



# **Airport Accounts Payable Review Audit Report A2014-05**

Issued by the  
Internal Audit Office  
November 26, 2014

**City of El Paso  
Internal Audit Office  
Airport Accounts Payable Review Audit A2014-05**

---

***EXECUTIVE SUMMARY***

The Internal Audit Office has concluded its audit of the Airport Accounts Payable function. Based on the results of the audit, five (5) findings have been identified. All (5) of these findings are considered significant.

Listed below is a summary of the findings identified in this report:

1. The El Paso International Airport is not maintaining copies of contracts or contract price lists to verify terms and conditions and correct invoice prices on a consistent basis.
2. The El Paso International Airport overpaid \$870.00 for plumbing services.
3. The El Paso International Airport paid \$1,105.40 for double billings on three invoices from a sole source contract for services on the Airport's backup generators.
4. The El Paso International Airport is not cross footing, footing, or recalculating invoices, therefore not verifying the accuracy of the vendor's calculations as required by the City of El Paso's Accounts Payable Manual.
5. The El Paso International Airport staff did not provide a signature as proof of receipt of goods or services on 24 of 117 (20.51%) invoices and bill of ladings.

For a detailed explanation of each finding please refer to the appropriate numbered finding in the body of this Audit Report.

**City of El Paso  
Internal Audit Office  
Airport Accounts Payable Review Audit A2014-05**

---

***BACKGROUND***

At the request of the Aviation Director, the Internal Audit Office scheduled a review of Airport Service Contracts and the Accounts Payable Department. The review focused on service contract deliverables, billings, payments made by the Airport, and contract monitoring.

The Airport provided a list of 78 active contracts. The Internal Audit Office judgmentally selected 10 contracts for review.

***AUDIT OBJECTIVES***

The audit objectives were to review a representative sample of Airport Service Contracts to determine if the Airport is receiving the deliverables as described in the contracts. The review included service contracts active during Fiscal Year 2014. The objectives were as follows:

1. Determine if the contractors are providing the deliverables in compliance with the service contract terms and conditions.
2. Determine if contractor invoices are being issued and received by the Airport in accordance with the terms of the service contract and the City of El Paso Accounts Payable Manual.
3. Determine if the Airport is making payments in accordance with the City of El Paso Accounts Payable Manual.
4. Determine if the Airport is monitoring the service contracts as needed to ensure proper payments.

***AUDIT SCOPE***

The scope of this audit was limited to a 10 contract judgmental sample from a population of 78 contracts and an invoice time frame from September 1, 2013 to July 15, 2014.

***AUDIT METHODOLOGY***

To achieve our audit objectives we:

- Conducted interviews with the Accounts Payable management and staff.
- Conducted interviews with the Materials Supervisor and the Automotive Maintenance Supervisor.
- Conducted a review of the City of El Paso Accounts Payable Manual.
- Conducted a review of the City of El Paso Purchasing Manual.
- Conducted a review of 10 contracts judgmentally selected from a population of 78.
- Conducted a review to determine if contracts are monitored.
- Conducted a review of invoices from each contract for proper processing.
- Conducted an analysis of the invoices for compliance with contract terms and conditions.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**City of El Paso  
Internal Audit Office  
Airport Accounts Payable Review Audit A2014-05**

***SIGNIFICANT FINDINGS, RECOMMENDATIONS,  
AND MANAGEMENT’S RESPONSES***

The definition of a “Significant Finding” is one that has a material effect on the City of El Paso’s financial statements, identifies an internal control breakdown, a violation of a City procedure, or a violation of a law and/or regulation, which the City is required to follow. Any finding not meeting these criteria will be classified as a “Regular Finding”.

