



The City of San Diego

Recovery Audit Draft Final Report

November 7, 2012



Recovery Audit: Final Report

1.0 Executive Summary

On May 17, 2012, Moody Associates, P.A. (M&A) was engaged by The City of San Diego (San Diego), to perform an audit of accounts payable disbursements for the period from July 1, 2009 through March 31, 2012. The primary audit objectives were to identify and recover overpayments made to Vendors. Secondary objectives were to report on the results of the audit and to provide practical recommendations to prevent future lost profits. This report summarizes the results of the audit through October 15, 2012.

This review also contemplated a review of San Diego's Sales, Use, and Excise Tax payments. The following slide summarizes the work performed on this end.

M&A's findings total \$206,946 out of a total auditable spend of \$5,301,141,606 which equates to 0.004%. Based on these results, San Diego performs better than industry standards. Industry standards state that, on average, 99.900% of all disbursements are processed accurately by accounts payable. This audit indicates that through the Company's internal processes and procedures, 99.996% of all disbursements were accurate and/or internal routines captured any overpayments and under-deductions.

We received support from many individuals at San Diego while performing this audit. Everyone was very helpful in assisting us and we extend our sincere thanks for their efforts. We appreciate the timely processing of the deductions associated with the identified and confirmed overpayments provided to us during the course of the audit and look forward to serving you in the future.



1.0 Executive Summary

Sales , Use, and Excise Tax

Equity Recovery Solutions, manages the sales, use and excise tax refund recovery areas. ERS focused on reviewing all invoices/transactions where San Diego either paid taxes to the vendor or accrued tax paid directly on the State. ERS identified \$1,051,457 worth of refunds related to vendor over collected tax for the review period. We documented the refunds, however the processing will take between 12-30 months for review and approval by the state. Since this area remains in progress, corrective actions and recommendations will be provided at a future date.

Use tax accrued and paid to the state resulted in very minimal errors. Based on our analysis, San Diego accounting staff corrected most over accruals and has a very good internal review process to catch over accruals. Also, an additional \$2,315,698 of tax dollars were paid on chemical used to treat wastewater. This area will be challenged by ERS, however we remain cautious as the risk of winning refunds are low . Based on the lack of clarity of correct tax application and dollars involved, ERS along with San Diego intends on challenging/questioning the State's tax treatment.



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1.0 Executive Summary (cont'd)

M&A's findings to date, total \$976,873 out of a total auditable spend of \$5,301,141,606 or 0.004%. Based on IOMA's A/P Department Benchmarks and Analysis 2010, the percent of invoices with errors averages approximately 1.4%. Best practice A/P departments, however, are able to drive this error rate down to 0.9% or less, which San Diego has done.

Year	Auditable Spend (\$)	Recoveries	Recoveries As % of Auditable Spend
2009	\$ 727,643,532	\$ 12,330	0.002%
2010	1,844,835,343	38,266	0.002%
2011	1,967,795,680	89,250	0.005%
2012	(A) 760,867,052	67,101	0.009%
Total Findings	\$ 5,301,141,606	\$ 206,946	0.004%

(A) SAP data captured transactions to 5/22/2012.

Because the chance of recovery of overpayments reduces with age, San Diego should have an audit done annually to measure progress and ensure timely recovery. This is evidenced by the schedule above.



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1.0 Executive Summary (cont'd)

Total Findings By Year												
Description	\$_2009	Cnt_2009	\$_2010	Cnt_2010	\$_2011	Cnt_2011	\$_2012	Cnt_2012	Total_Amt	Total_Cnt	%_Total_\$	Cum_%
Duplicate Payments	\$ 1,641	1	\$ 28,232	13	\$ 59,998	15	\$ 6,567	5	\$ 96,438	\$ 34	46.6%	46.6%
Returned Product	7,020	3	3,153	3	27,260	10	20,997	7	58,430	23	28.2%	74.8%
Change in Estimate	-	-	-	-	-	-	39,011	1	39,011	1	18.9%	93.7%
Vendor Billing Error	-	-	6,880	1	114	1	526	1	7,520	3	3.6%	97.3%
Warranty Work	3,371	2	-	-	-	-	-	-	3,371	2	1.6%	98.9%
Paid Cancelled Invoice	-	-	-	-	1,087	2	-	-	1,087	2	0.5%	99.5%
Misc Vendor Credit	298	1	-	-	699	2	-	-	997	3	0.5%	100.0%
Freight	-	-	-	-	93	1	-	-	93	1	0.0%	100.0%
Total Findings	\$ 12,330	7	\$ 38,266	17	\$ 89,250	31	\$ 67,101	14	\$ 206,946	69	100.0%	100.0%
Findings % By Year	6.0%		18.5%		43.1%		32.4%		100.0%			

(A) Please see the following slide where duplicate payments are broken out into 7 categories.



