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Office of the County Auditor

Shelly A. Banks, C.P.A.

Cook County Auditor

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April 18, 2016

The Honorable Toni Preckwinkle, President
And Board of Cook County Commissioners
118 N. Clark Street, Room 537
Chicago, Illinois 60602

Dear President Preckwinkle and Board of Commissioners:

We have conducted an audit of the Vendor Payment Process. We conducted our audit in accordance with the [Cook County Auditor Ordinance](#).

The scope and objectives of our audit were designed to assess the adequacy and effectiveness of key internal controls and operational efficiency of processing vendor invoices from the date department receives the invoice through the date invoice paid by Comptroller's Office.

Please refer to the following audit report for the results of the audit. The audit report contains four (4) audit findings. The [Executive Summary](#) provides an overview of the audit with the main finding areas.

We express our appreciation for the cooperation the Comptroller's Office staff extended to Mark Wehren during the course of our audit. We have discussed our findings with the Comptroller's staff and would be pleased to discuss our recommendations in greater detail in order to assist the Comptrollers' Office with their implementation of our recommendations.

Respectfully Submitted,

Shelly A. Banks, CPA
Cook County Auditor

cc: Lawrence Wilson, Comptroller
John Schick, Deputy Comptroller



COOK COUNTY GOVERNMENT
OFFICE OF THE COUNTY AUDITOR
VENDOR PAYMENT PROCESS

Internal Audit Report

April 2016

Issued By:
Shelly A. Banks, County Auditor

Audit Conducted By:
Mark Wehren, Field Auditor V
William Carroll, Audit Supervisor

EXECUTIVE SUMMARY

We have completed an audit of the vendor payment process within the Cook County Comptroller's Office and four (4) Cook County Agencies/Departments.

The scope and objectives of our audit were designed to assess the adequacy and effectiveness of key internal controls and operational efficiency of processing vendor invoices from the date the department receives the invoice through the date invoice paid by Comptroller's Office. Our objectives included determining if vendor payments are made accurately, completely and in a timely manner to the right vendors and only for the goods/services received.

We noted the following findings as a result of our review of the overall vendor payment processes and the related internal controls.

- Vendor payment discounts are not being fully realized, and the majority of accounts payable payments are still being processed by check.
- Invoices are not being processed in the most efficient manner to ensure prompt payment.
- The Comptroller's Office was not in compliance with approval of purchase orders and invoices, according to their Accounts Payable policy.
- The Comptroller's Office receives no assurance from the departments that service invoices submitted for payment comply with the Procurement Code Section 34-310(d).

The findings noted were presented to the management of the Comptroller's Office. Please refer to the [Findings](#) section for more detail on the findings with the management responses, corrective action plans and estimated completion dates.

BACKGROUND

The Cook County Comptroller supervises the fiscal affairs of the County by maintaining the general ledger, accounting records, financial reporting, accounts payable, payroll and garnishments. The Comptroller's Office is comprised of three (3) main departments including the Accounts Payable (AP) department, which is responsible for the vendor payment process.

The AP department is responsible for processing the AP batches received from the various County departments after reviewing for accuracy, completeness and proper departmental approvals. Once the AP batches have been reviewed and approved by the AP department the batches are processed for payment.

The vendor payment process used by Cook County is a decentralized process which requires the vendors to send their invoices directly to the originating department. All invoices must be approved by the originating department and forwarded to the Comptroller's AP department for processing. Each department is responsible for ensuring that the payment request (29A Form) they are submitting to the AP department is accurate, is submitted with the proper approvals and documentation, and that the request is not a duplicate. If the 29A is missing information or lacks supporting documentation, the form is returned to the requesting department.

The originating department has the ability to batch and enter their payment requests into JD Edwards (JDE) prior to forwarding the batch to the AP department for processing. If the originating department does not enter their payment requests into JDE prior to forwarding their invoices to the Comptroller's Office, the invoices are batched and entered into JDE by the AP Clerks in the Comptroller's Office.

In either case, the Comptroller's Office verifies that the invoices and supporting documentation is present for each payment request and that each payment request has been properly approved.

