I·C·A·C
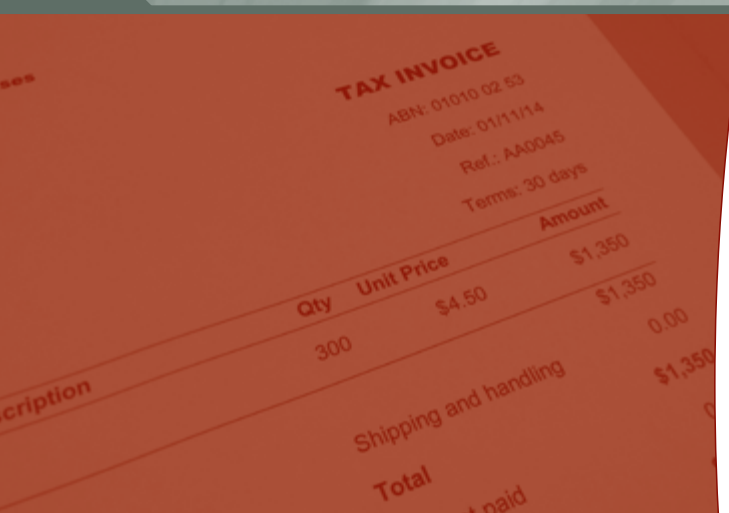
INDEPENDENT COMMISSION
AGAINST CORRUPTION
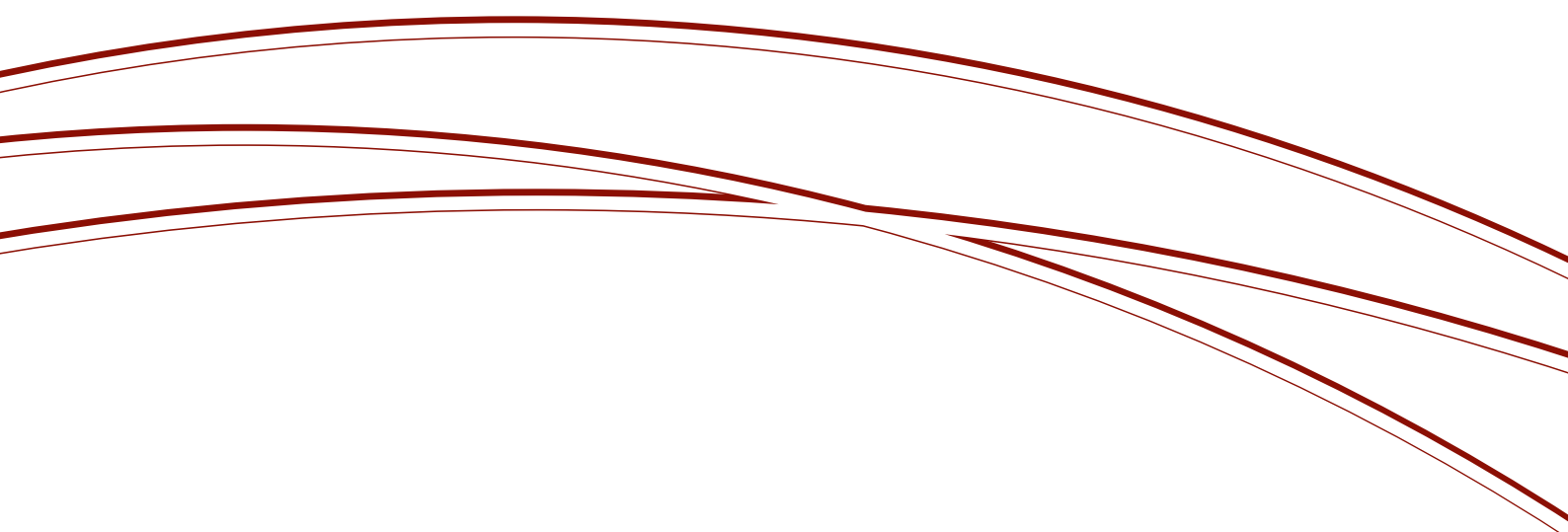NEW SOUTH WALES

SAFEGUARDING PUBLIC MONEY: THE IMPORTANCE OF CONTROLLING INVOICE PAYMENTS

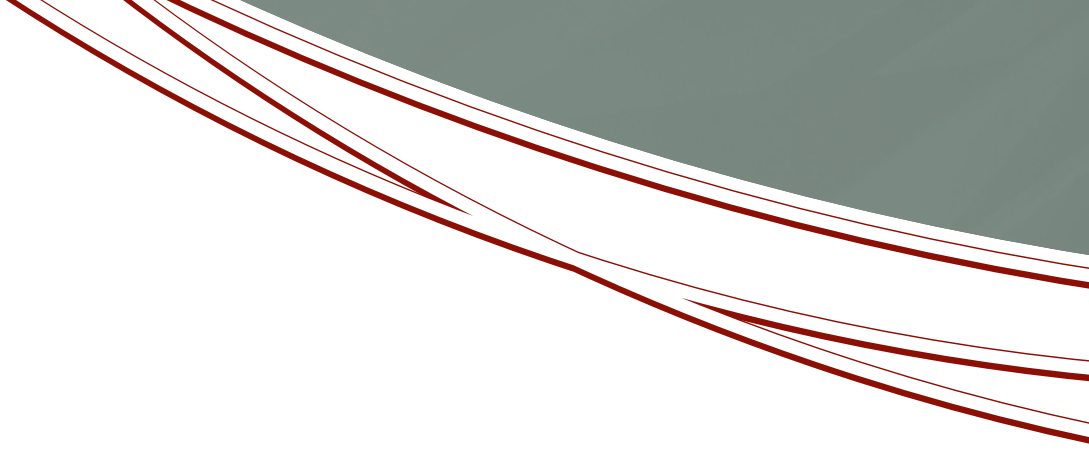NOVEMBER 2014

SAFEGUARDING PUBLIC MONEY: THE IMPORTANCE OF CONTROLLING INVOICE PAYMENTS

NOVEMBER 2014

This publication and further information about the Independent Commission Against Corruption can be found on the Commission's website at www.icac.nsw.gov.au.

Public sector organisations are welcome to refer to this publication in their own publications. References to and all quotations from this publication must be fully referenced.

I·C·A·C

INDEPENDENT COMMISSION AGAINST CORRUPTION

NEW SOUTH WALES

Level 7, 255 Elizabeth Street
Sydney NSW 2000 Australia

Postal Address: GPO Box 500
Sydney NSW 2001 Australia

T: 02 8281 5999
1800 463 909 (toll free for callers outside metropolitan Sydney)
F: 02 9264 5364
TTY: 02 8281 5773 (for hearing-impaired callers only)

E: icac@icac.nsw.gov.au
www.icac.nsw.gov.au

Business Hours: 9 am - 5 pm Monday to Friday

Acknowledgements

The NSW Independent Commission Against Corruption ("the Commission") would like to thank the individuals and organisations who met with Commission researchers and/or responded to the survey. Their assistance contributed significantly to the development of this report. The Commission would also like to acknowledge the assistance provided by the Institute of Internal Auditors – Australia and the NSW Office of Local Government.

Contents

Introduction

Invoice payment is a process by which a significant proportion of taxpayer money is transferred from government to private hands. The vast majority of transfers are for legitimate purchases at the correct price. Too often, though, Commission investigations have shown that corrupt conduct is able to occur because of gaps in invoice payment control. In these instances, taxpayer money was able to be transferred from government to the corrupt person/s as a result of:

- a poorly designed payment process

- the payment process being falsely modified by a system administrator

- staff being put under pressure to process quickly

- policies mandating impossible timeframes

- incomplete paperwork being accepted

- delegations not being able to be verified

- excessive payments not being questioned

- increases in payments to suppliers and/or order splitting going unnoticed.

With a typical NSW public sector (NSWPS) organisation processing around 17,000 invoices a year, there are many opportunities for false invoices or vendor entries to be created, invoice prices to be inflated, duplicate invoices to be processed, money to be diverted from a legitimate supplier to a corrupt person's account, payments to be made to companies associated with public officials and for public officials to collude with suppliers over invoice details.

The control gaps in the payment processes of government agencies have featured in many of the Commission's inquiries. In Operation Charity[1], for example, the

Commission's investigation into fraud on two hospitals revealed control gaps created by an under-staffed accounts payable (AP) unit and a payment process that made it hard for staff to carry out checks. Pressure to check the authenticity of invoices and make timely payments resulted in a non-employee (a post-graduate student associated with the hospital) receiving payments in excess of $700,000. In this case, false invoices were paid for services that were never provided from a company in which the post-graduate student had an undisclosed interest.

In Operation Siren[2], the Commission's investigation revealed how a failure to check basic invoice information (such as an Australian Business Number) resulted in the unauthorised payment of nearly $300,000 of public funds. Operation Corsair[3] showed how personally pressuring AP staff to make invoice payments as a matter of urgency can lead to a breakdown of control. Operation Monto[4] exposed large-scale corruption in relation to over-payments of false and/or deceptive invoices to a contractor who had established a corrupt arrangement with a vendor to create false records and elicit over half a million dollars of taxpayer money.

The solution is not a simple matter of applying more careful checks, further segregating duties or removing discretionary decision-making. While an AP unit carries out the final checks of the payment process, it also has an administrative function to ensure that suppliers are paid in a cost-efficient and timely manner. Timely payment is a critical issue; it affects relationships with suppliers and their willingness to work with government. Delaying payments to allow for greater scrutiny produces a different set of risks. Likewise,

---

1 NSW Independent Commission Against Corruption (ICAC), *Investigation into corrupt conduct involving alleged fraud on two Sydney hospitals,* August 2011.

2 ICAC, *Investigation into corrupt conduct of Sydney Water employees and others*, March 2011.

3 ICAC, *Report on the use of TAFE funds to pay for work on a dog kennel complex*, June 2010.

4 ICAC, *RailCorp – allegations of fraud and bribery in relation to procurement*, 2nd report, August 2008.

the number of AP staff cannot be increased at will. Invoice payment supports the work of business units throughout the organisation. An increase in AP unit resourcing must come at a cost to units elsewhere in the organisation.

The demands of lowering administration costs, faster processing and more thorough checks are often seen as competing, with trade-offs required. This paper, however, seeks to present approaches to the design and management of the payment process that not only increase the control of corruption but, on balance, increase speed and reduce costs.

In researching invoice payment practices in NSW, the Commission conducted a survey of state and local government organisations. The methodology and summary analysis of 150 survey respondents are presented in the appendix. Survey results are intended to help organisations benchmark their invoice payment function against those of other NSWPS organisations.

The Commission sought insights from the public, private and not-for-profit sectors on how to strengthen the invoice payment function while balancing the need for low costs and timeliness. These organisations included:

- an accounting firm that specialises in invoice-related fraud

- a central government agency that provides an invoice payment function for multiple government agencies

- a human services agency that engages local suppliers at a large number of locations

- a local council that purchases a vast range of goods and services

- a healthcare organisation that purchases a variety of goods and services at different types of locations

- a large non-government organisation (NGO) that engages suppliers across the state for a range of projects

- a manufacturing company that deals with a high volume of suppliers in a decentralised structure

- an insurance company that makes thousands of one-off payments in settlement claims.

The Commission has identified the following five strategies for tightening the payment process.

