

**METRO**

# ***Accounts Payable ACL Audit***

---

**June 2003**

**A Report by the Office of the Auditor**



**METRO**

PEOPLE PLACES  
OPEN SPACES

**Alexis Dow, CPA**  
**Metro Auditor**

---



METRO  
OFFICE OF THE AUDITOR

June 12, 2003

To the Metro Council:

New emphasis is being given to the importance of transaction testing in the wake of corporate malfeasance that has plagued the American economy over the last two years. Such problems are not limited to the private sector. Frauds at governments regularly come to light. There is increased focus on governance responsibilities to ensure a sound structure of controls and oversight to protect stakeholders' interests, the interests of Metro area citizens.

In light of this, the Metro Auditor engaged a contractor to perform specific data analysis and analytical review of Metro accounts payable and payroll data. This testing and ongoing recurrence of such testing will help provide the assurances sought by the public that its resources are being well spent.

As a result of this testing and analysis, we are making several recommendations to Metro management, including:

- expanding use of purchasing cards for small purchases and optimizing controls available through the program
- reviewing purchasing strategies Metro-wide to maximize buying power, streamline processes and improve controls

- performing duplicate payment analysis internally on a periodic basis
- continuing to review vendor invoices to determine whether discounts are offered and pay within discount terms to reduce costs
- enhancing management of the vendor master files

We appreciate the cooperation and assistance provided by the Metro staff we worked with during this survey, particularly staff from the Finance Department and Information Technology Division.

Very truly yours,

Alexis Dow, CPA  
Metro Auditor

Auditor: Protiviti LLC

**protiviti**<sup>SM</sup>  
Independent Risk Consulting



Business Risk

Technology Risk

Internal Audit

# Accounts Payable ACL Audit – FINAL REPORT

# Metro

June 2003

Table of Contents	2
Executive Summary - Overview	3
Executive Summary - Recommendations	4
Purchasing Card Controls	5
Purchasing Strategy	6
Duplicate Payments	7
Lost Discounts	9
Unused Credit Memos	10
Vendor Master File Analysis	11
Analysis on Payables Data	14
Additional Testing	17

## Project Overview

Protiviti was engaged to perform a data analysis and analytical review of Metro accounts payable and payroll data. **The audit testing period included 18 months beginning 07/01/01 through 12/31/02.** The data was provided to Protiviti by Metro accounting management. Specific data analysis tests were performed by Protiviti using ACL. The testing results are summarized in this report.

This document provides management with information about the condition of risks and internal controls at a single point in time. Future changes in environmental factors and actions by personnel will impact these risks and internal controls in ways that this report cannot anticipate. Protiviti would like to thank the Metro Accounting Department for their cooperation and assistance in completing this review.

**Project Scope** Testing and analysis for the audit period included the following:

- Duplicate payment testing
- Lost discount analysis
- Unused credit memos review
- Analysis of the vendor master file and payables data to identify potential inefficiencies, such as excessive number of checks, small payment amounts and potential consolidation of vendor activity
- Review of the sequence of invoices, purchase orders and check numbers for gaps
- Comparison of the vendor master file to the payroll file to identify potentially fictitious vendors, or employees who may also be Metro vendors. This included comparing files to identify common addresses and federal identification numbers.
- Analysis of the data for other unusual trends or anomalies

## Summary of Recommendations

- Expand the use of Purchasing Cards (P-Cards) for small dollar purchases to increase efficiency of purchasing process. Optimize controls available through the program.
- Review purchasing strategies Metro-wide to maximize buying power, streamline processes, and improve controls. If purchasing strategies become more centralized, consider transitioning vendor setup responsibilities from Accounting to the Purchasing Department to improve segregation of duties.
- Consider performing duplicate payment analysis internally on a periodic basis.
- Continue to review vendor invoices to determine whether discounts are offered. If offered, pay within discount terms to reduce costs.
- Enhance management of the vendor master files:
  - Establish a policy that limits the amount of time a vendor can remain in active status since last time used. Once the policy is established and communicated, inactivate the vendors who do not fall within the policy of active vendors.
  - Review the vendors in the vendor master file without a street address (i.e. PO Box only) to determine validity; add a street address whenever possible.
  - Develop a new vendor setup form for requesting departments to help ensure all appropriate information is captured consistently for new vendors.
  - Create new vendors when names are modified to properly maintain history and 1099 integrity

**Observations & Risks:** Appropriate use of purchasing cards (P-cards) can enhance efficiencies and improve processing time for purchasing and accounts payable. Reports provided with P-Card programs also summarize valuable information to negotiate better pricing and terms on larger purchases. Management can maintain improved controls over purchases. Savings can be realized through the reduction or elimination of costs associated with forms, envelopes, postage and labor.

