



Accounts Payable & Procurement Card Process

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CARSON CITY, NV

Submitted By:

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Executive Summary

Eide Bailly LLP (“We”, “Our”, or “Us”) performed a comprehensive review of Carson City’s (“City”) Accounts Payable (AP) and Procurement Card (P-Card) Process, to evaluate associated processes and controls. Our engagement identified two (2) findings. These findings reveal opportunities for improvement in the existing AP & P-Card procedures and addressing control gaps as needed.

The AP & P-Card Process was identified as a potential internal audit risk area given that we aim to perform routine reviews of AP & P-Card activities every three to five years. The last AP & P-Card process review was conducted in 2020.

This engagement focused on evaluating the AP process and controls, examining the accuracy of invoice payments for authorized purchases, preventing duplicate payments, and ensuring timely vendor payments. Additionally, to review processes and controls related to P-Card issuance, adherence to purchasing guidelines, and purchase compliance at both individual and department levels.

We extend our sincere gratitude to the Chief Financial Officer, Deputy Chief Financial Officer, and Accounting Manager for invaluable contributions. Their insights greatly enhanced our understanding of the AP and P-Card process, enabling us to provide meaningful recommendations for process improvements and control enhancements.

Background Information

Carson City operates a hybrid decentralized and centralized AP function, where purchases are managed within individual departments and payments are reviewed and approved by the Finance Department, which oversees vendor payments and related activities across City departments. During the engagement period under review from July 2023, through January 2024, the Finance Department processed approximately 8,000 checks, 9,915 P-Cards transactions and 175 wire transfers totaling approximately \$103 million. See **Table 1** below.

The AP process requires approvals from Department Heads and the Finance Department before payments are processed, with these approvals automated through the Tyler Munis system, the City’s Enterprise Resource Planning (ERP) system. All relevant support documentation for each transaction is uploaded or scanned into Munis for auditability and control.

In addition to the AP function, Carson City operates a P-Card program designed to streamline the procurement process for acquiring good and services directly from vendors without the need for a purchase requisition¹. Authorized users include 276 active P-Card holders who conducted 9,915 transactions totaling \$3,608,833.02 during the review period. See **Table 1** below. The P-Card program incorporates standard controls such as single transaction limits, monthly cycle transaction limits, and workflow approvals to ensure integrity and control in the purchasing process. The City actively promotes the use of P-Cards, as they receive an annual rebate for P-Card utilization.

The top departments utilizing the P-Card program include Public Works Fleet Maintenance Division, Sheriff’s Office, and the Fire Department, collectively representing \$1.4 million in transactions, approximately 40% of the City’s total P-Card expenditures. See **Table 2** below.

¹ Per the City’s *Purchasing and Contracts Policies and Procedures*, purchases over the amount of \$5,000 require a purchase order, whether the transaction was made via P-Card or other payment method.

Table 1 – Transaction Summary (July 2023 – January 2024)

Payment Method	Number of Transactions	Sum of Transaction Amounts
Normal/Check	7,999	\$43,069,971.62
P-Card	9,915	\$3,608,833.02
Wire Transfer	175	\$56,727,185.74
Total	18,089	\$103,405,990.38

Source: Invoice Tracking Report

Table 2 – Highest P-Card Usage

Department	Total P-Card Transaction Amount
Fleet Maintenance	\$500,428.07
Sheriff's Office	\$467,773.76
Fire Department	\$461,472.31
Total	\$1,429,674.14

Source: Invoice Tracking Report

Objective & Scope

The objective of the engagement was to evaluate the accounts payable process and controls to determine that invoices are paid for authorized purchases, duplicate invoices are not paid, and vendors are paid timely. Additionally, to review processes and controls over purchasing card issuance, purchasing guidelines, and individual and department transaction/purchase compliance.

The scope of this engagement was for July 2023 through January 2024.

Our engagement was performed in accordance with the Statements on Standards for Consulting Services issued by the American Institute of Certified Public Accountants (AICPA).

Methodology

Based on the above objectives, we performed procedures including but not limited to the following:

1. Obtained and reviewed the City's Purchasing and Contracts Policies and Procedures and Procurement Card Program Manual.
2. Obtained and reviewed the City's prior AP and P-Card Internal Audit Report to verify the implementation of corrective actions.
3. Obtained and reviewed the department's most recent organizational chart for roles and responsibilities.
4. Performed walkthroughs and conducted interviews of selected department personnel to assess internal controls and processes over the AP and P-Card process.

Key Personnel Interviewed:

- Chief Financial Officer
 - Deputy Chief Financial Officer
 - Accounting Manager
5. Obtained the vendor master file to identify potential fraudulent vendors.
 6. Compared vendor/supplier names and addresses to employee file.
 7. Obtained the AP voucher history file to identify potential duplicate vendors and duplicate payments.

8. Obtained the population of active P-Card users to verify transaction limits and approvers.
9. Judgmentally selected a sample of P-Card activity to determine whether key internal controls are functioning as intended.

Results and Conclusion

Based on the procedures performed during this assessment, we identified areas of strength within the AP and P-Card processes, including robust controls over invoice authorization, diligent monitoring to prevent duplicate payments, and effective oversight of P-Card issuance and usage. Additionally, The City has well-defined purchasing thresholds and signing authority which provide clear guidelines to ensure all transactions are subject to appropriate levels of review and approval.

