



City of Albuquerque

Office of Internal Audit

FOLLOW-UP

ACCOUNTS PAYABLE INTERNAL CONTROLS BEST
PRACTICES – DEPARTMENT OF FINANCE &
ADMINISTRATIVE SERVICES

Report #19-17-306F

October 24, 2018

INTRODUCTION

At the request of the City of Albuquerque's (City) Chief Financial Officer (CFO), the Office of Internal Audit (OIA) performed a follow-up of Strategic Review No. 17-306, Accounts Payable Internal Control Best Practices – Department of Finance & Administrative Services (DFAS). Although follow-ups of strategic reviews are not normally performed, the purpose of this follow-up is to provide an update to the CFO regarding actions taken to improve internal controls in the City's DFAS-Accounts Payable Division. Our follow-up procedures rely on the department providing a status update and supporting documentation.

A follow-up is substantially less in scope than an audit. The objective is to report on the status of action taken since the original strategic report was issued.

We limited our scope to actions taken since the final strategic review report dated June 28, 2017, through the submission of actions and final contact with DFAS on October 4, 2018.

BACKGROUND

In April 2017, City Administration requested that OIA research, compile, and provide best practices and regional city information for the DFAS-Accounts Payable Division. The request came after the City fell victim to electronic payment fraud.

The objective of the strategic review was to research, compile, and document best practices and other regional and comparable organization data to help the City's Accounts Payable Division strengthen its electronic payment change policies and procedures.

OIA originally contacted 13 regional and comparable organizations to assist in identifying beneficial best practices and common controls for electronic payment changes. Responding organizations acknowledged the importance of internal controls in protecting against electronic payment fraud. Among the organizations, common controls were identified and included:

- Written policies and procedures,
- Submission of updated forms,
- Authentication of revised bank information, and
- Verification of changes with the vendor.

Industry best practices and guidance for internal control exist and include the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the Government Finance Officers Association (GFOA).

COSO includes and defines:

- The *COSO Internal Control-Integrated Framework (COSO Framework)*, and
- Five components of internal controls.

GFOA recommends:

- State and local governments adopt the *COSO Framework* as the conceptual basis for designing, implementing, operating, and evaluating internal control.
- Governments review and make necessary changes to business processes, safeguards, and applicable internal controls when processing electronic payments.
- Internal control procedures over financial management be documented.
- Documented internal control procedures should include some practical means for lower level employees to report instances of management override of controls that could be indicative of fraud.
- Governments hold individuals accountable for their internal control responsibilities by taking disciplinary action if conduct is not consistent with expected performance.

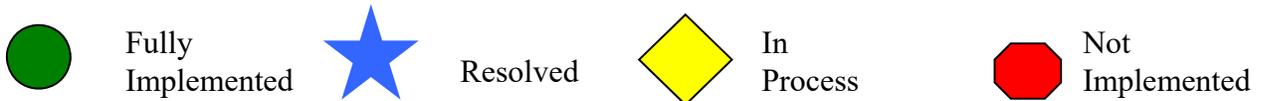
DFAS management is responsible for designing and implementing internal controls and maintaining related policies and procedures. OIA did not design, approve, or implement DFAS's policies and procedures during this follow-up.

In August 2017, DFAS described the updated process as "in place and operating effectively" and that the only challenge encountered involved the vendors obtaining a bank letter.

SUMMARY

OIA's strategic review provided DFAS with information regarding best practices and common controls and did not make recommendations.

The status of action taken by DFAS is identified by the symbols in the following legend:



Common Controls Identified:

OIA provided best practices and identified common internal controls from regional and comparable organizations regarding electronic payment changes for DFAS to consider in its effort to improve internal controls and protect against electronic payment fraud. Common controls identified include:

- Written Policies and Procedures
The organizations acknowledged the importance of having detailed, written policies and procedures – even if the entities themselves did not have established policies.
- Standard Forms and Processes
The organizations require updated forms, voided checks containing banking information and maintain adequate separation of duties between related activities.
- Verification of changes with vendor
The organizations contact the vendor by telephone to obtain verbal confirmation of changes, and via email to obtain written confirmation of changes. One city requires the

vendor to provide/confirm the vendor's previous bank information prior to authorizing any changes.

- Authentication of Bank Information

The organizations independently verify the updated banking information and confirm the information with the vendor's financial institution.

Industry best practices and guidance for internal control include COSO and the GFOA.

Response from DFAS: No formal response was required

Estimated Completion Date: Not applicable

Status Reported by DFAS: Following the fraudulent activity perpetrated in April 2017, the Accounting Division reviewed its processes and identified several areas needing improvement. To address these areas, internal controls were designed and implemented; policies were revised, updated, and documented; an Electronic Fund Transfer Policy has been adopted; and the process was centralized and requires additional verifications and supporting documentation. Incomplete document submissions are not accepted. Multiple individuals have been assigned, roles have been identified, a work-flow has been designed to ensure consistency, and mandatory approvals are required.



Fully Implemented

DFAS has reviewed and revised its written policies and procedures; established standard forms and processes; and requires independent verification of requested vendor changes and authentication of bank information. Specifically, DFAS now requires, and only accepts, an updated form that is available through direct request; requires additional supporting documentation from the bank; and verifies changes with the vendor prior to authorization.

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