

**AUDIT
AT A GLANCE****WHY THIS AUDIT MATTERS**

The TTC's Accounts Payable Unit processed approximately 74,000 invoices totalling \$2 billion each year. Of the \$2 billion in payments in 2016, \$1.2 billion were for day-to-day operations. The objective of this 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.

BACKGROUND

TTC Accounts Payable processes invoices and pays vendors. Vendors send their invoices to Accounts Payable, where staff identify the user department, indicate the purchase order number on the invoice, and forward the invoice to the appropriate department for approval. Departmental staff should ensure that the items received and the invoiced amounts match those set out in the Purchase Orders prior to payment authorization.

BY THE NUMBERS

- \$2 billion in payments are processed by TTC Accounts Payable each year
- 9 of the 41 sampled invoices contain incorrect charges or prices higher than the agreed prices
- \$23,000 in potential overpayments identified in 9 original samples, and additional samples from the same vendors also had problematic invoices
- \$2.8 million – estimated annual overcharged amount based on an analysis of sample results
- Projected savings of at least \$1 million annually if staff adequately verify invoices
- \$100,000 in annual savings by increasing early payment discount capture rate from 75% to 90%

Review of Toronto Transit Commission (TTC) Accounts Payable Functions - Improving Invoice Verification and Vendor Account Management**What we found****Areas where Accounts Payable performed well:**

- Ensured invoices had proper user department authorization prior to processing payments.
- Made efforts to increase payments via Electronic Fund Transfer, which is a more efficient payment method than cheques.
- Have put in place a process to identify duplicate payments, but there could be room to improve the efficiency of the manual process used to verify duplicate payments.

Areas that need improvement:

- Invoices were not thoroughly reviewed by departmental staff to identify questionable charges and billing errors.
 - In a random sample of 41 invoices, we found that nine had billing errors or questionable charges that were not identified by departmental staff prior to approving the invoices. For example:
 - TTC was billed for the weight of motor oil plus the container, but it should only pay for the net weight of the motor oil (potential \$1,460 overcharge).
 - A vendor erroneously sent a wheelchair monthly rental invoice belonging to another customer to TTC, but the invoice was approved by TTC staff (\$426 incorrect charge).
 - Other invoices submitted by vendors had similar billing errors or overpayments.
- Inactive vendor accounts were not deactivated in a timely manner. As of June 30, 2016, there were 39,648 vendors in TTC's Vendor Master File, 87 per cent of which were stale accounts with no business activity with the TTC over the past four years.
- As of June 2016, approximately 1,600 invoices totalling \$18 million were overdue for more than 30 days. Among them, 559 were overdue for over 90 days. Aside from missing opportunity to benefit from early payment discounts, delays in payments may inadvertently deter potential vendors.
- Lack of adequate access controls to payment and vendor account systems:
 - 12 staff members' system access had potential issues in the segregation of duties.
 - 9 student interns or temporary workers who had left the TTC continued to have system access.
 - 3 staff members continued to have system access even though they had left the department 12 months before.

How Recommendations will Benefit the City

Implementing the nine audit recommendations will help improve invoice verification, management of vendor accounts, and access controls. Ensuring adequate invoice verification by department staff can potentially result in at least \$1 million in annual savings. Maximizing early payment discounts could save about \$100,000 per year.