

## Audit Committee

29<sup>th</sup> September 2011

## Update on Duplicate Payments



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## Report of Don McLure, Director of Corporate Resources

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### Purpose of the Report

1. To inform Members of the actions being taken and plans to reduce the Authority's risk of making duplicate payments.

### Background

2. In November 2008 Durham County Council implemented a new financial management system, Oracle; one module of which deals with the payments to suppliers. Post Local Government Review it was the intention to migrate from the former District Council legacy payment systems to Oracle, in order that Oracle would become the corporate single system in operation to pay suppliers.
3. This migration occurred gradually, between August 2010 and August 2011. There was therefore a period during which 8 payment systems were operating simultaneously. Managers were aware of the risks associated with operating all payment systems at the same time and therefore sought the assistance of Internal Audit in reporting upon the number of duplicate payments processed in all systems.

### Audit Findings

4. Internal Audit reported that a large number of 'potential' duplicate payments were processed between 1<sup>st</sup> November 2008 and 31<sup>st</sup> March 2011.
5. During this period duplicate payments had been processed due to a number of reasons as follows:
  - Staff within Services failing to comply with the corporate Procure to Pay (P2P) policy. The P2P policy sets out how to raise a requisition for goods and services, how to proceed to the ordering stage, the requirement to receive goods within Oracle and ultimately how to process the invoice. Duplicate payments had been made due to non-compliance with the P2P policy as detailed below:
    - duplicate purchase orders had been created for the same goods

- purchase orders had been created following receipt of the invoices
  - purchase orders had not been created for expected supplies and services
  - different order numbers were quoted on copies of the same invoice passed for payment
- Checks and controls in services were not being performed to the standard expected, as copy invoices as well as the originals had been passed for payment
  - Invoices had been manually input into Oracle incorrectly. Steps were immediately taken by the Accounts Payable Manager instructing his team on the required format for inputting invoice reference numbers into Oracle
  - At the current time Oracle system controls are not capable of detecting all of the types of duplicate payments identified.

### **Progress to date in addressing duplicate payments**

6. Analysing the data and carrying out investigations into the duplicate payments requires the commitment of considerable staffing resource.
7. Internal Audit staff examined their initial findings further to remove all invoices from their report which were definitely not duplicate payments.
8. Following Internal Audit's work, the Accounts Payable team has been tasked with identifying which payments are 'actual' duplicates and subsequently taking steps to recover any overpayments.
9. To date, all duplicate payments with values exceeding £1,000 have been examined and recovery action taken where necessary.
10. Of the invoices addressed so far, only 58 (or 0.53%) of the total number identified were actual duplicate payments. The value of these invoices totalled £107,202, of which £92,571 (or 86.35%) has already been recovered.

### **Work ongoing**

11. An additional member of staff has recently been tasked with managing the potential duplicate payments in order to speed up the recovery process.
12. Accounts Payable staff will continue to examine the invoices identified with values under £1,000 plus any further duplicates as reported.

13. A P2P review is underway which, amongst other things, is addressing the weaknesses in the systems of control within the P2P process; this will inevitably mitigate the risk of making duplicate payments in future.
14. Resulting from the P2P review thus far, the steps taken to improve controls are as follows:
  - Instructions have been sent to all staff involved in requisitioning process to comply with the corporate policy and procedures
  - A variety of management reports are being produced to identify where process improvements should be targeted
  - Staff are working with suppliers for which a high volume of invoices are currently processed in order to consolidate invoices and streamline the invoicing and payment process
15. Letters will shortly be sent to suppliers reminding them of the Council's policy to only pay invoices quoting an official purchase order number and instructing that all invoices be sent directly to the Accounts Payable team for payment.
16. As the Authority encourages the use of procurement cards throughout the organisation the number of invoices being processed will reduce.
17. Work is already underway to scan as many invoices as possible into Oracle. It is anticipated that by the end of December 2011, all invoices received by the Accounts Payable team will be scanned. (Only invoices containing Oracle purchase order numbers are scanned in at present). This removes the need for manual input of data and the potential for mistyping invoice details. It also optimises the use of electronic workflow within Oracle for querying invoices and minimises the handling of paper invoices.

### **Options for Improvement**

18. There are a number of options currently under consideration:
  - make enquiries with other Local Authorities using Oracle Payables to discover which controls they have in place for the prevention/detection of duplicate payments
  - commission an external company to investigate the potential duplicate payments and recover the overpayments on behalf of the Authority. This is in return for a fee equivalent to a specified percentage of the sums actively recovered
  - purchase software from a third party supplier for identifying potential duplicate payments prior to processing the payments
  - enter into dialogue with Oracle for a solution to the system controls to avoid duplicate payments

## **Recommendations**

19. Members are recommended to note:

- the progress made to date to recover the overpayments
- the work being undertaken by the P2P review team to encourage compliance with the corporate policy and address system control weaknesses
- the options being considered to prevent further duplicate payments

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