1. **Develop motivated and capable AP staff**

   - Provide AP staff with the knowledge and tools to allow them to efficiently perform their tasks.

   - Maintain motivation to ensure diligence.

   - Protect AP staff from undue influence by suppliers or operational staff.

2. **Secure the vendor master file (VMF)**

   - Check vendors prior to putting them on the VMF to ensure they are genuine.

   - Segregate and/or review the creation of new vendors on the file or changes to vendor details.

   - Purge dormant vendors and control the use of one-time vendors.

3. **Strengthen and protect the design of payment processes**

   - Use three-way matching of purchase order, invoice and receipt, where feasible.

   - Prevent payments on invoice amounts and codes that fall outside set parameters.

   - Restrict the delegation of the role of system administrator to a tightly-controlled group.

   - Segregate system administration from payment processing.

4. **Make payments consistent with processes as designed**

   - Refuse non-conforming requests for payment.

   - Develop alternative processes to manage emergencies and demands for rush payments.

   - Track and work to reduce demands for emergency and rush payments.

5. **Conduct informed review of expenditure**

- Develop AP staff expertise in key business areas.

- Utilise knowledge held by operational and finance staff to review expenditure.

- Use data analyses to identify trends, patterns, outliers, shifts in patterns, and so on.

- Bring together analyses and expertise to enhance interpretation of analyses.

Each of these five strategies is discussed in detail below.

Develop motivated and capable AP staff

An AP unit's vigilance is the final line of defence in a payment process that generally starts with a request for purchase from an operational business unit and ends with the transfer of funds out of the organisation. A central function of an AP unit is to verify the authenticity of the steps in that process; for example, the appropriateness of delegations, identity of the requesting staff, the validity of the vendor and the invoice, and so on.

Almost all of the thousands of transactions that AP staff process each year are legitimate. Even those that have some anomaly, such as missing documentation or unusual-looking signatures, will generally turn out to be legitimate.

The work itself is high volume and repetitive. In such an environment, it is difficult for a manager to keep staff alert to problems. How do managers ensure that the volume of invoices and the speed with which they must be paid does not exceed the capabilities of the workforce? How can staff be kept motivated and not put under pressure, so that due diligence is applied to all invoices and questionable invoices not paid?

These management issues were apparent in Operation Charity. The AP unit within the organisation at the centre of the investigation was short-staffed and about 70% of its staff were agency temps. These staff members were not made aware of the delegation manuals that existed and, while approvals were based on physical signatures, there was no register of sample signatures.

As a result, it was very difficult for AP staff to verify that a given invoice had been authorised by someone within the organisation who had the appropriate delegation. This was especially the case as operational staff within the organisation frequently acted in higher positions, with the consequence that it was very difficult to keep the delegations manuals up-to-date, and AP staff did not
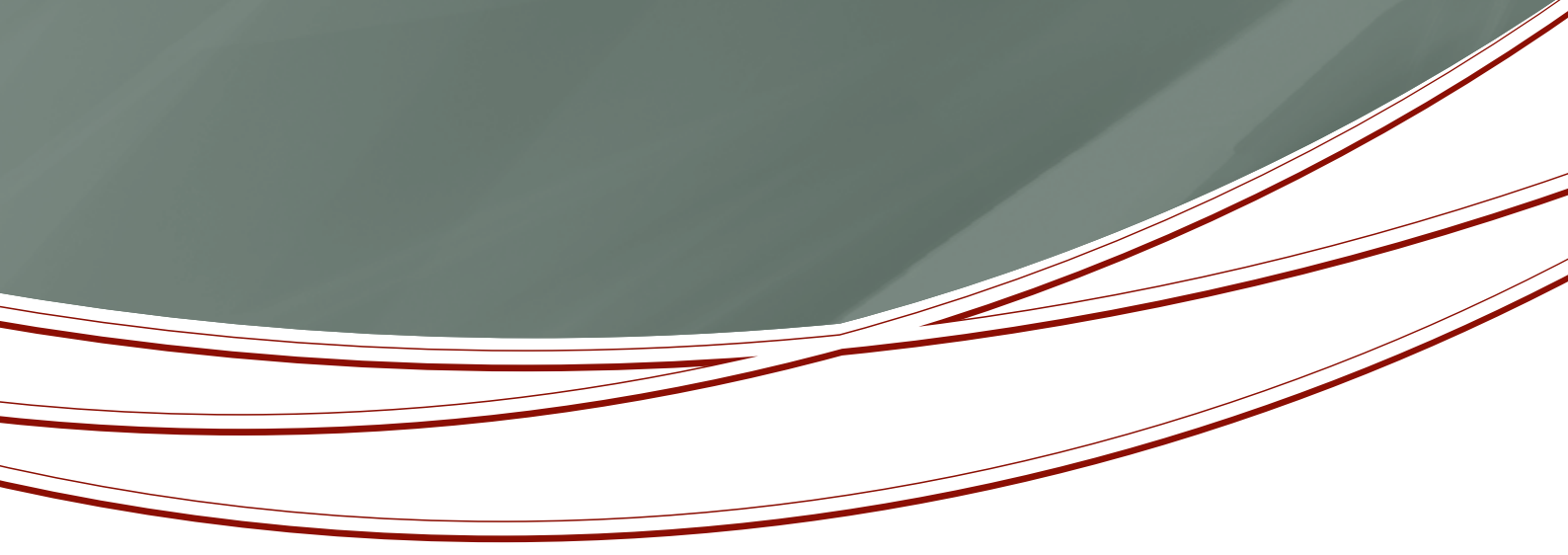
have a current working knowledge of who was in what role. Even if AP staff could establish that the "approver" of an invoice had the delegation, the lack of a register of signatures meant that it was difficult to verify that the signature really was that of the person named on the form.

In addition to a clunky and time-consuming process, the organisation was facing problems with suppliers arising from late payment. There was considerable pressure to process invoices quickly and, in fact, it was a policy requirement to do so. The result was that a short-staffed AP unit – with a significant number of temporary staff, who were following a clunky process and missing information on signatures – was put under pressure to process payments quickly by the organisation's own policies. The incentive for staff was to allow payments through without checking; a situation created by the organisation itself and exploited by a corrupt individual.

This individual generated a series of false invoices, backdated them so that they appeared to be overdue, falsified signatures or improperly obtained "approval" for their payment, and then telephoned specific AP staff demanding that the "overdue" invoices be paid as a matter of urgency. In total, over $650,000 worth of fraudulent invoices were paid.

Building AP unit capability

An AP unit needs to be able to efficiently and effectively determine from where an invoice, purchase order, and the certification of goods and services received has originated, and whether delegations or other permissions exist for the request for payment. In most large organisations, this can be difficult, as the staff that can approve invoices constantly move across different roles, with each role and/or person having a specific delegation.

If payment processes do not support the work of AP staff, it becomes time-consuming and expensive to verify signatures, manually check delegations, ensure that correct approval processes have been followed, and verify whether pre-approvals are still valid, and so on. In effect, the capability of an AP unit depends heavily on the capabilities of the processes.

Improving the functioning of an AP unit, therefore, is not necessarily a matter of adding more staff to it; rather, it might be better to modify work processes and information flow to optimally fit with staff needs. Making an AP unit more efficient – for example, by providing staff with easy access to information and documents – can produce greater gains than increasing staff numbers and undertaking training to deal with a problem process. It can also result in other gains, such as reduced processing time and cost.

The types of process improvements that an organisation can use to improve efficiency and better control corruption will, of course, depend on the current process it has in place. In the case of verifying authority to pay, a key factor is whether the organisation uses an electronic or paper-based process to approve invoices.

If authority to pay is given via an electronic process, the accounting firm's view is that the financial system should be set up to automatically check the delegation of an approving staff member, with delegations hard-coded into the system and linked to a job title rather than to a person. By linking delegations to roles rather than individuals within the finance system, the confusions and control difficulties created by individuals acting in different positions are largely eliminated. Likewise, the risk of an individual holding delegations on both sides of a firewall is reduced. As a person leaves the role on one side of the firewall to act in a role on the other side, the finance system takes away their initial delegations and
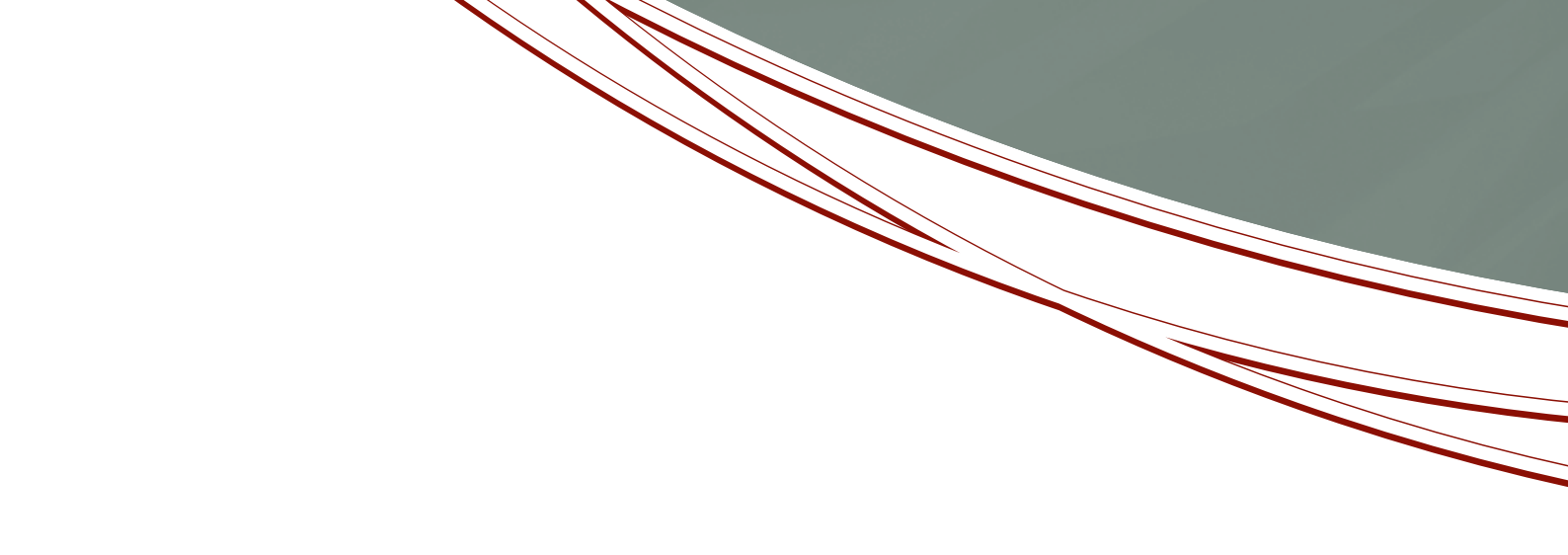
replaces them with the delegations attached to the acting role.

If authority to pay is given via a paper-based process, the payment process can still be adjusted to better provide the information needed to AP staff. The healthcare organisation, for example, ensures its AP staff have access to a copy of specimen signatures of managers, and the delegations of these managers are known to the AP unit. To deal with the difficulties created by shifting delegations, managers must communicate with the AP unit by email if they take leave and must state to whom their delegation is transferred. In such an environment, it is easy to verify both the current delegation of a given individual and the veracity of a given signature.

