




INTEROFFICE MEMORANDUM

DATE September 27, 2024

TO: Members of the Board of School Directors

FROM: Mr. Paul Geib 

RE: Audit #2025-007: Review of Accounts Payable Internal Controls-Office of Finance

C: Mr. Eduardo Galvan
Mr. Matt Chason
Dr. Tina Owen-Moore
Ms. Aycha Sawa
Ms. Lynn Greb
Mr. Sean Kane
Mr. Chad Meyer
Ms. Felecia Jasper-Mitchell
Ms. Janine Adamczyk
Mr. Nick Sinram
Mr. Michael Lieske

Transmitted herewith is our report on *Audit #2025-007 –Review of Accounts Payable Internal Controls-Office of Finance*. The audit report and recommendations have been reviewed in detail with the Administration. Their concerns relative to the audit criteria, findings and conclusions along with responses to the audit recommendations have been incorporated in the audit report. The responses show general concurrence with all the recommendations and include action plans for implementation. A follow-up audit will be scheduled 12 months from report issuance. If you have any questions regarding this report or would like the report to be placed on a committee agenda, please contact our office.

We appreciate the cooperation and assistance we received from MPS personnel as we conducted the audit.

Attachment

Review of Accounts Payable Internal Controls- Office of Finance

Audit: 2025-007

September 2024



MILWAUKEE
PUBLIC SCHOOLS

Office of Accountability and Efficiency-Audit Services

**REVIEW OF ACCOUNTS PAYABLE INTERNAL CONTROLS-OFFICE OF FINANCE
AUDIT: 2025-007**

SEPTEMBER 2024

**MILWAUKEE PUBLIC SCHOOLS
BOARD OF SCHOOL DIRECTORS**

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Senior Director, Office of Accountability and Efficiency
Matt Chason

Audit Team

Paul Geib – Chief Auditor
Michael Lieske – Performance Auditor II

I. Background

To properly safeguard the assets of the district, it is critical that processes and procedures relating to the payment of expenditures are designed with adequate internal controls. This audit focuses on the adequacy of internal controls over non-payroll expenditures and specifically the Accounts Payable (AP) process followed within the Office of Finance which includes the processing of payments on behalf of all other offices, departments, and schools. There are two other distinct areas of accounts payable due to the nature of their processing, Nutrition Services and Facility and Maintenance. These other two areas outside the Finance's AP process were previously audited and are not part of this review.

Internal control activities, as defined by the United States Government Accountability Office in the Standards for Internal Control in the Federal Government (Green Book), are *the policies, procedures, techniques and mechanisms...to achieve the entity's objectives and address related risks*. These control activities are the responsibility of the MPS Administration.

The Office of Finance has reported that they perform the tasks of accounting, including school accounting and bookkeeping, accounts payable and receivable, banking, cash and debt management, trust accounting, fixed asset reporting and general ledger maintenance. Further, Finance ensures accurate and timely payment of wages to MPS employees and the payment of all payroll related obligations; processes grant claims; reconciles the district's accounting records; analyzes and presents District financial information for local, state and federal reporting; and prepares the Annual Comprehensive Financial Report (ACFR).

During the Audit, Finance indicated that they were researching a new process to electronically deposit vendor payments directly to vendor accounts rather than sending a paper check to them in the mail. Their first vendor for this went live with the payment associated with the 8/29/2024 check-run date. The intent with offering this as an option to vendors is to expediate payments to vendors, in a more controlled environment to lessen theft of paper checks, especially with payments that exceed \$50,000, which have been sent via registered mail. While Audit was unable to review this process as part of this audit, we would like to commend Finance for making progress with this process.

II. Scope and Objectives

This audit primarily focused on the Department of Financial Services accounts payable function. There are many staff directly and indirectly involved in non-payroll, payment processing, whose functionality / payment type was covered in this audit. The payment types audited were POs (purchase orders), travel payments, contracts, (paper) direct payments and electronic direct payments. Payments are made by check, wire transfer and ACH (Automated Clearing House, pre-approved withdrawals from MPS accounts).

Audit included FY24 data related to accounts payable activity processed in the Office of Finance. Nutrition and FMS use separate review processes but rely on the Office of Finance to execute the actual payments, making the centrally located AP department responsible for all payments except for those made from individual school check books. This audit reviewed all AP payment types.

We did not include payroll, FMS fuel cards, district-wide punch out purchasing, debarment, the escheat process and certain technology controls which have been the subject of previous audits performed by Audit Services or which are reviewed by Baker Tilly, the district's external auditors. We also did not include checks written by schools as those activities are audited in our school audits. While the employee wage payment portion of payroll was not included in the audit, the remittance of payroll withholdings (taxes, insurance, donations, 403B, etc.) was included.

The objectives of this audit were to determine:

1. Did schools and departments receive goods and services that were centrally ordered according to the agreed upon terms and conditions?
2. Are payments for goods and services supported by adequate documentation, authorized, and accurately recorded?
3. Are controls over the payment processing for goods and services effective and efficient?

