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## Correspondence Memorandum

**Date:** November 17, 2017  
**To:** Audit Committee  
**From:** Yikchau Sze, Director  
Office of Internal Audit  
**Subject:** Invoice Processing Audit Report

**This report is for Committee review and discussion. No action is required.**

Attached is the audit report of an invoice processing audit. The results of this audit have been submitted and discussed with the Office of the Secretary, Department of Employee Trust Funds (ETF).

This audit was conducted in accordance with the biennial Audit Plan for Fiscal Year 2018-2019.

The objective of this audit was to assess the controls within the operational invoice review and approval process for accuracy and timeliness of payments associated with these invoices.

We evaluated the design and operating effectiveness of controls that were in place from January 1, 2017, to June 30, 2017, by performing process walkthroughs, random sample testing and analytical procedures. Although we did not identify any material inappropriate payments, we identified significant control deficiencies that resulted in widespread exceptions noted throughout our testing. We categorized our findings into three categories, including procedural documentation, accuracy, and timeliness of payments. We provided recommendations in each of these categories. Management agreed with our recommendations and provided action plans to address all the findings. We also raised two process improvement opportunities for management to consider.

This audit was conducted by Michelle Hoehne, who will be available at the Committee meeting to discuss the audit and answer any questions.

Attachment: Invoice Processing Audit Report

Reviewed and approved by Robert J. Conlin, Secretary

Electronically Signed 11/30/17

Board	Mtg Date	Item #
AUD	12.14.17	4

***Office of Internal Audit***

***Invoice Processing Audit***



November 20, 2017

## **Objective:**

The audit objective was to determine whether the review and approval process for operational invoices used by the Department of Employee Trust Funds (ETF) Bureau of Budget, Contract Administration, and Procurement (BCAP) is working as intended. Specifically, we evaluated the controls within the process and reviewed for accuracy and timeliness of payments associated with these invoices.

## **Scope:**

The audit scope focused on the ETF operational invoices and related payment vouchers processed by BCAP during January through June 2017, excluding any transactions relating to Procurement Card (P-card) purchases.

## **Background:**

### *The Process*

BCAP is responsible for processing all operational invoices received by ETF. This excludes invoices specifically related to benefit programs administered by ETF, which are processed by the Division of Trust Finance. Once BCAP accounts payable staff receive an operational invoice, either electronically or through mail, they identify the specific ETF business area to which the invoice relates. BCAP maintains a spreadsheet that indicates the business area individual that should provide approval for invoices received from each supplier. After the business area approver has been identified, BCAP forwards the invoice for approval, requesting review and approval within three business days. Once this approval has been received, a BCAP accounts payable staff member enters the invoice information into the STAR Finance system, attaches the invoice and business area approvals and generates the payment voucher. A second BCAP staff member then reviews and approves the payment voucher within the system to generate a payment to the supplier.

### *Invoice Payment Requirements*

A proper review and approval of all invoices received is necessary to ensure that expenditures recorded and resulting payments made by ETF are accurate and have occurred. Wisconsin Statutes (s. 16.53) requires that the Department of Administration

(DOA) audit all claims against the state before a payment is made. DOA has delegated the daily audit of these transactions to the individual agencies, including ETF. Thus, DOA has provided specific review criteria in the Wisconsin Accounting Manual available to all agencies. Invoices should be reviewed for mathematical and coding accuracy, compliance with purchasing regulations, compliance with terms of the purchase order, conformance with legislative and program intent, and have a business purpose review performed. Additionally, there should be assurance of receipt of goods in good condition or completion of services, a review to ensure no duplicate payments have been made, proper approvals, and appropriate supporting documentation to support payments. These review steps should be completed prior to the approval of payment.

