managed properly and used in compliance with laws and regulations; programs are achieving their objectives; and services are being provided efficiently, effectively, and economically.

Background

The Accounts Payable Division is responsible for accurately and timely processing vendor payments, including data entry into the financial accounting system, matching remittances and vendor invoices to checks and then mailing them.

In addition, the Division also is responsible for the following duties:

- Maintaining the vendor database;
- Submitting electronic fund transfer (EFT) request to the City of Richmond to fund their disbursement account;
- Processing voids and stop payments;
- Researching and addressing vendor payment questions submitted by employees and vendors;
- Working with end users to resolve invoice errors, which prevent invoices from posting and generating checks;
- Maintaining the check copies and supporting documentation; and
- Researching returned checks.

Workload

The following information represents workload data for the Accounts Payable Division:

Description	FY 2012	FY 2013
Number of invoices and credit memos	38,000	34,000
Total Disbursements	\$106 million	\$109 million

RPS must have proper controls over accounts payable activities

Similar to purchasing activities, the accounts payable function is considered to have vulnerabilities to the risk of fraud. In addition, since this activity processes significant resources, errors or non-compliance with laws and regulations could result in financial losses.

The City of Richmond is the custodian of all cash and investments of the School Board, except certain cash on hand and liquid assets with and

financial institutions. In order to fund their disbursement account, RPS generates electronic transfer requests after each check run and submit them to the City's Finance Department for approval, processing, and transferring funds.

***RPS has made
improvements
since the last audit***

During the previous Accounts Payable audit completed in 2008, the City Auditor's Office identified significant internal control weaknesses and non-compliance with regulations, policies, and procedures. The following improvements have been made since then:

- All checks including replacements are keyed into the financial system. During the previous audit, replacement checks were not recorded in the financial system when stop payments were processed for the original checks. A manual log was used to track the replacement checks.
- RPS implemented positive pay, whereby the bank matches the checks with an approved data file and alerts RPS when exceptions are identified.
- Manual check issuance was substantially reduced from 300 checks during the last audit period to 51 during the current audit period.
- In March 2013, RPS started issuing commercial card payments to vendors who opted to receive electronic payments instead of paper checks. During the audit scope, RPS issued electronic payments of approximately \$6 million. RPS received a rebate of approximately \$53,000 on the 2013 commercial card payments.

Observations and Recommendations

Internal Controls

According to the Government Auditing Standards, internal control, in the broadest sense, encompasses the agency's plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. An effective control structure is one that provides reasonable assurance regarding:

- Efficiency and effectiveness of operations
- Accurate financial reporting
- Compliance with laws and regulations

The overall conclusion of internal control testing is:

Internal controls over the accounts payable function need improvement

Based on the audit procedures followed, the auditors concluded that:

- *The controls over the accounts payable function need improvement*
 - *We found no occurrence of fraud, waste and abuse. However, if occurring, it may not be detected timely.*
-

Several factors contributed to the above conclusions, which are discussed in this report.

Vendor Database Changes

Vendor Database Changes

The Department of Finance is responsible for adding vendors and modifying existing records. Approximately 2,200 vendor records were added and/or modified during the audit period. The auditor observed

three sets of procedures in place for vendor set up or changes to vendor records as follows:

- A memo dated April 20, 2009 in the Financial Procedures Manual for Academic Year 2010-2011 describes procedures to make changes to the vendor database. This manual is on their Finance Department's website and is accessible to staff and vendors.
- The Accounts Payable procedures manual includes vendor setup and changes procedures.
- In addition, the desktop procedures provided to the accounts payable employees include vendor set up and modifications information. .

The documentation and approval requirements for vendor record modification included in the above procedures were inconsistent. For example, the desktop procedures indicated that under certain circumstances, an email or other written communication could be provided for vendor set up and changes and that a subsequent follow up was required to obtain the W-9s. The Policy did not define those circumstances. The other two procedures noted above required W-9s before vendor setup or modification. Inconsistent procedures may result in end user and finance staff confusion.

The auditor's verification found the following in a sample of 50 vendor database changes:

- 15 transactions were adequately supported and justified.
- 35 transactions were not adequately supported and justified.