The objectives address the standard accounts payable three-way matching process. The three-way match ensures that the quantity ordered, and price negotiated (one) matches the quantity received (two), which matches the quantity invoiced and price paid (three). This includes controls associated with changes in quantity such as shortages in delivery and substitutions in addition to validation of pricing to ensure the accuracy of payments made by MPS.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

II. Scope and Objectives

To address the objectives of the audit, we:

- Conducted interviews with staff from Finance, Technology, Recreation, MPS Department of State and Federal Programs, Strategic Partnerships and Customer Service, and Facilities and Maintenance
- Reviewed standard operating procedures (SOPs) and provided guidance related to the accounts payable process, including paper direct payments, electronic direct payments, purchase order payments, contract payments and travel
- Reviewed the wire transfer and ACH processes
- Reviewed granted access authority for approving invoices
- Reviewed controls in the electronic vendor set-up process
- Reviewed controls related to check stock, voided checks and bank reconciliations
- Examined and tested accounts payable records and financial data, including audit trails related to data changes completed by Finance and Technology staff
- Reviewed processing of submitted payments which did not follow Finance protocol, analyzing the Finance rejection process and three-way matching
- Reviewed support related to MPS physical building locations to ensure utility bills were for valid locations
- Considered findings from prior AP audits
- Compared best practices from industry research
- Analyzed the roles of AP staff for separation of duties and cross training and System Administrators roles related to making data changes, creating vendors, etc.
- Conducted testing related to Finance staff participation in MPS Fraud training
- Reviewed Department of Technology security protocols over district computers to ensure accuracy of user controls, access, etc.

III. Audit Results - Conclusion

Our audit disclosed that internal controls — otherwise known as the policies, procedures, techniques and mechanisms to achieve the entity’s objectives and address related risks for Office of Finance, accounts payable — are adequate.

Audit testing identified that high-risk areas had controls documented in policies and standard operating procedures, there was adequate cross training, current management possessed the knowledge over control design and exercised the proper oversight of all AP functions.

While Finance is to be commended for many documented controls and processes, there are several opportunities to continue to build upon and improve these controls within Finance and take an oversight role for control issues from other MPS departments. Our detail findings and recommendations to further enhance the Office of Finance internal control environment follow.

Audit Results – Detail Findings and Recommendations

Finding 1:

The three-way match ensures that the quantity ordered, and price negotiated (one) matches the quantity received (two), which matches the quantity invoiced and price paid (three).

The Office of Finance requires that everyone who submits an invoice for payment ensures that three-way matching has taken place. Recently, the Accounts Payable department implemented a control whereby they conduct sample testing of paid invoices to ensure that the three-way match occurred. However, their testing did not encompass a cross section of invoices from throughout MPS; rather, they tested only blanket contract invoices, which do not include any FMS invoices.

The three-way match has also been tested for several years by Baker Tilly. In their FY23 testing of ten FMS vendor payments and 15 non-FMS vendor payments, results indicate the following:

- ✓ Regarding hours indicated as overtime, there were inconsistencies when straight time or time-and-one-half would be paid, with respect to 3/15 (20%) sampled non-FMS payments and 1/10 (10%) of FMS payments. There were instances where the contract and rates specified overtime rates and other instances where the contract and rates stated no overtime premium or instances where there was no mention of what should occur when someone worked over 40 hours in a week.
- ✓ For non-FMS invoices, the Chief Financial Officer (CFO) approved invoices for Robert Half (RH) employees where job titles of the workers did not coincide with the pay-rate tables and paid one RH \$10 more per hour than the prescribed rate. There were two additional samples from non-Finance departments where amounts paid were incorrect.
- ✓ For FMS invoices, there were 2/10 (20%) of invoices where FMS did not complete the 3-way match process. These same vendors tested again in FY23 were reported by Baker Tilly as not being compliant in FY21 and FY22. The FY23 Baker Tilly testing and the FY24 Office of Finance testing continue to identify lack of three-way matching. In FY23, the annual expenditures for these two vendors exceeded \$1.9 million.

Audit Recommendation #1 to the Office of Finance:

To address this finding, Finance should:

- A. Continue to test the 3-way match process, including vendors from all MPS departments, and assist in implementing corrective action as needed
- B. Include in SOPs notification steps to the respective administrative area for follow-up when controls are not consistently followed
- C. Consider updating standard contract language to address payment rates including defining overtime hourly rates

Administration's Response #1 from the Office of Finance:

- The three-way match process is scheduled to be tested two, no more than three times each fiscal year, including vendors from all MPS Departments.

Audit Results – Detail Findings and Recommendations

- Language will be added to the SOP to escalate to administration for follow-up when controls are not consistently followed.
- Procurement has been including payment and overtime rates for the last year and continues to do so that payment is clearly defined to all parties.