Cook County is mandated to ensure that all invoices are to be paid within 60 days of the invoice date per the Local Government Prompt Payment Act - 50 ILCS 505. Section 3 of the Prompt Payment Act states that, the appropriate local governmental official or agency receiving goods or services must approve or disapprove a bill from a vendor or contractor for goods or services furnished the local governmental agency within 30 days after the receipt of such bill or within 30 days after the date on which the goods or services were received, whichever is later. Section 4 of the Prompt Payment Act requires that any bill approved for payment pursuant to Section 3 shall be paid within 30 days after the date of approval.

In order to process payments in a prompt and efficient manner, Cook County has the capability to transfer funds into the vendor's bank account as an ACH credit. If a vendor selects to participate in the County's ACH payment process, the vendor agrees to have their payment amount reduced by either 1% if payment(s) are within 30 days of invoice date or by 2% if payment(s) are made within 20 days of the invoice date.

All payment information is tracked in JDE. For vendors offering a discount the payment terms are established based on the discount due date. For all other vendors the payment terms default option is used, which is net 60 days after the invoice date.

Payments are by check, ACH, or by virtual credit card. Based on data provided by the Comptroller's Office, payments in FY14 totaled \$1,515,240,541.92 and of this amount \$578,806.880.62 or 38.2% was made electronically.

AUDIT SCOPE AND OBJECTIVES

The scope and objectives of our audit were designed to assess the adequacy and effectiveness of key internal controls and operational efficiency of processing vendor invoices from the date department receives the invoice through the date invoice paid by the Comptroller's Office. Our objectives included determining if vendor payments are made accurately, completely and in a timely manner to the right vendors and only for the goods/services received. Our objectives were designed to determine if:

- Invoices are reviewed and properly approved by the department prior to being submitted to the Comptroller's Office for processing.
- Payment requests include proper and sufficient supporting documentation when presented for payment and are processed in an efficient and timely manner.
- Payments are processed in accordance with the Comptroller's Accounts Payable procedures and the Local Government Prompt Payment Act.
- Discounts authorized by vendors for prompt payment are processed correctly and taken when available.

FINDINGS

Finding #1:

Vendor payment discounts are not being fully realized, and the majority of accounts payable payments are still being processed by check. There are approximately 3,648 vendors in JDE with payments processed within the last 2 years, from which there are approximately 137 (less than 5%) indicated with payment terms/instruments that may be processed electronically. The data on these vendors is inconsistent and difficult to determine if these vendors are actually processed through ACH and whether a discount was/should have been processed. In addition, the Comptroller's Office has a list of 78 vendors for ACH payments with a discount authorized for prompt payment.

The Comptroller's Office list of vendors was analyzed for payments made in FY2014 to determine if discounts were taken when available. The FY2014 total amount paid to the 78 vendors was \$23,349,156, from which approximately \$96,478 (37.33% loss) in potential discounts was not realized. The discounts were lost mainly due to late processing of invoices/payments and inaccurate coding or processing in JDE.

In addition to reviewing payments, the vendors indicated as ACH discount vendors on the Comptroller's Office list and in JDE were compared with the ACH enrollment forms. There were numerous discrepancies, i.e. no form to support JDE entry, data on form inconsistent with JDE entry, forms incomplete and vendors with forms not listed on Comptroller's Office list.

Recommendation

We recommend that the Comptroller's Office implement the following controls to improve electronic payment methods, which will increase the overall efficiency and productivity of the vendor payment process, reduce the cost associated with processing and issuing paper checks and ensure available discounts are realized:

- JDE profiles should be updated to reflect the correct payment terms for all ACH vendors to help ensure that the proper discount is realized.
- JDE profiles should be updated to remove coding that is causing inaccurate payment processing and loss of discounts (i.e. payment term net 30 as a payment option).
- An accurate and current listing of discount vendors should be established.
- Departments should be made aware of the vendors who provide discounts and the importance of prompt processing of vendor invoices with discounts. All departments should be provided a list of all vendors providing discounts with the payment terms. Departments should be advised that invoices from vendors on the discount list need to be processed immediately and remitted to the Comptroller's Office within 5 business days of receipt to ensure that discounts are not lost due to delays in the processing of invoices.
- Comptroller's Office should work with the vendor community and departments to increase the number of electronic payments either by virtual credit card, or by ACH. The Comptroller's Office should issue periodic notices promoting the value of electronic payments to the vendor community to encourage their transition to electronic payments. The County can obtain cost savings through vendor discounts and credit card rebates.