The vendors' changes were not always supported by W-9s. Some of the documentation was outdated and not applicable to the changes under review.

For the majority of transactions reviewed, proper supporting documentation for vendor database changes was not available

During testing, the Auditor also noted instances where there was adequate documentation but no indication of who made it the change and how it was initiated. Also, it is unclear if the changes were reviewed and approved by a supervisor.

The above situation can be abused by setting up fictitious vendors and may result in financial loss to RPS.

Pursuant to RPS' policies and procedures:

***Duplicate
Vendor Records***

- Staff is required to query the vendor database to ensure a vendor record does not already exist prior to setting up a new one.
- The staff is required to review vendor database duplicate entries at least annually. Vendors that have not been used in the past five years are purged.
- Vendors that are still active are researched to determine which vendor record to use and the others are flagged and placed on hold for new orders until they can be deleted.

***Duplicate vendor
records exist in
the vendor
database***

The auditors analyzed the vendor database and selected a total of 1,222 vendor records for further analysis. Three hundred eighty-nine (389) records were deemed duplicates related to 191 vendors with the same address and/or Social Security Number. Only 91 of the 389 records were flagged and placed on hold. This situation could clutter the vendor records and result in errors or impair management's ability to analyze the data. The vendor records that meet the criteria for purge should be removed from the vendor database.

Recommendations:

The Superintendent needs to require the Finance Department to:

1. Implement a standardized/consistent policy regarding vendor set up and modifications, provide training to the staff and enforce compliance.
2. Ensure adherence to the duplicate vendor policies related to vendor setup and annual vendor database review.
3. Eliminate duplicate records from the vendor database.

***Lack of
Segregation of
Duties***

System access levels are granted based upon signed requests from school/department heads. RPS grants the following two types of access levels:

1. RPS Manager Access Level consisting of full access to change, approve, index, lookup, and process transactions
2. RPS Staff access level to look up, index, and process transactions, and a limited access with restrictions to alter certain records

***Assigned access
levels do not allow
for adequate
separation of
duties***

During the audit, the following staff had RPS Manager's access levels to the Accounts Payable system. This type of access level allows the employee to perform incompatible tasks that have the potential for abuse. Currently, the assigned access levels do not allow for adequate separation of duties for some of the Finance staff as depicted below:

Job Title	Add/Modify Record	Input Receiver	Input Invoice	Close Out PO's
Account Technician	Yes	Yes	Yes	Yes
Accountant*	Yes	Yes	Yes	Yes
Accounting Supervisor	Yes	No	Yes	Yes
Office Associate III	Yes	Yes	Yes	Yes
Accountant	No	Yes	Yes	Yes
Accountant	No	Yes	Yes	No
Accountant (2 positions)	No	Yes	Yes	No

* Access level (limited edit access) to purchase order close out procedures

All of the above staff have the ability to input vendor invoices. In addition to keying vendor invoices, the Office Associate III, Account Technician, one Accountant and the Accounting Supervisor also have the ability to add/change vendor database records. The checks are returned to the Office Associate, who submits them to the Accountants for mailing. This would allow them access to the checks. Given this system access level and access to the printed checks, there is a risk that staff could set up fictitious vendors, process vendor invoices, and issue payments to such vendors and misappropriate the funds. As described before, it was noted that supporting documentation and evidence of supervisory review were not available for vendor additions/modifications reviewed.

RPS has attempted to mitigate this risk by adopting a procedure whereby an employee not responsible for invoice processing is expected to randomly select and check an accountant's work from each check run. However, based upon review of the records, the auditor noted that the accountants' work has been selected in a defined pattern since September 2013 rather than random selection. This situation will allow the

accountants processing checks to anticipate when their work would be reviewed.

