

**AUDIT TEAM**

***Jim Williamson, CPA, CIA, City Auditor***  
***Matt Weller, CPA, Assistant City Auditor***  
***Pamela Martindale, MBA, Senior Auditor***

**CITYWIDE PAYMENTS AUDIT**

**DECEMBER 19, 2017**

**MAYOR AND CITY COUNCIL**

|  |                                       |
|--|---------------------------------------|
| <b><i>Mick Cornett</i></b>             | <b><i>Audit Committee, Mayor</i></b>  |
| <b><i>James Greiner</i></b>            | <b><i>Ward 1</i></b>                  |
| <b><i>Ed Shadid</i></b>                | <b><i>Ward 2</i></b>                  |
| <b><i>Larry McAtee</i></b>             | <b><i>Audit Committee, Ward 3</i></b> |
| <b><i>Todd Stone</i></b>               | <b><i>Ward 4</i></b>                  |
| <b><i>David Greenwell</i></b>          | <b><i>Audit Committee, Ward 5</i></b> |
| <b><i>Margaret S. “Meg” Salyer</i></b> | <b><i>Ward 6</i></b>                  |
| <b><i>John A. Pettis Jr.</i></b>       | <b><i>Ward 7</i></b>                  |
| <b><i>Mark K. Stonecipher</i></b>      | <b><i>Ward 8</i></b>                  |





December 19, 2017

The Mayor and City Council:

The Office of the City Auditor has completed an audit of selected payments and supplier data to identify potentially fraudulent expenditures during the 18 months ended December 31, 2016.

Based on the results of our audit, fraudulent expenditures were not identified during the 18 months ended December 31, 2016. Our audit was not designed to identify all potentially fraudulent expenditures and therefore, fraudulent expenditures may have occurred which have not been identified.

Recommendations for improving maintenance of supplier data are discussed in more detail in the attached report.

All comments, recommendations, suggestions and observations arising from our audit have been discussed in detail with appropriate representatives from management. These discussions were held to assure a complete understanding of the content and emphasis of items in this report. Responses to this report from management are attached.

  
Jim Williamson  
City Auditor

  
Matt Weller  
Assistant City Auditor

  
Pamela Martindale  
Senior Auditor



## CITYWIDE PAYMENTS AUDIT

### AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

The objective of this audit was to perform selected tests of payment and supplier data to identify potentially fraudulent expenditures during the 18 months ended December 31, 2016.

The Procurement Division of the City's Finance Department processed more than 97,000 payments totaling more than \$1.3 billion to more than 6,000 different suppliers for the City and related Trusts during the audit period. Almost half of the payments, totaling more than \$24 million, were purchasing card payments. The remaining payments, representing 98% of the total amount spent, were check, Automated Clearing House (ACH) transfer, or wire transfer payments.

Procedures performed during our audit included review of non-purchasing card payments during the audit period for intentional or unintentional duplicate payments of the same invoice; verification that selected payments resulting in expenditures significantly varying from monthly averages during the audit period for selected departments were valid; comparison of supplier and employee records in the PeopleSoft Financial system (PeopleSoft) for matching bank routing and account numbers; review of selected payments using inactive PeopleSoft supplier records or records with only a PO Box address; identification of potentially duplicated PeopleSoft supplier records; interviews of management personnel; and review of relevant policies and procedures.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). GAGAS requires 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.

Each recommendation included in this report is immediately followed by management's response. Responses from management are attached to this report in their entirety.

### RESULTS OF WORK PERFORMED

***Fraudulent expenditures were not identified during the 18 months ended December 31, 2016.***

## Active PeopleSoft Supplier Records

---

### Comment (1)

PeopleSoft included 19,919 active supplier records on April 5, 2017. However, only 6,066 supplier records were used for payments processed during the audit period. Active PeopleSoft supplier records included:

- 4,632 records with a classification of “temporary” of which almost 90% had not been used for more than one payment within the last 5 years, more than 80% were more than one year old, and 132 appeared to be duplicates.
- 2,268 records used for one-time utility customer refunds and juror payments that should have been automatically deactivated after use according to stated policies.
- 1,595 records having a date of last activity recorded in PeopleSoft that was more than 5 years earlier City Purchasing Policies and Procedures require all supplier records be reviewed every 3 months to identify suppliers without activity within the last 5 years<sup>1</sup>.
- 455 records appear to be duplicates meaning the suppliers’ have more than one active supplier record.
- 373 records for employees no longer employed with the City.

Though mitigated by only four employees having the ability to modify supplier record payment addresses or bank account information and those employees not having the ability to initiate supplier payments; underused, unused, and duplicate supplier records increase the risk that such information could be modified and used to process fraudulent payments without detection.

### Recommendation (1)

The Procurement Division should change the status of the 4,632 active temporary and the 2,268 utility customer refund and juror pay classification supplier records to inactive. Active supplier records within these classifications should be identified and the status changed to inactive at least annually.

---

<sup>1</sup> City Purchasing Policies and Procedures Section 11.9 regarding vendor file maintenance states the total vendor file will be reviewed every three months to identify active or inactive suppliers and for this purpose “inactive” will mean no purchase orders have been issued to the supplier, no inquiries or updates have been entered in the individual supplier file, no purchasing card transactions have been made, and no payments have been made for the previous five years. The policy further states that the status for the identified active supplier records meeting the above criteria will be changed to inactive.