**Finding 1**

**Accounts Payable Contracts and Price Lists**

1). *Accounts Payable Manual dated 09/19/2014. Section 6.5 states “All invoices should be reviewed for compliance with approved agreement amounts and terms prior to payment. All invoices should follow the PO terms.” Section 6.5.1 states “The supervisor, or authorized official should review and sign off on the document to insure that there is compliance with the contract or quoted price.”*

2). *The City’s Purchasing Manual dated 2/5/2010. Section 3.4 Responsibility of City staff – 3<sup>rd</sup> bullet states “City staff for a User Department that is assigned to a particular contract should.....ensure needed goods and services are received in an efficient cost effective manner are of sufficient quality to accomplish the purpose of the contract **and are in compliance with all contract provisions including paying for goods/services at contracted amounts.**”*

The El Paso International Airport is not maintaining copies of contracts or contract price lists. Of the 10 contracts and pricelists requested from the Airport, three or 30% were provided. Without copies of the contracts and price lists the person responsible for reviewing the invoices cannot ensure the department is paying the correct amounts for goods and services.

<i>Number of Contracts Requested from the Airport.</i>	<i>Number of Contracts Received from the Airport.</i>	<i>Percentage of Contracts Provided by the Airport.</i>
10	3	30%

**Recommendation**

The Airport should ensure that the authorized official has copies of the current contracts and price lists to monitor vendor activity.

**Management’s Response**

The El Paso International Airport will require contract managers to request copies of contracts and price lists from the Purchasing and Strategic Sourcing Department. Management will institute an internal checklist procedure to remind contract managers to obtain executed copies of contracts that go before council for approval.

**Responsible Party**

Contract Managers

**Implementation Date**

Effective immediately

**City of El Paso  
Internal Audit Office  
Airport Accounts Payable Review Audit A2014-05**

**Finding 2**

**Invoice Testing and Contract Review**

As part of the Region 19 Cooperative contract award Roto – Rooter provided a price list for goods and services. Internal Audit obtained a copy of the price list from the City’s Purchasing and Strategic Sources Department. The price list depicted three rates, Flat Rate, Region 19 Rate (10% less than Flat Rate), and Overtime Rate (1.5 times Flat or Region 19 rates whichever is applicable). The following rates applied to the 4 invoices reviewed in this audit.

<i>Service Provided</i>	<i>Flat Rate (A)</i>	<i>Region 19 Rate (B)</i>	<i>Overtime Rate</i>
<i>Labor Rate per Hour</i>	<i>\$150.00</i>	<i>\$135.00</i>	<i>1.5 X (A) or (B) whichever is applicable</i>
<i>Video Inspection (2 Hr. Min.)</i>	<i>\$305.00</i>	<i>\$274.50</i>	<i>N/A</i>
<i>Video Inspection each additional hour</i>	<i>\$155.00</i>	<i>\$139.50</i>	<i>N/A</i>

The El Paso International Airport over paid Roto – Rooter \$870.50 (\$840.00+\$30.50) for plumbing services.

- The Airport paid the Flat Rate on invoices #1 and #2 of the four reviewed for this contract. The Flat Rate is 10% higher than the Region 19 Rate, which is what should have been paid.
- On invoice #3, the labor rate paid could not be determined because the number of hours was not documented on the invoice.
- On invoice #4, it appears the Airport was under billed, however there was not enough information on the invoice to determine that for certain.

<i>Roto - Rooter Item#</i>	<i>Invoice #</i>	<i>Service Provided</i>	<i>Region 19 Co-op Price</i>	<i>Price Airport Paid</i>	<i>Overbilled /Overpaid</i>	<i>Questionable</i>	<i>Comments</i>
1.	EP238605	Labor (150 Hrs. documented on Airport Work Order)	\$7,560.00	\$8,400.00	\$840.00	N/A	Hours and Rates not documented on Invoice
2.	EP233808	Video Inspection	\$274.50	\$305.00	\$30.50	N/A	Airport paid Flat Rate
3.	EP238097	Labor (Hrs. not documented on Work Order)	Unknown	\$379.50	Unknown	Yes	Hours and Rates not documented on Invoice
4.	EP238623	Video Inspection	Unknown	\$250.00	Unknown	Yes	Minimum charge should be \$274.50.

