



419 Cherry St., Lansing, MI 48933 Telephone: (517) 487-6550 Fax: (517) 487-6977

Lansing Housing Commission
Policy No. 2014-1
Accounts Payable Internal Accounting Control Policy

Introduction

The purpose of this policy is to establish procedures for managing the Accounts Payable processes of the Lansing Housing Commission (“LHC”). This includes identifying staff responsibilities for managing the successful execution of this Accounts Payable Internal Control Policy. LHC financial staff and the fee accounting firm, manage the day-to-day operations of the Commission’s financial operations to ensure compliance with federal and state laws. They work together to safeguard LHC’s assets by preventing and working to detect errors and fraud in the Commission’s programs. The Executive Director has the overall responsibility for Quality Control. The Executive Director will utilize the internal staff as well as the fee accounting firm to ensure this policy is properly implemented.

Objectives

The Accounts Payable Internal Control Policy includes the plans, methods, and procedures used to ensure all Commission Payable Fiscal objectives are met.

Internal control is an integral part of the Commission’s management and provides reasonable assurance that the following objectives are being achieved:

- Effective, efficient and reliable financial reporting
- Prevention of fraud, budget and financial errors.
- Compliance with applicable laws and HUD regulations.

The responsibility for effective internal controls rests with all LHC staff and fee accountants.

Segregation of Duties

LHC will operate in an effective Accounts Payable Internal Control Environment. Staff assignments will reflect a segregation of duties to meet this objective. The segregation of duties ensures payment documents are processed correctly by assigning multiple

people to different steps in the payment process. This is necessary for the checks and balances of staff.

In order to achieve segregation of duties, the Commission ensures that no single individual has control over all phases of any financial transaction. The Commission's accounts payable personnel adhere to the following segregation of duties:

- No single individual has the ability to access/enter or release payables, process journal entries, set up vendors, enter a purchase order, and receive goods.

If the Commission's management finds that current staffing levels prohibit proper segregation of duties, the Executive Director will take a more active role in achieving separation of duties by reviewing the work performed by LHC staff.

LHC will have an adequate segregation of duties for the following key duties:

- Custody of assets
- Record keeping
- Authorization
- Reconciliation of goods and services

No one employee will handle more than one of the responsibilities. A sound internal control environment will be created with this separation of duties. A sound internal control environment deters and reduces the opportunity for fraud and misappropriation of assets.

Five separate distinctions of duties will be involved in the LHC accounts payable process:

- **Purchasing Employee** - Prepares the purchase requisition and validates receipt of goods and services.
- **Management** - Approves all service vouchers, purchase orders, and contracts. Reviews documentation for validity and completion. Compares and verifies each purchase order, voucher, receiving report and vendor invoice.
- **Executive Review** - The Executive Director or her designee randomly reviews a reasonable number of the vendor invoices as an additional control measure. The reviewer will determine reasonableness based upon the number of documents listed on the AP Batch Commitment Report. If there are any irregularities noted an expanded review will occur. Appropriate actions will be taken to ensure any problems noted are resolved. Any irregularities identified will be reported to the Board along with an explanation of how the situation was rectified.

- **Finance Team** - Validates vouchers processed, posts payables to vendors' accounts and files all documents supporting payments.
- **Executive Assistant** – Generates and distributes all vendor payments,

Compensating Controls

There will be times when these duties cannot be segregated to the level noted above. The LHC has compensating controls in this event. These controls can take on three primary characteristics.

- Preventative
- Detective
- Monitoring

The compensating controls are to be executed by the Executive Director or designee.

- This Employee will review detailed transactions reports.
- This Employee will review a reasonable number of all transactions to ensure they are complete, appropriate, and accurately processed).
- This Employee will perform analytical reviews as necessary.
- If deemed necessary based on findings LHC will increase supervisory oversight.
- LHC will review and update signature authorizations periodically.
- LHC's fee accounting firm will reconcile ledgers monthly for accuracy of recorded transactions.

Receipt of Invoices

- LHC's administrative assistant ensures all invoices received via mail/email are opened, scanned, and delivered to appropriate personnel for action daily and maintains original invoices for filing.
- Central Office and AMP invoice problems shall be resolved with vendors by the approving manager and they shall be reviewed, edited, coded by Accounts Payable Specialist ("APS") and approved or rejected by Approving Manager (HCV, LIPH) or Executive Director (COCC)
- Invoice approvers shall enter invoices into the AP system creating a vendor's commitment record or document why payment is not approved.
- Finance Team will validate all commitment records against invoices, resolve any discrepancies, batch, and post vendor's payment records.