The invoice payment process should be prompt and take no longer than 30 days from the receipt of a properly completed invoice, or receipt and acceptance of the property or service under the order or contract, whichever is later, in accordance with the State's Prompt Payment Law under Wisconsin Statutes (s. 16.528). Any invoice that is not paid within the 30-day requirement, and does not meet any of the exceptions indicated in statutes, will have a required interest payment. Additionally, under s.16.53(2), if an agency receives an improperly completed invoice, the agency is to notify the invoice sender of the reason it is improperly completed within ten working days after receipt of the invoice.

## **Testing:**

The OIA conducted this audit by:

- obtaining an understanding of BCAP's procedures for processing and reviewing operational invoices, including conducting interviews and performing process walkthroughs with responsible staff;
- vouching a sample of invoices to ensure appropriate approvals were made and to determine the accuracy of processing;
- performing analytical procedures on the entire population of invoices processed and paid during the timeframe in our audit scope; and
- testing STAR system controls.

We obtained accounts payable invoice and related payment voucher data from STAR for operational invoices processed by BCAP and paid during the months of January through June 2017. 593 vouchers were included in our data population, totaling approximately \$14.1 million.

Testing a Sample of Invoices for Approval and Accuracy of Processing

We randomly sampled 99 payment voucher transactions and vouched these back to the supporting screens and attached documentation within the STAR Finance system.

For each voucher, we reviewed to determine:

- that supporting documentation of both the invoice and business area approval was present prior to a payment being made;
- that information in STAR matched what was on the supporting invoice, including: supplier name and address; invoice amount; and other invoice information, such as invoice number, invoice date, invoice receipt date, and the general reasonableness of the invoice description;
- that the business area approver appeared reasonable based on BCAP's listing of approvers by vendor;
- that the voucher processor and approver were both BCAP staff responsible for invoice processing and that appropriate separation of duties occurred;
- that transaction coding appeared reasonable for the purposes of financial reporting; and
- that payments appeared reasonable based on any associated purchase orders or contract terms.

Analytical Procedures

We performed analytical tests using Audit Command Language (ACL) software on the entire population of 593 vouchers. These tests included such things as looking at transactional coding, the number of payments generated via ACH vs. Check, separation of duties and appropriateness of the individuals involved in entering and approving vouchers, and looking for potential duplicate invoices or duplicate payments.

Testing of STAR System Controls

The STAR system has certain controls in place in the Accounts Payable (AP) Module from which invoices and payment vouchers are processed. These controls include:

- preventing the same person from both entering and approving a voucher;
- preventing a duplicate invoice from being entered (based on the same invoice number and invoice date); and
- a purchase order (PO) matching process that limits a voucher to the associated PO amount.

We tested these controls by having BCAP staff attempt to enter and approve the same invoice, attempting to process the same invoice twice, and attempting to process an invoice associated with a PO for more than the PO amount.

While we noted through our testing that these system controls appeared to be operating effectively, we do note certain limitations in the effectiveness of these controls related to invoice processing. First, while appropriate separation of duties is ensured between the individual entering and approving a voucher, we note that all vouchers processed in the AP module are available for approval by any ETF staff member with an AP module approver role, not necessarily only BCAP voucher approvers. BCAP staff noted that this is the way DOA, the owner of the STAR system, insisted the approval workflow was to be structured. Also, DOA has the capability of entering and approving transactions for agencies without agency system approval. Second, if an invoice number or invoice date is inaccurately keyed into the system, the duplicate invoice control will not be effective. We found several instances where this information was not keyed correctly during our testing, as discussed below. Finally, not all invoices are required to have a PO. In non-PO transactions, the controls on the amount are the business area and BCAP review and accurate processing of the invoice.

## **Results:**

### Findings

**1. BCAP's written procedures for operational invoice processing were incomplete and did not include certain elements of the invoice processing process.**

During the timeframe under audit, and at the beginning of our audit, BCAP's invoice processing procedures were incomplete in various areas. During the initial stages of our audit work, we recommended to BCAP that procedural documentation should be updated and finalized, including:

- expanding upon, updating, and finalizing the AP Processing Procedures document, including addition of information about the invoice dispute process, tracking of late payments, and providing additional guidance to business area approvers about what is expected for their level of review and approval;
- developing formal procedures for tracking invoices prior to approval and the timing of payments to determine potentially late payments needing interest calculated and paid to suppliers;

- formalizing a plan and updating procedural documentation pertaining to the tracking of withholding of payments for contracts that have a withholding component; and
- developing and implementing written procedures for the payment voucher review and approval process.

