

**MANAGEMENT AUDIT REPORT**  
**OF**  
**ACCOUNTS PAYABLE**  
**REPORT NO. 04-108**



**CITY OF ALBUQUERQUE**  
**OFFICE OF INTERNAL AUDIT AND INVESTIGATIONS**

**Management Audit of Accounts Payable**  
**Report No. 04-108**  
**Executive Summary**

**Background** The Department of Finance and Administrative Services (DFAS), Accounts Payable Division (AP), is responsible for verifying, researching, and paying vendor invoices. The City's accounts payable system is MARS/G. Albuquerque Housing Services (AHS) has a separate accounts payable system.

**Objective:** Are AP and AHS compliant with their respective department policies and procedures, City rules, regulations and ordinances, state statutes and other applicable rules and regulations for processing accounts payable?

- The AP User's Guide (Guide) has not been reviewed and updated recently.
- AHS' purchasing flowchart does not document the entire purchasing process. AHS does not have written policies and procedures for its AP process.

**Recommendations:**

- DFAS should review and update the Guide.
- AHS should update its purchasing flowchart and develop written policies and procedures for its AP process.

**Objective:** What are the controls over processing payments through MARS/G and AHS' AS/400 system?

- Printed AP checks are stored in an unlocked cabinet.
- AP bank reconciliations are not completed timely.
- AHS does not use Positive Pay.

**Recommendations:**

- DFAS should secure printed AP checks in a locked cabinet.
- DFAS should complete AP bank reconciliations timely.
- AHS should use Positive Pay.

**Objective:** What are the controls over processing manually prepared checks?

- Back-up documentation is not provided to the Treasury Division for manual checks. Authorization levels have not been established for manual checks.
- The Risk Management Division and the Department of Senior Affairs issue sight drafts.

**Recommendations:**

- DFAS should provide back-up documentation to Treasury for manual checks. DFAS should establish authorization levels for manual checks.
- The CAO should review sight drafts and make a determination on whether they should be issued.

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**Objective:** Who has access to the MARS/G system and AHS' AS/400 system and how is it monitored?

- The MARS/G and RACF user listing included users who have transferred to other City departments and users who have left employment with the City.
- There is not a City-wide model for setting MARS/G access levels. Access levels are established at the departmental level.
- All users of the AS/400 system have command line access in AHS.

**Recommendations:**

- DFAS-ISD should provide the MARS/G and RACF user listings to departments. The CAO should require departments to review the MARS/G and RACF user listings on a regular basis.
- DFAS should develop model access levels for MARS/G users.
- AHS should limit command line access to its AS/400 system.

**Objective:** Who has access to the master vendor file and what is the integrity and reliability of the data it contains?

- The daily vendor file maintenance reports are not reviewed.
- The vendor file in MARS/G has never been purged.
- Social security numbers are used as vendor ID numbers for individuals.
- One individual in the Purchasing Division is able to edit the vendor file.
- The vendor file in AHS' AS/400 system has never been purged.
- Daily vendor file maintenance reports are not reviewed at AHS.

**Recommendations:**

- DFAS should review the daily vendor file maintenance reports and retain supporting documentation for all changes to the vendor file.
- DFAS should develop a policy for vendor file maintenance.
- DFAS should not use social security numbers as vendor ID numbers.
- DFAS should review Purchasing's access to MARS/G and ensure they are not able to edit the vendor file.
- AHS should develop a policy for vendor file maintenance.
- AHS should develop and review daily vendor file maintenance reports.

During our fieldwork we noted no exceptions for the following objectives:

- Has the Department accomplished its accounts payable performance measures?

**Management responses are included in the audit report.**



***City of Albuquerque***  
**Office of Internal Audit and Investigations**  
**P.O. Box 1293 Albuquerque, New Mexico 87103**

July 25, 2007

Accountability in Government Oversight Committee  
City of Albuquerque  
Albuquerque, New Mexico

Audit: Management Audit  
Accounts Payable  
04-108

**FINAL**

**INTRODUCTION**

The Office of Internal Audit and Investigations (OIAI) conducted a management audit of accounts payable operated by the Department of Finance and Administrative Services (DFAS), Accounts Payable Division (AP) and the Department of Family and Community Services (DFCS), Albuquerque Housing Services Division (AHS).