There are certain benefits to be gained by expanding the usage of the P-card program at Metro. 57% of Metro's disbursements made outside of the P-Card program are below \$250 (See disbursements section on page 14). Our interviews with purchasing personnel indicated that features and controls offered through the P-Card program could be enhanced. For example, the optimal use of *vendor classification codes* matches the disbursements made from the card to the appropriate general ledger account. This creates efficiency and accuracy in recording the expenditures. *Point of use restrictions* help limit which vendors the P-Cards can be used for. Without this control, a broad array of vendors can be used, for categories which a business expense may not be appropriate (such as clothing stores). Additionally, *period restrictions* are currently very broad at Metro. Using period restrictions helps ensure that reasonable limits are in place about how much an individual can spend per day, week, or month. Implementing such vendor and dollar restrictions can help ensure that purchases are appropriately limited to expected purchases for specific job responsibilities. As purchasing needs change, most P-card systems allow for changes to be implemented within 24 hours by authorized individuals. Our duplicate payment testing revealed a p-card purchase that was paid twice (page 8).

Specific risks inherent to a poorly controlled P-card system can include:

**Duplicate Payments**

**Overspending**

**Improper Accounting**

**Uncontrolled Vendor Usage**

**Mismanaged Tracking**

**Transactional Errors**

**Unplanned Purchases**

**Unauthorized Purchases**

**Fraud**

**Recommendation:** Consider reviewing the P-card program to ensure that controls are appropriate, and purchasing opportunities for the program are optimized. The risks mentioned above could be minimized and the purchasing power available through the program optimized.

**Observations & Risks:** Metro's decentralized purchasing strategy limits its ability to perform the following key purchasing controls essential to an effective purchasing department

**Vendor Management** – Metro has no standard methods for qualifying vendors and setting them up in the system. Decentralized purchasing permits vendors to be determined by requisitioning departments without regard of previous history of quality, delivery and pricing performance. Potential discounts available to Metro may not be maximized.

**Restricting vendor usage** – Poor vendor performance is not communicated across the organization. Departments may unknowingly continue to use vendors with poor history. As indicated above, vendor selection is driven by the requisitioning department.

**Monitoring vendor performance (quality and delivery)** – In order to communicate vendor performance, this information must be captured and monitored. A method for monitoring a vendor's performance is not in place.

**Negotiating vendor price** – Decentralization has prevented Metro from taking advantage of economies-of-scale. Pricing is not centrally negotiated and Metro may be losing out on opportunities.

**Approving requisitions** – The current process does not allow for large purchases to be centrally approved. Organizationally, the purchasing department does not have oversight of purchasing activity by departments and cannot negotiate price accordingly.

**Recommendation:** Consider empowering the Purchasing department through increased centralization for certain aspects of purchases. Effective centralized vendor management can improve vendor maintenance, negotiation opportunities and internal controls. Increased controls surrounding its P-card program should allow Metro to target its purchasing strategy towards high dollar and/or high quantity purchases. Small purchases should be monitored closely for consolidation opportunities and increased P-card activity.



**Observation & Risk:** Relatively few duplicates were identified in our duplicate payment testing of the "Invoices Paid File". Duplicate payment testing steps are as follows.

1. Various duplicate tests were run using the "Invoices Paid" data provided by Metro.
2. Test results with amounts greater than \$500 were manually reviewed to identify potential duplicates.
3. Invoices were selected for *system review* (a review of the invoices in PeopleSoft with Metro Accounting personnel).
4. Specific invoices were selected for *invoice review*. Invoices were obtained and analyzed and determinations were made if each invoice appeared to be a duplicate.