Appropriately updated procedures are necessary to ensure consistency of invoice processing and make cross-training of staff more manageable.

At the time of our initial recommendation, BCAP indicated their intention to update invoice processing procedural documentation as part of a project that had just gotten underway to document BCAP's various functional areas and processes. As our audit work was wrapping up, BCAP provided us with revised procedural documentation. We noted that the areas we initially recommended to be documented were included in this revised documentation. We provided additional recommendations for consideration to further document and finalize this procedural documentation.

**Recommendation:**

**We recommend that BCAP make additional revisions to their updated procedural documentation as suggested and continue to assess and update procedural documentation to ensure it remains current.**

**Management Response:**

The BCAP procedural documentation has been updated to incorporate all of the audit recommendations. In addition, this documentation will be reviewed within the first 30 days of each quarter beginning January, 2018, to ensure that it remains current.

Responsible Staff: Sheila Handrick and Bonnie Cyganek

Completion Date: February 1, May 1, August 1, November 1

- 2. The procedures for processing, reviewing, and approving operational invoices and associated payment vouchers were deficient to ensure the accuracy of information being processed and voucher information in STAR being adequately supported.***

To ensure that invoices and payments are processed appropriately, attention to detail throughout the processing and approval process is necessary. During our sample and analytical testing, we found several categories of exceptions indicating that there were deficiencies in the processing, reviewing, and approval of operational invoices.

We noted instances where invoice information was inappropriately keyed into STAR, inappropriately omitted from STAR, or did not accurately reflect the invoice information. Our findings included:

- invoice dates, invoice numbers, and invoice receipt dates that were inaccurately entered;
- missing invoice receipt dates; and
- invoices with generic “Expense Distribution” descriptions, rather than specifically indicating what the payments related to.

If invoice dates and invoice numbers are keyed incorrectly, this can circumvent the STAR system control preventing duplicate invoices from being entered. Since the date the invoice was received factors into determining whether a payment is made promptly in accordance with the State’s Prompt Payment Law, failure to key the invoice receipt date or incorrectly keying it could cause issues with being compliant or tracking compliance with the Prompt Payment Law.

Additionally, we found instances where invoice information entered into the system and payment amounts were not adequately supported, including:

- vouchers with no invoice or business area approvals attached;
- vouchers with invoice and approvals attached that related to a different voucher; and
- vouchers with attached invoice and approvals that did not fully support the associated expenses being paid, with no indication as to why there were discrepancies.

BCAP’s procedures and staff indicate that voucher and approval support should be attached to each voucher in STAR to support the voucher and associated payment. Without appropriate invoice and approval support, it is difficult to ensure that payments are appropriate.

We also found approval concerns, including:



- vouchers where both the business area approval and the STAR voucher approval were provided by the same staff person within BCAP;
- vouchers where the system voucher approval did not come from a member of BCAP;
- instances where the business area approvers did not match BCAP's listing of approvers by vendor;
- business area approvals which were not specific to the invoice being approved; and
- approvals that were unclear or did not appear to approve all costs detailed in the invoice.

Since most operational invoices processed by BCAP are for ETF business areas outside of BCAP, it is necessary to rely on those business area approvals to ensure that costs being billed by suppliers are accurate and appropriate. Uncertainty in who should be approving transactions and lack of clarity in approvals leads to uncertainty in the appropriateness of costs being billed and paid. Also, more adequate separation of duties will be maintained if ensuring that, for transactions where BCAP should provide both the business area and STAR approval, separate people within BCAP provide these approvals. Additionally, a periodic review of system approvers for all transactions recorded to the operational coding structure would further ensure that all payments are appropriate.