AP is responsible for verifying, researching, and paying vendor invoices. AP works closely with City departments and the vendor community to ensure that invoices are processed accurately and timely.

The City's accounts payable system is the Management Analysis and Response System/Government (MARS/G). City departments use MARS/G to release invoices for payment after goods and services are received. AP uses MARS/G to maintain the master vendor file and process invoices for payment. AP processes approximately 150,000 payment transactions per year.

The Department of Housing and Urban Development (HUD) requires AHS to maintain separate financial systems and bank accounts. AHS has a separate accounts payable system.

## AUDIT OBJECTIVES

The objectives of our audit were to determine:

- Are AP and AHS compliant with their respective department policies and procedures, City rules, regulations and ordinances, state statutes and other applicable rules and regulations for processing accounts payable?
- What are the controls over processing payments through MARS/G and AHS' AS/400 system?
- What are the controls over processing manually prepared checks?
- Who has access to the MARS/G system and AHS' AS/400 system and how is it monitored?
- Who has access to the master vendor file and what is the integrity and reliability of the data it contains?
- Has the Department accomplished its accounts payable performance measures?

## SCOPE

Our audit did not include an examination of all the functions, activities and transactions of AP. Our scope included the accounts payable processes followed by the City and AHS between February 2004 and March 2007.

This report and its conclusions are based on information taken from a sample of transactions and do not intend to represent an examination of all related transactions and activities. The audit report is based on our examination of AP's activities through the completion of fieldwork, March 15, 2007, and does not reflect events or accounting entries after that date.

The audit was conducted in accordance with Government Auditing Standards, except Standard 3.49, requiring an external quality control review.

## METHODOLOGY

During the audit, OIAI interviewed DFAS and AHS staff. OIAI used judgmental and statistical sampling techniques to determine sample sizes for testing. OIAI reviewed documentation, including the following:

- AP policies and procedures;
- MARS/G training schedule;
- MARS/G user listing;
- Master vendor file, including daily maintenance reports;
- System generated checks, manual checks and Automated Clearing House (ACH) payments, including documentation supporting these payments;
- Unmatched Releases and Unmatched Invoices reports; and
- AP bank reconciliations.

### FINDINGS

The purpose of an internal audit is to identify changes in the auditee's activities, which would improve its effectiveness, efficiency, and compliance with administrative policies and applicable rules and regulations. Therefore, the auditee's activities that appear to be functioning well are not usually commented on in audit reports.

The following findings concern areas that OIAI believes would be improved by the implementation of the related recommendations.

1. DFAS SHOULD REVIEW THE DAILY VENDOR FILE MAINTENANCE REPORTS AND RETAIN SUPPORTING DOCUMENTATION FOR ALL CHANGES MADE TO THE VENDOR FILE.

OIAI reviewed six vendor file daily maintenance reports and judgmentally selected twenty-two additions/changes to review. The following was noted:

- No documentation was available to support four of the additions/changes;
- OIAI could not identify who requested two address changes (e.g. the vendor, another City department/division); and
- One address change was entered incorrectly.

DFAS does not review the City-wide daily vendor file maintenance report, perhaps due to staffing constraints. When additions/changes to the vendor file are not reviewed, new vendors and changes to existing vendors may be entered incorrectly. Further, without adequate oversight, individuals with access to the vendor file can create fictitious vendors or alter existing vendor information, such as payment addresses, for personal gain.

Control Objectives for Information and Related Technology (COBIT) DS11.9, which is issued by the IT Governance Institute, recommends that management maintain and periodically review audit trails for unusual activity and accuracy of changes made. These reviews should be completed by a supervisor who does not perform data entry.

### RECOMMENDATION

DFAS should review the daily vendor file maintenance reports. This review should be completed by someone who does not have update access to the master vendor file. DFAS should document their monitoring activities.

DFAS should maintain documentation to support all additions/changes to the master vendor file. The documentation should include who requested the addition/change.