Recommendation:

4. The Finance Director needs to review and revise system access levels to ensure adequate separation of duties.

Departmental Invoice

Departmental Invoice

Departmental invoices are internally created documents generally used to pay for expenses for which vendor invoices are not expected or vendors do not accept a purchase order. Payments are not attached to a purchase order and receivers are not required. For example:

- Employee Reimbursements (i.e. mileage, travel)
- Association/Membership Dues
- Payroll related expenses
- Utility payments (i.e. gas, water, electric, telephone)

During the audit period, Accounts Payable processed approximately 18,000 Departmental Invoices and direct payments, totaling approximately \$75 million, representing 50% of the total payments processed. The remaining payments were related to purchase orders

Departmental invoices are required to be adequately supported and properly approved by an authorized individual. Per Accounts Payable procedures:

- Documentation, such as registration forms, order forms, receipts and invoices must be provided to support departmental invoices.
- Individuals authorized to approve Departmental Invoices must have an authorized signature form on file with Accounts Payable. Two authorized signatures are required for expenditures over \$2,500.

- A Departmental Invoice form must have its own unique number, which is defined by invoice keying standards.

The majority of the Departmental Invoices reviewed were appropriately used. However, payments were not always appropriately approved and adequately supported as noted below:

Established policies and procedures were not consistently followed

Attribute	Compliance With Policies			
	Yes	%	No	%
Appropriate use of departmental invoices	109	96%	4	4%
Proper Authorization*	67	59%	17	15%
Proper support	98	87%	15	13%

* Could not conclude on proper authorization for 29 payments as authorized signature listings were not available.

Given the volume of activity and the amount of Departmental Invoices processed, it is essential that adequate controls are in place to mitigate the following risks:

- Circumventing purchasing procedures, which may result in not obtaining the most advantageous price
- Duplicate payments that could result in financial losses

While Accounts Payable has established policy and procedures in place to minimize the above risks, these procedures were not consistently followed as depicted above.

Recommendation:

5. The Finance Director needs to monitor and enforce compliance with policies and procedures related to Departmental Invoices.

Duplicate Payments

Duplicate Payments

Adequate controls and procedures were in place to minimize the risk of and identify and detect duplicate payments. The auditor selected 770

Adequate controls and procedures are in place to minimize the risk of duplicate payments; however, they need to be strictly enforced

invoices for duplicate testing procedures. Of the sample selected, 18 transactions were determined to be duplicates totaling \$8,000 from a total sample amount of \$2.9 million. RPS has recovered the funds from 4 of the 18 duplicate payments. In the audit sample, the auditor found that the established controls were functioning well. However, the auditor noted that the following improvements were needed.

- Supporting documentation requirements need to be improved. For lack of adequate documentation, the auditor could not conclude if 56 invoices totaling approximately \$44,000 were duplicates. Of these transactions, 40 transactions were related to grant incentives offered to junior and senior high school students. Each student was paid two payments of \$900 each for the incentive collectively totaling \$36,000. It is not clear if these were duplicate payments. The Grants Manager did not provide any documentation justifying the two payments.
- Established controls and procedures need to be strictly enforced. It was noted that replacement payments for ninety-five invoices were issued prior to issuing stop payments for the original check. In addition, RPS did not remove these payments from the positive pay file or the commercial card listing. Although it did not occur, the risk existed that the vendors could have received and cashed both the original and the replacement payments.
- The Unit also implemented invoice number keying standards and procedures in an effort to minimize duplicate payments. However, this policy was not consistently adhered to.

In addition, it was noted that numerous replacement payments were issued to vendors that elected to receive electronic payments. A credit card number is emailed to the vendor. The vendors are expected to key that number into their credit card machines prior to the end of the following month succeeding the payment to retrieve their money. Based upon testing, it was noted that numerous replacement payments were issued to vendors that failed to retrieve their payments before they expired. In order to issue a replacement payment, the original is voided in their financial system and the invoice has to be rekeyed. This results in additional work by the A/P Technicians who have to rekey the invoices.

Electronic payments were implemented March 2013. The bank provided training to vendors who elected to participate in the electronic payments. This was a fairly new process during the audit scope and a learning curve for all involved. According to the Finance staff, they will continue to work with vendors to ensure that they understand the process.