Regardless of whether paper-based or electronic processes are used by AP staff, a number of organisations that spoke with the Commission emphasised the need to keep improving payment processes more generally. The manufacturing company, for instance, involves its AP staff and managers in working groups that regularly review the processes they use. These reviews consider the efficiency and robustness of the payment process with a key focus on reducing the number of invoices that are processed as exceptions.

The capability of an AP unit is ultimately a combination of effective processes and a motivated and capable workforce. The manufacturing company is particularly concerned at the loss of capability that comes from an unmotivated workforce. With the boredom of repetitive processing considered a threat to vigilance, AP staff in this organisation are rotated every three months across data entry, payment runs and activities associated with data management of vendor details.

Staff rotation not only targets motivation but also exposes the work of any given AP staff to scrutiny by

other AP staff. As a general rule, individuals who stay in one position for an extended period and do not regularly take annual leave can be a risk. Even if not corrupt, they can start to adopt short cuts and sloppy practices, all the while avoiding the scrutiny of a second pair of eyes, which can create opportunities for others to act corruptly. The accounting firm recommends that AP staff be forced to take regular leave, allowing an acting person to review their work practices.

Protecting AP staff from undue pressure

In several cases the Commission examined, corrupt individuals had applied pressure to AP staff to process payments quickly, minimising the time available to carry out checks and, therefore, reducing the quality of checking. Pressure was created using a variety of pretexts, such as procurement emergencies or angry suppliers who were demanding payment. In some cases, the pressure was created by competing policies that, on one hand, required careful checks but, on the other, required government suppliers to be paid in a timely manner. In other cases, the corrupt person directly contacted or physically stood over AP staff – all in order to reduce scrutiny of payment requests.

In Operation Corsair, the Commission investigated how a public official colluded with vendors to submit fake and inflated invoices. More than $20,000 of excess billing was entered into a stream of invoices relating to housing construction work that the organisation was undertaking. The corrupt official then received a $20,000 benefit from the vendors in the form of them performing construction work on a private dog racing kennel complex in which he had an interest. To minimise the likelihood of AP staff

questioning the inflated invoices, both he and his staff would physically go to the AP unit with a considerable number of invoices and wait while the invoices were processed. In such an environment, it would take very courageous AP staff to apply appropriate due diligence to processing these invoices.

It is for this very reason that organisations often try to discourage contact between AP staff and operational staff and vendors. Both the NGO and the insurance company, for example, physically separate AP staff from other employees to limit opportunities either to apply pressure or form collusive relationships. The NGO separates branch managers who can authorise payments from AP staff who process them. The insurance company achieves the same effect by separating the AP staff who process invoices for business purchases (as distinct from invoices relating to insurance claims) from its operational staff who submit and approve them.

The same logic applies to the separation of AP staff from vendors. In the healthcare organisation, as in many organisations, vendors are told that they should contact the AP manager if they have any issues regarding the payment of their invoice, rather than directly contacting the AP staff processing their invoices. Such approaches give vendors official avenues to query issues – such as late payments – while preventing them from applying inappropriate pressure to AP staff.

Another technique used for separating vendors from AP staff was identified by some survey respondents. These NSWPS organisations indicated that they use a centrally-managed email address to which vendors can direct queries. Almost 90% of survey respondents indicated, however, that they allow vendors to directly contact AP staff who are processing their invoices.

Secure the VMF

For many of the AP managers contacted by the Commission, control of the vendor master file (VMF) is the most powerful control within the invoice payment process. Because a vendor must be on the VMF to be paid, and because the VMF contains ABNs, banking details, addresses and other details, the VMF can present a significant barrier to obtaining corrupt payments. As the healthcare organisation noted, it is relatively easy to create a fraudulent invoice and have it presented for payment, but the payment of that invoice needs to be directed into a bank account that has to be accessed by the corrupt person. A well controlled VMF can make it very difficult for an individual to enter a sham vendor's details onto the file or to change the details of legitimate vendors in order to have the payment made to their own account.

Although the VMF has the potential to exert powerful control over the invoice payment function if its contents are valid and up-to-date, the VMF itself is not easy to manage. In most organisations, new vendors are constantly being added or removed. Vendor details, such as addresses, bank details or even trading names, often change. One-time vendors or vendors that are no longer used can sit dormant on the VMF, providing a ready number of approved organisations for someone seeking to commit fraud.

In short, the VMF is generally in a state of flux and it is within this environment of constant change that corrupt modification of the VMF occurs, and most commonly by:

- creating fake vendors or staff-affiliated vendors on the VMF to allow false invoices to be paid to them

- changing legitimate vendor details to redirect payments of false or genuine invoices to a different account

- using old approvals given to dormant or one-time vendors to facilitate processing of false invoices.

While a well controlled VMF exerts its own powerful control over the payment process, a poorly controlled VMF is a major liability for the invoice payment function. A good example of the dangers of a poorly-controlled VMF is illustrated in a Crime and Corruption Commission investigation[5] into a finance staff member of Queensland Health, who defrauded the agency of almost $17 million by directing payments to the bank accounts of companies that he had registered. This staff member had the ability both to create vendors and process their invoices, and was consequently able to create fake vendors on the VMF and approve fake invoices to pay them.

For any organisation, the two primary goals of VMF management are ensuring the validity of new vendors entered onto the VMF, and ensuring that the details of vendors already on the VMF are current and accurate.

Controlling the creation of new vendors

The Commission's Operation Siren inquiry identified nearly $300,000 of corrupt invoices from an organisation's property manager to a tenant living on the authority's property and to related entities. While it had been the task of the property manager to evict the tenant, the two formed a relationship during the process that led the property manager to "assist" the tenant

5 Crime and Corruption Commission, *Fraud, financial management and accountability in the Queensland public sector: An examination of how a $16.69 million fraud was committed on Queensland Health*, September 2013.

with public money obtained through false invoicing by the tenant.

The property manager was able to facilitate these payments by exploiting a number of weaknesses in payment processes; the most significant being his ability to implicitly direct AP staff to create vendors within the AP financial system simply by submitting invoices that he had approved. When an invoice was received by the AP staff, they created a new vendor entry onto the VMF, and subsequently paid multiple invoices to the same vendor. The system provided almost no protection against corruption and, in this regard, effectively had the same vulnerability to corruption and fraud as the invoice payment function at Queensland Health. There was little control over the process by which vendors were created, and no assurance that the vendors that were created were valid entities.

The primary reason to maintain a VMF in the first place is to safeguard the payment process by cross-checking invoice payment requests against an established list of authorised vendors. If vendors can be entered onto the VMF without being authorised then the value of the VMF is largely lost.

When the accounting firm is engaged to assess the vulnerability to fraud of payment processes, the first thing it examines is a client's process for adding vendors to its VMF. More generally, the organisations to which the Commission spoke viewed the creation of vendor entries on the VMF as presenting serious fraud risks. As a result, they required the involvement of multiple people in the creation of vendors, and/or ensured staff who performed this process were segregated from other payment processes.

The ways in which organisations segregate the creation of vendor entries on the VMF from other parts of the payment process vary. Both the NGO and the central agency, for example, have one AP staff member enter vendor details and another staff member check the entry of those details. In a more complex approach to segregation and verification, the manufacturing company requires: (1) one operational employee to request the creation of the vendor, (2) another to approve the request and, when the request reaches the AP unit, (3) one AP staff to enter the data onto the VMF and (4) another AP staff to check the entry.

Some organisations also separate staff who can create vendors from staff who can process invoices. The healthcare organisation limits vendor creation to two staff in the entire organisation and these staff members cannot process invoices for payment. Staff at the insurance company who can create vendors cannot also process invoices. Staff at the central government agency can both create vendors and process invoices but they cannot process the invoices of vendors they have created themselves.

Not all government agencies have such tight controls over creation of vendor entries on the VMF. In one case, a public official described a system where anyone in the organisation could add a vendor to the VMF. Perhaps as a result, there were many duplicate vendors in the database and about two-thirds of vendors on the VMF had been dormant for over two years.

Survey results indicate that a number of NSWPS organisations use segregation but a number also use management review of changes to the VMF as an alternative to segregation. While management review can be less robust than segregation, it is a useful method for small organisations that have insufficient staff to segregate vendor creation from other payment processes. At the local council, for example, one employee creates new vendors and processes invoices but their manager reviews the creation of all vendors on a monthly basis. Given that the organisation creates a relatively small number of vendors each month, this approach minimises risk without creating an onerous burden.

Determining the validity of new vendors

Not only do effective organisations focus on tightly controlling the process of vendor creation, they also invest considerable effort into ensuring that vendors that are created are genuine suppliers. This is designed to mitigate the risk that a sham vendor is entered onto the VMF to provide a vehicle and destination for money being misappropriated from the organisation.

Organisations protect themselves, in part, by seeking evidence that a vendor is genuine. To do this, they will exploit the inherent difficulties in establishing a real and valid vendor. It is not straightforward to make such a sham company look like a real vendor; for example, a valid ABN needs to be obtained, GST status needs to be assigned, and so on. The difficulty in creating a sham vendor often leaves evidence that makes it look suspicious; it is this evidence that many organisations seek out.

The manufacturing company, for example, sometimes consults the *White Pages* telephone directory to confirm a new vendor's contact details. This is a useful check because, while it is relatively easy to set up a telephone number and address, it requires more time and effort to have those details published in the *White Pages*. This

simple check also protects against the use of a false address attached to a real company telephone because the real company's details can be verified via the phone book.

The insurance company examines a range of indicators. It randomly visits vendor websites to see if there is anything unusual on them. This is a powerful check because a genuine vendor will include a considerable number of important details on a website. It is hard for a sham vendor to coherently falsify a broad range of details on its website. The insurance company also makes a determined effort to obtain street addresses as well as mailing addresses – something that sham vendors may be reluctant to supply. On occasion, it has also demanded to see bank statements to ensure that the account in question actually belongs to the company being paid.

Almost all NSWPS organisations that responded to the survey verify vendor ABNs. Other details that these organisations verify include banking and address details and GST status. A number of respondents indicated that they conduct internet searches on companies prior to them being entered onto the VMF.

The demands of verifying the details of one-time vendors are a particular threat to the integrity of the VMF. It is often difficult to justify full verification of details for a smallish one-time payment, and a number of financial systems have functionality that allow or encourage less stringent approaches to entering the details of one-time vendors. Similarly, organisations may be loathe to bear the cost and time of finding and removing one-time vendors. As a result, many remain dormant on the VMF. Mismanagement of one-time vendors can have the effect of creating a less secure pathway onto the VMF and, ultimately, an unacceptable number of dormant vendors on the VMF.

For the organisations that spoke with the Commission, managing the risks of one-time vendors can involve very tight control and limits. The manufacturing company, for example, has the following practice in place: (1) it limits one-time vendor use to transactions below $5,000, (2) it will not allow a vendor to remain a one-time vendor if it has been used three times, and (3) it double-checks all one-time vendor transactions over $300. This approach stops one-time vendors from being used for either large transactions or a series of transactions.

