EXECUTIVE SUMMARY

ACCOUNTS PAYABLE AUDIT
#17-02

The Microsoft Dynamics AX (DAX) financial system was implemented in October 2015. During DAX's first year, the Finance Department processed approximately 7,500 vendor payments totaling $222 million. Beginning in FY2016, the Procurement Department assumed responsibility for maintaining the DAX vendor master files.

MANAGEMENT HAS AGREED TO:

- Reconcile approval hierarchies in DAX and FIN-106 and make adjustments so the policy and system requirements are consistent by October 31, 2017.

- The IT and Finance Departments will co-manage the implementation of DAX compliance software to automate the SOD compliance review process. Conflicting duties will be mitigated or accepted, based upon assessed risk. The contract is expected to be awarded in April 2017.

OTHER OPPORTUNITIES:

- Explore implementing "3-way" matching for goods receipt within DAX to streamline the approval payment process and prevent unnecessary processing delays.

- Establish a process to ensure regular reviews and updates of DAX guidance are performed and system documentation is complete and current.

- Revise the Aged A/P Report so it can be more easily used to monitor invoice processing timeliness.

Are payments properly authorized and supported?

● Accounts payable payments were properly authorized and supported. No unapproved or unsupported payments were identified in a statistical sample of 95 vendor payments. All sample payments were properly supported with a matching invoice.

▲ The built-in approval hierarchy within the DAX financial system does not align with the approval limits established within FIN-106, Accounts Payable Policy & Procedures.

Are payments to vendors processed in an accurate and timely manner?

● Payments were processed accurately during the first year of the DAX financial system. Amounts paid were correct and were generally coded to the correct expense accounts.

Enhanced payment processing controls have been implemented. Positive pay is used to prevent potential fraud associated with forged checks. Effective system controls are in place to prevent duplicate invoice payments.

▲ The average time between invoice date and check date in an audit sample of 95 payments was 30 days. However, 12.of the 95 sample payments (12.6%) were processed late (after 45 days.) As a result, approximately $5,600 of accrued interest is due to these vendors under the Texas Prompt Payment Act. Late payments generally occurred during the initial system implementation and when there was an A/P staff vacancy. Approval workflow inefficiencies also contributed to delays.

Are controls over Vendor Master File (VMF) creation and maintenance in place and operating as intended?

● Controls are in place to ensure vendor files are properly set up, validated and maintained. No improper, fraudulent, or duplicate payments were observed during the audit.

▲ Planned activities to verify modifications to the VMF, identify duplicate vendor records, and place inactive vendors "on hold" have been delayed but should be completed by May 31, 2017.

Is there an adequate segregation of duties (SOD) between vendor creation, payment approval and processing activities?

■ SOD conflicts exist within the DAX procure-to-pay business cycle. To illustrate, some of the DAX "read only" security roles have been assigned privileges to edit data. When a single individual is able to execute end-to-end processing of a financial transaction, checks or balances to ensure that only authorized, valid transactions are processed do not exist.

■ SIGNIFICANT IMPROVEMENTS NEEDED
▲ SOME IMPROVEMENTS NEEDED
● ACCEPTABLE CONDITIONS

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