Finally, we found transaction coding concerns, including:

- inappropriate account codes being used;
- inconsistent coding for similar transactions; and
- departmental codes used that were not present in ETF's coding document provided to us.

If transaction coding is inaccurate or inconsistent, this could lead to financial or budgetary reporting complications.

We provided the specific detail of all exceptions noted above to BCAP.

### **Recommendations:**

**To ensure that all invoices are accurately processed and all payments are adequately supported and approved, we recommend that BCAP:**

- **expand the level of detail in the voucher review process to identify potential processing errors, such as incorrect information or inadequate support being included in STAR;**
- **implement appropriate separation of duties in the approval process when BCAP is responsible for the business area approval;**
- **perform a periodic review of all operational invoices processed to ensure all transactions were reviewed and approved by BCAP staff;**
- **update the listing of approvers by vendor as necessary for both approvers and vendors;**
- **review business area approvals for completeness, specificity, and approval of all costs included in the invoice;**
- **provide additional guidance or training to business area approvers about what their review and approval should include;**
- **use and monitor for consistent and accurate accounting coding in processed invoices, working with the Division of Trust Finance to validate coding used, as necessary; and**
- **implement a periodic management audit of invoices processed to ensure that improvements are made in the processing and review of vouchers.**

**Management Response:**

Management agrees with the recommendations for ensuring invoices are processed accurately.

The separation of duties in the approval process when BCAP is also the business area approval has been corrected.

The list of business area approvers was updated on November 13, 2017 and business area approvers have been provided additional guidance about their review and approval in accordance with the Wisconsin Accounting Manual Section 05-03 specifically including all of the following:

- Evidence of receipt in acceptable condition
- Compliance with the terms of the contract and/or purchase order and business purpose and program intent
- Confirmation that amounts and quantities are accurate
- Identification of potential duplicate payments

The BCAP invoice processing step has been reassigned from a paraprofessional Financial Specialist position to a higher-level professional, Accountant-Journey.

BCAP staff performing the voucher approval step will be completely retrained to address the overall level of detail necessary in the review process, with emphasis on coding accuracy, business area approvals, and supporting documentation. Management will conduct periodic reviews of these approvals. Management will also implement a semi-annual audit of invoices to ensure accurate processing.

Responsible Staff: Bonnie Cyganek

Completion Date: Retraining by February 1, 2018, first management review by March 1, 2018, and first semi-annual audit by September 1, 2018

**3. *The procedures for processing, reviewing, and approving operational invoices and associated payment vouchers were deficient to ensure timeliness of payments and compliance with the State's Prompt Payment Law.***

At the beginning of our audit, BCAP invoice processing staff initially noted that they had not been required to pay any interest for late payments under the Prompt Payment Law for the last couple of years. However, further discussions with staff made it clear that there had been payments issued after the 30-day limit, that should have had interest calculated and paid. Our testing further supported the conclusion that ETF had been non-compliant with the Prompt Payment Law, as did a separate analysis performed concurrently during our audit testing by BCAP staff.

During our initial audit discussions, there appeared to be some misunderstanding of the Prompt Payment Law rules and their applicability to different scenarios. Additionally, it was unclear how invoices received, but not yet paid, were tracked and processed in a timely manner to ensure compliance. Further, while staff noted that they had monitored late payments, the effectiveness and timeliness of this monitoring did not appear adequate, as late payments should have been identified but went undetected until the time of our audit.

BCAP invoice processing staff should be processing and approving payments in a timely manner and tracking invoices for potential late payments, as well as any late payments and interest payments made. We initially recommended to BCAP staff early during the audit that they enhance the tracking of invoices not yet paid. Toward the conclusion of our audit work, BCAP staff indicated that they had made efficiency improvements in organizing their methods for tracking invoices yet to be paid. Additionally, some information was added to the revised procedural documentation regarding tracking late payments and payment of interest. Also, BCAP noted that they had developed performance goals relating to the timeliness of processing invoices.