Recommendation:

The Finance Director needs to:

6. Update existing policies and procedures to address replacement of electronic payments to vendors.
7. Ensure that replacement checks are issued only after stop payment confirmation from the bank is obtained
8. Enforce compliance with invoice number keying policies and procedures to help identify duplicate payments.
9. Ensure vendors that elect to obtain commercial card payments are adequately trained and understand the payment requirements

Reimbursements

RPS reimburses employees for expenditures they incur for items relating to the purchase of goods and/or services for the classroom or RPS business related travel. RPS' policies and procedures state that employees traveling for business must travel in an economical and practical manner. Items to be submitted for reimbursements include hotel accommodations, airfare, mileage, registration fees, and other miscellaneous charges related to travel. Pursuant to RPS' travel policies and procedures:

- All travel requests must be submitted with a "Permission to Attend Request Form" with the proper approvals obtained.
- Travelers are expected to submit reimbursement requests within two weeks of completion of travel.
- Reimbursement forms should present all cost incurred and be accompanied by original receipts. However, policy also allows for the submission and acceptance of airfare, bus and train quotes for reimbursement.
- RPS does not provide travel advances with the exception of meals not provided by a conference or event at the per diem rate.
- Reimbursements are limited to the amount submitted and approved on the "Permission to Attend Form."

*Improvements in
supporting
documentation are
needed*

Forty-nine employee reimbursements were selected and reviewed. The majority (38 of 49) of these reimbursements were adequately supported and appropriately issued to employees for out of pocket expenses. The remaining 11 invoices totaling approximately \$7,500 were not sufficiently supported to demonstrate that expenses were actually incurred and reimbursements were warranted. The majority of these 11 payments were related to travel expenditures.

In addition to the above observations, the auditors noted the following:

- Pre-paid travel expenditures (hotel, airfare, etc.) were remitted to vendors. Also, employees were reimbursed for out of pocket travel expenditures (airfare, hotel, registration) prior to the travel date. However, unlike the City of Richmond, RPS staff are not required to provide supporting documentation and receipts for these expenditures upon returning from travel.

According to RPS' Finance Director, inadequate staffing prevents them from auditing receipts/supporting documentation for pre-paid travel expenditures. Accordingly, RPS is at risk of not recouping payments for cancelled travel plans. Unless the employee or vendor notify Accounts Payable staff, Finance has no way to know about cancelled travel plans. This may result in:

- Vendors not remitting refunds, when required
 - Employees being inappropriately reimbursed for out of pocket expenditures that they did not incur
- An inconsistency in the type of supporting documentation provided for employee reimbursement of airfare booked online was noted during testing. Some employees presented booking confirmations and flight itineraries that included passenger name, ticket price, flight details (dates, times, destinations) and in some cases payment method. One employee provided a copy of his credit card statement. Other employees provided printouts from the internet that exhibited cost of flight without flight details and passenger information. At least two instances were noted during testing where employees were reimbursed for airfare based upon quotes. RPS' travel policies and procedures do not address

documentation procedures for online travel purchases. The procedures only require the airfare quotes to be submitted for employee reimbursements.

A quote for air travel is not sufficient to support that an out of pocket expense occurred. This is especially true given that a travel settlement process is not in place. Also, reimbursing employees based upon provided quotes is essentially providing an advance payment as out of pocket expenditures that not been incurred, which is not consistent with policies and procedures.

Potentially, this situation can lead to employees getting reimbursed for expenses not actually incurred and being reimbursed for the same expense more than once.

Recommendation:

The Superintendent needs to require the Finance Director to:

10. Update and enforce policies and procedures for:
 - a. acceptable documentation for employee business related reimbursements; and
 - b. holding employees accountable for timely cancellation of all types of travel expenses when travel plans
11. Require employees to complete a settlement process upon completion of travel.

Bank Reconciliations

RPS' Department Finance is responsible for performing monthly bank reconciliations of the School's disbursement account. Pursuant to their policies and procedures, reconciliations should be completed by the 15th of the month but no later than 30 days after receiving bank statements. The bank statements are electronically available by the 5th of each month.

***Bank reconciliations
were not completed
timely***

Reconciliations were not completed timely for 6 of the 18 months reviewed. According to the Accounting Supervisor, the reconciliations were not completed timely due to staffing resources.

- July 2013 and August 2013 reconciliations were completed in October 2013.
- September, October and November 2013 reconciliations were completed in March 2014.
- December 2013 reconciliation was completed in April 2014.

