

### **TC (11) Work Step**

Review and assess the internal controls over the District approval of invoices submitted by SGI and other vendors to ensure that controls are adequate, thorough, transparent and financially sound. Perform a test of these controls to assess overall effectiveness.

### **Results of Testing**

#### **Vendor Invoice Review & Approval:**

As of October 2015, the District updated the process for review and approval of vendor invoices (specific to the bond program). This documented process includes the following:

- Invoices received at the Facilities Operations Center (FOC) are date stamped, logged in a tracking spreadsheet, and scanned (to retain an electronic copy). The date stamp starts the 30-day period for invoice processing.
- Invoices are reviewed to ensure that they contain appropriate criteria for processing. Criteria include (but are not limited to): vendor name and address, site(s) to which the invoice pertains, corresponding contract numbers (an executed contract is on file), and a breakdown of amounts billed by site.
  - The absence of stated criteria will result in invoice rejections (see the section “Timeliness of Vendor Payments” included below for additional information regarding the implementation of the invoice rejection letter). Letters are prepared by District staff notifying the vendor that an invoice has been rejected and the reason for the rejection.
- Invoices containing the required criteria are circulated for signature approvals via the Invoice Approval Form. The Invoice Approval Form contains two pages: the Payment Approval Form and the Payment History/Approval Form.<sup>54</sup>
  - The **Payment Approval Form** requires the approval of the Bond Program Controls, Bond Program Director, Facilities, WCCUSD Fiscal Services, and the Associate Superintendent.<sup>55</sup>

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<sup>54</sup> For SGI invoices, the Invoice Approval Form is a one page District document that combines the information from the Payment Approval Form and the Payment History/Approval Form.

- The **Payment History/Approval Form** documents contract and invoice information, indicates that the payment is in accordance with contract terms, and includes a signature line for project manager approval.
- Once the required signatures are obtained from the bond program group, the invoice is routed to the District Fiscal Services department for final approvals and warrant processing.

The process for invoice review and approval appears sufficient and the signature requirements appear appropriate. Bond program staff is in the process of creating one manual for all policies and procedures related to bond program administration.

VLS tested a total of 73 vendor invoices and identified the following related to approval signatures:

- Six invoices did not have the signature of the Executive Director of Bond Finance on the Payment Approval Form (all non-SGI vendor invoices). See TC11-4 recommendation for this area.
- Twenty invoices did not have the signature of the District Project Manager on the Payment History/Approval Form.<sup>56</sup> See TC11-5 recommendation for this area.
- All other required signatures were present and matched the individuals listed on the Payment Approval Forms.

There were no discrepancies noted with respect to the following areas:

- The services provided and the time period covered, as listed on the invoice, agreed to the terms in the contract.<sup>57</sup>

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<sup>55</sup> These positions appear as signature lines on the Payment Approval Form, and the name of the individual required to sign is listed above each title. “Bond Program Controls” and “Bond Program Director” are positions held by the construction management firm whose signatures are required only for projects that they oversee. For our period of testing, this was SGI. The other signature lines are completed by the following bond program personnel: “Facilities” refers to the Engineering Officer. “WCCUSD Fiscal Services” refers to the Executive Director of Bond Finance. “Associate Superintendent” refers to the Associate Superintendent of Operations and Bond Program.

<sup>56</sup> As indicated in Footnote 54, for SGI invoices, the Invoice Approval Form is a one page document that combines the information from the Payment Approval Form and the Payment History/Approval Form. A signature line for the District Project Manager is included on this approval document. No discrepancies were noted with respect to the Project Manager’s signature for SGI invoices.

<sup>57</sup> VLS did not perform procedures to verify that the services provided as listed on the invoices were actually performed by the vendors.

- The amounts billed, including billing rates, appeared consistent with the contract.
- The lapse between approval of the invoice and when the vendor disbursement was made appeared appropriate (payments were made in a timely manner once approved).