**Testing Results:** 7 ACL tests were performed

41,000+ invoice lines were scanned/reviewed electronically

204 invoices were reviewed in PeopleSoft financial system with Metro Accounting personnel

85 physical invoices were reviewed and analyzed

**4 duplicate invoices were identified for a total of \$9,428**

	VENDOR NAME	CHECK NUMBER	NET AMOUNT	INVOICE NUM	INV DATE	PMT DATE	FUND	DEPT NAME
1	Aramark/Giacometti	56830	4,035.00	1560	11/30/2001	2/15/2002	161	MERC
2	Ross Electric Company Inc	57466	4,035.00	1560	11/30/2001	3/8/2002	161	MERC
3	Aramark/Giacometti	56830	1,955.00	1550	11/21/2001	2/15/2002	161	MERC
4	Ross Electric Company Inc	57466	1,955.00	1550	11/21/2001	3/8/2002	161	MERC
5	Aramark/Giacometti	56830	490.00	1598	1/1/2002	2/15/2002	161	MERC
6	Ross Electric Company Inc	57466	490.00	1598	1/1/2002	3/8/2002	161	MERC
7	Event Solutions International	59046	2,948.40	Refund	4/15/2002	4/26/2002	554	MERC
8	Event Solutions International	61480	2,948.40	Refund	6/26/2002	7/5/2002	161	MERC
			18,856.80					
			<b>9,428.40</b>					

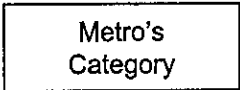
**Observation, continued:** Our testing was not expected to identify all duplicate payments. The risk continues that duplicate payments may exist within the provided data file, and can occur into the future.

**Recommendation:** Consider developing a quality assurance process to perform duplicate payment analysis periodically to ensure that duplicate payments are not being made on a go-forward basis. The complete detail of our ACL tests will be provided for reference and possible further review by Metro.

**Benchmarking Analysis**

**Average Percentage of Invoices Paid Twice by Company Size**

<u>Company Size (based on # of Employees)</u>	<u>0%</u>	<u>&lt;.1%</u>	<u>.1% -.5%</u>	<u>Over .5%</u>
Up to 99	41.8%	50.8%	5.7%	80%
100 – 249	22.1%	72.7%	5.2%	0 %
250 – 499	17.1%	73.7%	9.2%	0 %
500 – 999	9.0 %	71.6%	16.4%	3%
1,000 – 4,999	9.6%	64.4%	21.9%	2.7%
Over 5,000	2.3%	68.2%	22.7%	6.8%
Overall	20.6%	65.6%	11.5%	1.6%



**Observation & Risk:** The number of vendors offering a discount is lower than expected. From our review of the invoices paid file, discounts were realized from the following seven vendors:

**RH Brown Co., Xpedx, Printix, Tangent Toy Co, Dover Publications Inc, Russ Berrie & Co West Inc, & Overhead Door.**

Testing was performed to validate that relatively few vendors offer discounts by selecting 20 vendor invoices at random to determine if discounts were offered but not realized by Metro. None of the 20 invoices reviewed for this test offered a discount

Potential risk exists that Metro is not aware of all possible vendor discounts.

**Recommendation:** In the future, continue to review vendor invoices in detail to determine if discounts are offered. Determining vendor discounts could be part of a vendor application process if implemented. Additionally, Purchasing may be able to facilitate the addition of additional vendor discounts through a more centralized purchasing strategy.

**Observation:** As credit invoices are received at Metro they are reviewed by A/P personnel to determine if they are true credits. The credit amount is entered into the adjustment screen in the PeopleSoft financial system and is automatically placed in system hold status. The amount remains in system hold status until it has a larger invoice amount (due to vendor) entered into the system.

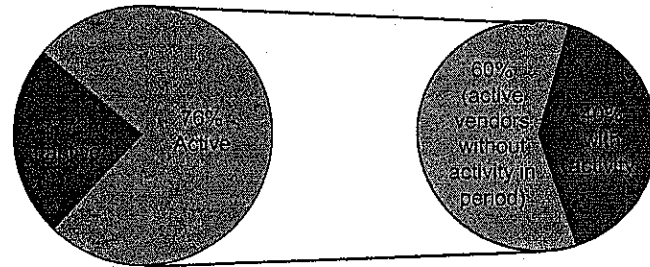
If it is determined that Metro will use the vendor again in the near future, the credit will remain in system hold status until subsequent invoices are received. If it is determined that Metro will not be using the vendor in the near future or if the amount is significant, Metro will request a refund for the credit amount. Upon receipt of the credit amount, the credit in the system is then manually adjusted.

**Testing:** We reviewed Metro's aging report for Invoice Credits / Invoice Holds to determine the existence and age of any credits. Our results show that currently Metro has one credit outstanding for \$51.14 processed on 3/31/2003. It has been determined that Metro will wait for subsequent invoices to be received from this vendor to resolve this credit.

It appears that credit memos/invoices are worked in an effective and timely manner. No issues noted.

