

Review of Toronto Transit Commission Accounts Payable Functions: Improving Invoice Verification and Vendor Account Management

Date: September 15, 2017

To: Toronto Transit Commission Audit and Risk Management Committee

From: Auditor General

Wards: All

SUMMARY

This is the Auditor General's first review of the Toronto Transit Commission's (TTC) accounts payable functions. TTC procures approximately \$1.2 billion worth of goods and services each year for day-to-day operations. The TTC's Accounts Payable Unit ("Accounts Payable") processes invoices and issues payments to vendors.

The objective of our audit was to assess whether there were adequate controls in the payment process. The audit included a review of vendor payments during the period from January 2014 to June 2016.

Overall, we found Accounts Payable ensured that invoices had proper user department authorization prior to processing payments. Our key concerns relate to invoice verification by user departments prior to payment, and the management of vendor accounts by Accounts Payable.

The TTC needs to put in place adequate controls and procedures to ensure invoices are adequately verified by user department staff prior to payment authorization. Based on a conservative estimate, ensuring adequate invoice verification could result in at least \$1 million in annual savings.

To minimize the risk of issuing payments to incorrect vendors or duplicating payments to the same vendors, the TTC needs to maintain an accurate Vendor Master File. As of June 30, 2016, there were 39,648 vendors in the Vendor Master File, 87 per cent of which were stale accounts with no business activity with the TTC over the past four years.

Our audit provides nine recommendations. The implementation of these recommendations will help improve invoice verification, management of vendor accounts, and access controls.

RECOMMENDATIONS

The Auditor General recommends that:

1. The Board request the Chief Executive Officer, Toronto Transit Commission, to review the results of the sampled invoices and potential overpayments identified by the Auditor General in this report, assess whether additional overpayments exist in other related invoices from the same vendors, and recover the overpayments from the vendors where appropriate.

2. The Board request the Chief Executive Officer, Toronto Transit Commission, to enhance the existing invoice verification processes to provide reasonable assurance that invoices are paid according to the contract terms and prices. Consideration should be given to:

a. Provide guidelines and training to user department approvers on the importance of invoice verification and the specific information that should be reviewed prior to invoice approval.

b. Incorporate monitoring measures to verify, at least on a sample basis, that the approved invoices by user departments have been adequately reviewed to be consistent with contract terms and prices.

3. The Board request the Chief Executive Officer, Toronto Transit Commission, to maintain a reasonably accurate and complete Vendor Master File to minimize the risk of duplicate or incorrect payments to vendors. Steps to be undertaken should include, but not be limited to:

a. Conduct a one-time comprehensive review of vendor accounts to purge the large number of duplicate and inactive accounts.

b. Implement adequate system functionalities to enable staff to update vendor account records in the system.

c. Periodically review the vendor account records to ensure the required information is obtained and accurately entered into the system.

d. Ensure staff responsible for creating vendor accounts or maintaining the Vendor Master File are provided with an updated and comprehensive procedure manual outlining the key information requirements and processes.

4. The Board request the Chief Executive Officer, Toronto Transit Commission, to ensure conflicts of interest are properly managed. Such steps should include, but not be limited to:

a. Ensure employee vendor match is conducted on an annual basis.

- b. Provide training and reminders to the appropriate staff to reinforce the importance of disclosing actual and perceived conflicts of interest.
 - c. Hold employees who fail to disclose potential conflicts of interest accountable.
5. The Board request the Chief Executive Officer, Toronto Transit Commission, to review the current payment process and identify opportunities to further reduce the number of late payments and to take advantage of early payment discounts.
6. The Board request the Chief Executive Officer, Toronto Transit Commission, to review and enhance current cheque request policies to ensure adequate use of cheque requests by staff. Steps should be taken, but not be limited, to:
- a. Clearly define the items that can be procured using cheque requests.
 - b. Regularly review and identify repeated cheque request purchases that should have been procured using Purchase Orders or Blanket Contracts.
 - c. Clarify the monitoring measures and responsible departments in the policy.
7. The Board request the Chief Executive Officer, Toronto Transit Commission, to review and update Supplier Information Management System (SIMS) and Industrial Financial System (IFS) user access rights and privileges periodically to ensure adequate segregation of duties and access controls.
8. The Board request the Chief Executive Officer, Toronto Transit Commission, to continue its effort to increase the use of Electronic Fund Transfer for vendor payments, in particular for vendors who receive multiple payments from the agency per month.
9. The Board request the Chief Executive Officer, Toronto Transit Commission, to identify opportunities to further improve the efficiency of the duplicate payment identification and verification process.
10. The Board forward this report to City Council for information through the City's Audit Committee.