Keeping vendor details current

The VMF is not static; it changes constantly as vendors change addresses, change banking providers, change names, enter into mergers, and so on. Similarly, the status of the vendor as a current supplier can change as the organisation itself moves to a new vendor, leaving the old one dormant on the VMF. Ensuring the validity of each and every change to details on the VMF is as important as the initial vendor creation. Every change alters the safeguard provided by the VMF. Changes in something as minor as banking details, for example, have been used to divert legitimate payments to the accounts of corrupt or fraudulent individuals.
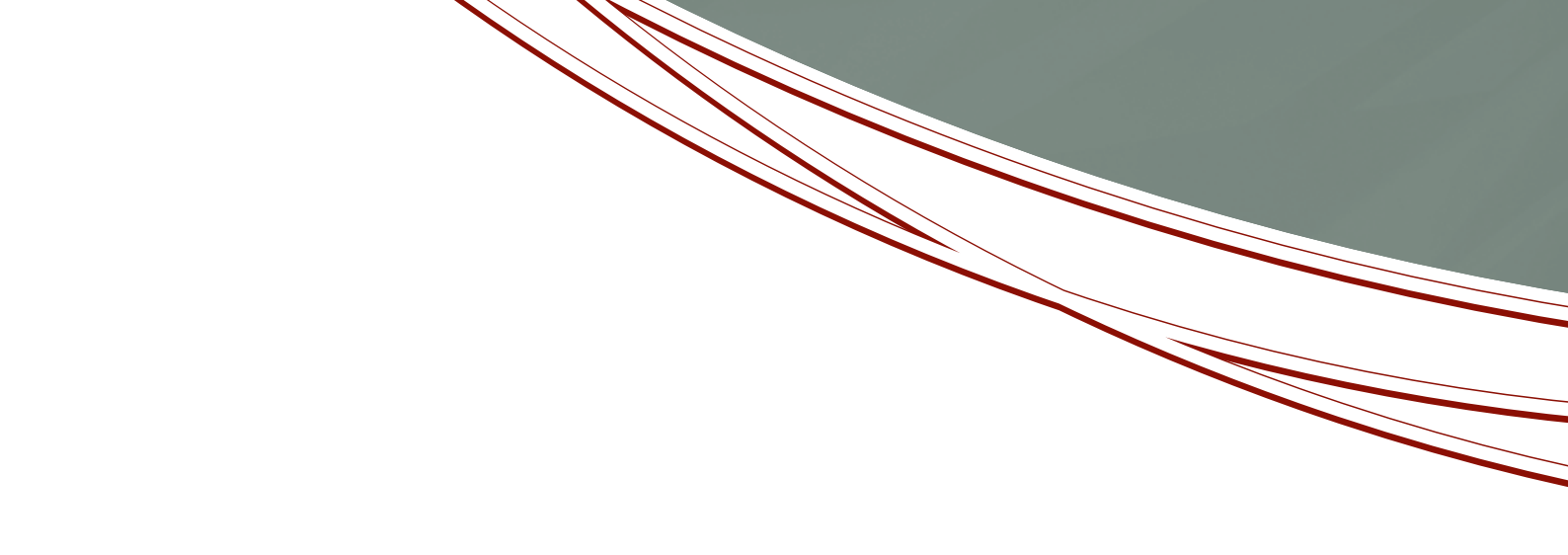
A key aim of vendor detail maintenance is to ensure that the effort undertaken in the vendor creation processes is not wasted. The healthcare organisation, for example, insists that vendor details cannot be changed as a result of an email or phone request – any changes must be on the invoice itself. This makes it more difficult to divert a legitimate payment to a different account, as an invoice must match with the organisation's AP financial system before being approved for payment. The manufacturing company goes a little further and insists on an invoice and a letterhead, and requires the same amount of vendor information as if it were setting up the vendor from scratch.

While the use of invoices as a process for approving changes to vendor details provides a safeguard against external attempts at fraud, it may not be as effective internally against employees. Segregation of key points in the process of changing vendor details is common, making it difficult for one employee to exert complete control over changes to vendor details. Some survey respondents reported segregating parts of the process involved in both the creation and modification of VMF entries. Most of these segregations involve different business units playing different roles in the process; commonly, the business unit that requests a vendor change cannot itself change the VMF. Segregations also are in place within some AP units.

Other NSWPS organisations indicated that any changes to the VMF were controlled by review rather than segregation, with the review generally performed by individuals who could not change the VMF themselves. Reviews are somewhat weaker than segregations because busy staff may rubber stamp them and move on to the next task, particularly if the review process is difficult or they lack the necessary information to conduct the review. To counter the pressures that lead to cursory reviews, the local council requires that a printout be made of both old and new vendor details every time they change. This helps ensure that the necessary information is readily available for managerial review.

In addition to using segregations to control internal corruption and fraud, most of the organisations that spoke

with the Commission also match vendor details against employee details. These organisations generally conduct this match simply by merging the VMF with their payroll database. They are then able to compare details of vendors – such as bank account and address details – with those of employees to identify where an employee may also be obtaining payments through invoices.

While most changes in vendor details involve actively changing the VMF, the change in status when a vendor ceases to be an active supplier to the organisation is equally important. As a general principle, dormant vendors should be purged from the VMF. Dormant vendors can be used to help facilitate the payment of fraudulent invoices, since they appear to be genuine vendors. The insurance company, for example, automatically deletes inactive vendors from its VMF after a set period of inactivity, while the human services agency regularly reviews its VMF for vendors that have not been used for a set period of time and deletes them.

Sometimes, however, vendors cannot be removed from the VMF because of reasons such as the requirement to maintain audit logs; that is, vendors are deactivated instead of deleted. The local council, for example, deactivates any vendor that has not been used in the last five years. While deactivation is preferable to leaving vendors dormant on the VMF, the risk remains that a deactivated vendor is reactivated for the purpose of obtaining payment of a fraudulent invoice. Organisations sometimes mitigate this risk by generating flags when a vendor is reactivated either by an alert in the financial system or by exception reporting on reactivated vendors.

Strengthen and protect the design of payment processes

While it is self-evident that the design of a payment process should maximise the chances of detecting invalid invoices, it is equally important that the process itself be protected from unauthorised changes. Both elements – a rigorous process and protection of the process itself – are central to maintaining tight control over payments.

In Operation Monto, a government contractor was given high level access to the organisation's financial system. This allowed her to view approved purchase orders and modify their value. The organisation's payment process required modified purchase orders to be sent to the purchase order approver for re-approval, but the financial system did not do this automatically and re-approval was rarely sought in practice. This contractor modified the value of purchase orders designed to cover *her* contracted engagement, sometimes increasing them by a factor of three or four times their original value. She was then able to submit fraudulent invoices for extra work that were paid.

She further approved false invoices from another contractor in return for this contractor regularly depositing funds into her bank account. To achieve this, she re-configured the payment process so that invoices were sent to her for approval, even though she lacked the delegation to approve them.[6] The total amount of corrupt payments was over $650,000. In short, the corruption occurred because a payment process was able to be modified by a temporary employee and the process was not able to determine the veracity of the invoices.

Maintaining the integrity of payment process

The design of payment processes – from the raising of a purchase order through to the presentation of an invoice, and through to the transfer of funds to a vendor – represents the heart of the payment control environment. The design of payment processes, at a minimum, specifies:

- the requisite documents for a payment to proceed

- how these documents are verified

- how the authority of the document originators is verified

- how collusion within the process is controlled

- how evasions of process controls are detected.

If a process is changed, this constitutes a change to the control environment from the design. As was seen in Operation Monto, the ability of one system administrator to change a process allows parts of the control environment to be dismantled. A process map[7] showing which individuals perform which invoice payment activities can ensure that administration of the financial system is segregated from payment processes and can also show where segregations are needed within the payment process itself.

In any electronic system, the risk of a system administrator dismantling elements of the control environment is substantial. Changes to the payment process can be invisible to those working within the process, allowing an ongoing fraud. Bearing this in mind,

---

6 Emails containing a clickable "approval icon" were meant to be sent to a manager with the appropriate delegation. She arranged it so that relevant approval emails were re-routed to her, enabling her to activate the approval.

7 Further information about process maps is available in the Commission's publication, *Corruption risks in NSW government procurement – The management challenge*, December 2011.

the accounting firm recommends that the administrator of the financial system should be located within the information technology (IT) unit rather than the AP unit, as this avoids the AP unit having both user and administrator access to the system.

Taking this further, the manufacturing company not only has system administration within IT, but restricts the administration to only three staff members within that unit. The company clearly sees system administration as a very powerful capability and something that provides considerable opportunity for fraud and corruption.

The accounting firm recommends that audit logs be kept within the financial system that records changes by system administrators and users. These logs should be monitored frequently by individuals who have sufficient expertise to understand which changes are significant.

System administration is not the only threat to the integrity of the financial system. The ability to access the user accounts of other individuals allows segregations to be breached. For example, a person can use one account to authorise a purchase and another to certify delivery of the relevant goods or services. Such access of other user accounts often remains hidden because the appearance of segregation continues when in reality none exists.

The opportunity to access multiple user accounts is most likely to occur with password sharing within the workplace but there are other ways to gain access to multiple user accounts. System administrators and some IT staff are able to identify user passwords that give them access. In some cases, a user account that has been allowed to go dormant, rather than be removed when an employee leaves the organisation, can be reactivated. These accounts can then be used to obscure who authorised or processed an improper payment.

Ultimately, the payment process must work when put under pressure and its integrity must be maintained in the real world. There is little point in designing an elaborate control environment if, when put under pressure, the safeguards are sacrificed for expediency. It is useful for organisations to know whether putting the process under pressure causes the process as designed to be modified with breaches of segregations, skipping of reviews, password sharing or other process redesign occurring.

For some organisations, stress testing the payment process is an additional assurance that the integrity of the payment process will be maintained when challenged. The NGO, for example, is particularly concerned with cases where there are departures from standard processes, such as workflow controls, following the

rejection of an invoice. If an invoice is rejected by an AP staff member, a workflow may be designed so that it is returned to the original approving staff member to make changes to supporting documentation and resubmit it. This workflow, however, needs to be tested to ensure that resubmitted invoices do, indeed, return to the AP unit for re-processing – a poorly implemented workflow may result in this processing being bypassed.

If stress testing is not carried out, some other assurance may be desirable. The central government agency runs a management assurance framework that systematically examines the effectiveness of its organisational controls, including controls on its invoice payment function. This framework reviews all invoice payment controls and has a self-assessment component that is performed by operational managers. The results of these reviews are examined by both internal and external auditors. While such an approach may be too resource-intensive for smaller organisations, a number of organisations indicated that they regularly subject payment processes to audit.

In addition to performing under pressure, the integrity of payment processes must not be compromised when interacting with other financial processes. In several instances before the Commission, blanket purchase orders (that is, approvals to keep buying goods or services without needing to obtain separate purchase orders) have been misused to make corrupt purchases. Usually, blanket purchase orders are designed to cover payments such as electricity bills, where the good or service is essential, the quantity does not vary greatly, and the invoices are straightforward. However, when used in circumstances where the amount needed varies considerably and invoices are complex, they make it easier for false invoices to be processed because pre-approval of the payment has already been granted. In an organisational environment where blanket purchase orders are used, the effectiveness of the control of matching invoices to purchase orders is weakened.

Establishing the veracity of claims for payment

The design of any payment process should always include steps that assess the veracity of a payment claim. Most processes will match documents from multiple sources to limit the ability of a single person to influence the payment. Ideally, the process would also be designed to control the use of inappropriate accounts, limit the misuse of cost codes, detect inflated invoices and detect orders that have been split into multiple smaller orders to avoid management scrutiny.