Audit Recommendation #1 to the Department of Facilities and Maintenance:

To address this finding, Facilities should:

- D. Ensure all invoices follow the MPS required three-way matching process, prior to submitting invoices for payment to avoid paying for services that may not have been provided and to ensure the correct rates are being paid.

Administration’s Response #1 from the Department of Facilities and Maintenance:

DFMS previously created Standard Operations Procedure that addresses the concern of ensuring that invoices are following a three-way matching process. The rates are attached to the contract after soliciting bids for contracted services through the RFP process that conforms to Board policy 3.09. Our team plans to review then train and/or refresh administrators, supervisors and supporting staff about the process needed to address the three-way match.

Audit Results – Detail Findings and Recommendations

Finding 2:

Administrative Policy 3.09 – Purchasing and Bidding Requirements governs MPS for all expenditures. Accounts Payable controls are designed to ensure payments align with this policy, specifically if a contract or purchase order is required for the payment to be processed. When an invoice is submitted that Accounts Payable rejects, often, corrective measures are needed through the Procurement Department, such as assistance with other 3.09 requirements, including: obtaining a contract or purchase order, background check requirements, contract deliverable language, prices, bidding, etc.

Audit tests identified:

- A. Accounts Payable does not consistently reject invoices that are in violation of Administrative Policy 3.09, regarding having valid contracts executed prior to any work being completed or payments being made. Audit tested a vendor who should have had a contract but did not. Of the 13 invoices paid to this vendor from November 2022 through June 2023, the Accounts Payable control processes did not identify 5/13 (38%) as violations and processed the invoices without proper documentation for the override of the violation. Each of the remaining eight invoices were processed through the reject process properly.
- B. When a vendor or department violates Administrative Policy 3.09 requirements for contracts, services are not consistently suspended but may continue. Further, when no contract or purchase order is in place, it is unclear as to how spending is controlled or how the end-user can conduct three-way matching to validate prices or services provided to what is expected.
- C. When a contract is required but is not in place for many months of a school year, the Finance SOPs indicate each violation be documented for the Administrative Policy 3.09 rejection violations. Audit testing identified that the same department would receive repeat Administrative Policy 3.09 violations across multiple vendors for which they submit invoices. While they may receive violation notices, they may continue to submit invoices, repeatedly, with the same violation, without being required to remedy the violations.
- D. Obtaining background checks of individuals hired to be in direct contact with students is a requirement of all MPS contracts. Proper insurance coverage is also a requirement. When there is no contract in place, it is unlikely that a background check would be obtained and submitted to Employment Relations or insurance coverage to Procurement, increasing risks and liabilities to the district. In the above noted sample of 13 invoices where eight were rejected, this vendor was in direct contact with children and no background check was on file.

Audit Results – Detail Findings and Recommendations

- E. When the Accounts Payable controls identify violations and issue rejects on payments, the invoices route back to the submitter, with no notification to Procurement staff. Most of the violations, will need corrective action support from Procurement; however, Procurement has not been involved and was unaware of the repeated violations.

Audit Recommendation #2 to the Office of Finance:

To address this finding, Finance should:

- A. Re-visit the invoice rejection process to ensure all invoices that are in violation are appropriately routed through the rejection process. Additional detective control measures should be considered to ensure initial non-compliance by the user does not continue by the same user. Updates to SOPs should occur as needed to specify additional monitoring steps.
- B. Provide consistent notification to all users with 3.09 violations related to use of a P.O. or a fully executed contract that services should be suspended, and no additional payments will be made to the vendor, in accordance with their policy.
- C. Require attendance to an on-line or in-person Office of Finance training course for all end users involved in the AP process which covers the violation topic(s) for those who submit invoice(s) that violate policies. This will help ensure better understanding of the policies and procedures, lessen improper payments and help reduce the future impact of re-processing payments that were in violation. Consideration should be given to limiting future access to invoice processing until they have completed the additional training.
- D. When the 3.09 violation is related to no contract being in place, services should be suspended, and appropriate insurance and background checks should be validated and maintained on-file prior to the vendor being allowed to conduct any further business with MPS.
- E. Where appropriate, Accounts Payable should notify Procurement as soon as the violation is identified so that corrective action can be initiated by the Procurement or Finance team.

Administration's Response #2 from the Office of Finance:

- A. The invoice rejection process is a robust process. The review of rejected and pending invoices is ongoing, the process and the SOP have recently been updated.
- B. The Office of Finance is working together on a process to communicate to end users regarding all 3.09 violations. This new process should be documented by January 31, 2025.

Audit Results – Detail Findings and Recommendations

- C. Currently, the Office of Finance and School Accounting offer training to Central departments and end users, school bookkeepers, school principals. This training covers the AP process and violation topics. The Office of Finance is working with the Superintendent's office on implementing mandatory training.

MPS Procurement is finalizing training videos for the various aspects of the Procurement process. These should be ready by October 31, 2024.

