



AUDITOR GENERAL'S REPORT ACTION REQUIRED

City Accounts Payable - Payment Controls and Monitoring Require Improvement

Date:	January 17, 2013
To:	Audit Committee
From:	Auditor General
Wards:	All
Reference Number:	

SUMMARY

The Auditor General's 2012 Work Plan included a review of the management and administration of City divisional accounts payable. This review focused on assessment of controls over the creation of vendor accounts, vendor payments and other related processes within the City Accounting Services Division and Purchasing and Materials Management Division.

This report contains 12 recommendations. The majority of recommendations relate to strengthening controls over vendor account management and payments. We have also made recommendations to improve purchasing practices and controls.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council request the Director, Accounting Services to evaluate the feasibility of providing a report to divisions identifying potential discount losses due to a lack of timely resolution of outstanding divisional queries prior to discount expiry dates.

In addition, Accounting Services should provide accumulated discount lost reports by division to senior management staff on a periodic basis for follow-up action.

2. City Council request the City Manager to issue instructions to City division heads for timely resolution of outstanding accounts payable queries.

3. City Council request the Chief Corporate Officer to develop a process to ensure outstanding accounts payable queries are promptly resolved in order to obtain vendor discounts.
4. City Council request the Director, Accounting Services to ensure vendor credits are reviewed in a timely manner and follow-up action results in actual credit adjustments.
5. City Council request the Director, Accounting Services to ensure that vendor set-up forms are adequately reviewed and missing information is obtained from respective divisions before finalizing in SAP.
6. City Council request the Director, Accounting Services to evaluate the feasibility of completing a review of the SAP vendor master database to identify and complete missing vendor information in SAP for active vendors.
7. City Council request the Director, Accounting Services to evaluate existing vendor accounts and payment monitoring reports with regard to improving reporting efficiency and effectiveness.
8. City Council request the Director, Purchasing and Materials Management to further enhance divisional purchasing coordination through improved reporting and feedback with City divisions in order to facilitate consolidating purchases.
9. City Council request the Director, Purchasing and Materials Management, in consultation with the management of City Agencies and Corporations, review and consider the benefits of consolidating purchases with City Agencies and Corporations.
10. City Council request the Director, Accounting Services to ensure purchasing compliance reports are provided to respective divisions on a periodic basis and followed-up with non-compliant divisions.
11. City Council request the Director, Purchasing and Materials Management, in consultation with the City Solicitor, to ensure that a conflict of interest declaration is included in the sole source process including all future sole source contracts.

Further, that the Director, Purchasing and Materials Management, in consultation with City division heads and the City Solicitor, as necessary, evaluate whether existing sole source vendors should be contacted to provide a conflict of interest declaration.

12. City Council request the City Manager to evaluate the feasibility of developing a process for periodically comparing staff and vendor address data to identify potential conflicts of interest.

Financial Impact

Implementation of the recommendations included in this report will improve reporting, minimize discount losses, provide timely adjustment of vendor credits and realize savings through consolidation of purchases. When implemented, report recommendations will also improve controls in purchasing practices and compliance. When fully implemented, we expect savings of approximately \$4 million related to vendor discounts applied through timely payments, prompt processing of vendor credits, and consolidation of divisional purchases.

DECISION HISTORY

The Auditor General's 2012 Work Plan included a review of the management and administration of City divisional accounts payable.

This review was selected due to the significant amount of funds involved and the importance of timely and accurate processing of vendor payments. The objective of our review was to assess controls over the administration and management of vendor accounts and vendor payments.

COMMENTS

The Accounts Payable Unit of the City Accounting Services Division is responsible for processing payments initiated by various City divisions. Their primary responsibility is to process vendor payments accurately and on-time according to payment instructions provided by City divisions.

The City has over 70,000 active vendors in the SAP vendor master database. In 2011, the Accounts Payable Unit processed over 500,000 invoices valued at approximately \$3.2 billion.

This report identifies areas where the management and administration of divisional accounts payable, vendor accounts maintenance and purchasing policies and practices can be strengthened. The recommendations made in this report are intended to improve reporting, minimize discount losses, provide timely adjustment of vendor credits and realize savings through consolidation of purchases.

The audit report entitled "City Accounts Payable – Payment Controls and Monitoring Require Improvement" is attached as Appendix 1. Management's response to the audit recommendations is attached as Appendix 2.

CONTACT

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SIGNATURE

Jeff Griffiths, Auditor General

ATTACHMENTS

Appendix 1: City Accounts Payable – Payment Controls and Monitoring Require Improvement

Appendix 2: Management's Response to City Accounts Payable – Payment Controls and Monitoring Require Improvement