The Senior Accountant responsible for this function was promoted and this task was assigned to another Senior Accountant, who did not fully understand the bank reconciliation process. A temporary staff was brought in to catch up the reconciliations.

Untimely completion of reconciliations may result in errors, inappropriate transactions, and differences between the book and bank balances not being identified in a timely manner, which could result in an overdrawn bank account, which actually occurred during the audit period.

Recommendation:

12. The Finance Director needs to ensure that banks reconciliations are performed in a timely manner.

Electronic Funds Transfer Requests

The City Of Richmond serves as the custodian for RPS' bank accounts. Accounts payable checks (vendor payments and employee reimbursements) are generated twice a week. To fund the disbursement account, an Electronic Funds Transfer (EFT) request is submitted to the City's Finance Department for each check run. The EFT request includes an itemization amount for the regular A/P budget checks, manual checks

The disbursement account needs to be timely funded to meet RPS' obligations

and electronic payments net of voided payments and adjustments since the last EFT request. EFT requests are submitted to the City the day of the check run or the morning after the check run. The City date stamps each request when it is received. Generally, it was noted that funds posted to the disbursement account within one or two days of the City’s receipt of EFT request forms until July 2013. Between July 2013 and December 2013, the timeframe for funding to post to the bank account increased to five or more days.

The timing of EFT postings to the RPS’ disbursement account is crucial given the nature in which the account is funded. The checks are printed offsite and delivered to RPS’ Finance Department the following day. According to the Finance Director, the checks are generally mailed out the same day they are received. Also, check pickups are allowed when requested and approved. In addition, direct payments (electronic payments) are also issued to vendors. Payments are subject to be tendered before the disbursement account is funded for the payments as depicted below:

EFT	EFT Amount	Check Date	Request Received by COR on	RPS Bank Account Received money on	Delay in receipt
2227	\$ 1,601,353.76	7/24/2013	7/24/2013	8/1/2013	8
2230	\$ 2,254,394.01	8/14/2013	8/14/2013	8/20/2013	6
2231	\$ 1,738,708.40	8/21/2013	8/21/2013	8/27/2013	6
2260	\$ 1,243,337.45	12/9/2013	12/9/2013	12/19/2013	10

Significant delays in posting of the bank account were noted for the check runs listed below. The untimely account postings resulted in the disbursement account being overdrawn and resulted in NSF fees totaling approximately \$28,000, which were subsequently refunded by the bank. The disbursement bank account was overdrawn by approximately \$786,000 as of July 31, 2013 and approximately \$40,000 as of December 31, 2013. According to the Investment & Debt Portfolio Manager, the following delays could have been attributed to the implementation of RAPIDS or keying errors:

EFT #	EFT Amount	Check Date	COR Receipt date for EFT	Bank Acct Posting	# of Days to Post to Acct
2202	\$257,669.71	4/17/2013	4/17/2013	5/29/2013	42
2222	\$ 346,178.84	6/28/2013	7/1/2013	8/21/2013	51
2223	\$ 901,202.75	7/2/2013	7/3/2013	8/21/2013	49
2239	\$ 818,033.53	9/23/2013	9/23/2013	1/8/2014	107

In addition to the above observation, manual checks were consistently not captured in EFT funding requests in a timely manner. Manual checks were generated throughout the months under review but were not included in funding requests until the preceding months. For example:

- August 2012 manual checks totaling approximately \$26,000 were not funded and posted to the bank account until September 11, 2012.
- December 2013 manual checks totaling approximately \$50,000 were not funded and posted to the bank account until January 13, 2014.

Manual checks need to be timely captured in funding requests

Subsequent to the audit, the RPS Accounting Supervisor indicated that they run a manual check register after each check run to ensure that manual checks are timely captured in the EFT requests.

Recommendations:

13. The Finance Director needs to ensure that manual checks are timely captured in the EFT requests.
14. The Superintendent needs to coordinate with the DCAO over Finance and Administration to ensure timely funding of RPS' disbursement account to meet their obligations.