- D. The Office of Finance is working together to build a process that responds to all 3.09 violations with no contract in place that services should be suspended. This new process should be documented by January 31, 2025.

Procurement does advise sponsors that until appropriate insurance is received, services should not take place. In addition, sponsors are also reminded that services should not begin until a fully executed contract is received.

- E. AP has started the process of notifying Procurement of 3.09 violations where no contract is in place, as well as 3.09 repeat offenders so that Procurement may work with the sponsor to get blanket contracts in place if applicable. This new process should be documented by January 31, 2025.

Audit Results – Detail Findings and Recommendations

Finding 3:

While the Office of Finance has many standard operating procedures, with appropriate controls over the AP process, Audit testing identified instances where Recreation and Community Services invoice processing did not follow certain requirements.

There were instances where Recreation management / staff would:

- A. Make special requests for AP to produce checks for payment prior to the services being rendered (usually not allowed), collected the checks from AP staff and distributed them at the Recreation event (athletic conference competitions). No-shows for these events where checks were distributed would require additional work by the AP staff for check cancellations. The standard process is that payments are mailed upon completion of the service.
- B. Submit time sheets to obtain payments where the control of the worker signing to represent completion of the work, did not consistently occur, with some instances where there would be no worker signature or Recreation management would sign on behalf of the worker. Both scenarios do not provide the independent, employee signature control. Further, there is typically one document / time sheet for an event where all workers sign their names to represent that they were there and worked. On several of these time sheets, workers' signatures were present; however, hours had been redacted, with no explanation as to why there was a redaction, why there was a signature of the worker, but no payment was made to the worker.
- C. Approve timecards for relatives. There were also instances identified where Recreation staff at Central Office received a paper check for their boyfriend / spouse instead of having the check mailed directly to the payee.
- D. Approve batches for payment when the Recreation management approver(s) did not consistently review or validate that the individual invoices were accurate.
- E. Submit individuals for payments when they did not have a vendor-id set-up within Business Plus.
- F. Not enter a vendor contract in a timely manner, promised payments to the vendor when there was no contract, made over 60 payments needing special processing due to not following MPS procedures for vendor set-up. After processing these payments, Recreation sought an Exception to Bid, as this was the only vendor within a 300-mile radius. Having this knowledge of the limited vendor options, Recreation could have entered or renewed the contract as soon as possible, rather than causing additional work for the Finance staff.

Audit Results – Detail Findings and Recommendations

Audit Recommendation #3 to Recreation and Community Services:

To address this finding, Recreation and Community Services should:

- A. Discontinue all special requests for check runs and paper check pick-ups for themselves or others.
- B. Ensure each payment is represented by a vendor / workers' signature and management reviews all invoices prior to approving them for payment.
- C. Review additional documentation ensuring redacted hours have support for non-payment when workers have signed the submitted timesheets, representing that they did work.
- D. Ensure that a vendor number is present for worker / payment prior to submitting time sheets to AP for payment.
- E. Make efforts to follow standard processes for entering contracts in a timely manner.

Administration's Response #3 from Recreation and Community Services:

- A. Several years ago, athletic officials pay took anywhere from 8-12 weeks to be received/processed. Officials were choosing not to work for MPS athletic competitions because they would not receive payment the night of the competition, as is common practice in other school districts. When MPS held two annual high-profile tournaments Fresh Coast Classic and the City Review, the only way we were able to get high quality officials was to agree to have payment the night of the game. Now that we have a dedicated Recreation Finance employee responsible for vendor payments, payment processing has been more consistent and timelier. As such, requesting special check runs is not necessary and Recreation will discontinue requesting checks before services occur.

Recreation Policy 1.6.1.7-02 – Payroll for Part-time Employees has been updated to include language stating that full-time employees cannot approve time for part-time employees that are relatives. This policy/procedure will be shared with all full-time staff and require a signature of acknowledgment.

Finally, we have and will continue to notify staff (as needed) that all employee related checks cannot be held (for the employee and/or spouses/relatives, etc.).

- B. The individuals responsible for review/signature have been notified that supporting documentation must accompany all invoices and that it must be reviewed before signing. We will follow up to ensure all individuals understand this requirement.
- C. Recreation Policy 1.6.1.7-02 – Payroll for Part-time Employees has been updated to include language stating that full-time employees cannot sign pay sheets on behalf of a part-time employee/vendor. This policy/procedure will be shared with all full-time staff and require signature of acknowledgment. While vendors are not part-time employees, the policy assists full-time employees with understanding this requirement. Vendors cannot be included in the Recreation Department's time and attendance application because they are not part-time

Audit Results – Detail Findings and Recommendations

employees of the district. Thus, documenting games worked on paper is the most appropriate method at this time. Officials' pay sheets require the vendor to print their name, assignment, vendor number, and a signature. All vendors have been notified that they must sign their respective pay sheets and that pay sheets missing vendor signatures will not be processed until signed.