- Original AMP invoices are filed by the finance team once payments have been generated.

Processing Accounts Payable

LHC will pay only Manager/Supervisor approved bills and invoices that are legitimate and accurate. This means that before a vendor's invoice is entered the accounting records and scheduled for payment, the invoice must reflect:

- What LHC ordered
- What the LHC received or if service was provided
- The proper unit costs, calculations, totals, terms, etc.

Accounts Payable – Entity Level Key Controls

The design and operation of these controls will determine control risk for accounts payable.

- Invoices are entered within 14 days of receipt
- Invoices are batched by the Finance Analyst prior to the next scheduled check run and totals are verified and checked for accuracy by APS.
- LHC management approves all vendors and accounts with creditors.
- LHC management receives and reviews unpaid vendor invoices and statements.
- LHC management approves all vendor payments.

Accounts Payable – Activity Level Controls

The design and operation of these controls will determine control risk for accounts payable.

- LHC Asset/Assistant Asset Manager, HCV Supervisor, APS (COCC only) will enter vendor invoices into the accounts payable system as a vendor's commitment when received and approved.
- LHC management and financial analyst will review vendor invoices and supporting documents.
- LHC Asset/Assistant Asset Manager, HCV Supervisor, APS (COCC only) will ensure vendor invoices or receiving reports contain the dates goods were received.
- LHC ED's Administrative Assistant will ensure all unpaid vendor invoices are maintained in a file separate from paid invoices.

Setting-Up Vendors

The employee with the responsibility for establishing and modifying master vendor files shall not be responsible for entering vendor invoices into the cash disbursement system. They shall not perform any of the following functions:

- Record vendor invoices
- Approve vendor invoices

Any irregularities detected, regarding staff, will be brought to the attention of the Executive Director. Any irregularities regarding the Executive Director will be brought to the attention of the Board of Commissioners.

Blank Check Stock

Checks will be protected against fraudulent use as follows:

- LHC stores blank checks in a locked and secured office.
- LHC limits access to blank checks. The Director and Deputy Director have physical control of all blank check stock.
- LHC prohibits writing checks payable to cash.
- LHC shall deface and retain voided checks for 1 year or until the audit covering such checks is complete then voided checks shall be securely destroy.
- LHC check signers shall ensure checks are printed correctly and accurately and documents (invoices, approvals, etc.) are attached to copies of check/deposit advices.
- LHC fee accountants shall prepare all bank reconciliations.
- LHC shall review and approve all bank reconciliations.

Printing Checks

The check printing process provides a number of ways to detect errors and/or the misapplication of funds. To ensure these detection processes function correctly, control of the check printing function and segregation of the check printing responsibilities must be maintained. The ED's Administrative Assistant is responsible for generating checks and direct deposit payments. The final check and balance is performed when the Administrative Assistant matches the checks to the invoices.

- Personnel authorized to print checks shall take appropriate precautions to protect their user IDs/passwords.

- Personnel authorized to print checks shall not share user IDs and passwords.
- User IDs and passwords shall be changed periodically for employees authorized to print checks.
- User IDs and passwords shall not be posted where others can access them.
- Bank reconciliations shall not be performed by the employees authorized to print checks.

ELECTRONIC SIGNATURE

Vendor payment files are only generated from Elite

Check Writing Access is limited to authorized personnel

Digital Signature Storage-Embedded in Elite's check writing program

Only the ED's Administrative Assistant has access to the check writing printer

Resolving Bank Discrepancies

The employees responsible for resolving bank discrepancies shall not be responsible for entering vendor invoices. In addition, employees responsible for bank discrepancies shall not be authorized to:

- Create check file
- Sign checks
- Access Elite Check Generating Software
- Access Blank Check Stock

Bank Reconciliation Process

Bank account reconciliations shall be completed monthly and reviewed and approved by someone other than the preparer of the reconciliations and the person(s) who issued the checks. LHC reconciliation activities shall confirm payments are for approved purchases and are being billed correctly.

- Fee Account reconciles the Bank Accounts monthly
- LHC's Executive Director will review and approve Bank Reconciliations

Executive Director and Finance Manager will perform monthly ledger reviews to assist in the detection and prevention of invalid transactions or to reclassify expenses and capital assets purchased. In addition, LHC will perform monthly reconciliations of operating ledgers to assure accuracy and timeliness of expenses.