## Observation & Risk:

- 11,604 vendors exist in the Vendor Master File including **8832 Active Vendors (76%)** and **2772 Inactive Vendors (24%)**.
- Of the 8832 Active Vendors, only 3577 (40%) had activity during the audit period 7/1/01 through 12/31/02. The remaining 60% had no activity.



Policies do not exist regarding when a vendor should be inactivated from the vendor master file. Risk of improper usage exists if numerous vendors remain in active status but are not actively being used. Examples include potential fictitious vendors and incorrect vendors being selected.

**Recommendation:** Establish a policy which will limit the amount of time a vendor can remain in active status but not be used. Once the policy is established and communicated, inactivate the vendors who do not fall within the policy of active vendors.

**Observation & Risk:** Vendors are currently being set up by email from the requesting department to A/P. Information provided includes name, address, phone number and contact information at the company. A/P then sends the vendor a questionnaire for further information. A result of the vendor master file analysis, we noted that 1115 active vendors were listed without a street address, having only a PO Box address. Of these vendors, 338 had activity during the audit period. Significant risk exists for fraudulent vendors to be established when only PO Boxes are provided, since street addresses are not verified.

106 active 1099-vendors did not have a tax identification number (TIN) in the PeopleSoft system. Additionally, Metro management had identified 37 active vendors with duplicate TINs but unique vendor identification numbers. We also identified them as part of our audit, but Metro stated it was in the process of working through these. In order to avoid adding duplicate vendors, the Accounting Department currently runs a query on vendor names and addresses before setting up a new vendor. However, TINs are not included in the query because TIN information is not obtained until after the vendor is set up. Regulatory compliance risk exists if appropriate tax ID information is not captured in the system. Additionally, under law, payors may be required to withhold 31% from all reportable payments made to recipients (payees) for whom an information return is required to be filed that has either a missing or incorrect taxpayer identification number (TIN).

### Recommendations:

- Review the provided list of vendors without street addresses (i.e. PO Box only) to determine validity and actual street address if possible.
- When requesting a new vendor setup, the *requesting department(s)* should be required to complete a new vendor setup form. This will help ensure that all the appropriate information (i.e. complete address and 1099 information/ tax identification number) is captured before setting up the vendor in the system. This will allow management to include TIN information in the criteria when running the duplicate vendor query which will mitigate the risk of setting up vendors with duplicate/inaccurate TINs.

**Observation & Risk:** The Accounting Department is responsible for both vendor setup and payment. Ideally these functions should not be performed by the same department to protect segregation of duties. However, adequate compensating controls have been created within the accounting department to segregate these duties under the circumstances.

**Recommendation:** As policies and procedures are developed regarding new vendor setup (i.e. new vendor setup forms recommended on pg 12 ), consider transferring the responsibility of vendor setup from the Accounting Department to the Purchasing Department. This will mitigate the risk of Metro personnel having access to both set-up and pay vendors.

---

**Observation & Risk:** Currently, the PeopleSoft system allows for vendor names to be modified in the Vendor Master File. An instance was observed for the audit period when an ownership change transferred the history of the prior vendor to the new vendor. The audit trail of past payment history was inaccurate. There may be data integrity issues if this has been a common practice at Metro. Accounting personnel noted that nothing is changed in the vendor master file without documentation / explanation.

**Recommendation:** Vendor names should not be modified in the system. Best practices indicate that if significant changes occur, new vendors should be established in the system. This will help ensure the integrity of the vendor data and an accurate audit trail for payment history.

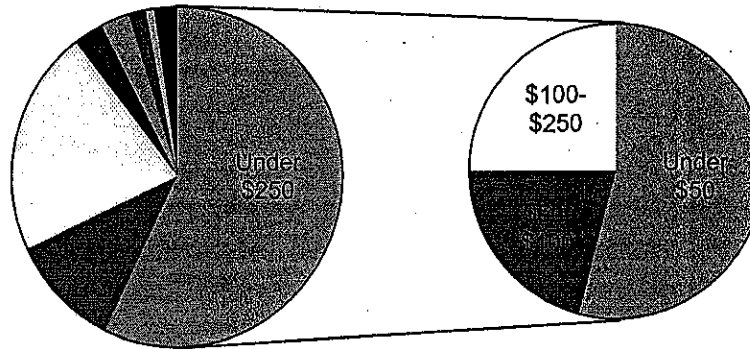
## Analysis on Payables Data: Disbursement Amounts

Business Risk | Technology Risk | Internal Audit

### Observation & Risk:

- Regular check runs are processed weekly. For the period tested, Metro processed 17,889 disbursements.
- 57% of Metro disbursements were for less than \$250
- As noted below, of the 57% of disbursements less than \$250, 54% were less than \$50. Goods in this price range should be obtained with a P-Card to reduce the amount of work required to process an invoice and produce a check.