Instances when a full-time employee signed for a vendor primarily occurred when the games were outdoors and there wasn't a suitable method to gather a pay sheet. An improved process will be explored to better manage the distribution/collection of these pay sheets (including collection of vendor signatures).

Regarding vendor redaction, this was due to missing information on the original pay sheet. In order to pay other vendors listed on the pay sheet, copies of the pay sheet were made, the unresolved issues were redacted, and the pay sheet was submitted for processing. Then, on the copied pay sheet, the officials that had already received pay were redacted/crossed off, the one(s) still needing to be paid were highlighted, and then the copy was sent back to the Athletics Office clerical employee to be researched/corrected. Moving forward, an explanation will be included as to why the vendor was initially redacted and their pay sheet is being submitted separately.

- D. This issue stems from the desire to not cancel high school games due to the sensitive nature of that action along with athletics season restrictions and the complications associated with rescheduling. There have been instances when all contracted vendors are already assigned to games given the high volume of MPS athletic contests on a single day. Wisconsin has a shortage of sports officials and if an assigned official cannot make the game (for whatever reason), we may not have an official available to fill in. At times, someone attending the game is a WIAA official and willing to work the game, but they are not an MPS vendor. To allow the competition to continue for the students, the available official will work the game and complete the paperwork after the fact.

Per Audit, vendor set up is allowed after a game has been played. However, payments are never processed without a vendor number. If an individual without a vendor number appears on a pay sheet alongside those who already have a vendor number, a copy of the pay sheet is made and the name of the individual without a vendor number is redacted. The original pay sheet is then submitted so those with vendor numbers can be paid as soon as possible. Once the requested vendor number is received, the names of those who have already been paid are redacted from the copy of the original pay sheet. The pay sheet is then submitted ensuring that only the official with the new vendor number is paid.

Requests for vendor setup are entered into the workflow system and automatically assigned to one of four individuals responsible for the process. Recreation does not set up its own vendors to maintain a clear separation of duties.

- E. We make every attempt to follow Procurement's timeline for contract execution. Recreation staff have been and will continue to be informed of Procurement's contract policies and

Audit Results – Detail Findings and Recommendations

timeline requirements (60 days if requiring Board approval; 30 days if not requiring Board approval) and to plan accordingly.

Contracts on the Athletics side, where appropriate, are being executed on a 3-year basis which will improve efficiencies and reduce the need for 3.09's.

Finding 4:

Accounts Payable staff has been creating batches on behalf of Payroll for payments related to paycheck deductions for retirement contributions, payroll taxes, health savings accounts and life and disability insurance payments. Support data is provided to Financial Accounting staff, who validate the data on the R79 report, which is used by AP staff to create the batch. The batch must then be approved / distributed by another individual within the Finance AP role. Historically, the approval / distribution has occurred by AP staff without validation of the batch entries to the payroll source documents.

Audit Recommendation #4 to Office of Finance:

Management oversight should occur to ensure accuracy of the entry.

Administration's Response #4 from Office of Finance:

Accounts Payable staff will continue creating batches for paycheck deductions, payroll taxes, retirement contributions and disability insurance payments after a thorough review, matching, and approval of reports sent from the payroll system is completed by Financial Accounting. Once the batch is created, the financial accounting manager will review this batch and approve it before it is distributed.

Audit Results – Detail Findings and Recommendations

Finding 5:

School and Department Expenditure Authorization forms are collected annually for those employees with this authorization level. In addition, as updates occur to staffing these forms will be completed and submitted to Accounts Payable staff.

The tracking of these authorized invoice approvers is a manual process, increasing the risk for errors to occur. In Audit's testing, one of 13 sampled invoices was submitted for payment and paid by AP for someone not documented as an authorized approver. In FY24 Baker Tilly testing showed in 6/10 (60%) of the invoices, there was no School and Department Expenditure Authorization form on file for them.

In a cursory review of the approver tracking spreadsheet for departments, Audit identified a prior incumbent's name as an approver and not the current individual who was in their role for approximately six months and submitted unauthorized invoices for payment that were processed without being questioned or rejected.

Audit Recommendation #5 to Accounts Payable:

To address this finding, Accounts Payable should:

Review the expenditure authorization process to determine if there is the possibility of an automated process to help ensure that only those authorized to submit invoices for payment are doing so. Until then, Accounts Payable should implement a review of invoices paid (perhaps one or two days / month) whereby all approvers for those check runs are validated against the expenditure authorization forms on file, to ensure that only authorized signors are approving payments.

Administration's Response #5 from Accounts Payable:

Accounts Payable will implement a periodic random review of invoices paid where approvers are validated against the expenditure authorization forms on file to ensure that only authorized signors are approving payments. This new process should be documented by January 31, 2025.

Audit Results – Detail Findings and Recommendations

Finding 6:

Accounts Payable has a process whereby all vendors are set-up by one of four individuals (one each from FMS, Recreation, Technology (non-system administrator) and Finance) authorized to do so as part of their daily workload. They must have proper documentation, and that documentation is maintained in Business Plus, the system of record.