### RESPONSE FROM DFAS

***“DFAS concurs with this recommendation. The accounts payable fiscal analyst will review all daily vendor file maintenance reports and document this control step on the report. In instances where the fiscal analyst makes changes to the vendor file, an assigned finance technician will initial all of those changes. Back up documentation for vendor file changes are now being attached to the daily vendor report.”***

## 2. DFAS SHOULD DEVELOP A POLICY FOR VENDOR FILE MAINTENANCE.

The City-wide master vendor file in MARS/G has never been purged. As of October 2006, the vendor file contained 39,387 vendors, including:

- 7,510 (19 percent) vendors with duplicate vendor addresses; and
- 969 (2 percent) vendors with no vendor addresses.

OIAI also statistically sampled 39 vendors from the population of 39,387. The average number of days since the most recent payment date was 1,544.

Based on discussions with DFAS, no one knows how to purge the vendor file. If the vendor file is not periodically reviewed and purged, the number of vendors without recent activity will increase. As the size of the vendor file increases, the time and effort required to maintain the file also increases.

Jonathan D. Casher is chairman of a financial operations consulting firm and president of an information technology consulting firm. In his article Managing Your Vendor File, Mr. Casher discusses the following best practice: Inactive vendors should be regularly removed from the vendor file so payments are not accidentally made to the wrong vendors or sent to addresses that are no longer current. COBIT DS11.20 recommends that management document and communicate retention standards and storage terms for data.

RECOMMENDATION

DFAS should develop a formal written policy that outlines vendor file maintenance. The policy should require a periodic review of the vendor file to identify vendors with no addresses, potential duplicate vendors, and vendors with no recent activity. Following this periodic review, vendors tagged for removal should be purged from the master vendor file.

RESPONSE FROM DFAS

***“DFAS concurs with this recommendation and will develop a formal written policy that outlines vendor file maintenance. The annual vendor purge procedures will be included in the future ERP software business practices and policies manual.”***

3. DFAS SHOULD PROVIDE BACK-UP DOCUMENTATION TO THE TREASURY DIVISION FOR APPROVAL OF MANUAL CHECKS.

OIAI inquired of DFAS personnel and determined that no back-up documentation is included with manual checks provided to and signed by the Treasury Division (Treasury). Also, only one signature is required for manual checks regardless of the dollar amount. This is standard operating procedure.

Without supporting documentation, Treasury does not know what the check is for and who approved the request. Treasury could sign manual checks that have not been approved and that are for inappropriate purposes. Also, as payment amounts rise, the impact of payment errors increases. If only one person signs high dollar checks, proper oversight may not be exercised and payment errors may occur resulting in a loss of City assets.

Administrative Instruction No. 2-3 requires adequate internal controls to safeguard city assets against loss from unauthorized use or disposition. The Government Finance Officers Association's (GFOA) recommends that agencies should require two signatures on checks over a designated amount.

RECOMMENDATION

DFAS should provide supporting documentation to Treasury for manual checks, including the approved manual check request. Treasury should record its review of the supporting documentation.

DFAS should require dual signatures for manual checks above certain dollar amounts.

RESPONSE FROM DFAS

***“DFAS concurs with this recommendation. The accounts payable section is now providing the back up documentation to Treasury for the manual checks prior to obtaining the signature approval. DFAS will discuss this recommended dual signature control with Treasury personal to determine the availability of a dual signer and whether this control is feasible at this time.”***

4. DFAS SHOULD SECURE PRINTED AP CHECKS IN A LOCKED CABINET.

Printed AP checks are stored in an unlocked cabinet in the back of the ISD computer room.

Perhaps other security measures, such as key card access to the ISD computer room and cameras, are considered adequate. However, the ISD computer room contains equipment for both the City and the County, and vendors/contractors are also in the room periodically. If checks are lost/stolen, it may prove difficult to determine what happened.

Administrative Instruction No. 2-3 requires adequate internal controls to safeguard city assets against loss from unauthorized use or disposition.

RECOMMENDATION

DFAS should secure printed checks in a locked cabinet. Access to this cabinet should be restricted to authorized personnel.