Disbursement Amt	Count	% of Total
\$0 – \$250	34576	57%
\$250 – \$500	6400	11%
\$500 – \$1000	5642	9%
\$1000 – \$5000	7304	12%
\$5000 – \$10,000	1816	3%
\$10,000 – \$20,000	1649	3%
\$20,000 – \$50,000	1127	2%
Over \$50,000	546	1%
Credits	1257	2%
	60317	100%



Disbursement Amt	Count	% of Total
\$0 – \$50	18753	54%
\$50 – \$100	7197	21%
\$100 – \$250	8600	25%
	34550	100%

**Recommendation:** As the P-Card process is strengthened by additional controls (recommended on page 5), expand the use of the P-Card system for small dollar purchases. This will help to reduce the amount of work required to process an invoice and produce a check. Reducing the number of vendors can also help reduce the number of disbursements



# Analysis on Payables Data: Top 25 Vendors by Disbursement Amount

Business Risk | Technology Risk | Internal Audit

In order to show what vendors have the most activity, these tables list the Top 25 vendors in order of **total amount disbursed** (table on the left) and in order of **quantity of disbursements** (table on the right) during the audit period. Also listed is average dollar amount per disbursement.

#	Vendor	Total amount disbursed	Qty of disbursements	Avg disbursement
407	Hoffman Construction Company	18,306,331	35	523,038
334	Browning-Ferris Industries	3,282,811	20	164,141
6693	Aramark/Giacometti	2,925,576	82	35,678
1993	Public Employee Retirement System	2,620,937	39	67,204
240	City of Portland	1,667,136	286	5,829
1844	ODS Health Plan	1,631,827	84	19,427
2715	The Bank of New York	1,468,054	20	73,403
220	Portland Oregon Visitors Assoc	1,265,219	20	63,261
452	Washington County	1,042,085	34	30,650
4926	Zimmer Gunsul Frasca Partnership	764,351	17	44,962
369	State of Oregon	719,016	360	1,997
2178	Kaiser Foundation Health Plan	624,458	19	32,866
39	Devin Oil Company	464,265	75	6,190
1856	Onyx Environmental Services LLC	449,030	47	9,554
375	Multnomah County	446,686	174	2,567
1491	Portland General Electric	389,684	119	3,275
9915	Inquip Associates Inc	380,073	4	95,018
1566	The Oregon Zoo Foundation	379,072	60	6,318
1489	Pacific Power	377,083	46	8,197
366	JBL&K Insurance Inc	337,419	3	112,473
9169	Silco Construction Company	317,421	6	52,903
9548	Reischman Concerts LLC	287,097	26	11,042
1059	PeopleSoft Inc	274,854	7	39,265
2037	PACE	255,501	36	7,097
1126	SYSCO	241,424	74	3,262

#	Vendor	Total amount disbursed	Qty of disbursements	Avg disbursement
369	State of Oregon	719,016	360	1,997.27
240	City of Portland	1,667,136	286	5,829.15
375	Multnomah County	446,686	174	2,567.16
1060	Petty Cash	12,899	170	75.88
9327	Qwest	68,455	153	447.42
1238	Najdek Produce Co Inc	96,159	144	667.77
940	Ikon Office Solutions Inc	105,656	137	771.21
1486	AT&T	44,573	135	330.17
1140	The Oregonian	63,289	131	483.12
249	St Vincent de Paul	215,932	124	1,741.39
1491	Portland General Electric	389,684	119	3,274.65
25	Walter E Nelson Co	83,808	92	910.96
1844	ODS Health Plan	1,631,827	84	19,426.51
6693	Aramark/Giacometti	2,925,576	82	35,677.76
2904	Airgas-Norpac Inc	70,444	81	869.68
1282	Food Services of America	67,529	79	854.79
1521	United Parcel Service Inc	5,949	76	78.27
39	Devin Oil Company	464,265	75	6,190.20
1126	SYSCO	241,424	74	3,262.49
1306	FedEx	4,656	74	62.91
2055	New System Laundry	29,397	74	397.26
1536	Northwest Natural Gas	178,398	72	2,477.75
1159	Waste Management of Oregon Inc	43,485	71	612.46
1485	AT&T Wireless Services	7,260	71	102.25
1550	United States Postmaster	121,368	70	1,733.82