The essential role of a Technology, System Administrator includes oversight of the Business Plus software and implementing software fixes, helping to ensure that the software is functioning as intended. The Department of Technology has two individuals with the role of System Administrators for Business Plus, with the capability to set-up vendors and change vendor records (i.e. change an address). Technology provided a list of vendors (new and those with changes) for the 12 months, ending April 2024. This list showed that a System Administrator set-up one vendor and changed addresses for two vendors outside of the standard technology system support process, effectively overriding a business control process that should have included Accounts Payable management.

The vendor set-up / record change tasks should be completed only by the four individuals not in Technology Department Systems Administration roles who are authorized to do so as part of their workload, where there are controls and oversight. Should either of the two with the role of Technology Department System Administrator set-up / change vendor information, it should be done in consultation with Accounts Payable.

Audit Recommendation #6 to Department of Technology Services:

To address this finding, the Department of Technology should:

Monitor all work being completed by those with the role of Department of Technology System Administrators to ensure standard policies and procedures are being followed, including a prohibition and system control to prevent vendor set-up or changes by Technology staff. Should there be a need for a new vendor and the four individuals are not available, the Accounting Manager should be consulted prior to any new vendor being set-up that does not follow the standard process.

Administration's Response #6 from Department of Technology Services:

The job title for the two technology staff members that support the Business Plus application is Sr. Programmer Analyst – Financial Systems. These two staff members are in the Department of Technology budget but take their work directives and supervision from the Office of Finance. I will remind both of them that they are not to take requests to update vendor information or make changes to vendor information and this task is only to be completed by the four individuals mentioned from FMS, Recreation, Technology and Finance.

Audit Results – Detail Findings and Recommendations

Finding 7:

Business Plus is the district's financial system of record. Documents related to accounts payable activities should be scanned in and stored there, including contracts, prices, contract changes, bid documents, etc.

Audit testing identified that not all necessary documents were scanned or maintained within Business Plus; but they were on file with individuals within the Procurement department or with the departments who sought the changes or exceptions to invoice processing. In Audit's test sample of 13 payments made on 3/15/2024, three documents were missing: request for contract change and two exceptions to bid documents. In Baker-Tilly three-way match testing for FY24, pricing documents were missing from Business Plus for one of the 15 samples.

Audit Recommendation #7 to Department of Procurement Services:

To address this finding, the Department of Procurement Services should:

Consider adding a step in their internal control process to address requests to change contracts and exceptions to bid approvals (and any other related documentation, including price changes) to ensure changes are documented within Business Plus.

Administration's Response #7 from Department of Procurement Services:

This is part of the Procurement process for Request to Change Contract forms (RCC's) and other related documentation in SOPs. The Procurement department does have weekly team meetings to review processes and areas of concern or areas that need additional attention. Exception to Bid forms (ETB's) are uploaded after approval by the requestor when they create the purchase or contract requisition. Procurement follows up as needed in the event it is not done and uploads any missing documentation. A detective control that Procurement has implemented is to double check uploads. This is also reviewed in the Fundamentals of Finance training annually.

Audit Results – Detail Findings and Recommendations

Finding 8:

MPS is allowed to obtain pricing through a “piggy-back” relationship whereby another state agency has conducted all the negotiations and arrived at pricing arrangements. MPS utilizes several of these arrangements and Procurement has updated the Business Plus dashboard regarding use of “piggy-back” relationships. Specific to this finding is the use of US Cellular services for cell phone and hot-spot usage (for data transmission).

During the testing of payments, Audit identified that MPS was being overcharged by US Cellular for actual cell phone usages. We were not receiving the best rates per the contract in place at the State. Further, each school and department receive their own invoices and are responsible for the accuracy of their invoices. It was noted that there are several phones across the district with no usage for extended periods; however, departments / schools continued paying monthly charges for phones not being used. The analysis of US Cellular phone charges is ongoing, resulting in the inability to determine the total amount of overcharges to the district. To provide an example, an employee retired, whose phone was not suspended or removed from service and last had usage minutes on 5/20/22. At the time Audit identified this in May 2024, the department had paid the \$38.50/monthly fee for 24 months and was overcharged \$924.

Audit Recommendation #8 to Department of Technology Services:

To address this finding, the Department of Technology Services should:

- A. Ensure MPS is receiving the best available rates for all district issued cell phones and only for cell phones that are in use.
- B. Conduct meetings with US Cellular on a periodic basis where they can provide reports of all phones at MPS, ensuring that the prices are accurate and that any phones with no usage for a 30-day period are identified to MPS so action can be taken to adjust the services as needed to avoid unnecessary costs.
- C. Issue Thursday update(s) periodically to remind staff to validate their invoices for accuracy, including linking all phones to a name and department, requesting phone service to be temporarily or permanently discontinued as necessary and to ensure their invoices only reflect phones and usage required for job duties.
- D. Consider developing MPS policies and procedures related to use of MPS cell phones, and which phones and phone services are allowable.