RESPONSE FROM DFAS

***“DFAS concurs with this recommendation. DFAS will work with ISD to limit access to the location where the accounts payable and payroll checks are stored by either securing the location or by storing the checks in a locked cabinet.”***

5. DFAS SHOULD NOT USE SOCIAL SECURITY NUMBERS AS VENDOR ID NUMBERS.

OIAI inquired of DFAS personnel and reviewed the master vendor file to determine how vendor ID numbers are assigned. For individuals, the Vendor ID number is the person's social security number (SSN). This is standard operating procedure.

If the master vendor file is compromised, unauthorized persons will have access to individuals' SSNs. Stolen SSNs can be used to perpetrate identity theft. Identify theft hurts

not only the people whose identities have been stolen, but also the City through negative publicity and potential lawsuits.

The City has moved away from using SSNs as personal identifiers for employees through the use of randomly assigned employee ID numbers. OIAI also noted the following best practice of a prominent university system. The use of the SSN as an individual's primary identification number should be discontinued unless required or permitted by law. The SSN may be stored as a confidential attribute associated with an individual.

#### RECOMMENDATION

DFAS should not use SSNs as Vendor ID numbers.

#### RESPONSE FROM DFAS

***“DFAS concurs with this recommendation. The current payable system requires a unique vendor number; at the time the system was implemented, the use of social security and FEIN numbers was the solution to avoid the issuance of duplicate vendor numbers. With the implementation of the new ERP software, a unique vendor identification number will be automatically issued by the new software.”***

#### 6. THE CAO SHOULD REQUIRE DEPARTMENTS TO REVIEW THE MARS/G AND RACF USER LISTINGS PROVIDED BY THE DFAS – INFORMATION SYSTEMS DIVISION (ISD).

##### *MARS/G*

OIAI reviewed the MARS/G user listing, which included 775 user IDs, to determine if individuals with access are active City employees. The following exceptions were noted:

- Seventeen have left employment with the City but are still included on the user listing;
- Nine have moved to departments/divisions other than those noted on the user listing;
- Six generic IDs;
- In two instances, the user name was not identified; and
- One user was assigned two IDs.

The MARS/G user listing is not periodically reviewed by departments because it is not provided by DFAS-ISD. If access is not removed or modified when employees leave the City or transfer to other departments/divisions, individuals may have inappropriate access rights and could potentially:

- Modify the vendor file;
- Process invoices for payment; and
- Release invoices for payment.

COBIT DS5.5 recommends that organizations periodically review access rights to ensure they reflect the initial authorizations and the user's and the organization's needs.

#### *RACF*

RACF is a security system used to control access to applications on the City's IBM Mainframe computer system. OIAI reviewed an informal listing of RACF users maintained by ISD. The listing included users with multiple user IDs and terminated employees with active user IDs. OIAI randomly selected 38 of 184 users on the listing and noted the following exceptions:

- Ten have dual RACF user IDs;
- Five have left employment with the City, but still have active RACF user IDs; and
- Five have left employment with the City, but are still on the MARS/G user listing.

The RACF user listing is not periodically reviewed by departments because it is not provided by DFAS-ISD. If terminated employees have active RACF user IDs, they may have unauthorized system access.

COBIT DS5.5 recommends that organizations periodically review access rights to ensure they reflect the initial authorizations and the user's and the organization's needs.

#### RECOMMENDATION

DFAS-ISD should provide the MARS/G and RACF user listings to departments. The CAO should require departments to review the MARS/G and RACF user listings on a regular basis for:

- employees who have transferred to other departments/divisions,
- terminated employees,
- generic user IDs and multiple user IDs assigned to one individual,
- incomplete user profiles

#### RESPONSE FROM CAO

***“The CAO agrees that a periodic review of MARS/G and RACF user listings would be useful and will work with DFAS/ISD to develop a protocol for a manual review process unless it is determined that the process can be automated as part of the ERP Phase I implementation.”***

RESPONSE FROM DFAS

***“DFAS will work with the CAO to develop a protocol for a manual review process of MARS/G and RACF user listings.”***

7. DFAS SHOULD DEVELOP MODEL ACCESS LEVELS FOR MARS/G USERS.

There is not a City-wide model for setting MARS/G access levels. Access levels are established at the department level. For example, DFAS could develop one access model for all MARS/G users responsible for releasing invoices for payment.