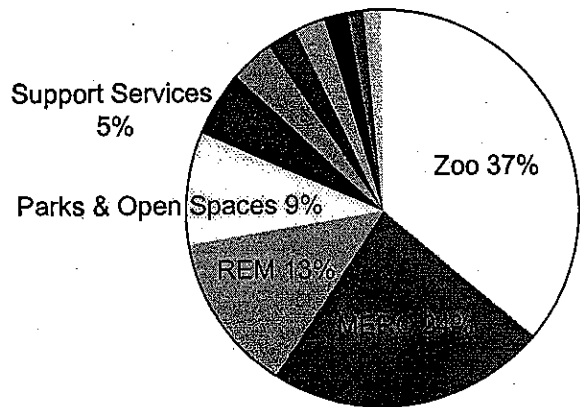
# Analysis on Payables Data: Totals by Department / Fund

Business Risk | Technology Risk | Internal Audit

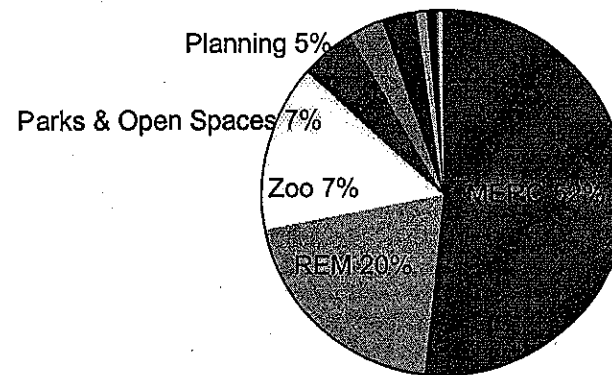
The following data represents the invoice activity by Metro department / fund and shows the number of invoice lines and total dollar amount of invoices processed for each department (sorted by invoice count).

Name of Fund(s)	Invoice Count	% of Total	Tot. # of Inv. Lines	% of Total
Zoo	22,264	37	20,662,387	7
MERC	14,181	24	138,687,858	52
REM	8,060	13	54,592,515	20
Parks & Open Spaces	5,655	9	18,494,600	7
Support Services	3,244	5	8,263,367	3
Planning	2,161	3	13,459,659	5
General	1,560	2	2,275,553	1
Risk Mgmt	1,454	2	2,131,499	1
Metro Admin	1,212	2	891,870	0
Building Management	941	1	956,875	0
All Other	821	1	8,115,696	3

Graph by Invoice Count



Graph by Total Amount of Invoices Processed



- A **sequence review** was performed on the disbursements file provided by Metro to identify any gaps in the check sequence. No gaps were identified.
- The **vendor master file was compared to the payroll file** to determine if duplicate addresses exist. This may indicate situations where employees are also vendors. However, after reviewing the list with accounting management it was determined that no issues exist, since the personnel are no longer employed by Metro and/or the vendors have not received payment since the PeopleSoft implementation in 1999.
- **Benford's Law** was applied to the Invoices Paid File and no signs of fraudulent activity were noted. Benford's Law works under the premise that, in an unconstrained data set such as AP disbursements, the distribution of first digits should be highly skewed, with one being the most common and nine being the least common. This is useful as a method of fraud detection because falsified (or repeating) data is unlikely to closely follow this distribution. Typically when employees falsify AP disbursements, their digit patterns (which have been artificially added to the list of the true numbers) cause the data set to appear unnatural. It appears that the Metro AP data follows a natural pattern per Benford's law.
- A review of the **Oregon State's unclaimed property report** showed two listings for Metro. The first was listed as "Metro Installations" and the second was listed only as "Metro". Both listings were flagged as being recoverable amounts in excess of \$50. It was noted that Metro does have a procedure to regularly monitor and follow-up on any unclaimed property reports listed by the state. Subsequent follow-up to these two listings showed that they were not associated with Metro and that follow-up action is unnecessary.