FINANCIAL IMPACT

Based on a review of 41 randomly selected invoices, we identified potential overcharges on nine invoices totalling \$5,144. To determine whether the overcharges also existed in other invoices from the same vendors, we reviewed 14 additional invoices and identified potential overcharges in the range of \$17,000 from one vendor and \$1,000 from another vendor. These overpayments, potentially \$23,000 in total, should be immediately reviewed and recovered by the TTC where feasible.

Among the 41 randomly selected invoices (totalling \$143,375), nine invoices were found to contain billing errors or questionable charges that were not identified by staff prior to invoice approval. The potential overcharges from these nine invoices totalled \$5,144, representing 3.6 per cent of the total invoiced amount. Applying this error rate to the \$80

million yearly payments for invoices under \$50,000, the overcharged amount could be as high as \$2.8 million per year.

Based on the above analysis and using a conservative estimate, the TTC can potentially reduce its day-to-day purchase costs by at least \$1 million per year by ensuring an adequate and thorough review and verification of charges on invoices.

Furthermore, as the TTC's 2016 early payment discount capture rate was approximately 75 per cent, there is room for improvement. If the TTC can improve its capture rate to 90 per cent, it could potentially increase its early payment discount by \$100,000 per year.

We analysed payments processed between January 2014 and June 2016 and identified nine duplicate payments totalling approximately \$6,000 in overpayments to vendors.

Implementing other audit recommendations will help improve controls over vendor account management, system access controls, and electronic fund transfers. These will potentially result in future cost savings, but the amount is not determinable at this time.

DECISION HISTORY

In response to the additional funding from the City Council and consideration of risks and priorities in TTC operations, the Auditor General updated her 2016 and 2017 TTC audit work plan, and submitted an updated work plan report to the TTC Audit and Risk Management Committee and the TTC Board in May 2016. The report can be accessed at:

https://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Commission_meetings/2016/May_31/Reports/7_AG_Report_-_TTCV_Updated_Audit_Work_Plan_for_2016_and_2017.pdf

The Auditor General's 2016 Audit Work Plan included a review of the TTC's Accounts Payable operations administered by the Finance department.

COMMENTS

The TTC's Accounts Payable Unit is responsible for processing invoices and issuing payments to vendors. During the past three years (2014-2016), Accounts Payable processed approximately 74,000 invoices totalling \$2 billion in vendor payments each year. The objective of our audit was to assess whether there were adequate controls in the payment process. We focused on a type of purchase that requires department staff verification. About \$279 million in payments were issued under this type of purchase.

Overall we found that Accounts Payable ensured that invoices had proper user department authorization prior to processing payments. Our key concerns relate to invoice verification by user departments prior to payment, and the management of vendor accounts by Accounts Payable.

We selected and reviewed a random sample of 41 invoices processed between January 2015 and June 2016. Among them, nine invoices were found to contain billing errors or questionable charges that were not identified by staff prior to invoice approval. By ensuring adequate and thorough review and verification of charges on invoices, TTC can potentially reduce its day-to-day purchase costs by at least \$1 million per year. Departmental staff responsible for invoice review should be provided with the necessary training and be held accountable for their work.

To ensure payments are sent to the correct vendors, TTC needs to maintain an accurate Vendor Master File that contains important information such as vendor names, addresses, contact information, GST/HST and business registration numbers. As of June 30, 2016, there were 39,648 vendors in the Vendor Master File, 87 per cent of which were stale accounts with no business activity with the TTC over the past four years. As well, a considerable number of the accounts had missing information such as phone numbers, specific addresses, or GST/HST numbers.

The audit report is attached as Attachment 1. Management responses to audit recommendations are also included in the Attachment.

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SIGNATURE

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ATTACHMENTS

Attachment 1: Auditor General's Report, Review of Toronto Transit Commission Accounts Payable Functions: Improving Invoice Verification and Vendor Account Management