Management Response

We agree with the recommendation. We plan to review and update vendor records as part of the Oracle EBS ERP implementation with the user departments who establish and maintain the vendor relationship. The payable's payment initiative is promoted through the Procurement contract process and we work with the County's third party administrator on a continuing periodic basis to enhance vendor enrollment. As of November 2014, the County implemented credit card payments and obtained \$547,400 in cost

savings through rebates in FY2015. Additionally in FY15, AP payments totaled \$1,664,774,095 and of this amount \$749,799,496 or 47% was made electronically.

Estimated Completion Date:

December 1, 2016

Finding #2:

Invoices are not being processed in the most efficient manner to ensure prompt payment. The Local Government Prompt Payment Act requires payment within 60 days. Invoices processed within the required 60 day timeframe ranged from 58% to 81% on a monthly basis for FY2014.

Compliance with the Local Government Prompt Payment Act is heavily reliant on departments processing their invoices on a timely basis. The inefficiencies include the following:

- The date an invoice is received and the date an invoice is submitted to the Comptroller's Office for payment are not tracked. There are no fields to track these date in JDE and departments are not consistently recording the dates through date stamping invoices and/or maintaining a log. Without these key dates, the complete vendor payment processing cycle time cannot be determined and the efficiency of the timeliness cannot be quantified.
- All departments have the ability to enter their payment requests into JDE, but not all are actually processing their payments into JDE prior to forwarding to the Comptroller's Office for payment.
- Departments may enter their payment requests, but do not forward the supporting documentation to the Comptroller's Office in a timely manner, which delays the actual payment.
- Based on the departments we reviewed, invoices are often received at various locations within the department. When invoices are received in various locations within a department it becomes difficult to maintain control over the processing of the invoices for payment as well as the tracking of outstanding invoices.

Recommendation

We recommend that Countywide Accounts Payable (AP) Policies & Procedures be developed that set the requirements for all County Departments to follow when processing their invoices for payment to the Comptroller's Office. The establishment of Countywide AP Polices & Procedures will also help establish the controls and business processes for ERP implementation. The policies and procedures should include the following controls:

- Departments should maintain a log to document when the invoices are received and to track their processing of the paperwork through the Comptroller's Office.
- Departments should be required to approve and submit their invoices to the Comptroller's Office no more than 30 days after the invoice is received and within 5 days for vendors on the discount list. In the ERP system, invoices not meeting this timeline should be flagged.
- Departments should enter the invoices into JDE prior to forwarding to the Comptroller's Office for processing. The Comptroller's Office AP staff should train all departments on entering their invoices into JDE. Requiring departments to enter their own batches, will reduce the overall processing time and increase the percentage of payments that are made within 60 days, which will increase the amount of discounts earned.
- Departments should establish a centralized location where vendors are required to submit invoices, and should provide this information to the Comptroller's Office to maintain a list of all locations. Centralizing the process increases the controls over tracking and processing the invoices at the departmental level and will establish the business process for ERP.

In addition, we recommend the Comptroller's Office review the following key fields/processes to ensure inclusion as part of the ERP implementation for Accounts Payable:

- Date Invoice Received by Department
- Date Invoice Processed by the Department
- Date Invoice Received by the Comptroller's Office
- Date Invoice Paid
- Automatic calculation, flags and alerts for Due Dates
- Flags on vendors offering discounts for prompt payments
- Tracking and reports on various accounts payable cycle times

Management Response

We agree with the recommendation. We are planning with the implementation of the Oracle EBS ERP system to implement a number of process improvements: departments will enter their invoices in the system as soon as they are received and tracking of receiving / initial processing dates should occur in the system; department approvals and Comptroller's review and processing will be completed through an automated workflow process which should eliminate the need for processing a hardcopy 29A form and reduce the time needed for submission and maintaining hardcopy documents.