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1.0 Executive Summary (cont'd)

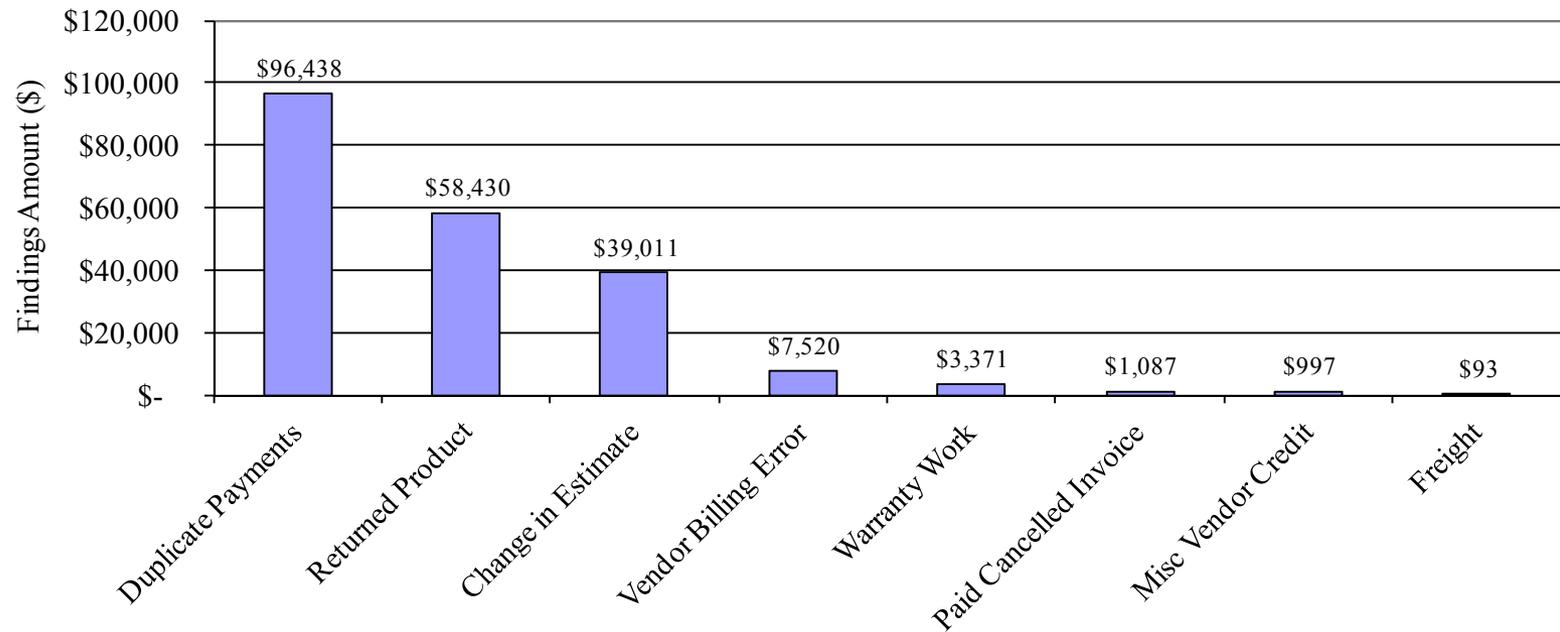
Total Duplicate Payments By Year

Description	\$_2009	Cnt_2009	\$_2010	Cnt_2010	\$_2011	Cnt_2011	\$_2012	Cnt_2012	Total_Amt	Total_Cnt	%_Total_\$	Cum_%
Invoice Entry Error	\$ -	-	\$ 13,774	7	\$ 14,082	6	\$ 1,000	2	\$ 28,857	15	29.9%	29.9%
P-Card and Check	-	-	4,245	2	22,208	4	123	1	26,576	7	27.6%	57.5%
Double Invoicing	-	-	1,434	1	11,135	4	3,164	1	15,734	6	16.3%	73.8%
Multiple Vendor Numbers	-	-	-	-	12,572	1	-	-	12,572	1	13.0%	86.8%
Duplicate Payment	-	-	5,699	1	-	-	-	-	5,699	1	5.9%	92.7%
Paid Wrong Vendor	1,641	1	3,081	2	-	-	-	-	4,722	3	4.9%	97.6%
Paid From Invoice and Statement	-	-	-	-	-	-	2,279	1	2,279	1	2.4%	100.0%
Total Duplicate Payments	\$ 1,641	1	\$ 28,232	13	\$ 59,998	15	\$ 6,567	5	\$ 96,438	34	100.0%	100.0%
Findings % By Year	1.7%		29.3%		62.2%		6.8%		100.0%			



2.0 Graphic Summary (cont'd)

Summary of Findings By Type





4.0 Findings and Recommendations

4.1 Duplicate Payments

Invoice Entry Error
P-Card and Check
Double Invoicing
Multiple Vendor Numbers
Duplicate Payment
Paid Wrong Vendor
Paid From Invoice and Statement

	Amount	Claim Count
	\$ 28,857	15
	26,576	7
	15,734	6
	12,572	1
	5,699	1
	4,722	3
	2,279	1
Total Duplicate Payments	\$ 96,438	34

Observations

- Inconsistencies, such as adding an "A" to an invoice, utilizing incorrect dates such as the ship date, and leading zeros, are leading to duplicate payments.
- Duplicate payments occurred as a result of paying vendors with a check and P-Card.
- Although in large part the Vendor Master file appears to be well maintained, there are vendors set up in such a way that can trigger an incorrect payment.
- Vendors submit multiple invoices and fax copies of invoices if payment is not received when expected. Vendors who repeatedly submit duplicate invoices within the clearly communicated 30 day payment period should be referred to Sourcing so that appropriate pressure to correct the problem can be applied.



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4.0 Findings and Recommendations (cont'd)

4.1 Duplicate Payments

Invoice Entry Error
P-Card and Check
Double Invoicing
Multiple Vendor Numbers
Duplicate Payment
Paid Wrong Vendor
Paid From Invoice and Statement

	Amount	Claim Count
\$	28,857	15
	26,576	7
	15,734	6
	12,572	1
	5,699	1
	4,722	3
	2,279	1
\$	96,438	34

Total Duplicate Payments

Recommendations:

- Standard SOP's should be adhered to by Data Entry Associates when selecting a vendor name for payment processing, in instances where they receive numerous hits in SAP while performing a vendor search, to ensure the correct vendor is paid.
- This review should be performed annually as vendors are applying credits and/or writing them back into income.
- Standard SOP's should be adhered to when entering invoice numbers with leading zeros, an A, or a B. Additionally, dates, PO numbers, and account numbers, by themselves, should not be used as the invoice number.
- The Vendor Master File should continuously be scrubbed. The chance of a duplicate payment occurring is significantly increased when there are multiple vendor numbers set up for the same vendor.



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4.0 Findings and Recommendations (cont'd)

4.2 Returned Products

Amount	Claim Count
\$ 58,430	23

Observation

- Credits were issued by vendors for returned/defective products.

Recommendation

- Enhance communication between Shipping/Receiving, Purchasing, and Accounts Payable to ensure all returns are communicated to Accounts Payable on a timely basis.



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4.0 Findings and Recommendations (cont'd)

	Amount	Claim Count
4.3 Change In Estimate	\$ 39,011	1

4.3 Change In Estimate

Observation

- 1 vendor, Western Summit Constructors (vendor number 10003456) contributed to this claim category.

Recommendation

- Perform contract compliance audits on select suppliers to ensure that invoicing is per the agreed upon terms and conditions that were negotiated.



4.0 Findings and Recommendations (cont'd)

4.4 Vendor Billing Error

	<u>Amount</u>	<u>Claim Count</u>
	\$ 7,520	3

Observation

- 1 vendor, Rotocraft Support, Inc. (vendor number 10006504), represented 92.0% of the dollars in this claim category.

Recommendation

- Purchasing department must be careful to communicate these instances to Accounts Payable. The PO should be adjusted in accordance with the job order changes in order for the existing 3 way match to work properly.



4.0 Findings and Recommendations (cont'd)

4.5 Other Findings

Warranty Work
Paid Cancelled Invoice
Misc Vendor Credit
Freight

	<u>Amount</u>	<u>Claim Count</u>
Warranty Work	\$ 3,371	2
Paid Cancelled Invoice	1,087	2
Misc Vendor Credit	997	3
Freight	93	1
Total	\$ 5,548	8

Observation

- As each of these error types were infrequent at most a pattern could not be determined.

Recommendation

- Attention to detail and focus on continuous improvement should be ongoing.