SGL invoices were noted to be for SGL employees directly involved with the program, on the SGL staffing list, and time records included with the invoices indicated that payment was for work performed for projects only. Two out of thirty SGL invoices reviewed were observed to have some of the descriptions missing on the employee's time detail included with the invoice support.

#### **Timeliness of Vendor Payments:**

Based on Administrative Regulation #3314 and the District's invoice process, the District is required to pay vendors within 30 days of receiving an invoice. For invoice payment transactions tested, a total of 18 out of 73 invoices (17 non-SGL invoices and 1 SGL invoice) were paid more than 30 days after the invoice had been received. Without documentation to identify the reason for the delay in payment, it is not known whether the delay was caused by the District or the vendor. The District plans to implement an invoice rejection letter that will document the reason an invoice has been rejected for payment, which can potentially improve the timeliness of invoice payments while documenting the reason for any invoice payment delays beyond the established 30 day timeline. This will also provide for improved communication with the vendor. See TC11-1, TC11-2, and TC11-3 recommendations for this area.

#### **New Score**

Medium

#### **Recommendations**

TC11-1. Revise the invoice payment procedures to establish a deadline for completing the invoice rejection letter within a specified number of days, such as 5 business days from receiving the invoice.

TC11-2. Implement the invoice rejection letter as soon as practical.

TC11-3. After full implementation of the vendor invoice rejection letter process, the District should perform a review of vendor payments exceeding the 30 day limit to determine (1) if the late payment was a result of a breakdown in District internal controls or vendor hindrance, and (2) if due to a vendor hindrance, was the invoice rejection letter used to support the reason for the late payment. This review should be performed approximately three months after full implementation of the vendor invoice rejection

letter to ensure that the process is working and has improved the timeliness of vendor payments.

TC11-4. Ensure that vendor invoice payments are processed only after all required signatures are present on the Payment Approval Form. Alternate signers should be identified in the event that a required signer is out on an extended absence and there is an urgent need for payment.

TC11-5. Ensure the Payment History/Approval Form is signed by the District Project Manager. If the Project Manager initials/signs the invoice to document this approval, a statement indicating that approval is documented on the invoice should be included on the Payment History/Approval Form.

#### **Response by District**

TC11-1. The District will update the invoice payment procedure to identify the number of business days that will be allowed for staff to reject an invoice. This will identify two specific deadlines: 1) the rejection of invoicing for missing required documentation (completed by administrative staff) and 2) the rejection of the invoicing based on the content of the submittal (completed by approval staff).

TC11-2. The District has implemented the rejection checklist.

TC11-3. The District agrees with the recommendation. Currently, the District reviews a weekly report detailing the aging status of all bond invoices. This is reviewed at the Director's meeting and identifies the status of all received bond invoices. Any invoice that exceeds the 30-day time period is discussed and reviewed in detail. The District has found that implementation of the rejection letter has reduced the number of outstanding vendor invoices.

TC11-4. The District agrees with this recommendation.

TC11-5. The District is updating the Payment Approval Form to include the Project Manager signature approval on the coversheet in place of the previous Bond Program Manager (SGI). For invoices that are not project-specific, the signature approval will be the Director of Contracts.

#### **VLS's Assessment of Response by District**

VLS reviewed the District's responses and agrees that the response and planned action is appropriate to address the recommendations made by VLS. Additional information related to the District response for select recommendations follows:

TC11-2. Per discussion with the Director of Contracts, partial implementation of the rejection checklist occurred mid-March 2016 with full implementation occurring April 2016. However, because this change was implemented after VLS's test of controls, VLS has not verified that this new process has been implemented.

TC11-3. The review of the weekly report, in conjunction with full implementation of the invoice rejection letter, is deemed as a reasonable control for monitoring timely payment of invoices. However, because this change was implemented after VLS's test of controls, VLS has not verified that this new process has been implemented.

TC11-5. Including the Project Manager/Director of Contracts signature approvals on the coversheet in conjunction with recommendation TC11-4 is deemed reasonable. However, because this change was implemented after VLS's test of controls, VLS has not verified that this new process has been implemented.