Estimated Completion Date:

December 1, 2016

Finding #3:

Invoices and purchase orders were not all in compliance with the Comptroller's Office Accounts Payable (AP) Policies and Procedures Manual. The following AP internal controls were noted in the manual:

- All invoices without a Purchase Order (PO) over \$10,000 require the Comptroller's signature.
- All regular POs over \$25,000 require the Comptroller's signature.
- All invoices, regardless of the amount, for business units that begin with 490, 499 and 899 require the Comptroller's review and signature; if they are over \$25,000 both the Comptroller and a Deputy Comptroller (or designated manager) must sign.
- All invoices, regardless of the amount, for business units that begin with 1808, 1809, 525 and 542 require the Comptroller's review and signature.

All 10 purchase orders reviewed over \$25,000 and 1 voucher for business unit 499 did not have a Comptroller's signature. When pointed out the 1 voucher was stamped by the Comptroller's Office AP supervisory staff with access to the Comptroller's stamp for approval.

Recommendation

We recommend that the Comptroller's Office establish written signature authority approved by the Comptroller for the appropriate staff to ensure the efficient processing of vouchers and purchase orders. Comptroller's Office staff with signature authority should be instructed on the process, which should be documented in the AP Policies and Procedures Manual. In addition, if the approval level on the invoices or purchase orders has been changed the AP Policy and Procedures Manual should be updated to reflect the change.

Management Response

We agree with the recommendations. We will update the AP procedure manual and signature cards to indicate names of designated AP staff authorized to use signature stamps for the Comptroller's and Deputy Comptroller.

Estimated Completion Date:

June 30, 2016

Finding #4:

The Comptroller's Office receives no assurance from the departments that service invoices submitted for payment comply with the Procurement Code Section 34-310(d). Currently, the invoice review control process implemented at the Comptroller's level is only designed to verify that the original invoice(s) are attached to the 29A and that the invoice(s) match the payment request.

Procurement Code Section 34-310 (d) Invoices required for all Service Contracts states:

All Contracts for services shall require that the itemized work and expense records required in Section 34-210(b) and (c) of the procurement code be submitted to the using agency with the Contractor's invoice as a condition of payment for any service rendered.

As part of processing invoices for payment, the Comptroller's Office should establish controls to ensure the departments are approving invoices based on the vendor's completion of the work with submittal of detailed invoices and deliverables to support the work. The departments are responsible for managing their contracts and ensuring that the product or service being invoiced was actually performed or received and that Cook County is accurately billed in accordance with the terms of the contract. As such, the departments should ensure that the proper documentation is provided to support the invoices prior to submitting to the Comptroller's Office for payment.

Recommendation

We recommend that the Comptroller's Office improve the controls over processing service invoices to provide a greater level of assurance that the departments have received and reviewed the detail required to support payments to the contractors. The following controls are recommended:

- Establish an attestation form or include language on the 29A form that requires all departments submitting a service invoice to sign and attest that the itemized work and expense records, as required in the Procurement Code Sec 34-310(d), were submitted to their department with the contractor's invoice. The attestation language should also indicate that the department has approved for payment the itemized work and expense records submitted by the contractor and that the detailed records must be maintained at the department for audit at any time. The signed attestation should be required by the Comptroller's Office to process the payment.
- Require all departments to process their service invoices separately from other invoices, which will prevent the possibility of the Comptroller's Office needing to delay or reject an entire batch of invoices because the service invoices were not processed correctly at the departmental level.
- The controls mentioned should be included in the Countywide AP Policies & Procedures Manual and developed as part of the ERP system.

Management Response

We agree with the recommendation. The Comptroller's Office currently reviews service invoices based on the Procurement Code, but staffing resources are limited and a large volume of invoices are processed. We agree the departments need to be responsible for attesting to the fact that their department has reviewed and approved the itemized work and expense records. We are planning, as part of the implementation of Oracle's EBS ERP system, to develop an instruction manual and circulate it to user departments. The manual will include specific instructions and a checklist for the departments to use when processing service invoices. With the implementation of ERP, policies will be established to strengthen controls for processing invoices.

Estimated Completion Date:

December 1, 2016