Whether done physically or electronically, the matching of documents from multiple sources is the centrepiece of most efforts to establish the veracity of a payment claim. By having a payment process require a three-way match of the purchase order, the invoice and the receipt of goods prior to payment, it is difficult for one or two individuals to achieve a corrupt payment. If an organisation can be sure of segregation between the staff member raising the purchase order, the staff member receipting the goods, and the vendor, then the independence of those involved presents a significant barrier to the three-way collusion required to achieve a corrupt payment.

The human services agency's payment process automatically refuses payment if a three-way match between purchase order, invoice and receipt of goods does not occur. Similarly, AP staff of the local council physically match documents and reject invoices if there is no three-way match.

Survey respondents reported using a range of matching approaches. Some reported using a three-way match, some reported comparing goods receipts with invoices and others reported comparing purchase orders with invoices. Some of these matches were performed electronically and others were performed manually.

Even if a corrupt person is able to assemble the necessary documents for processing by an AP unit, the payment has to come from some account within the organisation and have a cost code indicating the nature of the expenditure. The corrupt person needs to identify an account and code where the corrupt loss of money is unlikely to be noticed by the manager responsible for the account.

While many organisations assign responsibility for specific accounts to clearly-identified managers, the managers often have little hope of detecting a corrupt loss of funds. The common use of generic codes and very large numbers of transactions within a cost centre can make it difficult for an account manager to see unusual transactions. In some situations, having an account manager responsible for certain cost centre expenditure may provide more protection in theory than in reality.

The goal, then, is to find additional methods of preventing or detecting the inappropriate use of accounts. The NGO, for example, uses separate cost codes for its branches and projects. It then applies security access to the use of these codes, making it difficult for someone in one branch or on one project to hide expenses in the accounts of a different branch or project. The healthcare organisation uses a different method for managing the risks of expenses being hidden in inappropriate accounts; it does not allow unlikely combinations of expenses

and location codes to occur together. An expense code associated with a hospital, for example, cannot be charged against a non-hospital location.

Payment processes can also be designed to detect corrupt payments concealed in inflated invoices. By matching invoice amounts with cost estimations of items, the process can be designed to detect inflated invoices. The insurance company, for example, automatically checks that the rates expected from certain types of vendors for certain types of services do not exceed estimated costs, creating a red flag if they do. The human services agency also has expenditure tolerances built into its payment process, with limits, for instance, on how much freight can be charged against a given invoice.

Finally, payment processes can be configured to check for issues such as duplicate invoices or order-splitting prior to payment. A number of software packages are available that extract suspicious payment patterns, such as payments close to the delegation limits of those providing approvals, similar amounts paid to the same vendor in a short period and identical amounts paid twice. The human services agency, for example, has set up its software to check for duplicate invoices prior to paying.

Make payments consistent with processes as designed

In Operation Charity, AP staff were never going to be able to follow the process as designed. The requirement to manually check records of delegations and specimen signatures that were not provided, while under-staffed, meant that the process was not going to achieve the required payment timeframes. If the payment of suppliers is urgent or the process means it cannot cope with demand, then something has to give. In such circumstances, the formal processes often get ignored and new informal processes emerge –where questionable documents are accepted, segregations are removed and payment review does not occur – all in order to deal with the reality of the operating environment.

In Operation Siren, AP staff were faced with a large volume of incomplete invoices. The many contractors engaged by the organisation continually submitted poor invoices, often missing crucial information such as ABNs. The organisation had tried to educate its contractors in invoice requirements but the problems continued. The delays and workload increases that would be created by refusing payment were daunting; as such, processes that would refuse a payment were watered down.

In both operations Charity and Siren, the inability of payment processes to robustly, yet efficiently, process the invoice workload led to the development of informally-modified processes that could meet key processing times. These modified processes, however, dropped some of the key safeguards and, in both cases, corrupt payments followed. Poor invoices, emergencies, under-staffing or inefficiencies in paper-based processes can create conditions under which processes as designed are modified or abandoned, along with the safeguards designed into them.

Improving invoice quality
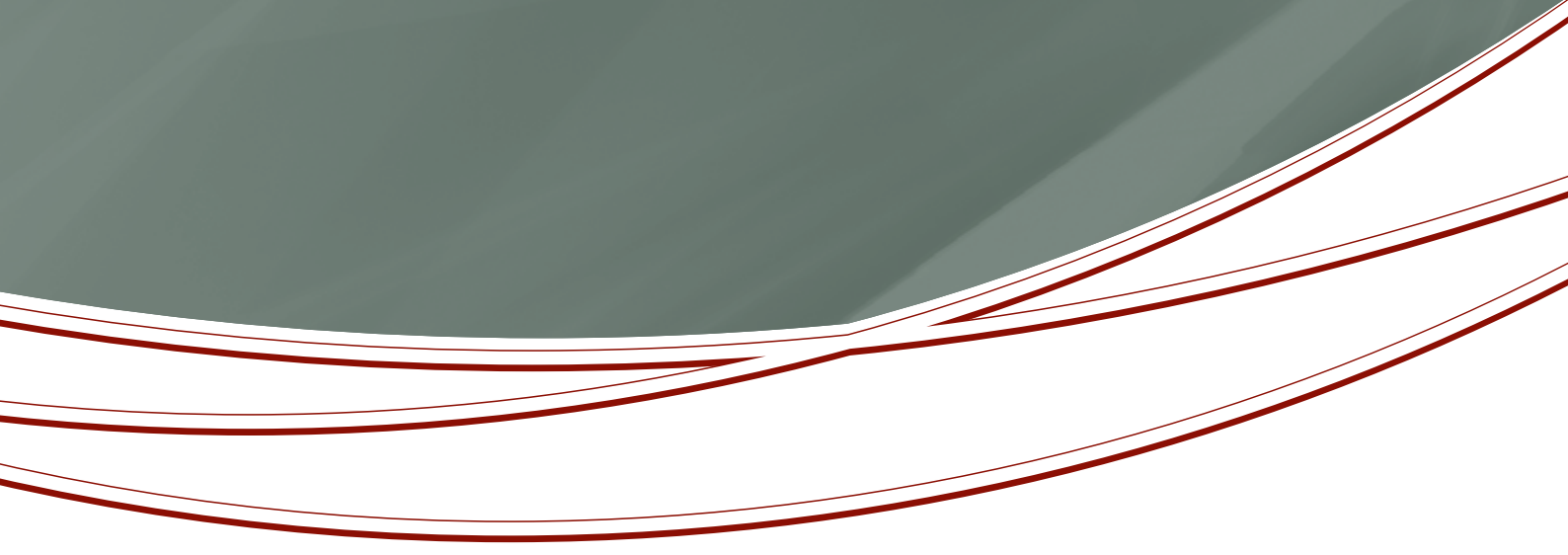
The receipt of poor quality invoices is not uncommon across government agencies. Survey results indicate that approximately one-third of NSW government agencies regularly receive poor quality invoices. These invoices are often missing order or vendor details, are illegible or have mistakes in the calculations, and, more often than not, are submitted by small or specialist vendors.

This can pose a dilemma. Small vendors need to be paid quickly because they often have constrained cash flows. The vendors, by virtue of their small size, often lack the book keeping skills of larger vendors; that is, the invoices are legitimate but sloppy. To hold up payment while the invoice problems are resolved delays payment and creates significant work for the AP staff members, generally for no purpose. The invoices are almost always genuine. The alternative is to informally change the process and skip the safeguards of a full and correct invoice.

In a number of cases that have come before the Commission, rather than go back to the vendor, the process for dealing with non-compliant invoices has been simply to ask the staff member who submitted them whether it was okay to pay them. While this may efficiently correct genuine mistakes, it is not a safeguard against a submitting staff member who is corrupt. With the safeguards of the process bypassed, the corrupt person re-approves their earlier corrupt approval.

It is the view of most organisations that spoke with the Commission that the public sector tends to be "soft" on vendors. The organisations that spoke with the Commission believe the effect of tolerating poor invoice quality is to reward the submission of sloppy documentation.

When faced with this dilemma of accepting or rejecting problem invoices, the public sector tends to make the

payment within the timeframes set by government policy. It may be that some of this "softness" is a consequence of misunderstanding the government policy that requires small businesses to be paid within 30 days. The 30-day clock only applies from when a "correctly rendered invoice" is produced. The policy does not restrict the ability of an organisation to return a poor quality invoice to a small business.

Rather than trying to deal with poor invoices after they arrive, it is seen as far better to remove them from the process by refusing payment. It is simple logic: vendors want to be paid and if the only way to achieve this is by submitting full documentation, they will do so. If payment can be achieved with less effort by a quick scribble of an invoice, they will do that instead. Among the organisations that spoke with the Commission, some routinely return problem invoices to vendors. In other cases, payment processes are designed to force vendors to provide complete documentation. The insurance company, for example, uses an electronic data interchange (EDI) system that suppliers use to transfer invoice information to its AP financial system, which, in turn, matches the invoices to purchase orders. The central government agency uses a web portal for vendors to create invoices, although it is currently also testing an EDI system.

These organisations also apply the same logic to operational staff who provide or approve incomplete documentation. The NGO's AP staff members return invoices lacking supporting documentation to the submitting staff so that it can be resubmitted with the proper documentation. The effect is twofold:

(1)   the invoice is actually returned to the operational staff member, providing them with an incentive to submit correct documentation next time

(2)   the issue causing the invoice exception is actually fixed and the invoice is ultimately approved and processed correctly.
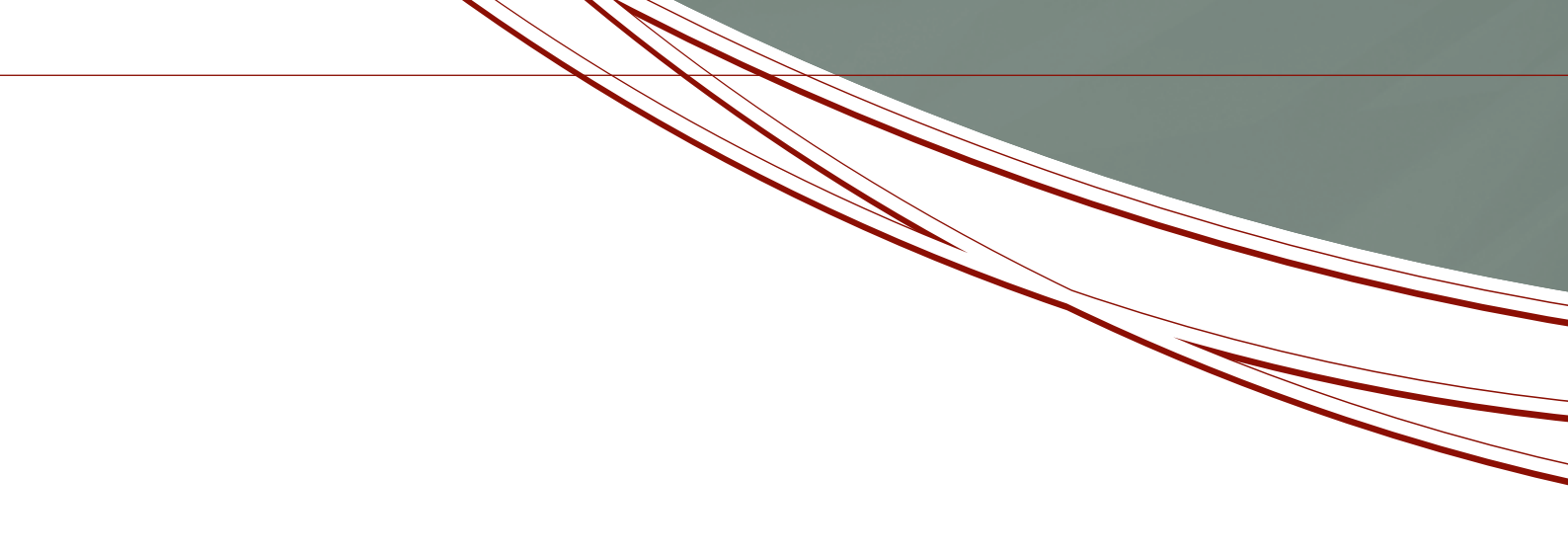
There is, however, a risk that the AP staff member will incur the dissatisfaction of the submitting staff member. Effectively, the situation will become one described earlier, where the AP staff are put under pressure to process questionable invoices. The human services agency manages the problem of pressure being applied to AP staff by referring all rejected invoices to a dedicated team for follow-up. This team follows up invoice issues with the submitting staff, taking the pressure off the AP staff member who rejected them.

