



***Northwest Independent School District  
Engagement Summary Report***

***Fiscal Period Ending June 30, 2014***



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## Executive Summary

### SCOPE

Disbursement Review, LLC was retained by the Northwest Independent School District (“NISD”) to perform an independent, transaction-level review of historical disbursement transactions processed during the period July 1, 2013 through June 30, 2014. Our purpose was to review vendor transactions to identify and recover supplier over-payments and under-deductions that occurred during this time period.

With the cooperation of the Technology Department, we acquired the following electronic data files that were used to perform our analysis:

- Vendor Master
- Accounts Payable Transactions
- Purchase Orders

We converted these data files into our proprietary format for use by our Associates to conduct this disbursement review.

### RESULTS

For this project, we reviewed 31,596 transactions totaling \$55.5 million.

Our review resulted in 17 supplier claims totaling \$6,688.45 that we were able to successfully recover for your organization. Details related to these claims are provided later in this report.

This recovered total is approximately 0.012% of the total disbursed dollars reviewed. As such, the disbursement accuracy rate of the NISD for this review period was an impressive 99.988%.

A total of 29 individual transactions were adjusted / corrected as a result of this review project. This represents 0.092% of the total transactions reviewed. As such, 99.908% of the district’s transactions were accurately journalized.

In order to provide NISD with some perspective as to how its recovery results compare with other K-12 districts, we have found it helpful to derive a “Recovered Dollars Per Enrolled Student” metric. Using an approximate enrollment of 18,900 students, the Recovered Dollars Per Enrolled Student for the NISD is \$0.35. The range of results for our other clients has been \$0.05 - \$4.92 Recovered Per Enrolled Student; with most projects falling in the range of \$0.75 - \$1.50.



Recovered Dollars Per Enrolled Student for the NISD for this review period rank favorably when compared to the results of other K-12 districts. This review confirmed that overall disbursement controls are very strong throughout the NISD and that Accounts Payable is well-managed. Vendor accounts are consistently maintained on a very "current" basis; and as issues arise, they are handled promptly by the Accounts Payable team. We did, however, identify some opportunities for control enhancement. A discussion of our observations is presented later in this report.

## **BENEFITS**

While it should always be the goal of any disbursement process to have a 100.0% payment accuracy rate, some level of payment exceptions will inevitably occur. Large transaction volumes, multiple campus locations, supplier returns, computer system changes and staff turnover all contribute to the potential for payment exceptions.

***It is for this reason we recommend that K-12 school districts implement an ongoing, independent disbursement review program.***

Annual review projects yield the following benefits:

1. Disbursement controls are evaluated; resulting in the derivation of a payment accuracy rate for each review period. Payment accuracy rate performance can then be monitored year-to-year, and utilized as an internal fiscal control metric.
2. Assurance that district funds have been disbursed properly; and in the event recoverable opportunity is identified, provides a mechanism through which district dollars are recovered.
3. Recovered item summary provides basis for internal feedback to applicable department and/or campus personnel. Creates an opportunity to reinforce internal procedures and control practices.

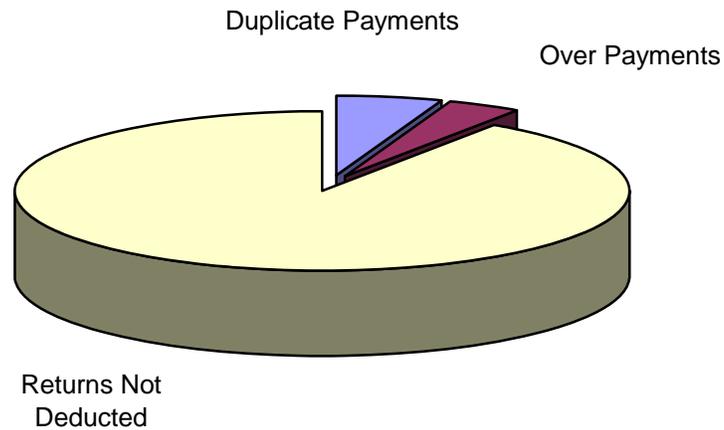
At Disbursement Review, LLC, we work exclusively for K-12 school districts. As such, we have experience operating within school district disbursement environments and interacting with the K-12 vendor community. We currently serve clients throughout Texas, Oklahoma, Kansas, Missouri, Arkansas, Kentucky, North Carolina, Tennessee, Georgia and Pennsylvania.

