



INTEROFFICE MEMORANDUM

DATE: July 10, 2017

TO: Members of the Board of School Directors

FROM: Paul Geib 

RE: Audit # 2018-002 - Review of Accounts Payable Internal Controls – Part II – Facility and Maintenance Services – Follow Up

C: Dr. Darienne Driver
Dr. Jacqueline Mann
Ms. Gina Spang
Mr. Travis Luzney
Ms. Julie Plagge
Ms. LaWanda Baldwin
Mr. Wendell Willis
Mr. Chad Meyer
Mr. Matthew Chason
Mr. Michael Trueblood
Mr. Michael Lieske

Audit Services issued our audit of Accounts Payable Internal Controls within Facilities and Maintenance Services in June 2015. The report contained 20 recommendations to address internal control weaknesses and other matters identified. The attached follow-up report provides the status of the implementation of the recommendations.

The audit report and activities to address the recommendations have been reviewed in detail with the Offices of Operations – Facilities and Maintenance Services and Accountability and Efficiency. Of the 20 recommendations, 17 (85%) have been addressed indicating significant progress on strengthening the internal control environment. The attached report contains responses to the three recommendations that have not been addressed, indicating actions are in process to ensure the remaining three recommendations are addressed.

We appreciate the cooperation and assistance we received during this follow-up review. If you have any questions regarding this report or would like this to be placed on a committee agenda, please contact our office at x58314.

Attachment

**Review of Accounts Payable Internal Controls
Part II – Facility and Maintenance Services – Follow Up**

Audit: 2018-002

July 2017



MILWAUKEE
PUBLIC SCHOOLS

Office of Board Governance-Audit Services

**REVIEW OF ACCOUNTS PAYABLE INTERNAL CONTROLS
PART II – FACILITY AND MAINTENANCE SERVICES – FOLLOW UP**

AUDIT: 2018-002

JULY 2017

**MILWAUKEE PUBLIC SCHOOLS
BOARD OF SCHOOL DIRECTORS**

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**Director Office of Board Governance
Jacqueline M. Mann, Ph.D.**

**Audit Team
Paul Geib – Performance Audit Manager
Michael Lieske – Performance Auditor**

Background

A Review of Accounts Payable Internal Controls – Part II – Facilities and Maintenance Services (FMS) was performed and the report was issued in June 2015. FMS is comprised of three areas: Repair and Maintenance, Building Operations and Design and Construction and was responsible for approximately 170 sites, over 800 FTEs and non-payroll expenditures exceeding \$25 million. They are involved in major and minor maintenance, daily operations of grounds and buildings and all aspects of construction.

The initial audit resulted in 20 recommendations to address internal control weaknesses and other matters, including the need to implement new policies and procedures, follow the existing procedures, enhance security and management oversight and address non invoice-processing concerns. The purpose of this follow-up review is to report on the progress made to address those recommendations.

Following the initial audit, FMS hired a Business Analyst, in-part, to help address the audit recommendations and to continue to monitor those controls. Results show that 17 of the twenty recommendations, or 85%, were addressed through the work of the Business Analyst by developing and implementing adequate, proper controls. In the three recommendations not addressed, controls were developed, but were not consistently followed. It is expected that full implementation of the remaining recommendations will occur with enhanced monitoring by FMS management.

This follow-up was performed as part of Audit Services' Fiscal 2017 Annual Audit Plan. We appreciate the efforts made to address the findings and the cooperation of District Administration, including Department of Facilities and Maintenance, Office of Accountability and Efficiency, Office of Finance and Department of Technology.

Scope and Objectives

The original intent of the accounts payable audit was to determine:

1. Did schools and departments receive goods and services that were 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 payment for goods and services effective and efficient?

The original objectives address the standard accounts payable three-way match. 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.

While we limited our review to following up on the status of addressing the findings outlined in the June 2015 audit report, Review of Accounts Payable Internal Controls – Part II – Facilities and Maintenance Services, our follow-up considered the original scope and objectives, to ensure the FMS control environment addresses these matters.

We requested documentation to support progress made on each recommendation. We tested FY17 transactions and payment data against the prior controls still in place and the new control environment. We met with key staff for clarification and to obtain additional information. Our report has been reviewed by District Administration, which concurs with our results.