Such mechanisms that leverage self-interest for compliance do not negate the role of soft interventions. The NGO educates its operational employees around what details proper invoices should contain and how they should appear, given that many invoices are received by these employees instead of the AP unit. In other cases, training is provided to vendors to help them comply with the requirements. But for most organisations that spoke with the Commission, the primary tool for improving quality of documentation is being firm on rejecting incomplete documentation.

Dealing with rush payments and emergencies

From time-to-time, every organisation has to deal with emergency purchases and rush payments. In some cases, however, the payment timeframes are shorter than the payment process, as designed, can manage.

In these cases, slow or no payment are not options. Emergencies happen and the normal process has to be bypassed to achieve the necessary speed. The risk is that,

as the process is bypassed, so are the safeguards designed into the process. When dealing with rush payments, all of the organisations that spoke with the Commission indicated the importance of not relaxing standards. They stated that the documentation and approvals required for a rush payment should not differ from that for a non-rush payment.

With demands for fast processing occurring outside of the designed process, organisations seek alternative ways to maintain safeguards while dealing with the speed requirements. They recognise that ways have to be found to ensure that segregations remain in place, checks are carried out and adequate resourcing occurs, regardless of how fast the payments need to be made. The manufacturing company, for example, generates a report on transactions that allows managers to see whether out-of-process payments have been compromised by lack of segregations. To ensure that segregations have remained in place, the company runs a report that lists the roles that individual AP staff have performed on each transaction to help identify payments that have been made without following the process as designed. From this report, managers can review transactions where AP staff may have performed multiple roles that breach planned segregations.

An alternative approach is used by the central government agency. It verifies requests for rush payments with a different operational staff member. The agency effectively uses a natural segregation – a second staff member – to quickly verify the request for payment.

Yet another approach is used by the insurance company. Only at specified times at each day are rush payments processed. In effect, there is a planned switch from the normal process to a rush process and only at these times can rush payments be made. This has the effect of "regularising" rush payments. To an extent, the timing of

the payments can be predicted, allowing for resources to be pre-allocated instead of having an AP staff member drop everything to work on an invoice. Operational staff cannot simply turn up and pressure AP staff to make payments on the spot. It also makes it easier to identify rush payments amongst other payments, facilitating the audit and review of rush payments, if desired.

There are, however, unintended consequences of an effective rush process – the emergency pathway becomes more attractive to operational managers. For these managers, the greater the difference in their time and effort between the standard process and the emergency process, the more likely they are to make purchases and submit invoices as emergencies or as rush jobs. In some matters that have come before the Commission, almost all purchasing was done as an emergency because the proper process was too onerous. Unfortunately, this creates an environment in which corrupt invoicing is more likely to pass through undetected.

Part of managing rush and emergency payments becomes limiting processing to genuine cases. By understanding which staff members, units or functions are generating the rush payments or where delays are occurring in submitting invoices to the AP unit, AP managers can act to reduce the volume of rush and emergency processing.

Both the human services agency and the central government agency monitor which staff members submit invoices without an approved purchase order. Each is developing follow-up processes that they can take in relation to these staff. The human services agency intends to "name and shame" individuals and business units who submit unreasonable numbers of invoices without purchase orders, while the central government agency intends to meet with the relevant business units to identify the underlying issues.

Conduct informed review of expenditure

If payment processes are treated as nothing more than a system of document checking, then the system is only as good as the documents it checks. Quality forgeries or collusion that produces legitimate documents for illegitimate purchases will move through to payment. Many of the organisations with which the Commission spoke want more than examination of documents; they want expert judgment and analysis of individual requests and patterns of requests.

For many organisations, the invoice payment process is designed to include the use of analytics, such as automated order-splitting detection software, and to build and leverage human expertise. A well-informed expert can often see that an item may be unusual or inappropriate for the business, the frequency of requests too high, the amount excessive and other similar anomalies. Experts and analytical systems are able to identify suspicious requests for payment even if the documents appear valid and conform to payment processing requirements.

Building and leveraging expertise

Many of the organisations that spoke with the Commission recognise that the work arrangements within the invoice payment process can, if done well, build and leverage staff expertise. If AP staff consistently process payments related to a particular area of the business – whether it be a region, project, customer group or another area – they develop a deeper understanding of that area. If they understand a project, then escalating fees in the closing stages can be questioned. If they understand customers, then they can question a spike in services provided to a customer. If they understand the market in a geographic area, they can question the repeat allocation of work to one provider.

Both the NGO and the local council gave examples of how the payment process can be designed to build and utilise such knowledge. The NGO allocates payment processing work to staff based on the geographical areas and projects that generated the payment requests. Through this ongoing processing of invoices, AP staff from this NGO become very familiar with their assigned business area and, based on the progress of projects, are in a good position to know whether a purchase "makes sense" at a given moment in time. To reduce the risk of collusion that may emerge from an ongoing relationship between AP staff and operational managers, AP staff are located in a facility that is physically distant from operations.

The local council, which has a small volume of transactions, has only one employee processing payments. This employee is usually aware of current projects and ongoing expenses and is, therefore, in a good position to judge which expenditure requests might be reasonable. As a result, unusual transactions tend to stand out, allowing the payment request to be further investigated. To manage the risk of collusion between this employee and vendors, managerial review of budgets and VMF changes are conducted.

In both cases, the AP staff also develop a working knowledge of delegations and how they are shifting with acting appointments. They quickly learn which invoice "approvers" or "requestors" are on leave and which employees would be expected to be acting. It becomes much harder for a corrupt person to falsely claim they have a delegation.

Some organisations that spoke with the Commission explained how the expertise of operational staff can be utilised to review invoice expenditure. The healthcare organisation makes operational managers responsible for ensuring that invoice payments are needed and within budget, which they term "owning the transaction".

Similarly, the human services agency also makes local managers responsible for sighting all invoices prior to payment.

Expertise can also be held within financial units and a number of organisations that spoke with the Commission stressed the importance of budgetary review. The insurance company, for example, considers budgets, which it reviews on a weekly and monthly basis, as a major control mechanism. The healthcare organisation takes a strict line regarding budget blowouts, insisting that they be escalated up the line, even to the chief financial staff if necessary. This use of budgetary review is not as frequent in the public sector, although some organisations that were surveyed report using such controls.

Integrating analytics

For a number of organisations that spoke with the Commission, the most powerful protection is gained by combining expert knowledge of business areas with analysis of payment data. Patterns and trends in payments, unusual payments, along with reviews and summaries, are provided to experts for interpretation.

It is quite common for these organisations to generate a wide variety of reports that search for unusual or telltale patterns, such as duplicate transactions, increases in amounts paid to vendors and approved invoices with dollar values just below delegation limits. Reports are generated that list purchases, cost codes or business areas of payments. When experts are provided with such lists, they can often see anomalies, such as orders that appear to be for the wrong products or wrong amounts.

Reports can be divided into three broad categories:

- flagging problematic invoices on an individual level (for example, the invoice might be a duplicate of a previously paid invoice or be just below an approval threshold)

- examining patterns of payments at a supplier level (for example, potential order-splitting or increases in payments made to a supplier)

- examining changes in patterns of budgeted/ categorised expenditure (for example, reviews of cost centre expenditure or reports based on Benford's law).

Benford's law holds that numerical digits do not occur randomly in data sources. One, for example, is far more likely to be the first digit of a number. Software is available that can detect deviations from Benford's law and, therefore, may indicate false numbers.

Results of the Commission's survey indicate that the use of such reports within the public sector is widespread, although variable in scope. Some key reports – such as patterns of invoices with values just below approval thresholds and order-splitting reports – are only regularly run by between 20% and 25% of public sector organisations.

Unfortunately, the capability created by combining expert and payment data analysis can be lost when a shift to central services or outsourcing separates data analysis from expertise. Too often, the expertise remains in the operational unit while the data analysis and report generation shifts to central service units or is outsourced. As a result of these shifts, some of the organisations surveyed who had an outsourced or shared AP unit indicated that they did not know which reports were being run on the payment data and/or they did not have access to such reports. Expert assessment of payment analysis was no longer possible.

A system of invoice review driven by expertise and data analysis can still be maintained following a move to shared or outsourced AP. One public sector organisation informed the Commission that it routinely obtains a variety of financial data from its shared services provider. This provider supplies information regarding paid invoices to the organisation and this information is reviewed by the organisation's managers. The data sharing arrangements had been negotiated with the provider when the shared services arrangement was being established.

Appendix: Survey results

Methodology

As part of its research, the Commission conducted a survey of NSW state and local government organisations to help better understand government AP processes.

In March 2014, hardcopy surveys were mailed to all local councils and all state government authorities listed on the official Service NSW directory. An equivalent online survey was accessible from the homepage of the Commission's website. Organisations were advised to select their preference with regard to answering online or by way of hardcopy.

The survey included a range of questions covering topics such as invoice payment processes, operational environment and controls surrounding the following:

- what invoices are received

- how these invoices are received

- how these invoices are approved for payment

- how the AP unit processes the payment of these invoices

- the management of invoice exception

- the management of vendor details

- the running of payment monitoring reports

- what corruption prevention responsibilities different business units have in relation to invoice payment

- what corruption prevention risks and challenges exist in relation to invoice payment

- the use of purchasing cards.

The survey was distributed to 288 government organisations. Of these, 153 were local councils and 135 were state government authorities. In total, 150 responses were received, representing a response rate of 52%.[8] Further information about respondent organisations is provided below.

Survey responses have been accepted at face value. Where applicable, modal categories are in **bold**.

Respondent demographics

Table 1: What type of organisation is your organisation? (multiple choice item, single response allowed)

	Per cent of respondents*
Local council based in greater Sydney area	15
Local council based outside of greater Sydney area	**41**
Local health district	3
University	6
State-owned corporation	9
Department	7
Agency/division/business unit of department	14
Other	6

* Per cents may not add to 100% because of rounding.