**Recommendations:**

**We recommend that BCAP:**

- **train all staff involved in invoice processing and approval regarding the specific details of the State's Prompt Payment Law;**
- **continue procedural documentation updates regarding tracking late payments and the specific methods for ensuring prompt invoice processing; and**
- **perform ongoing monitoring of the timeliness of payments and appropriate payment of any interest, implementing additional improvement measures, as determined necessary.**

**Management Response:**

Management is developing a Prompt Payment Law training session to be delivered to the entire BCAP team. Ongoing monitoring of the timeliness of payments, along with appropriate calculation and payment of interest, has been implemented with a new standard of no more than 18 calendar days for processing all payments. Compliance with this new standard will be tracked via a newly developed metric.

Responsible Staff: Bonnie Cyganek

Completion Date: Training by January 1, 2018 and the BCAP invoice processing time metric will be reported monthly beginning November 2017.

Observations

**1. *Processing operational invoice payments through ACH rather than via check could provide efficiency and cost benefits, as well as reduce risk.***

Traditionally, suppliers for the state have often been paid via check. During the audit, staff indicated that most of the operational invoice payments continued to be sent to suppliers via check, rather than ACH. We confirmed that over 98% of the payments processed between January and June 2017 were paid via check. We note that during the audit, BCAP staff indicated they plan to start paying more vendors via ACH and have started tracking which vendors are being paid via each method.

Through guidance in the Wisconsin Accounting Manual, DOA has indicated that supplier payments should be made via ACH whenever possible. Since ACH is generally considered a lower-fee method of payment than paper checks, there is a potential cost savings by making more payments via ACH. Additionally, there are

other benefits to paying by ACH, including speed of payment delivery and eliminating the risk that checks could be stolen or lost in the mail.

**Recommendation:**

**We recommend that BCAP establish goals to reduce the number of payments made via check.**

**Management Response:**

BCAP is now actively working on converting vendor check payments to ACH. Since the audit was initiated, 11 of 47 recurring vendors (23%) have been converted. The goal is to have a 90% conversion rate over the next 6 to 9 months.

Responsible Staff: Sheila Handrick

Completion Date: July 1, 2018

**2. *Prompt supplier set-up within STAR could lead to efficiencies in payment processing.***

DOA maintains the statewide supplier table in STAR. BCAP staff indicated that any payments they process through STAR must be to a supplier listed on this table. Any time a payment is necessary for a supplier not on this table, ETF needs to have the supplier fill out the required IRS W-9 and DOA-6457 forms and submit these to DOA for the supplier to be added. Staff indicated that there are sometimes delays in getting these completed forms from the suppliers. If these forms are not completed and provided to DOA until well after an invoice is received, this could have implications with the Prompt Payment Law.

**Recommendation:**

**We recommend that BCAP include a step to verify whether suppliers are already in the supplier table at the point that goods or services are ordered or contracted for. If not in the table, BCAP should have suppliers complete the necessary forms prior to the receipt of the first invoice from the supplier.**

**Management Response:**

Management has included a step in the BCAP procedural documentation to verify whether vendors are in the supplier table at the point that goods or services are ordered or contracted for. Typically, a prior requisition or PO would already have required set up in the supplier table. However, when they are not already set up, as

soon as BCAP becomes aware of a new supplier, the process will be initiated with them to ensure they are appropriately set up in the system for payment prior to receipt of the first invoice. Management will monitor and document any situations in which an invoice is received for a supplier not on the table and address them, based on their individual root cause.

Responsible Staff: Bonnie Cyganek

Completion Date: On-going

### **Conclusion:**

The Office of Internal Audit evaluated the controls within the operational invoice review and approval process and reviewed for accuracy and timeliness of payments associated with these invoices. Although we did not identify any material inappropriate payments, we identified deficiencies with the controls for invoice processing that affect the accuracy and timeliness of payments associated with these invoices. We identified and provided recommendations to BCAP to consider for control and process improvement.