**Finance Department Response (1)**

*Agree with recommendation. This has been completed as of December 5, 2017. Active supplier records within these classifications will be identified and the status changed to inactive at least annually.*

**Recommendation (2)**

The Procurement Division should change the status of the 1,595 active supplier records with a date of last activity recorded in PeopleSoft more than 5 years earlier to inactive. The completeness of the process for reviewing active supplier records for inactive suppliers in accordance with purchasing policy and procedure requirements should also be confirmed.

**Finance Department Response (2)**

*Agree with recommendation. This has been completed as of December 5, 2017. Now that purchasing card transactions are processed in PeopleSoft, supplier numbers do not need to stay active as long. The purchasing policies and procedures manual will be updated by December 31, 2017 to reflect the vendor file will be reviewed at least annually to identify active suppliers with no activity for more than 3 years. Once identified, these suppliers will be inactivated.*

**Recommendation (3)**

The Procurement Division should review the 455 active supplier records appearing to be duplicates to determine if they do in fact represent multiple records for the same suppliers and if so, the status of those records should be changed to inactive. A process to periodically review supplier records for duplicate records should also be established.

**Finance Department Response (3)**

*Agree with recommendation. This review and update will occur before June 30, 2018. Procurement Services is working with the Information Technology Department to implement a workflow approval process when new suppliers are created in the financial system. This review will allow a management level employee to determine when it is appropriate to approve a new supplier for what may appear to be a duplicate supplier. There are times when it is necessary for a supplier to exist more than one time in the system. However, we agree that it should only be when absolutely necessary. Once we are current on the review and update of duplicate suppliers on the list identified by the City Auditor's Office, a review will be conducted at least annually.*

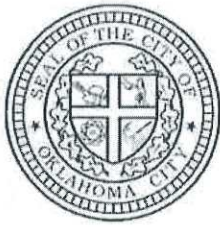
#### **Recommendation (4)**

The Procurement Division should change the status of the 373 active supplier records relating to employees no longer employed with the City to inactive. A listing of terminated employees should also be obtained from the City's Personnel Department at least annually and compared to active employee classification supplier records and the status of active records relating to terminated employees changed to inactive.

#### ***Finance Department Response (4)***

*Agree with recommendation. The supplier records identified by the City Auditor's Office will be inactivated by March 31, 2018. The Purchasing Agent has put in a service request to the Information Technology Department to write a report that will compare social security numbers of terminated employees from the HR system with active supplier numbers in PeopleSoft Financials. Personnel cannot share social security numbers with Procurement, but this report would allow the information to be compared and active supplier ids of terminated employees could be reviewed and inactivated at least annually.*





# MEMORANDUM

The City of  
OKLAHOMA CITY



TO: Jim Williamson, City Auditor  
THROUGH: James D. Couch, City Manager *Joc*  
FROM: Craig Freeman, Finance Director *C*  
DATE: December 5, 2017  
SUBJECT: Audit No. 17-04 - Finance Department -- Citywide Payments Audit

## Recommendation (1)

The Procurement Services Division should change the status of the 4,632 active temporary and the 2,268 utility customer refund and juror pay classification supplier records to inactive. Active supplier records within these classifications should be identified and the status changed to inactive at least annually.

## Finance Department Response (1)

Agree with recommendation. This has been completed as of December 5, 2017. Active supplier records within these classifications will be identified and the status changed to inactive at least annually.

## Recommendation (2)

The Procurement Services Division should change the status of the 1,595 active supplier records with a date of last activity recorded in PeopleSoft more than 5 years earlier to inactive. The completeness of the process for reviewing active supplier records for inactive suppliers in accordance with purchasing policies and procedure requirements, should also be confirmed.

## Finance Department Response (2)

Agree with recommendation. This has been completed as of December 5, 2017. Now that purchasing card transactions are processed in PeopleSoft, supplier numbers do not need to stay active as long. The purchasing policies and procedures manual will be updated by December 31, 2017 to reflect the vendor file will be reviewed at least annually to identify active suppliers with no activity for more than 3 years. Once identified, these suppliers will be inactivated.

## Recommendation (3)

The Procurement Services Division should review the 455 active supplier records appearing to be duplicates to determine if they do in fact represent multiple records for the same suppliers and if so, the status of those records should be changed to inactive. A process to periodically review supplier records for duplicate records should also be established.

**Finance Department Response (3)**

Agree with recommendation. This review and update will occur before June 30, 2018. Procurement Services is working with the Information Technology Department to implement a workflow approval process when new suppliers are created in the financial system. This review will allow a management level employee to determine when it is appropriate to approve a new supplier for what may appear to be a duplicate supplier. There are times when it is necessary for a supplier to exist more than one time in the system. However, we agree that it should only be when absolutely necessary. Once we are current on the review and update of duplicate suppliers on the list identified by the City Auditor's Office, a review will be conducted at least annually.

**Recommendation (4)**

The Procurement Services Division should change the status of the 373 active supplier records relating to employees no longer employed with the City to inactive. A listing of terminated employees should also be obtained from the City's Personnel Department at least annually and compared to active employee classification supplier records and the status of active records relating to terminated employees changed to inactive.

**Finance Department Response (4)**

Agree with recommendation. The supplier records identified by the City Auditor's Office will be inactivated by March 31, 2018. The Purchasing Agent has put in a service request to the Information Technology Department to write a report that will compare social security numbers of terminated employees from the HR system with active supplier numbers in PeopleSoft Financials. Personnel cannot share social security numbers with Procurement, but this report would allow the information to be compared and active supplier ids of terminated employees could be reviewed and inactivated at least annually.