**City of El Paso**  
**Internal Audit Office**  
**Airport Accounts Payable Review Audit A2014-05**

---

**Recommendation**

The Airport should ensure that the authorized official has copies of the current contract and price list to compare the invoices against. Also, require that vendor's provide a detailed invoice with the number of hours and rates clearly stated.

**Management's Response**

Management will require staff to obtain copies of contracts and price lists to compare with invoices to ensure terms and conditions of the contracts are met.

**Responsible Party**

Contract Managers

**Implementation Date**

Effective immediately

**City of El Paso  
Internal Audit Office  
Airport Accounts Payable Review Audit A2014-05**

**Finding 3**

**Invoice Testing and Contract Review**

1). *Accounts Payable Manual* dated 09/19/2014. Section 6.5 states “All invoices should be reviewed for compliance with approved agreement amounts and terms prior to payment. All invoices should follow the PO terms.” Section 6.5.1 states “The supervisor, or authorized official should review and sign off on the document to insure that there is compliance with the contract or quoted price.”

Wagner Equipment Co. double billed the El Paso International Airport on three invoices in the amount of \$1,105.40. Wagner Equipment Co. has a sole source contract with the City to supply Caterpillar parts and services. The invoices and the amounts paid twice are listed below.

<i>Invoice #</i>	<i>Date</i>	<i>Item Purchased</i>	<i>Amount</i>
S12W0791764	02/04/2014	Travel to and from backup Generator Set.	\$139.76
S12W0791936	02/17/2014	Travel to/from and Maintenance of backup Generator Set and	\$311.88
S12W0791937	02/17/2014	Travel to/from and Maintenance of backup Generator Set and	\$653.76
<b>Total</b>			<b>\$1,105.40</b>

**Recommendation**

The Airport should contact the vendor and request reimbursement of the overpayment amount. The Airport has been notified and has initiated this process.

The Airport should establish a procedure where invoices are reviewed, verified and recalculated. Written evidence that the procedures were completed (i.e. signatures or a stamp and initials) should be documented on the invoice.

**Management’s Response**

El Paso Airport Accounting personnel contacted the vendor and requested a reimbursement of these overpayments, and the vendor has agreed to provide a check for \$1,105.40.

In discussions with the vendor it was noted the vendor submits a vendor prepared work order as a courtesy to customers to inform them of work to be performed. When the work is completed a formal invoice is submitted and is similar in form to the work orders. In this instance the work orders were paid in error. To prevent this from occurring we have instructed accounts payable personnel to be aware of this distinction in the processing of documents and invoices.

Management will require staff responsible for approval of invoices and bills of lading to verify receipt of goods and services by requiring signatures to confirm goods and services have actually been received in accordance with terms and conditions of the contracts.

**Responsible Party**

Accounting Personnel

**Implementation Date**

Effective immediately

**City of El Paso  
Internal Audit Office  
Airport Accounts Payable Review Audit A2014-05**

**Finding 4**

**Invoice Recalculation**

*Accounts Payable Manual dated 09/19/2014. Section 6.4.4 states “The document should also be footed and cross-footed to ensure the accuracy of the calculations made by the vendor”.*

The El Paso International Airport is not cross footing, footing or recalculating invoices 93.16% of the time. The Airport is not verifying the accuracy of the vendor’s calculations.

<i>Number of Contracts Reviewed.</i>	<i>Total Number of Invoices Reviewed. (A)</i>	<i>Number of Invoices with No Evidence of Cross Footing, Footing or Recalculation. (B)</i>	<i>Percentage of Invoices with No Evidence of Cross Footing, Footing or Recalculation. (B/A)</i>
10	117	109	93.16%

**Recommendation**

The Airport should establish a procedure where invoices are recalculated, footed, and cross footed. Evidence of the procedure should be documented on the invoices before payment is issued.

**Management’s Response**

Management will require responsible staff to recalculate, foot and cross foot invoices prior to payment and to annotate this on the invoice.