Under the current system, users who are performing the same duties within MARS/G may have different access rights. Some users may have update/edit/delete capabilities that are not necessary for their position. When unauthorized changes are made, the validity of the data within that application and all other programs that application feeds into comes into question.

COBIT DS5.2 recommends that system owners should be responsible for granting, changing and removing access, taking into account least privilege, separation of duties and required access levels.

RECOMMENDATION

DFAS should develop model access levels for MARS/G users, such as users who are responsible for releasing invoices for payment.

RESPONSE FROM DFAS

***“DFAS concurs with the recommendation. The accounts payable section will work with ISD and the ERP software implementation team to ensure there is a process in place to periodically review user access to city-wide systems. This is a recommendation that affects many different city-wide system applications and should be addressed within the scope of the ERP software implementation. This will enable each ownership department to review user’s access to their specific software application for validity.***

***“DFAS accounts payable and accounting sections will work with ISD and the ERP implementation team to develop city-wide templates for access to the new ERP software accounts payable application.”***

8. DFAS SHOULD REVIEW THE PURCHASING DIVISION'S EMPLOYEE ACCESS TO MARS/G AND ENSURE THEY ARE NOT ABLE TO MAKE CHANGES TO THE VENDOR FILE.

One Purchasing Division (Purchasing) individual stated that she is able to edit vendor tax ID numbers in the master vendor file if no vendor activity has occurred.

This could be a programming issue or a failure to periodically review access rights to the City's accounts payable system. If vendor tax ID numbers are edited to an incorrect number and the City is required to file tax forms with the IRS, such as 1099s, the City may incur IRS penalties.

COBIT DS5.5 recommends that organizations periodically review access rights to ensure they reflect the initial authorizations and the user's and the organization's needs. Further, to ensure adequate separation of duties, Purchasing should not have update access to the vendor file.

RECOMMENDATION

DFAS should review Purchasing's access to MARS/G and ensure that Purchasing staff is not able to add, edit, or delete vendor information.

RESPONSE FROM DFAS

***“DFAS concurs with the recommendation. DFAS accounts payable has reviewed Purchasing staff's access and has restricted access to MARS/G that will enable them to add, edit, or delete vendor information.”***

9. DFAS SHOULD COMPLETE AP BANK RECONCILIATIONS TIMELY.

DFAS did not complete the June 2006 AP Bank Reconciliation until October 2006.

Due to other priorities and staffing limitations, bank reconciliations may not have received timely attention. Banks may have deadlines for resolving discrepancies between the bank's records and the City's records. If these deadlines pass, the City may not be able to correct errors in the bank's records. Also, as time passes, it may prove more difficult to research discrepancies between the bank's records and the City's records.

Per the GFOA's Recommended Practices, agencies should reconcile all bank statements and notify banks of discrepancies in a timely manner.

RECOMMENDATION

DFAS should complete its AP bank reconciliations within thirty days of receiving the bank statement(s).

RESPONSE FROM DFAS

***“DFAS concurs with the recommendation. DFAS will ensure that the accounts payable bank reconciliation is completed within 30 days of receipt of the bank statement.”***

10. THE CAO SHOULD REVIEW SIGHT DRAFTS AND MAKE A DETERMINATION WHETHER THEY SHOULD CONTINUE TO BE ISSUED.

Both the Risk Management Division of DFAS (Risk Management) and the Department of Senior Affairs (DSA) issue sight drafts even though DFAS already has a process in place for issuing manual checks.

In Risk Management, sight drafts are used for emergency situations, such as payment for a sewer backing-up into a house. In DSA, sight drafts are used to refund activity fees to seniors. However, when control over disbursement of funds is decentralized, the potential for misallocation of funds increases.

Administrative Instruction No. 2-3 requires adequate internal controls to safeguard city assets against loss from unauthorized use or disposition.

RECOMMENDATION

The CAO should review sight drafts and make a determination whether they should continue to be issued.