## **Response to the Report**

---



METRO

6 0 0 N O R T H E A S T G R A N D A V E N U E | P O R T L A N D , O R E G O N 9 7 2 3 2 2 7 3 6  
T E L 5 0 3 7 9 7 1 5 4 1 | F A X 5 0 3 7 9 7 1 7 9 3

CHIEF OPERATING OFFICER

M E M O R A N D U M

DATE: May 23, 2003  
TO: Alexis Dow, Metro Auditor  
FROM: Michael J. Jordan, Chief Operating Officer  
SUBJECT: ACL Audit

Thank you for the opportunity to respond to the draft report of Accounts Payable ACL Audit. We are very reassured that after Protiviti scanned and reviewed some 41,000 invoice lines that no significant errors were found and that, based on industry standards, Metro does a good job minimizing duplicate payments. We are proud of our Accounting Division and will acknowledge their fine work.

Implementation of the report's recommendations will proceed as described in specific responses to the recommendations that follow:

**P-card Controls**

Recommendation #1. Consider reviewing the P-card program to ensure that controls are appropriate, and purchasing opportunities for the program are optimized. The risks mentioned above could be minimized and the purchasing power available through the program optimized.

Management Response: Thank you for noting that the use of purchasing cards is a best practice. Metro averages 1,100 P-card transactions a month totaling \$275,000. The cardholder and the cardholder's supervisor approves each transaction and receipts are individually audited in Purchasing. Card abuse and duplicate payments are very rare and identified quickly. Vendors with whom Metro has no reason to do business, are blocked. Vendors who sell products which are not to be purchased on a P-card, are also blocked. Each card has a per transaction limit (most \$1,000) and monthly purchasing limit (most \$5,000) (*period restrictions*). Directors are provided regular utilization reports. P-card policies and procedures were recently updated and will be on the intranet shortly.

Our current transaction level was set in 1998 based on recommendations from The Hackett Group to the Auditors Office and Metro Administration regarding purchasing practices. At that time, it was recommended we increase our limits to the current levels in order to reduce the use of more costly purchase orders.

Metro participates in a consortium of some 25 local governments in the P-card program. Purchasing staff attends training and annual purchasing card conferences to keep abreast of new issues and interact with other jurisdictions. Purchasing is currently upgrading to an internet based reporting program to streamline the process.

P-card transactions default into one account code. Departments can change the account coding to match "budget with actuals". While this creates inefficiencies in coding, it provides a requested service to departments.

Management regularly reviews the P-card program to ensure that controls are appropriate and opportunities for efficiency are realized, and will continue to do so.

## **Purchasing Strategy**

Recommendation #2: Consider empowering the Purchasing department through increased centralization for purchases. Effective centralized vendor management can improve vendor maintenance, negotiation opportunities and internal controls. Increased controls surrounding the P-card program should allow Metro to target its purchasing strategy towards high dollar and/or high quantity purchases. Small purchases should be monitored closely for consolidation opportunities and increased P-card activity.

Management Response: Metro is making advances towards centralized purchasing. A few years ago, Metro hired a purchasing analyst to operate the PeopleSoft purchasing module, approve all purchases over \$5,000, and coordinate on an agency wide basis the purchase of selected products used by all departments. Three years ago, the Executive Office determined the best purchasing model, given the unique needs of each department, was to centralize purchasing within departments. Each department has appointed a "Departmental Purchasing Coordinator" (DPC). The DPC's meet monthly with Purchasing for training and coordination. The Executive Office also recently implemented vendor performance program.

Management has identified several additional products and services lending themselves to be purchased centrally. Efforts advancing centralized purchasing will be an on-going process as resources allow.

### **Duplicate Payment Testing**

Recommendation #3: Consider developing a quality assurance process to perform duplicate payment analysis periodically to ensure that duplicate payments are not being made on a go-forward basis.

Management Response: As noted by the audit findings, Metro ranks in the top ten percentile of companies in minimizing duplicate payments, which is due to the proactive actions by Accounting staff to develop procedures to identify potential duplicate payments. Accounting staff will continue to fine tune procedures as needed to provide quality assurance

Metro will work with MERC to recover from their vendors the duplicate payments processed. Metro will encourage MERC to develop procedures to identify invoices submitted by subcontractors to Aramark/Giacometti and included in their invoicing for assurance they are not also processed as stand alone invoices.

### **Lost Discounts**

Recommendation #4: In the future, continue to review vendor invoices in detail to determine if discounts are offered. Determining vendor discounts could be part of a vendor application process if implemented.

Management Response: Vendor terms (discount) are established within the PeopleSoft Accounts Payable application on a vendor-by-vendor basis, which assures invoices take the discounts if available and processed in accordance with terms. Accounting staff will continue to monitor this process for accuracy and timeliness.