Administration’s Response #8 from Department of Technology Services:

- A. The Director of Technology has requested a quarterly review of all MPS cellular accounts. This review requested that all MPS lines had consistent rates applied to them based upon usage to ensure the lowest possible cost. All lines are on one of three plans at

Audit Results – Detail Findings and Recommendations

this time, and this will be reviewed quarterly to ensure that these rates remain with the frequent changes to related changes in the district.

- B. Please see response to A.
- C. This was submitted in Thursday Updates for August 22, 2024. The Thursday Update will be re-run early in 2025 to remind staff of this process.
- D. Anyone who requests a phone through Technology is given the option of the \$.01 phone in either Android or Apple. There have been a few exceptions for staff with hearing or visual issues and phones with features to address those needs. A request was submitted by US Cellular that all MPS accounts would be noted to only allow \$.01 phones to be ordered. If anyone orders a phone that costs more than \$.01, US Cellular will obtain confirmation from Technology prior to filling the order.

Audit Recommendation #8 to the Department of Procurement Services:

To address this finding, the Department of Procurement Services should:

- A. Review US Cellular contract information to ensure MPS is receiving the best options available.
- B. Update the Business Plus dashboard to include guidance on obtaining cell phones and proper costs, etc.

Administration's Response #8 from Department of Procurement Services:

- A. Procurement shall work with the Department of Technology to review and understand the US Cellular contract. Future contracts will be initiated and administered through Procurement.
- B. Procurement will provide summary information regarding cellular phones on the Business Plus dashboard. This will be in place by January 31, 2025.

Audit Results – Detail Findings and Recommendations

Finding 9:

Fraud, waste and abuse should be a concern, particularly in the Office of Finance. The Department of Technology distributes district-wide fraud training videos, via email, to all employees. They are a few minutes in length and have a small quiz at the end, where the participation is tracked by the software. The trainings address controls related to passwords, awareness of phishing techniques, hackers, frauds, etc. Technology will also send “test” phishing emails to staff, where staff should recognize and identify them as phishing and forward them to Technology, which serve as reminders of the training and the proper review of suspicious email. There are many real-life examples at companies across the globe where employees have been tricked by phishing emails and have wired funds to fraudsters, changed vendor addresses and mailed checks to fraudsters or fraudsters have gained access to networks through phishing techniques, to hold the company hostage for payments to release the hold on their software or to not share their data.

Using a sample of 16 Office of Finance staff, including accounts payable staff and accounting management, it was identified that 50% of those tested did not participate in any of the trainings. Only four took all the monthly courses presented; the remainder took some of the courses. For staff who process accounts payable invoices, vendor set-ups, and ACH/wire transfers for all of MPS, training in fraud awareness and current tactics being used to trick employees into assisting in frauds is best practice. Furthermore, Accounts Payable management indicated that there are no specific fraud-related trainings attended by staff, so these Technology offerings should be used.

Audit Recommendation #9 to Office of Finance:

To address this finding, Office of Finance should:

Work in conjunction with the Department of Technology to develop monitoring controls to ensure mandatory training for employees related to fraud and fraud prevention are in place. Consideration should be given to additional fraud training of Finance staff.

Administration’s Response #9 from Office of Finance:

The Office of Finance will work with the Department of Technology to develop monitoring controls to ensure that mandatory training sessions and reminder lessons are completed by employees. This new process should be documented by January 31, 2025.

Audit Results – Detail Findings and Recommendations

Finding 10:

The account used to make all Accounts Payable payments is reconciled monthly.

When reviewing the reconciliation of the concentration account used for AP payments, there was a variance of \$177,000, when the variance should be zeroed out and the account balanced each month. While reconciliations of this account do occur monthly, a separate reconciliation for wire transfers and ACHs should occur, resulting in a zero balance.

Audit Recommendation #10 to Office of Finance:

To address this finding, Office of Finance should:

Conduct research to identify details to support the variance and clear the variance in a manner which follows GAAP and / or with guidance from Baker Tilly, the external auditors.

Administration's Response #10 from Office of Finance:

The Office of Finance reconciles the Accounts Payable zero balance bank account each month. The account reconciles to the bank balance and to what is entered into Business Plus. The outstanding checks also reconcile between Business Plus and US Bank. The variance noted does not affect the bank account reconciling to what is in the financial system, Business Plus; however, it is being researched. This should be rectified by the end of fiscal year 2025.

Audit Results – Detail Findings and Recommendations

Finding 11:

Business Plus is the system of record for all financial transactions. Travel expenses are paid through this system. The MPS Travel Guide and Procedures Manual states that all trips must be reconciled within 15 days of completion of the trip, using the Request for Professional Leave and Travel form. This form, which is on the Business Plus dashboard states: the form must be attached to the Travel record in Business Plus, as well as employee advance payments, reimbursements and ALL travel reconciliations.

