

Accounts Payable, Office of Financial Management

Report No. 92-12

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INTRODUCTION AND BACKGROUND

The audit of Accounts Payable was included in the Auditor's Office 1992 work program. Concern about the possible recurrence of double payments on invoices was the primary reason for initiating the audit.

The Accounts Payable Unit of the Accounting Section, Office of Financial Management, disburses funds to pay the County's obligations. Various County agencies receive invoices and statements from vendors of goods and services. These invoices and statements are reviewed and processed by the agencies for validity, completeness, and accuracy. The invoices or statements are then attached to the completed payment vouchers and are sent to the Accounts Payable Unit for review and processing. Warrants are subsequently prepared and issued to vendors.

In 1991, the Accounts Payable Unit processed 116,722 payment vouchers and issued warrants totaling about \$738 million.

OBJECTIVE AND SCOPE

The purpose of the Accounts Payable audit was limited to the review and evaluation of the internal controls used in the accounts payable operation. The main focus of the audit was to determine if instances of double payments to vendors on the same invoices were significantly occurring and recurring in the County's practice of paying its vendors.

The audit scope primarily included review and sampling of payment vouchers and supporting invoices which were processed and paid in 1991 and early 1992, review of the Accounts Payable Unit's established policies and procedures, and review of applicable statutes and ordinances. By using the Accounts Payable Unit's management reports "Identical Payments on Same Invoice Number," the audit reviewed a judgmental sample of selected payments which were potentially duplicate payments. Since the initial information we received on duplicate payments pertained to Solid Waste Division of the Department of Public Works, the audit gave emphasis to reviewing all the payments made by the Solid Waste Division which appeared in the report, "Identical Payments on the Same Invoice Number." The management and staff of the Accounts Payable Unit and other County agencies receiving, reviewing, and processing invoices for payments were also interviewed.

The objectives of the internal control system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

SUMMARY STATEMENT OF FINDINGS

We concluded that the internal controls governing the accounts payable system and the degree of compliance with them were sufficient to provide reasonable assurance that control objectives were achieved. We, however, noted certain minor internal control deficiencies that could be improved upon by the Accounts Payable Unit of the Office of Financial Management.

MAJOR FINDINGS AND RECOMMENDATIONS

Finding 1. 63 Instances of double payments noted. Total \$51,863; recovered \$31,199.

Although internal controls were adequate, duplicate payments to vendors for the same invoices occurred in 1991 and the first quarter of 1992. Audit sampling noted 63 instances of double payments totaling \$51,863. Of this amount, \$31,199 was recovered and corrected at the time of our audit.

Double payments for the same invoices occurred primarily as a result of using duplicate invoices as supporting records for payment requests.

The audit recommended that if duplicate invoices have to be used, the use of duplicate invoices "as original" needs to be approved by agency officers by placing their initials on the face of the duplicate invoices. County agencies should also review the weekly and monthly paid claims reports to ascertain that payments had not been previously made for the same invoices. The person verifying this should also initial invoices. We also recommend that the Accounts Payable Unit should continue providing its management report, "Identical Payments on the Same Invoice Number" to County agencies at least on a quarterly basis. County agencies should screen and review the reports for duplicate payments and provide the Accounts Payable Unit with written status reports about the existence of duplicate payments, and actions taken to recover these payments.

Finding 2. List of authorized signatures needs to be updated.

Some of the payment vouchers were signed by people who were not on the list of officials authorized to approve payment vouchers. There were also names appearing on the list who were not currently employed by King County. The problem was that the list had not been updated. All payments reviewed were properly authorized.

The audit recommended that the list of staff authorized to approve payment vouchers should be updated regularly.

Finding 3. Unclaimed warrants should be kept in locked drawers.

The Accounts Payable Unit staff used \$25 as a threshold amount in posting "stop" payment on unclaimed warrants in the warrant reconciliation record, instead of \$15 as required by the written policy of the Accounts Payable Unit.

The audit recommended that in addition to our recommendation to comply with existing written policy, the Accounts Payable Unit should place a lock on drawers where unclaimed warrants are kept and should limit access to only a few staff in the Unit.

Updated: 10/25/06