***We very much value our relationship with the NISD, and look forward to the prospect of being of continued service to your organization.***



## Recovery Summary

| Category             | \$                 | % Total      | # Claims  | # Items   |
|----------------------|--------------------|--------------|-----------|-----------|
| Duplicate Payments   | \$ 367.28          | 5.5          | 2         | 3         |
| Over Payments        | 265.16             | 4.0          | 5         | 6         |
| Returns Not Deducted | 6,056.01           | 90.5         | 10        | 20        |
| <b>Total</b>         | <b>\$ 6,688.45</b> | <b>100.0</b> | <b>17</b> | <b>29</b> |





## *Discussion Of Findings*

### **DUPLICATE PAYMENTS**

We recovered 3 items totaling \$367.28 for which duplicate invoice payments were made to a supplier. Generally speaking, these items are the result of processing the original invoice and a related fax copy, delivery receipt, or collection reminder notice. Under most circumstances, payment from a non-original invoice should be avoided. However, in order for a duplicate payment to occur, an additional breakdown in control must also occur, such as:

1. No invoice number entered for one of the transactions
2. Entering an incorrect or altered invoice number
3. Processing an invoice under an alternate supplier number

The NISD Accounts Payable system will flag, at the time of invoice entry, if the invoice number being entered already exists in the payment history. Accounts Payable personnel are then able to research the issue and determine whether to continue invoice processing. The Accounts Payable team appears to have consistently addressed issues as they were identified; as most duplicate payments had been previously resolved by the district.

### **OVERPAYMENTS**

We recovered 6 items totaling \$265.16 for an overpayments made to a NISD suppliers. While similar, we distinguish supplier overpayments from duplicate payments. We consider a duplicate payment to have occurred when a single invoice is paid, in full, multiple times to a supplier. We define an overpayment as having occurred if an amount other than an exact duplicate was paid to a supplier, in addition to the original invoice amount.

This can occur when the vendor reduces an invoice amount subsequent to its initial issuance to the district. Adjustments commonly occur for pricing, quantity, or product substitutions. The district will process and remit the original (i.e. higher) invoice amount. Upon receipt by the vendor, this will ultimately result in "unapplied cash" because the district paid an amount greater than the adjusted (i.e. reduced) amount of the invoice. Overpayments also may occur when either NISD or the vendor erroneously enters invoice numbers at the time of invoice processing or cash application. An inaccurate invoice number on the district's remittance potentially results in confusion at the time of cash application by the vendor. If cash is mis-applied, the invoice the district thought it had paid, remains open on the vendor's account. The vendor may subsequently commence "collection" on this invoice, which may potentially lead to a subsequent payment by the district.



## RETURNS NOT DEDUCTED

We recovered 20 items totaling \$6,056.01 for product that was returned to suppliers, but for which NISD did not deduct a corresponding credit memo. This was primarily the result of applicable credit memo documentation (1) not being delivered to the Accounts Payable department by the vendor, and / or (2) NISD employees not notifying the Accounts Payable department of the returned product. As a result, aged credits remained open on NISD accounts at the time of our review.

A thorough review of active vendor statements was performed as part of our review project. A combination of letters and phone calls to 595 district vendors resulted in the identification of these recovered items. We have determined that it is the policy of many vendors to "write-off" aged credits which remain open on district accounts. This vendor practice reinforces the need to perform regular disbursement review projects.

## *Recovery History*

| Review Period | Recovered Dollars | Transactions Adjusted | Disbursement Accuracy Rate |
|---------------|-------------------|-----------------------|----------------------------|
| 2014          | \$6,688           | 29                    | 99.988%                    |
| 2013          | \$1,838           | 15                    | 99.996%                    |
| 2012          | \$6,677           | 26                    | 99.985%                    |
| 2011          | \$4,768           | 5                     | 99.990%                    |
| 2010          | \$2,154           | 18                    | 99.997%                    |



## Control Recommendations

We have developed the following recommendations for NISD management to consider. These process improvement recommendations are based upon our review of NISD payment activity, as well as our general knowledge of disbursement practices:

- 1. Supplier Statements** -- We recommend that NISD require its suppliers to provide an account statement monthly, but not less than at least twice annually. In the event that suppliers do not regularly submit an account statement, NISD should formally follow-up and request such documentation. Supplier selection should be based upon the volume of transactions, dollars and return activity. Items over 90 days old should be researched and cleared promptly. Suppliers should be notified that under no circumstances are they to unilaterally apply duplicate payments or overpayments received against unrelated open invoices without the district's authorization.
- 2. Supplier Returns** – While supplier return transactions are relatively limited, at least as compared to invoice transactions, they occur frequently enough to be a potential source of loss if not properly journalized against payables transactions. We recommend that supplier return transactions be consolidated and shipped from a central NISD location (or from as few locations as possible). Having a single (or only a few) point(s) of shipment for the entire district will improve overall control. We further recommend that numerically controlled supplier return documents be created and attached to applicable outbound shipping documentation. This return document number can be used as the transaction number in the accounts payable system. Periodically, perhaps at the close of each fiscal accounting period, the return documentation at the central location(s) can be compared to the payment transaction history to verify that a corresponding deduction was made against the supplier. In the event that the deduction can not be identified, the scenario can be researched and resolved.
- 3. Multiple Supplier Numbers for Same Supplier** -- During our review of the NISD Vendor Master File data, we noted instances where multiple vendor numbers exist for the same supplier. Having multiple possible vendor numbers increases the probability of duplicate invoice payments. Most accounts payable systems are designed to flag the user when an invoice number being entered for a given vendor has previously been processed. If invoice "A" was previously processed under vendor 1, the system would not flag a potential duplicate payment if invoice "A" is then processed under vendor 2. The Vendor Master File should be reviewed and edited to delete "multiple" records for applicable suppliers. This type of review should be performed on a regular basis in order to mitigate future duplicate payments.



4. **More Complete, Consistent Entry of Invoice Numbers** – In order for the current accounts payable system to be most effective in flagging and avoiding supplier overpayments, complete invoice number history must be maintained. We noted instances where payment transactions did not include a complete invoice number. If complete invoice numbers are not entered into the system, the probability of an overpayment increases. If an invoice number is incompletely entered, the vendor may not know how to correctly apply the payment. As a result, it may become “unapplied cash”, while the actual invoice the district intended to pay remains open on the vendor A/R file. The vendor in turn will commence its collection efforts for the invoice. When the district subsequently researches its system to determine if the invoice number has been paid, and the complete invoice number is used to do so, they will not see this invoice number in the payment history. A second payment will occur for this invoice.

General rules for processing invoices:

- Key vendor invoice numbers exactly as shown on the invoice.
- Select a policy of including (or not including) punctuation or leading zeros (- , /) and consistently apply it.
- Spaces are easily mis-keyed. As such, avoid keying spaces.
- Never group invoices for payment as a lump sum. Enter each invoice as a separate transaction to maximize the effectiveness of duplicate payment identification routines embedded within the district’s accounting software.



## Recoveries Listed In Alphabetical Order

| Vendor Name                | Vendor # | Recovery Type | Amount   |
|----------------------------|----------|---------------|----------|
| Alert Services             | 2400     | Overpayment   | 15.00    |
| Auto Zone                  | 109674   | Overpayment   | 81.98    |
| Barnes & Noble             | 100194   | Return        | 2,976.34 |
| Bearcom                    | 300      | Return        | 73.29    |
| Bells Music Shop           | 109418   | Duplicate Pmt | 184.00   |
| Business Essentials        | 106310   | Return        | 224.90   |
| Carolina Biological Supply | 11600    | Return        | 25.89    |
| Dealers Electrical Supply  | 100021   | Overpayment   | 95.76    |
| Follett Library Services   | 23599    | Duplicate Pmt | 183.28   |
| Industrial Controls        | 101308   | Return        | 1,525.33 |
| John Deere Landscapes      | 104429   | Return        | 149.22   |
| Office Depot               | 52950    | Return        | 559.93   |
| Resources For Reading      | 55740    | Overpayment   | 0.22     |
| Sherwin Williams           | 106322   | Return        | 216.10   |
| Sysco-Dallas               | 111123   | Return        | 54.30    |
| Trane Company              | 72600    | Return        | 250.71   |
| Varsity Spirit Fashion     | 74500    | Overpayment   | 72.20    |