Additionally, the City has implemented adequate controls for the usage of generic department P-Cards, making this approach suitable, particularly for departments like the Sheriff's Office and the Fire Department with high P-Card usage.² Utilizing generic P-Cards provides flexibility for making purchases as needed without requiring separate cards for each employee, while streamlining the procurement process, and reducing administrative costs.

Although key controls over the AP and P-Card process are functioning as intended, we identified opportunities where these controls could be strengthened. We have identified two (2) findings and provided recommendations to address the findings noted below.

We greatly appreciate and thank the input of all individuals who contributed to enhancing our understanding of the AP and P-Card process as well as helping us identify opportunities for improvement. Special acknowledgement goes to the Chief Financial Officer, Deputy Chief Financial Officer, and Accounting Manager whose openness and transparency with the Internal Audit team facilitated a constructive exchange of information. This collaboration proved instrumental in identifying areas of opportunity and strengthening existing controls. We are confident that addressing the findings and implementing the recommendations outlined in this report will significantly contribute to strengthening the overall control environment for the City's AP and P-Card process.

FINDING #1: Duplicate Vendors

During our examination of the City's vendor master file, we flagged potential duplicate instances where vendors shared identical or similar information. Our analysis revealed certain vendors appearing multiple times in the vendor master file, often with slight variations in names or addresses. Furthermore, some vendors had multiple vendor numbers assigned to them, indicating redundancy in vendor records. Currently, the City maintains 4,551 active vendors, and we identified 46 actual duplicate vendors based on matching criteria such as vendor name and vendor address.

Inconsistent vendor naming conventions has contributed to multiple entries for the same vendor. Specifically, some vendors were listed multiple times with minor variations in their names, resulting in the same vendor being recorded more than once in the system. **See examples below.**

Duplicate Vendor Example #1:

Vendor Name: Astrophysics Inc.
Duplicate: Astrophysics Inc (without period)

² We noted the use of eleven (11) generic P-Cards issued to a department instead of specific users, including six (6) to the Fire Department, four (4) to the Sheriff's Office, and one (1) to the District Court Clerk.

Duplicate Vendor Example #2:

Vendor Name: SJR Holding LLC.

Duplicate: SJR Holding, LLC (with comma, without period)

It is important to note that certain circumstances can lead to unavoidable duplicate vendors, such as vendors with different remittance addresses, shared office spaces, or vendors resulting from mergers with the same address.

The presence of duplicate vendors has several risks, including an increased likelihood of duplicate payments, inaccurate financial reporting, and operational inefficiencies. Addressing these issues through data cleanup and standardization efforts is critical to improving vendor management and mitigating associated risks.

RECOMMENDATION for Finding #1

We recommend that the City establish ongoing monitoring processes and conduct periodic reviews of the vendor master file to identify and merge duplicate vendor records. Additionally, we also recommend that the City implement standardized naming convention and data entry guidelines to prevent future occurrences of duplicate entries.

Management Response:

Management understands and agrees with this finding. Finance has very few staff members allowed to add Vendors as a system control; however, there has been a lot of turnover in these positions as well. Finance will update the procedures for creating a new vendor to include a naming convention that will be standard for searches as well as check distribution. If the system allows, we will add a workflow, so management can review new vendors to ensure the naming convention is followed. Finance should be able to go through the current duplicate vendors and inactivate them as well as update our internal procedures no later than December 31, 2024.

FINDING #2: Duplicate Invoices

Our review of the City's Accounts Payable voucher history file (Invoice Tracking Report) uncovered potential duplicate payments. These were identified as instances where payments to the same vendor with matching invoice amounts under similar invoices or payments with identical invoice numbers were flagged. We isolated several potential duplicate payments. Upon subsequent review of payment documentation within Munis one discrepancy was confirmed with duplicate payment for the same invoice number. This duplicate payment involved the same invoice being paid twice, once by check and again via P-Card. The City has taken steps to correct this error by contacting the vendor for a payment refund.

Duplicate invoice payments pose several risks, including potential financial losses due to vendor overpayments, strained relationships and reputational damage due to payment discrepancies, and increased administrative burden to address duplicate payment and reconcile accounts.

RECOMMENDATION for Finding #2

We recommend that the City implement robust reconciliation processes to cross-check invoices and payment records across different payment methods. If possible, the City should utilize an automated system or software tools that can help identify potential duplicate payments. Additionally, the City should conduct regular reviews of payment transactions to identify discrepancies and potential duplicate payments to prevent financial losses.

Management Response:

Finance's new system Munis does in fact flag transactions when it appears it is a duplicate invoice. As the auditor discovered there are legitimate reasons for this. For instance, an Amazon order may have 5 items on it, delivered on 3 different days, resulting in 3 P-Card transactions. Finance instructs staff to use the invoice number, but add A, B and C, thereby creating a different invoice number for each charge. Catching this on the backend is difficult, as a careless staff member may change or add a hyphen if they

get the duplicate invoice number warning rather than research if it is already paid. During each Check Run we do one final check of the invoices to determine if there is a duplicate; however, only for that check run. The typical error is when a staff member pays for something with a P-Card and puts that invoice on the data entry person's desk, not indicating that is paid with a P-Card already, so the data entry person enters it as an invoice and pays it again. This error is tough to catch, as P-Cards are recorded and reconciled monthly, while normal check runs are completed and reconciled weekly. One procedure Finance can add is during month end processing is to run an invoice tracking report, which will print out the invoice numbers for all transactions whether Check or P-Card and search for duplicate payments monthly. Finance anticipates it will be able to add this procedure by June 30, 2024.