8 This is a conservative measure of response rate. A number of organisations indicated that they responded on behalf of multiple organisations but each of their responses was still counted as one response.

Table 2: How many employees does your organisation employ? (multiple choice item, single response allowed)

	Per cent of respondents*		
	Whole sample	*Local councils*	*State government authorities*
Less than 20 full-time equivalents (FTEs)	–	–	–
20–99 FTEs	16	21	10
100–999 FTEs	**58**	**76**	36
1,000 or more FTEs	26	4	**54**

* Per cents may not add to 100% because of rounding.

Table 3: How large is your organisation's recurrent budget? (multiple choice item, single response allowed)

	Per cent of respondents*		
	Whole sample	*Local councils*	*State government authorities*
Less than $1 million	1	1	–
$1 million to $9.9 million	7	9	6
$10 million to $99 million	**46**	**65**	23
$100 million to $999 million	37	26	**50**
$1 billion or more	10	–	21

* Per cents may not add to 100% because of rounding.

Table 4: How many work locations does your organisation have? (multiple choice item, single response allowed)

	Per cent of respondents*		
	Whole sample	*Local councils*	*State government authorities*
1	7	1	15
2–10	**49**	**61**	34
11–100	34	34	**33**
More than 100	10	4	18

* Per cents may not add to 100% because of rounding.

What invoices are received

Table 5: Approximately how many supplier invoices did your organisation receive in the 2012–13 financial year? (free response item, single response code used)

	Whole sample	*Local councils*	*State government authorities*
10th percentile	2,399	4,600	2,000
Median	17,000	13,200	30,000
90th percentile	91,360	42,560	152,500

Table 6: What was the approximate total value of supplier invoices received in the 2012–13 financial year? (free response item, single response code used)

	Whole sample	Local councils	State government authorities
10th percentile	$5,479,431	$7,000,000	$2,647,200
Median	$56,000,000	$40,338,372	$140,000,000
90th percentile	$479,649,632	$100,700,000	$1,365,561,000

Table 7: Currently, what proportion of supplier invoices received by your organisation is of poor quality (for example, missing important details such as a supplier ABN or an itemised list of goods/services)? (multiple choice item, single response allowed)

	Per cent of respondents*		
	Whole sample	Local councils	State government authorities
All or almost all	–	–	–
Most	–	–	–
About half	–	–	–
Some, but less than half	32	30	34
None or almost none	**67**	**70**	63
Don't know	1	–	3

* Per cents may not add to 100% because of rounding.

Table 8: Which types of suppliers most frequently present poor quality invoices for payment? (free response item, multiple response codes used)

	Per cent of respondents*		
	Whole sample	Local councils	State government authorities
Small business	**68**	**56**	**85**
Sole trader	35	42	26
Non-automated	16	17	15
Fine arts	10	14	4

* Per cents do not add to 100% because multiple responses could be made to this item.

Table 9: What are the most frequent inadequacies encountered in poor quality supplier invoices (for example, missing item descriptions, illegibility, and so forth)? (free response item, multiple response codes used)

	Per cent of respondents*		
	Whole sample	Local councils	State government authorities
Missing or incorrect GST	**59**	68	50
Missing or incorrect ABN	55	**77**	30
Missing or incorrect order details	55	38	**73**
Incorrectly addressed	33	27	40
Handwritten or illegible	28	29	27
Incorrect calculations	19	18	20

* Per cents do not add to 100% because multiple responses could be made to this item.

How invoices are received

Table 10: Which of your organisation's employees or business unit receive supplier invoices? (multiple choice item, multiple responses allowed)

	Per cent of respondents*		
	Whole sample	*Local councils*	*State government authorities*
Accounts payable	**91**	**96**	**84**
Employee who requests purchase	81	83	78
Manager of authorising unit	45	49	40
Centralised records	45	68	18
Employee who approves purchase	41	53	25
Procurement	33	40	25
Finance (other than AP)	25	23	27
Customer service centre	11	16	5

* Per cents do not add to 100% because multiple responses could be made to this item.

Table 11: Which of your organisation's employees or business units most frequently receive supplier invoices? (multiple choice item, single response allowed)

	Per cent of respondents*		
	Whole sample	*Local councils*	*State government authorities*
Accounts payable	**61**	**60**	**62**
Centralised records	20	29	8
Employee who requests purchase	12	7	18
Other individuals or business units	8	4	13

* Per cents may not add to 100% because of rounding.

Table 12: What proportion of supplier invoices is received centrally by your organisation (for example, delivered to a centralised accounts payable business unit)? (multiple choice item, single response allowed)

	Per cent of respondents*		
	Whole sample	*Local councils*	*State government authorities*
All or almost all	25	24	27
Most	**43**	**47**	**37**
About half	13	16	10
Some, but less than half	15	12	19
None or almost none	3	1	6
Don't know	–	–	–

* Per cents may not add to 100% because of rounding.

Table 13: What proportion of supplier invoices is received electronically by your organisation? (multiple choice item, single response allowed)

	Per cent of respondents*		
	Whole sample	Local councils	State government authorities
All or almost all	3	2	5
Most	17	13	22
About half	23	24	22
Some, but less than half	**45**	**54**	**34**
None or almost none	9	6	12
Don't know	2	–	5

* Per cents may not add to 100% because of rounding.

Table 14: What proportion of hardcopy supplier invoices received by your organisation is converted into electronic invoices (for example, via optical character recognition scanning)? (multiple choice item, single response allowed)

	Per cent of respondents*		
	Whole sample	Local councils	State government authorities
All or almost all	30	22	40
Most	3	1	6
About half	3	1	6
Some, but less than half	3	4	3
None or almost none	**58**	**71**	**42**
Don't know	2	1	3

* Per cents may not add to 100% because of rounding.

Approval of invoices

Table 15: In your organisation, what segregation of duties exists surrounding the approval of invoices for payment (for example, that the approval of expenditure and certification of delivery cannot be done by the same individual)? (free response item, multiple response codes used)

	Per cent of respondents*		
	Whole sample	Local councils	State government authorities
System of delegations	**61**	**61**	**62**
Requesting officer cannot approve	50	52	49
Procurement cannot pay	44	37	53
Approver cannot certify delivery	41	33	50
Dual approval is needed	25	26	23

* Per cents do not add to 100% because multiple responses could be made to this item.

Table 16: What proportion of supplier invoices received by your organisation is approved via a dedicated electronic system (for example, approvals workflow from a financial system)? (multiple choice item, single response allowed)

	Per cent of respondents*		
	Whole sample	Local councils	State government authorities
All or almost all	31	23	**42**
Most	17	15	21
About half	2	2	2
Some, but less than half	8	10	6
None or almost none	**40**	**51**	27
Don't know	1	–	3

* Per cents may not add to 100% because of rounding.

Table 17: Do you calculate how long it takes for supplier invoice received by your organisation to be approved and sent to accounts payable for payment (that is, activities prior to accounts payable processing the invoice for payment)? (multiple choice item, single response allowed)

	Per cent of respondents*		
	Whole sample	Local councils	State government authorities
Yes, routinely	23	12	**37**
Yes, but not routinely	24	22	27
No	**52**	**66**	34
Don't know	1	–	2

* Per cents may not add to 100% because of rounding.

Processing of invoices

Table 18: In your organisation, how does an accounts payable staff member processing a supplier invoice know that the invoice has been approved for payment? (free response item, multiple response codes used)

	Per cent of respondents*		
	Whole sample	Local councils	State government authorities
Manual signature	**55**	**64**	43
Check purchase order	**55**	54	55
Check goods receipt	47	48	45
Electronic code/workflow	45	35	**57**
Verify authority of approver	40	37	43
Three-way match exists	35	35	35

* Per cents do not add to 100% because multiple responses could be made to this item.

Table 19: Do you have written procedures for accounts payable staff to follow when processing supplier invoices? (multiple choice item, single response allowed)

	Per cent of respondents*		
	Whole sample	*Local councils*	*State government authorities*
Detailed procedures	**52**	43	**64**
General procedures	41	**49**	30
No procedures	6	6	6
Don't know	1	1	–

* Per cents may not add to 100% because of rounding.

Table 20: Typically, which internal and/or external stakeholders do accounts payable staff deal with in person when processing supplier invoices? (free response item, multiple response codes used)

	Per cent of respondents*		
	Whole sample	*Local councils*	*State government authorities*
Supplier/vendors	**46**	**51**	39
Procurement staff	45	46	**43**
Authorising staff/management	44	49	39
Other internal staff	28	33	22
No or limited contact	26	15	39
Finance staff	14	11	17

* Per cents do not add to 100% because multiple responses could be made to this item.

Table 21: Can a supplier directly contact the accounts payable staff member who is processing their invoice (for example, regarding an overdue invoice)? (multiple choice item, single response allowed)

	Per cent of respondents*		
	Whole sample	*Local councils*	*State government authorities*
Yes	**89**	**100**	76
No	9	–	21
Don't know	1	–	3

* Per cents may not add to 100% because of rounding.

Table 22: What proportion of supplier invoices received by your organisation is paid electronically (for example, via direct deposit)? (multiple choice item, single response allowed)

	Per cent of respondents*		
	Whole sample	*Local councils*	*State government authorities*
All or almost all	**51**	45	**60**
Most	45	**51**	39
About half	2	4	–
Some, but less than half	–	–	–
None or almost none	1	1	–
Don't know	1	–	2

* Per cents may not add to 100% because of rounding.

Management of invoice exceptions

Table 23: What proportion of supplier invoices received by your organisation results in invoice exceptions? (multiple choice item, single response allowed)

| | Per cent of respondents* | | |
	Whole sample	*Local councils*	*State government authorities*
All or almost all	–	–	–
Most	1	–	2
About half	1	–	2
Some, but less than half	41	41	42
None or almost none	**56**	**59**	**52**
Don't know	1	–	3

* Per cents may not add to 100% because of rounding.

Table 24: Does your organisation monitor trends in invoice exceptions (for instance, patterns in terms of the type of exceptions occurring)? (multiple choice item, single response allowed)

| | Per cent of respondents* | | |
	Whole sample	*Local councils*	*State government authorities*
Yes	34	27	42
No	**66**	**72**	**58**
Don't know	1	1	–

* Per cents may not add to 100% because of rounding.

Table 25: Do have written procedures for accounts payable staff to follow when handling invoice exceptions? (multiple choice item, single response allowed)

| | Per cent of respondents* | | |
	Whole sample	*Local councils*	*State government authorities*
Yes, detailed procedures	24	18	32
Yes, general procedures	**40**	36	**46**
No	34	**45**	21
Don't know	1	1	2

* Per cents may not add to 100% because of rounding.

Table 26: What are the key elements of your organisation's procedures for handling invoice exceptions? (free response item, multiple response codes used)

	Per cent of respondents*		
	Whole sample	*Local councils*	*State government authorities*
Return to supplier	**42**	**41**	42
Return to internal management	40	35	**44**
Contact supplier	35	37	33
Return to internal staff	29	31	27
Withhold payment	26	29	23
Contact internal staff	24	27	21
Report and record	15	6	23

* Per cents do not add to 100% because multiple responses could be made to this item.