Manual Checks:

Pursuant to the RPS' policies and procedures, manual checks are to be issued on a limited basis and in emergency situations. Manual check requests are required to be accompanied by a signed memo from either the principal of a school or Director of a department explaining the reason for a manual check and urgency of the payment. Manual check requests are subject to approval by the Finance Director, Chief Operating Officer (COO) or Superintendent.

Auditor reviewed five manual checks totaling approximately \$1 million, which represented 96% of the total dollar amount of manual checks processed during audit period. The need for the manual checks was generally not clear or evident as the budget holders did not submit written explanation why manual checks were needed and why they could not wait to next regular check run for 80% (4 out of 5) payments reviewed. Also, evidence of approval from Finance Director, COO or Superintendent was not noted for any of the reviewed payments.

The need for manual checks were not clear or evident

Recommendation:

15. The Finance Director needs to enforce adherence to policies and procedures related to issuance of manual checks.

Credit Cards

According to the Finance Director, RPS had two credit card holders, with a credit balance of \$10,000 each, during the audit period. During the audit scope, credit card payments totaling approximately \$21,000 for travel and other expenditures were processed.

Credit card statements are mailed directly to the card holders. Pursuant to the RPS' credit card policy, the cardholders are required to:

- Attach receipts for every charge on the statement,
- Certify all expenses are for official school business and
- Forward a Departmental Invoice and supporting documentation to the Department of Finance at least five working days prior to the due date.

***Credit card payments
were not always
supported***

Based upon review of credit card payments, it was noted that supporting documentation for purchases totaling approximately \$4,300 was not available. It was also noted that a credit card for a former employee was used for purchases totaling approximately \$1,300 after the cardholder left employment with RPS. In this situation, credit card abuse, if occurred, will not be detected in a timely manner.

Recommendation:

16. The Finance Director needs to ensure credit card charges are properly supported and closely monitored.

1099 Reporting

The Internal Revenue Services (IRS) requires a 1099-Misc form to report payments of at least \$600 for services or a combination of services and products.

1099 forms were not issued to required vendors

Based on the testing procedures, the auditor concluded that RPS did not have adequate controls and procedures in place to ensure proper reporting for 1099. The IRS fines \$100 for each information return not filed.

The auditor found that:

- Adequate documentation was not obtained and/or retained to ensure vendors are properly flagged for 1099 reporting. For 10 of 51 selected vendors, W-9s could not be provided.
- Six incorporated vendors providing health/medical related services were qualified to receive a 1099, however, they were not flagged for 1099 reporting. These vendors received approximately \$600,000 during calendar year 2013.
- Six vendors were organized as Limited Liability Companies (LLCs). RPS did not report payments totaling \$1.3 million to one of these vendors, as required by IRS guidelines.

Recommendations:

17. The Finance Director needs to update policies and procedures and train staff to ensure they possess adequate knowledge to comply with IRS 1099 requirements.

MANAGEMENT RESPONSE FORM

2015-08 RPS - Accounts Payable Audit

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
1	The Superintendent needs to require the Finance Department to implement a standardized / consistent policy regarding vendor set up and modifications, provide training to the staff and enforce compliance.	Y	Effective April 2015, the initials of the employee responsible for adding/making changes to the vendor record must be written on the W-9 form. W-9 forms are required for vendor set-up. All W-9's will also be reviewed by the Accounting Manager for Finance Operations to ensure vendors are set up correctly. Also the employee who adds/makes system changes will note on the vendor record the date of the change(s) made and their initials to the system.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Finance		April 1, 2015
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
2	The Superintendent needs to require the Finance Department to ensure adherence to the duplicate vendor policies related to vendor setup and annual vendor database review.	Y	Due to the size of the RPS vendor database and Finance staffing limitations, a vendor cleanup/review is conducted every two to three years. When staffing vacancies are fulfilled, an annual vendor database review will be implemented no later than October 30. The current process requires that the vendor database is searched to confirm that the vendor does not already exist prior to adding the vendor. If a duplicate record is found and it is necessary to add a new vendor rather than make a vendor change, the vendor with the oldest information is placed on hold. A notation is added to the original vendor record which references both the new vendor record and number. The reason for the new vendor record is being noted as well as the initials of the individual making the change as of April 2015.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Accounting Manager, Finance Operations		October 30, 2015
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
3	The Superintendent needs to require the Finance Department to eliminate duplicate records from the vendor database.	Y	Finance reviews the vendor database every two or three years to remove/purge vendors that have not been used within the last five years. The vendor record may not be eliminated if the vendor has been used within five years because the system will lose the history.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Accounting Manager, Finance Operations		October 1, 2015
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION

MANAGEMENT RESPONSE FORM

2015-08 RPS - Accounts Payable Audit

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
4	The Finance Director needs to review and revise system access levels to ensure adequate separation of duties.	Y	System access levels were reviewed and changes were made as follows: only the office associate, Accounting Managers and Director of Finance have access to add/modify records and close out PO's.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Finance		March 1, 2015
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
5	The Finance Director needs to monitor and enforce compliance with policies and procedures related to Departmental Invoices.	Y	The Accounting Manger for Finance Operations and the Finance Director will monitor and enforce compliance with policies and procedures related to Departmental Invoices. Also additional training will be provided to the Accounts Payable staff to reinforce compliance with departmental invoice usage.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Finance		September 30, 2015
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y-N	IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
6	The Finance Director needs to update existing policies and procedures to address replacement of electronic payments to vendors.	Y	An updated procedure is currently in place. Each month a report is downloaded from Wells Fargo's that details all payments not retrieved. An accounts payable technician researches each payment to determine how to proceed. The research includes contacting the vendor(s) to determine why the payments were uncollected. To further enhance this process, the Accounting Manger for Finance Operations is preparing a document that will be sent to all vendors currently receiving electronic payments to review the electronic payment process.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Finance		October 31, 2015
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION

MANAGEMENT RESPONSE FORM

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#	RECOMMENDATION	CONCUR Y-N	IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
7	The Finance Director needs to ensure that replacement checks are issued only after stop payment confirmation from the bank is obtained	Y	The current procedure currently requires that stop payments and voids are processed prior to issuing replacement checks when the original check is not in the Finance staff's possession. Staff training/development will be held to reinforce compliance with this procedure. The Finance Director will perform regular reviews to ensure that staff is adhering to the procedure.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Finance		May 1, 2015
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y-N	IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
8	The Finance Director needs to enforce compliance with invoice number keying policies and procedures to help identify duplicate payments.	Y	Invoice numbers should be keyed as they appear on the vendor invoice. However there are some vendors or situations that require exceptions to this rule. These exceptions are maintained on a document, updated as needed, and posted in view at each Account Payable Tech's desk. The Accounting Manager for Finance Operations will run a report each month by vendor by invoice and review an ample sample to ensure the established procedure is being followed by the AP staff. This report will also be signed by the Finance Director. Staff training/development will be held to reinforce compliance.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Accounting Manage for Finance Operations		July 1, 2015
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION

MANAGEMENT RESPONSE FORM

2015-08 RPS - Accounts Payable Audit

#	RECOMMENDATION	CONCUR Y-N	IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
9	The Finance Director needs to ensure vendors that elect to obtain commercial card payments are adequately trained and understand the payment requirements	Y	Training was provided to all vendors who signed up to receive electronic payments by both Wells Fargo and the Finance staff during the implementation stage of this project. Also Wells Fargo provided each vendor with ample documentation to support the process and the Finance staff was available to vendors for one on one training as necessary. The Accounting Manager for Finance Operations will re-send the training documentation to all vendors signed up to receive electronic payments.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Accounting Manager for Finance Operations		July 1, 2015
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y-N	IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
10	The Superintendent needs to require the Finance Director to update and enforce policies and procedures for: a. acceptable documentation for employee business related reimbursements; and b. holding employees accountable for timely cancellation of all types of travel expenses when travel plans changes.	Y	The travel policy is currently being revised and will be updated to address concerns regarding documentation required for reimbursements as well requiring notification from travelers and/or budget holders when a trip and/or conference is cancelled.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Assistant Superintendent for Financial Services		July 1, 2015
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y-N	IF IMPLEMENTED, DETAILS OF IMPLEMENTATION