**Total****6,688.45**



## Recoveries Listed In Descending Order

| Vendor Name                | Vendor # | Recovery Type | Amount   | % of Total | Cumulative % of Total |
|----------------------------|----------|---------------|----------|------------|-----------------------|
| Barnes & Noble             | 100194   | Return        | 2,976.34 | 44.5%      | 44.5%                 |
| Industrial Controls        | 101308   | Return        | 1,525.33 | 22.8%      | 67.3%                 |
| Office Depot               | 52950    | Return        | 559.93   | 8.4%       | 75.7%                 |
| Trane Company              | 72600    | Return        | 250.71   | 3.7%       | 79.4%                 |
| Business Essentials        | 106310   | Return        | 224.90   | 3.4%       | 82.8%                 |
| Sherwin Williams           | 106322   | Return        | 216.10   | 3.2%       | 86.0%                 |
| Bells Music Shop           | 109418   | Duplicate Pmt | 184.00   | 2.8%       | 88.8%                 |
| Follett Library Services   | 23599    | Duplicate Pmt | 183.28   | 2.7%       | 91.5%                 |
| John Deere Landscapes      | 104429   | Return        | 149.22   | 2.2%       | 93.7%                 |
| Dealers Electrical Supply  | 100021   | Overpayment   | 95.76    | 1.4%       | 95.2%                 |
| Auto Zone                  | 109674   | Overpayment   | 81.98    | 1.2%       | 96.4%                 |
| Bearcom                    | 300      | Return        | 73.29    | 1.1%       | 97.5%                 |
| Varsity Spirit Fashion     | 74500    | Overpayment   | 72.20    | 1.1%       | 98.6%                 |
| Sysco-Dallas               | 111123   | Return        | 54.30    | 0.8%       | 99.4%                 |
| Carolina Biological Supply | 11600    | Return        | 25.89    | 0.4%       | 99.8%                 |
| Alert Services             | 2400     | Overpayment   | 15.00    | 0.2%       | 100.0%                |
| Resources For Reading      | 55740    | Overpayment   | 0.22     | 0.0%       | 100.0%                |

**Total****6,688.45**



## Recoveries Listed By Type

| Vendor Name                | Vendor # | Recovery Type | Amount          | Category Total | % of Total |
|----------------------------|----------|---------------|-----------------|----------------|------------|
| Bells Music Shop           | 109418   | Duplicate Pmt | 184.00          |                |            |
| Follett Library Services   | 23599    | Duplicate Pmt | 183.28          | 367.28         | 5.5%       |
| Alert Services             | 2400     | Overpayment   | 15.00           |                |            |
| Auto Zone                  | 109674   | Overpayment   | 81.98           |                |            |
| Dealers Electrical Supply  | 100021   | Overpayment   | 95.76           |                |            |
| Resources For Reading      | 55740    | Overpayment   | 0.22            |                |            |
| Varsity Spirit Fashion     | 74500    | Overpayment   | 72.20           | 265.16         | 4.0%       |
| Barnes & Noble             | 100194   | Return        | 2,976.34        |                |            |
| Bearcom                    | 300      | Return        | 73.29           |                |            |
| Business Essentials        | 106310   | Return        | 224.90          |                |            |
| Carolina Biological Supply | 11600    | Return        | 25.89           |                |            |
| Industrial Controls        | 101308   | Return        | 1,525.33        |                |            |
| John Deere Landscapes      | 104429   | Return        | 149.22          |                |            |
| Office Depot               | 52950    | Return        | 559.93          |                |            |
| Sherwin Williams           | 106322   | Return        | 216.10          |                |            |
| Sysco-Dallas               | 111123   | Return        | 54.30           |                |            |
| Trane Company              | 72600    | Return        | 250.71          | 6,056.01       | 90.5%      |
| <b>Total</b>               |          |               | <b>6,688.45</b> |                |            |



### **Potential Address Changes**

Some NISD vendor responses to our statement request letters include a request for an address change on the district's vendor master file. We have consolidated these requests in the table below. NISD may wish to consider having its designated vendor file maintenance associate contact these vendors for this purpose:

*None Identified During This Review Period*

### **Potential "Bad Addresses"**

Statement request letters mailed to the vendors summarized in the table below, were returned to us as undeliverable. NISD may wish to consider having its designated vendor file maintenance associate research and update these records:

*None Identified During This Review Period*

*Thank you for allowing us to be of service to your district.*

*We very much value our relationship with the Northwest Independent School District.*