**Responsible Party**

Contract Managers and Accounting Personnel

**Implementation Date**

Effective immediately



**City of El Paso  
Internal Audit Office  
Airport Accounts Payable Review Audit A2014-05**

**Finding 5**

**Receipt Verification**

*Accounts Payable Manual dated 09/19/2014. Section 6.5 states “All invoices should be reviewed for compliance with approved agreement amounts and terms prior to payment. All invoices should follow the PO terms.” Section 6.5.1 states “The supervisor, or authorized official should review and sign off on the document to insure that there is compliance with the contract or quoted price.”*

The City’s Purchasing Manual dated 2/5/2010. Section 3.4 Responsibility of City staff – 3<sup>rd</sup> bullet states “City staff for a User Department that is assigned to a particular contract should.....ensure needed goods and services are received in an efficient cost effective manner are of sufficient quality to accomplish the purpose of the contract **and are in compliance with all contract provisions including paying for goods/services at contracted amounts.**”

The El Paso International Airport is not providing a signature as proof of receipt of goods or services 20.51% of the time.

<i>Number of Contracts Reviewed.</i>	<i>Total Number of Invoices Reviewed. (A)</i>	<i>Number of Invoices and Bill of Ladings with No signature as proof of receipt of goods or services. (B)</i>	<i>Percentage of Invoices and Bill of Ladings with No signature as proof of receipt of goods or services. (B/A)</i>
10	117	24	20.51%

**Recommendation**

The Airport should establish a procedure where invoices are consistently compared against the goods/services received and signed off by the person receiving the goods/services.

**Management’s Response**

Management will communicate to staff that are responsible for receipt of goods or services to ensure that invoices and bills of lading are verified and signed to confirm that goods and services have actually been received in accordance with terms and conditions of the contracts.

**Responsible Party**

Contract Managers

**Implementation Date**

Effective immediately

**City of El Paso  
Internal Audit Office  
Airport Accounts Payable Review Audit A2014-05**

---

***INHERENT LIMITATIONS***

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may deteriorate.

***CONCLUSION***

We have concluded work on the audit objectives of the Airport Accounts Payable Review Audit. In accordance with *Generally Accepted Government Auditing Standards* we are required to conclude whether the El Paso International Airport met the objectives of this audit. Based on our audit work, we have determined the following:

The El Paso International Airport is meeting their objectives in the following areas:

- Successful in meeting the Texas Prompt Payment Act 99.15% of the time. The Prompt Payment Act is part of Texas Government Code Sections 2251.025–2251.026. This law stipulates a payment is due for goods or services 30 days from the date goods/services are completed, or a correct invoice is received, whichever is later.

Based on our review we have determined that the El Paso International Airport is not meeting the objectives of the audit in the following areas:

1. Maintaining copies of contracts or contract price lists to verify terms, conditions and correct invoice prices.
2. Reviewing and verifying invoice prices against contract price lists.
3. Thoroughly reviewing invoices to ensure no duplicate payments.
4. Cross footing, footing, or recalculating invoices before payment is made. The Airport is not verifying the accuracy of the vendor's calculations.
5. Airport staff is not providing signature proof for receipt of goods and services.

Implementation of the recommendations contained in this Audit Report should assist the El Paso International Airport in improving the Accounts Payable process. The overall dollar loss identified in this report may not be significant in nature, but the process weaknesses identified should be considered significant. We wish to thank the El Paso International Airport's management and staff for their assistance and numerous courtesies extended during the completion of this audit.

\_\_\_\_\_  
*Signature on File*  
Edmundo S. Calderón, CIA, CGAP, CRMA, MBA  
Chief Internal Auditor

\_\_\_\_\_  
*Signature on File*  
Daryl Olson, CGAP  
Senior Auditor

\_\_\_\_\_  
*Signature on File*  
Miguel Montiel, CIA, CGAP  
Audit Supervisor

**City of El Paso**  
**Internal Audit Office**  
**Airport Accounts Payable Review Audit A2014-05**

---

Distribution:

Financial and Audit Oversight Committee

Tomas Gonzalez, City Manager

Cary Westin, Managing Director

Monica Lombrana, Aviation Director