MANAGEMENT RESPONSE FORM

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11	The Superintendent needs to require the Finance Director to require employees to complete a settlement process upon completion of travel.	Y	A settlement report is completed when employees are reimbursed after the travel dates. A settlement report is used to track advance payments and payments due to the employee after traveling. Currently, RPS employees are using a travel agency for airfare. Employees are still mostly responsible for paying for hotel accommodations which are reimbursed after traveling. Staff training/development will be held to reinforce compliance with the current procedure. Also, the travel policy which is currently being revised will address this procedure with travelers.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Assistant Superintendent for Financial Services		July 1, 2015
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y-N	IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
12	The Finance Director needs to ensure that banks reconciliations are performed in a timely manner.	Y	The current procedure requires that bank reconciliations are completed within 30 days of receipt of the bank statement. This procedure is followed except for a short period of time cited due to staffing issues that have since been resolved. The Accounting Manager for Finance Operations monitors the bank accounts on-line daily to ensure adequate bank balances and to monitor the bank activity. Continuous communication is maintained with the city cash manager.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Accounting Manager for Finance Operations		May 1, 2015
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y-N	IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
13	The Finance Director needs to ensure that manual checks are timely captured in the EFT requests.	Y	Manual checks are processed very infrequently, 33 in FY14 and 40 so far in FY15. The current funding process requires the Accounting Manger for Finance Operations to run and attach a check register for each type of payment (regular, manual, electronic). Training will be provided to ensure that those who may provide the second signature on the electronic funds transfer (EFT) form checks for the manual check register.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Accounting Manager for Finance Operations		May 1, 2015
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y-N	IF IMPLEMENTED, DETAILS OF IMPLEMENTATION

MANAGEMENT RESPONSE FORM

2015-08 RPS - Accounts Payable Audit

14	The Superintendent needs to coordinate with the DCAO over Finance and Administration to ensure timely funding of RPS' disbursement account to meet their obligations.	Y	Richmond Public Schools is dependent upon the city for funding and management of the cash accounts per the Code of Virginia. School Finance sends an EFT wire request to the City of Richmond to fund the Accounts Payable disbursement account immediately after each check run. Ideally the funding occurs within 24 hours. The Accounting Manager for Finance Operations monitors the account balance on-line daily and communicates with the City of Richmond Finance staff if funding has not occurred timely or other issues are present. The Assistant Superintendent for Financial Services will send a memorandum to the DCAO for Finance requesting assistance to ensure the timely funding of the disbursement accounts for Richmond Public Schools. The Superintendent will meet with CAO to ensure the proper focus is given to the importance of the timely funding of the cash accounts for RPS.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Assistant Superintendent for Financial Services		July 1, 2015
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y-N	IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
15	The Finance Director needs to enforce adherence to policies and procedures related to issuance of manual checks.	Y	A manual check request form is required to process a manual check. The requestor must include on the form, the reason a manual check is necessary. The request must be approved by one of the following: Superintendent, Assistant Superintendent for Financial Services, or the Director of Budget & Planning. The Finance Department staff has been removed from this process to ensure high visibility and to limit manual checks to an exception level.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Assistant Superintendent for Financial Services		June 1, 2015
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y-N	IF IMPLEMENTED, DETAILS OF IMPLEMENTATION

MANAGEMENT RESPONSE FORM

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16	The Finance Director needs to ensure credit card charges are properly supported and closely monitored.	Y	All credit card statements are closely monitored each month by a Senior Accountant to ensure credit card charges are properly supported. Each reconciled statement is signed by either one of the Finance Accounting Managers or Finance Director. A monthly report of credit card usage will be prepared for submission to the School Board with the monthly financial reports.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Accounting Manager for Finance Operations		June 1, 2015
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y-N	IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
17	The Finance Director needs to update policies and procedures and train staff to ensure they possess adequate knowledge to comply with IRS 1099 requirements.	Y	Policies and procedures will be updated to ensure the Finance staff possess adequate knowledge to comply with IRS 1099 requirements. The Virginia Department of Taxation website will be researched annually, to ensure all new IRS 1099 requirements are being followed. Staff will be trained annually on new requirements.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Accounting Manager for Finance Operations		November 1, 2015
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION