Tempe
Internal Audit

Memorandum

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THRU:	Bill Greene, City Auditor (X8982)
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CC:	Rosa Inchausti, City Manager
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	Lisette Camacho, Deputy City Manager
	Ann Fang, City Controller
	Wayne Knowles, Accounting Supervisor
DATE:	May 8, 2025
SUBJECT:	FINAL REPORT: Centralized Accounts Payable

Attached is our final report on the subject audit. Copies of this report will be distributed to the mayor and council and posted to the Internal Audit Office website.

Thank you and your staff for your cooperation during this project.

Centralized Accounts Payable

May 8, 2025

Project Team:

Bill Greene, City Auditor
Angela Hill, Sr. Auditor
Diana Storino, Sr. Auditor

Mission Statement

To enhance and protect organizational value by providing high-quality, objective, risk-based audit and consulting services to assist the City in accomplishing strategic priorities, goals, and objectives.

Tempe
Internal Audit

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Executive Summary

Purpose

We reviewed the City of Tempe (City) accounts payable process and vendor file maintenance to determine if proper internal controls are in place to ensure accurate and reliable disbursements. We also tested a sample of payments for support and authorization.

Background

The City has both centralized and decentralized Accounts Payable functions. City Departments receive invoices for goods and services and submit them to the Accounts Payable Division (Accounts Payable) within the Financial Services Department for centralized payment. Accounts Payable receives the invoices and approved requisitions, ensures that invoices are unaltered and produces a voucher for payment for the current charges. Accounts Payable also vouchers payments for other services including travel and petty cash which were excluded from this audit. In fiscal year 2024, the City disbursed approximately $430 million to various vendors..

Accounts Payable also manages the vendor file, which includes all vendors receiving payments from the City. Vendor file maintenance involves updating and verifying vendor information to ensure accuracy and completeness, authenticating taxpayer identification numbers with the IRS, and maintaining proper segregation of duties for staff responsible for entering and approving vendors. The Accounts Payable Policy outlines supervisory and frontline responsibilities to ensure proper vendor management.

Results in Brief

The current Accounts Payable Policy (AP Policy) provides guidance on invoice processing and review, payment generation, accurate accounting record-keeping, and vendor creation and management to safeguard the City's funds. Expanding the policy to include more decentralized guidance will further strengthen the internal control environment.

The Accounts Payable Division has a built-in system of controls based on segregation of duties and a decentralized review process. Its workflow requires specific authorization and documentation before payments are processed. The AP Policy also establishes clear procedures for vendor creation and profile management, including segregation of duties. This framework provides reasonable assurance that only authorized transactions are recorded and accurately posted to the City's financial records.

In a decentralized environment, departments play a key role in ensuring invoice accuracy and adequate support. Strengthening the internal control environment could be achieved by reinforcing invoice review expectations outlined in the AP Policy and

improving communication with City departments to ensure accuracy and uniformity before submission for payment.

Overall, our review found that payments were properly supported and authorized. However, a few payments were identified as potential duplicates.

We judgmentally selected payments for review to assess whether the quality control process was functioning as intended, transactions were accurate and supported, and payments were free from duplication. Based on our testing, check register payment amounts matched unaltered invoice totals, itemized invoices were mathematically accurate, and voucher corrections were substantiated with supporting documentation.

Through data analysis, we reviewed Accounts Payable and purchase card payments issued in fiscal year 2024 and identified $11,563 in duplicate payments made to 11 vendors. Consideration should be given to whether the new ERP system has the capability to detect duplicate payments between purchase cards and Accounts Payable transactions.

Our evaluation of vault room access logs demonstrated a need for additional action. Physical access should be evaluated and restricted to strengthen the internal control environment.

During the audit, we reviewed vault door access logs and badge access permissions for the vault door within the City. As of February 12, 2025, we identified employees who have access to the vault room but do not appear to need it based on their operational responsibilities. To protect the City's assets from potential misappropriation, vault room access should be restricted to employees with a demonstrated operational need.

Recommendations

Our detailed report contains a few recommendations to further strengthen management controls and evaluate business processes.

Department Responses to Recommendations

Rec # 1.1 Expand the AP Policy to include guidance on conflict of interest, voucher modification, and credit memos.	
***Response*:** We will revise the AP policy to include guidance on conflict of interest, voucher modification, and credit memos.	***Target Date*:** 6/30/2025
Rec # 1.2 Restrict check pick-up to employees listed on the AP/Payroll Check Pick Up Authorization form on file with Accounts Payable (AP).	
***Response*:** AP is currently updating the authorization form and asking departments for a current listing.	***Target Date*:** 6/30/2025
Rec # 1.3 Limit access to the vault door to employees who have an operational need.	
***Response*:** AP has removed terminated employees' badge access. For the remaining badge access, we are getting a new badge system (Lenel Access Control System) so we can properly remove and restrict employee access.	***Target Date*:** 6/30/2025
Rec # 2.1 Coordinate with Procurement to ensure all W9s are forwarded to Accounts Payable.	
***Response*:** We will work with procurement to ensure we have all W9s.	***Target Date*:** 6/30/2025
Rec # 2.2 Conduct additional research on vendor-employee address matches identified in this audit.	
***Response*:** We will review the listing and evaluate each match.	***Target Date*:** 6/30/2025
Rec # 3.1 Create decentralized procedures to provide guidance to departments for their invoice review process.	
***Response*:** We will send an email reminder to the departments for invoice review process.	***Target Date*:** 6/30/2025
Rec # 3.2 Research the duplicate payments noted in this audit and collect money from vendors as appropriate.	
***Response*:** We will research the duplicate payments and take action as necessary.	***Target Date*:** 6/30/2025
Rec # 3.3 Assess whether the new ERP system can incorporate functionality to compare purchase card transactions with check run data to identify potential duplicate payments.	
***Response*:** Currently evaluating ERP proposals for this recommendation.	***Target Date*:** 6/30/2025

1 – Internal Control Structure

Background

Establishing an effective internal control structure helps to ensure the City of Tempe's (the City's) assets are safeguarded and that transactions are properly processed and recorded. The City operates its purchasing and payment processing in a decentralized environment. This means the procurement of goods or services, inspecting orders, and processing invoices occur at the department level, while the Financial Services Department, Accounts Payable Division (Accounts Payable), processes payments centrally.

*** Invoice ► Requisition ► Purchase Order ► Voucher ► Payment ***

*Image obtained from AP Policy

The first three steps represent processes that occur within the ordering department, while the last two steps occur in Accounts Payable, which is the focus of this audit. For Accounts Payable to record authorized payments, they create a voucher in the financial system for support.

Voucher
A record used in the financial system to support and authorize a transaction used for recording and authorizing payments. Vouchers can only be created from a formal invoice. It acts as an internal control to prevent unauthorized or fraudulent transactions because it requires review and approval by Accounting Specialist to ensure compliance and accuracy before processing and recording in the official financial record. Neither the Accounting Specialist nor the Accounting Supervisor can enter vouchers. However, both can approve vendors, generate payments, and void checks. This ensures a proper segregation of duties.

Payment
After vouchers are processed, there is a quality control review prior to printing checks. Once quality control is completed the weekly check run occurs which includes printing and mailing checks to vendors.

The Financial Services Department also has internal control processes that are designed to physically safeguard critical documents and equipment. Access to secure areas is limited by badge access.

Approach

To obtain an understanding and evaluate the internal control environment of the Centralized Accounts Payable function, we:

- Interviewed key Financial Services personnel.

- Reviewed documents including division policy and job specific procedures, and vital forms.

Results

Centralized Accounts Payable (AP) has policies and procedures in place to ensure that AP transactions are recorded correctly in the City's financial system. However, there is a need to expand these policies to include additional guidance in areas that will increase transparency and maintain accurate records.

The Accounts Payable Division has a built-in system of controls based on segregation of duties, decentralized review and inspection using a workflow that requires specific authorization and documentation prior to payment. This framework provides reasonable assurance that only authorized transactions are recorded and posted accurately to the City's financial records. Overarching policy for accounts payable provides guidance on invoice processing and review, payment generation to protect the City's funds and maintain accurate accounting records. Upon review of the content in the AP Policy we identified the following areas for inclusion in the policy:

- Conflict of interest and related party transactions: When clear guidelines are established, there is increased transparency and integrity in the AP process.
- Credit Memo handling: Procedures for tracking and applying credit memos timely helps to maintain accurate accounts and avoid financial losses.
- Voucher Modification: Currently, AP staff exercise judgment regarding how much they adjust the voucher when there is a difference between the purchase order and the invoice amount. Clear guidelines in this area would help to ensure uniformity in vouchering.

Accounts Payable currently allows employees to pick up vendor checks, which weakens the internal control environment. Best practice guidelines recommend mailing vendor checks, as allowing employees to pick them up increases administrative workload and the risk of fraud or mismanagement of funds.

The Accounts Payable Division emails specified departments weekly to notify them that vendor checks are ready for pick up. While awaiting pick up, the checks are stored in a locked file cabinet in the accounts payable work area. Accounts Payable staff have a key to the file cabinet containing the checks. The file cabinet is organized and properly labeled to ensure checks are ready for pick up and distributed to authorized individuals.

The AP/Payroll Check Pick Up Authorization form details the employees' names by department, including employee IDs. Departments are responsible for updating the AP/Payroll Check Pick Up Authorization to ensure only authorized staff are retrieving checks. The Check Sign-Out Sheet serves as the log, detailing the check recipient's name, printed and signed, check number, department, and pick-up date and time. If not known to AP employees, recipients are required to provide identification before receiving checks.

We compared the 1/30/2025 Check Sign-Out Sheet to the AP/Payroll Check Pick Up Authorization form and noted there were four instances of employees picking up checks whose signatures were not included on the authorization form.

The authorized signature for Accounts Payable checks was updated in accordance with AP policy.

We reviewed the most recent IT ticket requesting a change in the authorized check signature. In July 2024, a change in authorized signature occurred. The ticket was submitted prior to the staff transition in accordance with AP Policy. The authorized signature is digitally maintained by the Information Technology Department and updated when personnel changes take place.

We reviewed three months of the most recent access logs to the vault doors. As of February 12, 2025, we identified employees who have access to the vault room but do not appear to need it based on their operational responsibilities. To protect the City's assets from potential misappropriation, vault room access should be restricted to employees with a demonstrated operational need.

On 2/6/2025, we performed a site observation of the vault room. Entry to the room is restricted by requiring badge access. The vault room contains the check stock and equipment used when generating checks. Since checks are not numbered, a blank check could be missing and go undetected. This highlights the importance of limiting vault access permission combined with routine and systematic supervisory review of the access reports for the vault room door.

We reviewed two reports to determine staff with:

- Vault Access Permission
- Vault Access Attempts

Vault Access Permission

An IT Consultant provided a report listing all employees with access permission to the 525 2nd Floor Vault Room door which requires badge access for entry. Upon review of the authorization list, several employees from departments outside of Financial Services had access permission to the vault door. Authorization should be limited to staff with an operational need based on job duties. At the conclusion of fieldwork, we provided this report to the City Controller for follow up and proper resolution.

Vault Access Attempts

We reviewed the vault access log from November 1, 2024, through February 11, 2025. Access to the vault room was not restricted to authorized staff whose job responsibilities require entry. During this time, there were six instances of unauthorized access attempts at the vault door. Five of the six were not linked to an employee badge. IT explained that this could be caused by a new badge that had not yet been granted access or a badge that is not part of the City ID cards. The remaining instance was

linked to an employee badge belonging to an individual who does not work in Financial Services.

Recommendations

1.1 Expand the AP Policy to include guidance on conflict of interest, voucher modification, and credit memos.

1.2 Restrict check pick-up to employees listed on the AP/Payroll Check Pick Up Authorization form on file with Accounts Payable (AP).

1.3 Limit access to the vault door to employees who have an operational need.

2 – Vendor Maintenance

Background

Due to the decentralized nature of the accounts payable process, City departments submit new vendor requests with a W-9 Form to obtain the critical identifying information required to authenticate the vendor. This information is reviewed and verified by Accounts Payable staff. Once the vendor has been validated through the IRS online verification system, the vendor information is then entered into the financial system as unapproved and automatically assigned a sequential vendor ID. In order to approve the vendor, the Accounting Supervisor reviews the vendor profile and W-9 and confirms a TIN verification has been completed.

Vendor file maintenance involves managing and updating the database of vendor information to ensure accuracy and completeness. The vendor files contain sensitive information such as, personal identifying information, about City vendors which can be accessed for potential unauthorized activity, if not properly maintained. The AP Policy delineates supervisory responsibilities for ensuring vendors are properly deactivated. Financial Service Technicians update vendor files as requested by vendors and City personnel.

Approach

To determine if proper internal controls are in place over vendor file maintenance, we:

- Sampled vendor profiles to ensure the vendor information is complete and accurate.
- Utilized data analytic tools to compare City employees and vendors with address matches to identify potential conflicts of interest and related parties.
- Examined vendors are properly deactivated within an appropriate timeframe as stated in the AP Policy.

Results

The Accounts Payable Division has established clear steps in vendor creation and managing vendor profiles. Maintaining a well-organized vendor file reduces payment delays, prevents errors, and supports compliance in financial operations.

Accounts Payable has a well-defined process for maintaining and updating vendor profiles established in the AP Policy. Our review of policy identified the following key steps involved in vendor file maintenance:

Vendor Creation

When initiating business with a new vendor the ordering department obtains and submits a copy of the vendor's W-9 to Accounts Payable. The W-9 is reviewed for completeness and a taxpayer identification number (TIN) match is conducted on the

IRS website to confirm the accuracy of the vendor name and TIN. Staff authorized to create vendors profiles are limited to AP Financial Services Technicians, Procurement Specialists, and designated Housing personnel.

Vendor Approval

New vendors are reviewed by authorized staff. After the review is completed the vendor status is changed from unapproved to approved in the financial system.

Vendor Maintenance

The Accounting Supervisor designated to Accounts Payable annually submits a request to IT to deactivate vendors with three years of inactivity and vendors with one time use throughout the year.

Based on our observations and review of policy we determined there are proper segregation of duties between creating and approving vendors.

During our review of vendor profiles we noted a few instances of issues with incomplete or inaccurate vendor records. Keeping complete and accurate vendor profiles aids in producing correct 1099s, timely payments, and reduces the likelihood of misappropriation of funds.

Vendors are entered and updated by frontline AP, Procurement, and designated Housing staff and undergo supervisory review and approval by Accounting and Procurement. When the process occurs outside of AP, the initiating department is required to send the W-9 to the AP Division where a TIN verification is completed.

We reviewed a sample of vendors to ensure the vendor profile was complete, accurate, and the corresponding W-9 matched the vendor profile. Of the sample we reviewed common issues were identified including:

- Vendor profile was missing TIN
- No documented verification of TIN with IRS
- Either no W-9 Form or an outdated W-9
- Incorrect tax classification on vendor profile

Creating and maintaining accurate vendor profiles and W-9s is a key factor in producing accurate 1099s for vendors. If accurate vendor profiles are not created and maintained, errors could occur resulting in delayed payments, fraudulent vendors and misappropriations.

Vendors were properly deactivated within the required timeframe as specified in the AP Policy.

We selected 2 annual requests for review to determine if Accounts Payable is requesting vendor deactivation in accordance with policy. The Information Technology Department (IT) provided ticket requests submitted by the Accounting Supervisor. The submissions requested PeopleSoft Financials vendors with no use within the last 3 years and vendors with one time use within the last year be deactivated. The ticket for FY 2024 was closed and completed 9/8/2023 and the ticket for FY 25 was closed and completed on 10/11/2024. This process is in accordance with AP policy.

We noted instances where employee and vendor addresses match which require further research to determine propriety of payments.

IAO reviewed non-payroll payments issued to vendors in FY 2024 and compared the vendor addresses to City employee paycheck addresses to identify potential conflicts of interest and related parties. Through data analysis, 18 address matches were detected. Of the 18 matches, we identified the following 10 items needing additional research:

- Five represented a potential conflict of interest
- Four had potential payment classification issues
- One match had insufficient supporting documentation

The remaining eight matches did not demonstrate a conflict of interest or related party transaction. The identified potential conflicts or related parties are primarily due to personal services contracts awarded to employees, insufficient supporting documentation to determine payment classification, or propriety of payment. IAO provided additional information to Financial Services to conduct further research and take necessary action.

Recommendations

2.1 Coordinate with Procurement to ensure all W9s are forwarded to Accounts Payable.

2.2 Conduct additional research on vendor-employee address matches identified in this audit.

3 – Transaction Testing

Background

In fiscal year 2024, the City disbursed approximately $430 million to various vendors. These payments primarily occur through the check-to-requisition process, which is department-initiated with an approved requisition and system-generated purchase order. Accounts Payable then processes a voucher for the department-approved unaltered invoice, and a weekly check run occurs. In addition to issuing payments, Accounts Payable staff also process payment voids, confirm subsystem import accuracy, transmit positive pay files, and perform several supplemental tasks.

Approach

- For Fiscal Year 2024, we examined a sample of 30 payments from the check register to ensure they were properly supported, accurate and authorized in accordance with Tempe policy.
- Evaluated purchase card transactions and nonpayroll payments using data analytics to identify duplicate payments.
- Selected one month and verified supervisory review and approval of the accounts payable and bank reconciliations noting outstanding checks per the bank matched the City's financial system.

Results

Our review of check register transactions demonstrated a need for additional departmental guidance. We noted a few instances in which sales tax could not be accurately recalculated and invoices quantities could not be verified.

We selected a sample of 30 payments from the fiscal year 2024 check register and corresponding invoices for evaluation. During our testing, we noted 4 instances of 30 where there was not adequate detail to recalculate sales tax and invoice quantities and extensions could not be verified or recalculated.

Due to the decentralized environment, departments are responsible for ensuring invoice accuracy and adequate supporting documentation. Accounts Payable (AP) staff process vouchers based on invoices received along with department-approved requisitions. However, it is the initiating department's responsibility to verify invoice accuracy and confirm receipt of goods before submitting invoices to AP for payment. Currently, AP has no assurance that departments consistently review invoices for accuracy before payment or fully understand the necessary steps for assessment.

Strengthening the internal control environment by reinforcing invoice review expectations outlined in the AP Policy can help ensure accuracy and consistency

across City departments. Establishing additional decentralized procedures would provide guidance to promote uniform application of AP processes.
Key areas to address in these procedures to reduce the risk of errors and noncompliance include, but are not limited to:

- Recalculating sales tax
- Verifying mathematical extensions, quantities, and unit rates
- Comparing invoice amounts to contract terms and conditions

We did not identify any duplicate non-payroll payments issued by Accounts Payable in fiscal year 2024.

We reviewed non-payroll payments issued by Accounts Payable during fiscal year 2024 to identify potential duplicate payments. Using data analysis tools, we compared payments by invoice number, amount, vendor name, and cost center.

Our analysis initially identified 14 potential duplicate payments. Upon further investigation, we confirmed that six of these payments had corresponding voided transactions. The remaining payments were split transactions that aligned with the invoiced amounts.

After reviewing purchase card transactions and Accounts Payable check register payments for fiscal year 2024, we identified payments to 11 vendors as potential duplicates that require additional follow-up.

IAO reviewed check register payments and purchase card transactions issued during fiscal year 2024. Using our data analysis tool (ACL), we identified 14 payments totaling approximately $19,000 requiring further investigation to determine if they were duplicate payments. After reviewing the invoices submitted to Accounts Payable for payment, invoices provided to Procurement, and voided transactions we noted that approximately $12,000 in duplicate payments were made to 11 vendors.

The current financial system is unable to detect and prevent duplicate payments between purchase card transactions and check register payments. Consideration should be given to ensuring that the new ERP system has the capability to identify and prevent duplicate payments across purchase cards and Accounts Payable transactions.

Accounts Payable's quality control process testing was executed by staff without exception.

After Financial Service Technicians voucher payments, a quality control process is performed which entails a query to identify vouchers and review to confirm accuracy of vouchered amount, vendor, address, invoice number, and tax. We judgmentally selected a sample of transactions that were identified as errors during the Quality Control (QC) process to confirm that each invoice had been reviewed and corrected in accordance with policy before payment. Based on the test work performed, check register payment amounts matched unaltered invoice total amount and the itemized

invoice was mathematically accurate, and corrections were substantiated with supporting documentation.

Overall, the subsystem transactions were uploaded correctly into the City's financial system in accordance with AP Policy.

Several City departments use subsystems to generate files that are uploaded into the financial system. These departments provide supporting documentation to Accounts Payable, which authenticates the payments. Each week, the Accounting Specialist or Accounting Supervisor reviews the submitted documentation and runs a query in the financial system to verify that the amounts align.

We judgmentally selected 15 subsystem payments issued between FY 2024 and FY 2025 to assess whether imported amounts matched corresponding query results, ensuring proper approval by designated Accounts Payable staff and adequacy of supporting documentation.

Our testing confirmed that transaction totals matched PeopleSoft query results. However, in one instance, we noted that the Accounting Supervisor's signature was added to the subsystem report coversheet only after an inquiry from IAO. As a best practice, supervisory review should occur prior to payment disbursement.

Our review of unpaid vouchers demonstrated a need for additional credit memo processing guidance. Current policy does not delineate proper disposition or timeline for credit memos.

We reviewed the output of the "Vouchers Not Paid" query, generated by the Accounting Specialist in the financial system. This query identifies vouchers that remain unpaid after the check run is executed. The query initially returned 78 unpaid vouchers. Through discussions with the Accounting Specialist, we learned that a significant portion of these vouchers resulted from training a newly hired FST and vouchering occurring on a typically restricted day. As a result, we excluded 71 vouchers from our analysis. Of the remaining seven unpaid vouchers:

- **Four** were due to future scheduled payment dates.
- **Three** were credit memos from March 2022 and June 2024.

During interviews with the Accounting Supervisor, we were informed that credit memos remain open until a new invoice is received, at which point they are applied to the invoice. However, our review of the AP Policy found no formal guidance on credit memo treatment. Recommended practice is to develop policy and practice on treatment of credit memos to strengthen the internal control environment.

We selected one month and verified that the Accounting Supervisor reviewed the monthly bank reconciliation and confirmed that the outstanding checks listed on the bank statement were consistent with the accounts payable account in the City's financial system.

Based on a review of the Account Reconciliation as of September 30, 2024, the outstanding checks totaling $5,254,926.92 per the bank statement matched the City's financial system.

Recommendations

3.1 Create decentralized procedures to provide guidance to departments for their invoice review process.

3.2 Research the duplicate payments noted in this audit and collect money from vendors as appropriate.

3.3 Assess whether the new ERP system can incorporate functionality to compare purchase card transactions with check run data to identify potential duplicate payments.

Scope, Methods, and Standards

Scope

The scope of this audit includes policy and data sources from the following:

- Accounts Payable Policy 04.2024 and Accounts Payable Desktop Procedures and applicable forms
- Payments issued by Accounts Payable and purchase card transactions during fiscal year 2023/2024
- Vendor profiles created between fiscal years 2023/2024 and 2024/2025
- System logs for door and badge access from 11/1/2024 through 2/11/2025

Methods

We used the following methods to complete this audit:

- Developed a process narrative by conducting staff interviews with key Financial Services personnel to identify current control activities.
- Reviewed key documents including current and past division policy and job specific procedures, and vital forms.
- Sampled vendor profiles to ensure the vendor information is complete and accurate including a W-9 form and documentation of Taxpayer Identification Number (TIN) verification through the Internal Revenue Service (IRS) website.
- Utilized data analytic tools to compare City employees and vendors with address matches to identify potential conflicts of interest and related parties. We also evaluated purchase card transactions and nonpayroll payments using data analytics to identify duplicate payments.
- For Fiscal Year 2024, we examined a sample of 30 payments from the check register to ensure they were properly supported, accurate and authorized in accordance with Tempe policy.

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.