Management of vendor details

Table 27: What checks does your organisation perform on new vendors prior to them receiving their first payment (for example, verification that the supplied ABN in accurate)? (free response item, multiple response codes used)

	Per cent of respondents*		
	Whole sample	*Local councils*	*State government authorities*
Verify ABN	**92**	**95**	**88**
Verify bank or address details	37	34	41
Declaration file	31	28	34
Verify GST status	25	30	19
Check to see if existing vendor	10	4	17

* Per cents do not add to 100% because multiple responses could be made to this item.

Table 28: In your organisation, what segregation of duties exists around updating the vendor master file (for example, an individual entering a new supplier cannot input invoices paid to that supplier)? (free response item, multiple response codes used)

	Per cent of respondents*		
	Whole sample	*Local councils*	*State government authorities*
Updating business unit cannot pay	**39**	**29**	**51**
Senior approval needed	28	27	29
Dual approval needed	23	16	32
Report on changes run by separate individual/business unit	20	23	15
Limited access to VMF	20	20	20
Updating individual cannot pay	14	9	20
No segregation	12	21	–

* Per cents do not add to 100% because multiple responses could be made to this item.

Table 29: Are changes to the vendor master file reviewed? (multiple choice item, single response allowed)

	Per cent of respondents*		
	Whole sample	*Local councils*	*State government authorities*
By individuals who can update the file	37	**44**	27
By individuals who cannot update the file	**47**	36	**61**
No	12	16	6
Don't know	5	4	6

* Per cents may not add to 100% because of rounding.

Table 30: Are non-current suppliers regularly removed from your vendor master file? (multiple choice item, single response allowed)

	Per cent of respondents*		
	Whole sample	*Local councils*	*State government authorities*
Yes	50	36	67
No	47	64	25
Don't know	3	–	8

* Per cents may not add to 100% because of rounding.

Table 31: Are checks regularly run comparing supplier details with employee details (for example, comparison of vendor addresses with employee addresses)? (multiple choice item, single response allowed)

	Per cent of respondents*		
	Whole sample	*Local councils*	*State government authorities*
Yes	23	12	37
No	**69**	**82**	**52**
Don't know	8	6	11

* Per cents may not add to 100% because of rounding.

Payment monitoring reports

Table 32: What information and communication technology (ICT) systems does your organisation use to manage accounts payable data (for example, SAP, Oracle, Civic View, Finance One)? (free response item, single response code used)

	Per cent of respondents*		
	Whole sample	*Local councils*	*State government authorities*
Civica Authority	**24**	**43**	–
SAP	20	1	**43**
Finance One	17	26	6
Oracle	10	4	19
Sun Systems	7	1	14
Civica Practical	5	9	–
Eclipse	3	–	8
Technology One	3	5	–
Fujitsu	2	4	–
Other	10	9	11

* Per cents may not add to 100% because of rounding.

Table 33: Are reports regularly run on accounts payable data contained within this ICT system? (multiple choice item, single response allowed)

	Per cent of respondents*		
	Whole sample	*Local councils*	*State government authorities*
Yes	**84**	**81**	**88**
No	11	16	5
Don't know	5	4	8

* Per cents may not add to 100% because of rounding.

Table 34: Are reports regularly run on accounts payable data that aim to identify vendors that have had substantial increases in the amount of funds that they have been paid over a given period? (multiple choice item, single response allowed)

	Per cent of respondents*		
	Whole sample	*Local councils*	*State government authorities*
Yes	33	38	27
No	**62**	**58**	**66**
Don't know	5	4	7

* Per cents may not add to 100% because of rounding.

Table 35: Are reports regularly run on accounts payable data that aim to identify order-splitting (that is, where one transaction had been improperly split into multiple transactions)? (multiple choice item, single response allowed)

	Per cent of respondents*		
	Whole sample	Local councils	State government authorities
Yes	23	20	28
No	**70**	**75**	**64**
Don't know	7	6	9

* Per cents may not add to 100% because of rounding.

Table 36: Are reports regularly run on accounts payable data that aim to identify duplicate invoices? (multiple choice item, single response allowed)

	Per cent of respondents*		
	Whole sample	Local councils	State government authorities
Yes	**57**	43	**73**
No	38	**51**	22
Don't know	5	6	5

* Per cents may not add to 100% because of rounding.

Table 37: Are reports regularly run on accounts payable data that aim to identify invoices that fall just below approval thresholds (for instance, $29,990 where $30,000 would require three quotations according to a policy)? (multiple choice item, single response allowed)

	Per cent of respondents*		
	Whole sample	Local councils	State government authorities
Yes	20	18	22
No	**70**	**75**	**64**
Don't know	10	7	14

* Per cents may not add to 100% because of rounding.

Table 38: Please indicate any additional reports that your organisation regularly runs on accounts payable data. (free response item, multiple response codes used)

	Per cent of respondents*		
	Whole sample	Local councils	State government authorities
VMF activity	**28**	**33**	22
Invoice status	**28**	23	32
Age reports	26	13	**39**
Payment performance	26	15	37
Budget reconciliation	25	31	20
Procedure adherence	25	23	27
Trial balance	24	33	15
EFT transaction	14	10	17

* Per cents do not add to 100% because multiple responses could be made to this item.

Table 39: Which position is (or positions are) responsible for conducting the reports referred to in tables 33–38? (free response item, multiple response codes used)

	Per cent of respondents*		
	Whole sample	*Local councils*	*State government authorities*
Finance managers	**40**	**43**	36
AP staff	35	37	33
AP managers	26	16	**38**
Procurement staff	26	28	24
Finance staff	24	25	24
Accounting staff	16	18	15

* Per cents do not add to 100% because multiple responses could be made to this item.

Table 40: Would your organisation like to be able to run an increased range of database reports on accounts payable data and/or run such reports more frequently? (multiple choice item, single response allowed)

	Per cent of respondents*		
	Whole sample	*Local councils*	*State government authorities*
Yes	**57**	**60**	52
No	35	28	43
Don't Know	9	13	5

* Per cents may not add to 100% because of rounding.

Table 41: What factors prevent you from running an increased range of database reports on accounts payable data and/or running such reports more frequently? (multiple choice item, multiple responses allowed)

	Per cent of respondents*		
	Whole sample	*Local councils*	*State government authorities*
Capability doesn't exist in ICT system	**36**	**41**	**30**
ICT resources not available	19	18	20
Non-ICT resources not available	12	20	3
Staff don't know how to run reports	11	14	8
Staff have difficulty using reports	6	8	3
Other	43	41	45

* Per cents do not add to 100% because multiple responses could be made to this item.

Roles and responsibilities

Table 42: In your organisation, what is the role of operational staff (for example, those who approve an invoice) in preventing fraudulent invoices from being paid or detecting the payment of such invoices? (free response item, multiple response codes used)

	Per cent of respondents*		
	Whole sample	*Local councils*	*State government authorities*
Validate receipt of goods and services	**57**	**53**	61
Ensure compliance with budget	43	42	44
Ensure compliance with purchase order	40	42	39
Monitor and report anomalies	24	25	23
Ensure accuracy of invoice	25	25	24
Verify prior approval/delegation	16	13	21
Ensure policy compliance	13	11	15

* Per cents do not add to 100% because multiple responses could be made to this item.

Table 43: In your organisation, what is the role of accounts payable staff (for example, those who pay an invoice), in preventing fraudulent invoices from being paid or detecting the payment of such invoices? (free response item, multiple response codes used)

	Per cent of respondents*		
	Whole sample	*Local councils*	*State government authorities*
Verify prior approval/delegation	**53**	**57**	**48**
Ensure policy compliance	43	39	**48**
Monitor and report anomalies	40	39	42
Check for three-way match	37	37	37
Check for valid supplier details	27	31	22
Check for duplicate invoice	23	17	31
Run financial system reports on ad hoc basis	10	12	7

* Per cents do not add to 100% because multiple responses could be made to this item.

Table 44: In your organisation, what is the role of finance staff other than accounts payable staff (for example, those who run or review expenditure reports) in preventing fraudulent invoices from being paid or detecting the payment of such invoices? (free response item, multiple response codes used)

	Per cent of respondents*		
	Whole sample	*Local councils*	*State government authorities*
Run and review regular reports	**54**	**45**	65
Analyse budget variations	34	23	48
Ensure policy compliance	32	31	34
Monitor and investigate anomalies	32	28	37
Review invoice and procurement documentation	29	28	31
Review VMF changes	14	15	13
Verify prior approval/delegation	13	16	10
Run and review reports on ad hoc basis	11	14	7

* Per cents do not add to 100% because multiple responses could be made to this item.

Challenges and risks

Table 45: What are your organisation's biggest challenges in relation to the payment of supplier invoices (for instance, timeliness of payment, dealing with suppliers and so forth)? (free response item, multiple response codes used)

	Per cent of respondents*		
	Whole sample	*Local councils*	*State government authorities*
Timely payment	**60**	**57**	**64**
Adherence to procedure	43	49	37
Dealing with suppliers	18	15	22
Manual processing	11	7	16

* Per cents do not add to 100% because multiple responses could be made to this item.

Table 46: What are your organisation's biggest corruption risks in relation to the payment of supplier invoices (for example, payment for work not performed, inflated invoices and so forth)? (free response item, multiple response codes used)

	Per cent of respondents*		
	Whole sample	Local councils	State government authorities
Payment for work not performed	**43**	**48**	**37**
Inflated invoices	33	41	22
Collusion/conflict of interest	21	21	20
No marked risk	15	9	22

* Per cents do not add to 100% because multiple responses could be made to this item.

Table 47: What are your organisation's biggest strengths in relation to preventing corruption involving the payment of supplier invoices? (free response item, multiple response codes used)

	Per cent of respondents*		
	Whole sample	*Local councils*	*State government authorities*
Segregation of duties	**56**	**50**	**63**
Strong policy and guidelines	38	40	35
Delegation structure	37	37	39
Spot checking/auditing	32	28	37
Automated system	25	18	32
Three-way checking	25	21	29
Training and experience	21	18	25
Supplier management	10	7	12

* Per cents do not add to 100% because multiple responses could be made to this item.

Purchasing cards

Table 48: Does your organisation use purchasing cards for the purchase of some goods and services? (multiple choice item, single response allowed)

	Per cent of respondents*		
	Whole sample	*Local councils*	*State government authorities*
Yes	**87**	**84**	**89**
No	13	16	11
Don't know	–	–	–

* Per cents may not add to 100% because of rounding.

Table 49: What proportion of your organisation's staff has access to purchasing cards? (multiple choice item, single response allowed)

	Per cent of respondents*		
	Whole sample	*Local councils*	*State government authorities*
All or almost all	1	1	–
Most	–	–	–
About half	3	3	3
Some, but less than half	**73**	**73**	**74**
None or almost none	22	22	22
Don't know	1	1	–

* Per cents may not add to 100% because of rounding.

I·C·A·C

INDEPENDENT COMMISSION
AGAINST CORRUPTION
NEW SOUTH WALES

Level 7, 255 Elizabeth Street
Sydney NSW 2000 Australia

Postal Address: GPO Box 500
Sydney NSW 2001 Australia

T: 02 8281 5999
1800 463 909 (toll free for callers outside metropolitan Sydney)
F: 02 9264 5364
TTY: 02 8281 5773 (for hearing-impaired callers only)

E: icac@icac.nsw.gov.au
www.icac.nsw.gov.au

Business Hours: 9 am - 5 pm Monday to Friday