While reviewing sampled payments related to out-of-town travel, it was identified that the Request for Professional Leave form and other document support such as hotel invoices, airfare invoices, etc. was not consistently scanned into Business Plus. When supporting documents are not maintained in electronic form in the system of record, paper documents can be lost or misplaced, the audit trail is compromised, and verification of post-travel reconciliations will be difficult.

Audit Recommendation #11 to Accounts Payable:

To address this finding, Accounts Payable should:

Ensure that all support for payments, including those related to travel, follow a process which includes scanning all support into Business Plus. Periodic reviews as control checks should be conducted by AP to ensure all departments have their support stored in Business Plus.

Administration's Response #11 from Accounts Payable:

The instructions for the Accounting Assistant III who handles travel reconciliation were updated to include as part of the travel reconciliation close out, attaching the reconciliation documents to the travel record in Business Plus. This new process will begin no later than October 31, 2024.

Audit Results – Detail Findings and Recommendations

Finding 12:

As noted, all payment transactions are processed through Business Plus. There are system controls to ensure invoices are processed correctly, including using the proper budget codes, getting proper approvals, etc. Reported by an employee with the role of MPS System Administrator, periodically, some transactions will remain within the system, unpaid, due to some unknown reason, which could be data or software related. It was unclear as to the length of time they could remain unpaid; a cursory review did not yield a specific timeframe – some processed the same day while others took longer to be processed.

To force the payment through the system, MPS System Administrators in Technology will make alterations to the data record (primarily invoice date changes), repeatedly, if necessary, to change the record to force the payment to be processed. In the sample transaction that identified this control concern, one System Administrator reported that they made eight separate data alterations over a two-day period to get the respective invoice processed. The actual data that is altered (System Administrators have access to basically everything) and frequency of these alterations are not monitored or reviewed. It is unclear if or when data alterations are evaluated to determine the root cause of the issue(s).

Audit Recommendation #12 to Department of Technology Services:

To address this finding, the Department of Technology Services should:

Review the above data and/or software issues with the Office of Finance to determine the best approach to invoices that do not continue in the processing steps, including monitoring all data alterations made by those with the role of MPS System Administrators and reviewing causes of the delayed processing for possible software updates (field edits, software code, etc.) to lessen processing delays.

Administration's Response #12 from Department of Technology Services:

These two staff members are in the Department of Technology budget but take their work directives and supervision from the Office of Finance. I will remind both of them that they are not to make changes to the system to try to resolve a processing issue; but rather they should submit a support ticket with the vendor for resolution on what appears to be an application issue. In the event that the Business Plus system is not able to process a request due to missing information in the workflow setup, MPS Technology staff will work with the end-user to add the missing information and have the workflow assignment reprocessed.

Audit Results – Detail Findings and Recommendations

Finding 13:

Accounts Payable staff will conduct a “distribute” action, whereby vendor payment amounts are posted to the accounts in Business Plus and the vendor payment data to a queue where it resides until the check printing process is run, which is typically twice per week.

With these check-runs, most payments are initiated from outside of Finance, from other departments. There are also payments initiated from within Finance, specifically, they are initiated by Accounts Payable staff. The distinction is critical because separation of duties is required to ensure that one employee cannot enter an invoice for payment and then also approve it for payment, without a separate review.

For most payments, the separation is inherent in the process – the invoice is submitted from outside of Finance, is reviewed by AP staff / software controls within Finance and then is paid. For these invoice payments, any AP authorized staff member can conduct a “distribute” because they have not entered the invoice.

Standard Operating Procedure – Accounts Payable details the distribution process for all payments which includes that the AP employee who distributed the batch ensures that debits and credits are equal, that no blocks occurred (this could happen if funds were no longer available for the payment, for example) or that there were no other errors. If any errors are identified, all attempts are made to address the errors as soon as possible to get the invoice(s) processed.

When the “distribute” process occurs for the batches created within AP, the individual(s) who execute the “distribute” seemingly follow the same standard operating process. Given the nature of these payments being created within AP, additional review steps should occur by the one who distributes the batch, whereby payment details are validated in a similar manner to those in the standard process (adequate support present, dollar amounts, and account codes are validated, etc.).

Audit Recommendation #13 to Accounts Payable:

To address this finding, Accounts Payable should:

Update the Accounts Payable SOPs to include additional controls for batches initiated within AP to align with what occurs with payments initiated outside of Finance, including review of support, dollar amount and account codes. Periodic management review should occur to ensure new controls are working as intended.

Administration’s Response #13 from Accounts Payable:

The AP SOPs will be reviewed and updated to include an extra step of review and managers signature for the few cases that an AP staff member creates a Direct Payment for invoices that were not pre-approved by School or Department leadership before being sent to AP. This new process should be documented by January 31, 2025.