As a follow-up to the original audit, this review is not considered an audit under Generally Accepted Government Auditing Standards (GAGAS); however, we believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

Audit Recommendations and Current Status

Recommendations from Audit Report – June 2015	Audit Services’ Summary of Actions Taken	Status
1-1 Create and maintain an electronic document available to all invoice-processing staff showing individuals with respective approval authorities, signature samples, and dollar thresholds.	FMS created a listing of all authorized approvers, with their respective signatures. The document is continuously adjusted for staffing changes and for job responsibilities.	Audit considers this recommendation to be addressed.
1-2 Implement separation of duties immediately so that no employee entering invoices is also approving them. Review staff job responsibilities to ensure those acting as back-up to others, do not have excessive processing capabilities.	The business analyst documented work tasks for the accounting assistant, accountant and secretaries, which resulted in assignments being altered to balance out the workload while creating and maintaining separation of duties. An AiM (FMS workflow software) upgrade allowed for additional system controls to assist with this. There are also periodic reviews of processed data to ensure no improper processing has occurred.	Audit considers this recommendation to be addressed.
1-3 Implement a control regarding return of paper checks to the requestor to include FMS management review and signature	FMS in conjunction with the Office of Finance developed a flow for the paper check process. Checks and support are received and reviewed by	Audit considers this recommendation to be addressed.

Recommendations from Audit Report – June 2015	Audit Services’ Summary of Actions Taken	Status
<p>approval to ensure no paper checks are distributed by FMS processing staff that have not been authorized to be paid outside the normal processing whereby the Office of Finance mails the checks.</p>	<p>an FMS employee, who did not initiate the special handling, prior to the check being mailed.</p>	
<p>1-4 Update existing process-flow documents for spot purchases and P.O.s to include a step for price validation and indicate who is responsible.</p>	<p>FMS has updated process flows for spot and P.O. purchases to include the responsible party for validating prices.</p>	<p>Audit considers this recommendation to be addressed.</p>
<p>1-5 Monitor and ensure timely invoice payment processing. Consider:</p> <ul style="list-style-type: none"> ○ Implementing the school invoice payment-processing control whereby all invoices more than 60 days old must be reviewed and marked “OK to Pay” by FMS managers; ○ Developing a monitoring report to identify all invoices paid more than 60 days after the invoice date; ○ Correcting all recurring matters and issues of importance identified as soon as possible to ensure timely payment processing. 	<p>The “ok to pay” requirement has been added to the documented workflow.</p> <p>The business analyst created a “60 days to pay” report which is executed periodically to validate timeliness of payments. A second duplicate payments report is executed daily to identify duplicate payment entries in AiM, allowing corrections prior to sending data to Finance for payment.</p> <p>A monitoring control report was also developed to capture the invoice date and payment/check date to measure the average number of days each input clerk takes to input a payment. This will be used to identify if particular staff have excessive workloads which prevent</p>	<p>Audit considers this recommendation to be addressed.</p>

Recommendations from Audit Report – June 2015	Audit Services’ Summary of Actions Taken	Status
	them from processing invoices timely.	
1-6 Adopt the process used by schools to cancel invoices once they are paid, by writing “paid” and the date the payment was made on the invoice.	FMS cancels the invoice by writing the disbursement number on the invoice to indicate it has been sent to Finance for payment for spots. For P.O.s the available balance is reduced, preventing a second attempt at payment and contract invoices are processed with invoice numbers. All of the above are predicated on proper processing. As noted earlier, there is a report run for each batch to determine if there is a duplicate being submitted. Finance software, IFAS, has duplicate identification processes. Further, Finance has implemented tracking of all duplicate payments in an effort to identify the source and make the necessary corrections. (Note: Current duplicate payment scenarios might include a school paying an invoice with a school check and FMS processing that same invoice.)	Audit considers this recommendation to be addressed.
2-1 Revisit Administrative Policy 3.09 with the Office of Finance as soon as possible to: <ul style="list-style-type: none"> ○ Obtain temporary approval to continue processing spot purchases over \$500 without P.O.s. ○ Modify Administrative Policy 	FMS did work with Finance to obtain temporary approval and permanent approval via an update to Policy 3.09, which allowed FMS to process spot purchases up to \$3,000. Audit’s review determined that FMS has not consistently followed the \$3,000 limit.	This recommendation is not addressed. See Finding 1, following this table.