Thank you for noticing that Metro took advantage of vendor discounts when known. Management must balance speedy payments with its fiduciary responsibility to assure accurate payments.

Metro will employ a summer intern to prepare a cost-benefit analysis of implementing a vendor application process.

### **Vendor Master File Analysis**

Recommendation #5: Establish a policy which will limit the amount of time a vendor can remain in active status but not be used. Once the policy is established and communicated, inactivate the vendors who do not fall within the policy of active vendors.

Management Response: Time is currently not available to review and update the entire vendor database (of over 11,800 vendors) due to higher priorities. Accounting staff will review this data as part of the forthcoming upgrade of the PeopleSoft Financials project as part of the "data scrubbing" aspect of this project and in light of potential future capabilities to archive vendor data. This is expected to be completed by June 30, 2004. Once those capabilities are known, staff will determine an appropriate policy for active vendors.

### **Vendor Master File Analysis**

Recommendation #6: Review the provided list of vendors without street addresses (i.e. PO Box only) to determine validity and actual street address if possible. When requesting a new vendor setup, the requesting department(s) should be required to complete a new vendor setup form.

Management Response: Accounting staff currently solicit street addresses upon vendor setup and will continue to do so. Many vendors have multiple addresses that management maintains in the system (remit, order, correspondence addresses for example). Accounting staff will review the vendor database to identify vendors with only a PO box address for further follow-up.

Metro will discuss with departments the potential for, and requirements to be contained within, a vendor setup form. Due to the current decentralized nature of purchasing at Metro, it will not be possible to have W-9 information (for Form 1099 compliance) in all cases prior to vendor setup (which delays the ability to order). Accounting will continue its practice of placing vendor payments on hold until receipt of such information, however. Previous to this audit, Metro staff had developed a query of the database to avoid establishing unique vendor records with duplicate TINs.

### **Vendor Master File Analysis**

Recommendation #7: As policies and procedures are developed regarding new vendor setup (i.e. new vendor setup forms recommended on pg 12), consider transferring responsibility of vendor setup from the Accounting Division to the Purchasing Section. This will mitigate the risk of Metro personnel having access to both set-up and pay vendors.

Management Response: While management agrees in theory, we have structured the current procedure to have strong compensating controls which segregates the duties for vendor setup and payment significantly enough to minimize risk. Further consideration of reassigning this responsibility will be undertaken during future system upgrade projects (business process review) and during any consideration of more centralized purchasing procedures at Metro.



Recommendation #8: Vendor names should not be modified in the system. Best practices indicate that if significant changes occur, new vendors should be established in the system. This will help ensure the integrity of the vendor data and an accurate audit trail for payment history.

Management Response: Management has chosen to ensure the integrity of the vendor identification number and the history associated with a vendor (including the tax identification number), irrespective of a name change (e.g., US West Communications changing its name to Qwest). Management looks to the software vendor to provide effective dating of the name field in the database to accomplish both objectives (data integrity and security over vendor name changes). Accounting staff has developed a procedure to note such name changes in the "Conversations" panel of the vendor database to explain and document any such changes, pending the hoped for software change.

### **Analysis on Payables Data: Disbursement Amounts**

Recommendation #9: As the P-card process is strengthened by additional controls, expand the use of the P-card system for small dollar purchases. This will help to reduce the amount of work required to process an invoice and produce a check. Reducing the number of vendors can also help reduce the number of disbursements.

Management Response: Management reviewed YTD payments in FY 2003 under \$250. These payments represented 36 percent of total payments. Management observed that payments under \$250 were to 1) individuals, 2) local governments, 3) utilities, 4) vendors not taking the P-card 5) newspapers, 6) employee payroll donations to charities, and 7) contract payments. Only 2 percent of payments under \$250 were on Purchase Orders.

Management has advised Department Purchasing Coordinators to use P-cards when appropriate. Management will work with department staff to assess additional opportunities for improvement.

You are welcome to keep this copy if it is useful to you.  
If you no longer need this copy, you are encouraged to return it to:

**Metro Auditor**  
Metro Regional Center  
600 NE Grand Avenue  
Portland, OR 97232-2736

If you would like more information about the Office of the Auditor  
or copies of past reports, please call  
**Metro Auditor Alexis Dow, CPA**  
**(503) 797-1891**

**Metro Auditor Suggestion Hotline:**  
**(503) 230-0600 ♦ MetroAuditor@metro.dst.or.us**