RESPONSE FROM CAO

***“The CAO agrees that the continued use of sight drafts by Risk Management and the Department of Senior Affairs does not seem to be necessary and will meet with the directors of both units to explore appropriate alternatives to meet their operating needs.”***

11. DFAS SHOULD REVIEW AND UPDATE THE AP USER’S GUIDE.

The AP User’s Guide (Guide) has not been updated since August 2001, and it does not include guidance for AP Finance Techs who update the vendor file.

If the Guide is not reviewed and updated periodically, new policies and procedures may not be included in the Guide. Existing policies and procedures may have changed since the last time the Guide was reviewed. This may lead to confusion among staff and inconsistency in how tasks are performed.

Per the GFOA Recommended Practices, accounting policies and procedures should be updated periodically and changes that occur between these periodic reviews should be updated promptly as they occur. Management is responsible for performing this duty, and a specific employee should oversee this process.

#### RECOMMENDATION

DFAS should periodically review and update the Guide. DFAS should also add instructions to the Guide to assist AP Finance Techs who update the vendor file.

#### RESPONSE FROM DFAS

***“DFAS concurs with the recommendation. DFAS Accounts Payable section will ensure that the AP user guide is reviewed on an annual basis and updated when necessary.”***

#### 12. AHS SHOULD UPDATE ITS PURCHASING FLOWCHART AND DEVELOP WRITTEN POLICIES AND PROCEDURES FOR ITS AP PROCESS.

AHS has developed a flowchart of its purchasing process. The flowchart does not describe the reviews conducted after payment information is entered into the AS/400 system. AHS does not have written policies and procedures to provide additional detailed guidance to AP staff.

Processes are in place, but detailed guidance has not been formally documented. Without written policies and procedures:

- New employees may not know how to process accounts payable transactions; and
- Current employees may not consistently process accounts payable transactions.

Per the GFOA’s Recommended Practices, agencies should develop financial policies in the following areas: Financial Planning, Revenues, and Expenditures.

#### RECOMMENDATION

AHS should update its purchasing flowchart and develop written policies and procedures to guide accounts payable staff.

RESPONSE FROM AHS

***“AHS concurs with this finding. Since this audit began, AHS has updated their purchasing flowchart to include all steps and relevant staff involved in the procurement process. Over the course of the next two months, AHS will update written policies and procedures to include additional detailed guidance for staff.”***

13. AHS SHOULD LIMIT COMMAND LINE ACCESS TO ITS AS/400 SYSTEM.

All users of AHS' AS/400 system have command line access. AHS staff use the command line to manage print jobs and run queries. These functions could be accessed through the AS/400 menu rather than the command line.

Anyone can access critical AS/400 commands on the internet. For example, OIAI went online and printed 28 pages of critical AS/400 commands. Users who have command line access and knowledge of critical AS/400 commands may have the ability to access and edit critical data files.

COBIT DS5.2 recommends that system owners should be responsible for granting, changing and removing access, taking into account least privilege, separation of duties and required access levels.

RECOMMENDATION

AHS should limit command line access to individuals with AS/400 system administrator responsibilities. All other AS/400 users should have menu access only.

RESPONSE FROM AHS

***“AHS concurs with this finding. Since this audit began, AHS has initiated action to limit command line access to select authorized individuals. AHS estimates this will be fully implemented before the end of the calendar year.”***

14. AHS SHOULD DEVELOP A POLICY FOR VENDOR FILE MAINTENANCE.

OIAI inquired of AHS accounting staff and determined that although they have the ability to tag vendors so they are not brought up as options in the vendor file, the vendor file has not been purged. AHS' Fiscal Officer was not aware of any policy, rule or regulation that requires them to periodically review and purge their vendor file.

If the vendor file is not periodically reviewed and purged, the number of vendors without recent activity will increase. As the size of the vendor file increases, the time and effort required to maintain the file also increases.

In his article Managing Your Vendor File, Jonathan D. Casher discusses the following best practice: Inactive vendors should be regularly removed from the vendor file so payments are not accidentally made to the wrong vendors or sent to addresses that are no longer current. COBIT DS11.20 recommends that management document and communicate retention standards and storage terms for data.