Recommendations from Audit Report – June 2015	Audit Services’ Summary of Actions Taken	Status
3.09 for spot payment purchases and processing to meet the needs of the district and end users.	Certain payments tested should have been processed as P.O.s, blanket contracts or contracts.	
2-2 Follow 3.09 for all purchases, including adherence to dollar thresholds for spot purchases and requirements for clothing purchases.	There were no new contracts for clothing to assess whether 3.09 was followed for the purchase of clothing items. FMS has indicated that any future purchases will follow 3.09.	Audit considers this recommendation to be addressed.
2-3 Work with the Office of Finance to ensure timely travel processing. Consideration should be given to processing all travel through IFAS and the Office of Finance and not through AiM.	FMS met with Finance and jointly determined the best process for travel for FMS staff. Policies and procedures were documented and communicated to FMS staff.	Audit considers this recommendation to be addressed.
2-4 Ensure invoices are not processed without appropriate signature approval by implementing the following controls: <ul style="list-style-type: none"> ○ Periodic training with approvers and processing staff regarding the purpose and requirement that only approved invoices are to be processed, ○ Periodic review by management of processed invoices to ensure presence of the appropriate approval authority, including 	<p>FMS changed approval authorities from dollar amounts to job role.</p> <p>Audit testing noted several inconsistencies with respect to following the controls FMS implemented to address this finding.</p>	This recommendation is not addressed. See Finding 2, following this table.

Recommendations from Audit Report – June 2015	Audit Services’ Summary of Actions Taken	Status
<p>follow-up with approvers and processors to reiterate the proper processing and approval of invoices.</p>		
<p>2-5 Document the three-way matching process for contract labor to ensure invoiced hours match work orders and dates of service, train all processing and approving staff on the process annually, and conduct quarterly reviews of all shops to ensure adherence to the process. Implement corrections as soon as possible when variances to the process are noted.</p>	<p>The FMS business analyst produced a power point presentation / document that she used to train staff. It is available on-line.</p>	<p>Audit considers this recommendation to be addressed.</p>
<p>2-6 Implement a process to notify on-site accounting staff when an invoice has a P.O. but is processed as a spot, so that the P.O. can be closed out to avoid duplicate payments. Identification of these scenarios can occur by invoice processors who make the error but also during review of DP batches when assuring the presence of all invoices in the batch.</p>	<p>FMS now has reports to identify open P.O.s that are somewhat aged so that they can review them to determine if it is appropriate that they are open / available for spending or if they should be closed. Since this process started, they have self-identified processing errors and removed the approved amounts from the P.O.s.</p>	<p>Audit considers this recommendation to be addressed.</p>
<p>3-1 For the FMS employee with vendor set-up access in IFAS, IFAS access should be limited to</p>	<p>The FMS employee who has vendor set-up capacity in IFAS has been limited to only that function and does not</p>	<p>Audit considers this recommendation to be addressed.</p>

Recommendations from Audit Report – June 2015	Audit Services’ Summary of Actions Taken	Status
<p>vendor set-up only and all other access removed, specifically the ability for processing payments in IFAS.</p>	<p>have access to submit payments.</p>	
<p>3-2 Implement controls which include documenting all instances where the transfer of data from AiM to IFAS fails and requires changes to the data file. It should be required that an independent party reviews the change and signs off on the change. Further, periodic reviews of the data files should occur to ensure no changes were made to the data files that were not documented.</p>	<p>Previously, the clerk and accountant could enter and approve payments but also would review the individual disbursement line items, which would allow them the ability to make changes and possibly review their own changes. Now, separation of duties have been implemented, which address this control concern. FMS management also periodically reviews changes.</p>	<p>Audit considers this recommendation to be addressed.</p>
<p>3-3 Office of Technology and FMS should ensure IFAS access is granted at appropriate levels, removed following Technology protocols, and regularly monitored.</p>	<p>During the initial audit, Office of Technology took corrective action. New management in Office of Technology confirmed protocols are being followed. FMS will periodically review IFAS access levels to ensure they are appropriate for FMS staff.</p>	<p>Audit considers this recommendation to be addressed.</p>
<p>3-4 Maintain records of requests for FMS vendor additions to IFAS and implement a review process, including review of the invoice for authenticity to ensure appropriateness.</p>	<p>Since the initial audit, the Office of Finance implemented an electronic vendor set-up process with adequate controls which mitigates the control weaknesses related to this recommendation.</p>	<p>Audit considers this recommendation to be addressed.</p>