#### RECOMMENDATION

AHS should develop a formal written policy that outlines vendor file maintenance. The policy should require a periodic review of the vendor file to identify vendors with no addresses, potential duplicate vendors, and vendors with no recent activity. Following this periodic review, vendors tagged for removal should be purged from the master vendor file.

#### RESPONSE FROM AHS

***“AHS concurs with this finding. AHS has incorporated guidance addressing the process for maintenance of vendor files as part of their internal A/P policies and procedures. At year-end, an AHS fiscal staff person, other than the staff person setting up the vendor files, will review the master file and “inactivate” any vendor files not used in the prior 24 months. This will ensure no accidental or intentional payments to inactive vendors. In addition, any incomplete files will be updated and any duplicate files will be cross-referenced.***

***“Initially, AHS was considering purging vendor files with no recent activity. However, after discussing the issue with the software vendor and the local HUD office, AHS determined purging is not a good option because of the loss of history. The vendor file module is the quickest way for AHS to pull up history of any vendor payments (tenants and landlords) that may be in question.”***

15. AHS SHOULD DEVELOP AND REVIEW DAILY VENDOR FILE MAINTENANCE REPORTS.

OIAI determined that Accounting staff do not generate a vendor file maintenance report. The AS/400 system used by AHS may not be able to generate a vendor file maintenance report.

When additions and changes to the vendor file are not reviewed, new vendors may be entered incorrectly, and changes to existing vendors may be entered incorrectly. Further, without adequate oversight, persons with access to the vendor file can create fictitious vendors or alter existing vendor information, such as payment addresses, for personal gain.

COBIT DS11.9 recommends that management maintain and periodically review audit trails for unusual activity and accuracy of changes made. These reviews should be completed by a supervisor who does not perform data entry.

RECOMMENDATION

AHS should develop a daily vendor file maintenance report. AHS should review these maintenance reports. This review should be completed by someone who does not have update access to the vendor file. AHS should document their monitoring activities.

RESPONSE FROM AHS

***“AHS has discussed the AS 400 reporting capabilities with the software vendor and determined there is no vendor change report available. To clear this finding, AHS has created a process that will limit the ability of staff to make vendor file changes. AHS has created a vendor file change form that must now be completed by the program person needing to make vendor file changes. The form will be approved by the Section Manager and the Fiscal Manager before any changes are entered. At month end, the respective accountant will reconcile the change forms against the vendor master file. This process will be added to the written A/P policies and procedures.”***

16. AHS SHOULD USE POSITIVE PAY.

Positive Pay is a service used to combat check fraud. The financial institution pays only those items with serial numbers and dollar amounts matching the company's issue file. AHS stated they currently review discrepancies between the positive pay files sent to the bank and the actual checks presented on a daily basis. If discrepancies are discovered, AHS contacts

the bank and the bank credits AHS' account. As currently set-up, the bank honors all checks presented even if they do not agree with the positive pay files.

This is a management decision. With the current set-up, the bank may pay checks that have not been issued by AHS. AHS may incur a loss if the bank pays these checks and refuses to credit AHS' account.

GFOA recommends that agencies use positive pay services provided by banks, through which banks pay only those items that match a check issue file provided to the bank.

#### RECOMMENDATION

AHS should use Positive Pay and its bank should pay only those items that match a check issue file provided to the bank.

#### RESPONSE FROM AHS

***“AHS concurs with this finding. With the help of the Assistant Treasurer for Cash Management, AHS implemented Positive Pay in the spring of 2007.”***

#### CONCLUSION

Improvement is needed to ensure adequate oversight of the accounts payable process. By implementing the recommendations noted above, DFAS and AHS should enhance the efficiency and effectiveness of the accounts payable process.

OIAI appreciates the cooperation of DFAS and AHS staff during the audit.

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Principal Auditor

REVIEWED:

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Audit Manager

APPROVED:

APPROVED FOR PUBLICATION:

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Carmen Kavelman, CPA, CISA, CGAP  
Director  
Office of Internal Audit and Investigations

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Chairperson, Accountability in Government  
Oversight Committee