Recommendations from Audit Report – June 2015	Audit Services’ Summary of Actions Taken	Status
3-5 FMS should seek guidance from the Office of Technology with regard to AiM security, including determining who would be in the most appropriate position to run the security process, who could be the back-up, and what various techniques can be implemented to have “clean” security access, such as removing access from employees who no longer need it (i.e. are no longer employed by MPS, have a different function, etc.).	Multiple FMS staff now are involved in AiM security procedures. The Office of Technology did not have concerns with the new process.	Audit considers this recommendation to be addressed.
4-1 Implement a control to review scanned batches to ensure all invoices (and documentation as appropriate) are present.	FMS is including more pertinent information in the scanned batches loaded to IFAS. There may be some instances where documents may be identified as missing from the batches; however, the paper documents are maintained and can be accessed as needed.	Audit considers this recommendation to be addressed.
4-2 When FMS assists in procuring assets for schools and departments, a control should be added to ensure FMS staff provide packing slips to secretaries and remind them to record the asset in their fixed-asset register.	The FMS proposal document for building work at schools was revised to advise schools to add assets to their fixed asset register.	Audit considers this recommendation to be addressed.
4-3 Accountability should review their reporting controls to ensure all	Some contracts were missing from the OAE website and there were inconsistencies	This recommendation is not addressed. See Finding 3, following this table.

Recommendations from Audit Report – June 2015	Audit Services’ Summary of Actions Taken	Status
contracts over \$50,000 are posted on the website and follow up accordingly when they are not listed.	between FMS and Office of Finance with contract processing and postings for some vendors.	

Finding 1:

During the initial audit it was identified through audit testing that, FMS was not following Administrative Policy 3.09 (3.09) with regard to expenditures over \$500 for which a P.O. was required. Special permission was granted from the Office of Finance Chief Financial Officer (CFO) to FMS to process payments up to \$3,000 without a P.O. This new exception was incorporated into 3.09 as “purchases of goods related to work orders issued by Facilities and Maintenance Services valued under \$3,000” would not need a P.O. Audit reviewed recent payments with FMS staff, identifying several spot purchases which should have been executed as contracts, blanket contracts or purchase orders but were processed as spot purchases. These included payments for fuel, building leases, blinds, cement mix and other shop supplies. By not following 3.09, it is possible that MPS did not receive the best prices due to lack of competitive procurement or that expenditures occurred without approvals required by 3.09 or FMS’s internal policies.

Recommendation:

Audit recommends that FMS conduct regular, periodic training sessions and issue communications to reiterate the policies of MPS and of FMS to FMS staff. FMS should develop enhanced monitoring controls to help ensure the designed controls are functioning as intended.

Response from FMS:

FMS agrees with the recommendation and has increased the monitoring of invoices and is communicating any compliance issues to management for follow-up. Additionally, FMS is developing an Accounts Payable Standard Operating Procedures and will be conducting periodic training sessions with management and staff.

Finding 2:

The initial finding was related to inadequate approvals to pay invoices as FMS had dollar thresholds and various approvals that were required based on the dollar amount of the invoice. FMS changed the approval process to eliminate the dollar thresholds by implementing dual signatures for all payments, either via dual signatures for spot purchases or electronically for P.O.s and contracts.

In this follow-up, Audit identified instances of: 1) invoices being approved by a single signature, rather than the two required before processing should begin; 2) use of initials, rather than the individual’s authorized signature, to approve an invoice, which had been identified as an issue in an earlier fraud investigation; 3) employee(s) signing the invoice to indicate approval to pay the invoice who are not authorized signors. In these instances, the submitters of the invoices were not following the controls nor were the FMS staff who were processing the invoices as they should have returned the invoices to the submitters for correction as the approval process did not follow FMS policies and procedures.

Recommendation:

Audit recommends that FMS review policies and procedures with staff and increase monitoring until instances of non-compliance with controls have been minimized or eliminated.

Response from FMS:

FMS agrees with the recommendation and has increased the monitoring of invoices and is communicating any compliance issues to management for follow-up.

Finding 3:

Some contracts were missing from the OAE website and there were inconsistencies between FMS and Office of Finance with contract processing and postings for some vendors.

Recommendation:

Audit recommends that OAE continue to work with FMS and the Office of Finance to develop and enhance procedures to ensure uniform processing of vendor contracts to ensure all contracts that should be finalized and posted on the OAE website are posted timely.

Response from OAE:

The OAE agrees with the finding of inconsistencies related to contract processing and posting. We believe these inconsistencies can be addressed by simply following the recommendation actions of the Board and posting the contracts following Board action.