

**CLERK & COMPTROLLER
PALM BEACH COUNTY
FINANCE DIVISION
PAYABLES DEPARTMENT AUDIT**



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**Division of Inspector General
Audit Services Unit
September 30, 2015**



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The Honorable Sharon R. Bock, Esq.
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We conducted an audit of the Payables Department, which was included in the annual audit plan.

The objectives were to identify the risks and vulnerabilities impacting the Payables Department processes, evaluate the overall effectiveness and efficiency and related internal controls to mitigate the risks, verify compliance with pertinent laws and regulations as well as established policies, and compare processes with accepted standards and best practices.

Our audit was neither designed nor intended to be a detailed study of every process, procedure, transaction or system in each area. Accordingly, the observations and recommendations included in this report are not all-inclusive.

Our audit indicated that the Payables Department generally provides timely and accurate service to its core customers – vendors and Palm Beach County departments. Overall, processes are generally effective and efficient. Control deficiencies were identified in the Discover Palm Beach County, Inc. (Discover PBC) expense and payment processes, which impacted monitoring practices over advance payments, private partner expenditures, and credit card payments. Reporting tools and existing procedures required strengthening to ensure the department effectively monitored invoice payments for compliance with the Local Government Prompt Payment Act. Revisions were needed to system access and workflow assignments within Advantage and other applications to ensure duties were properly segregated and assets were adequately safeguarded. Departmental performance measures and reporting, quality assurance testing, and various operating procedures required improvements.

We appreciate the cooperation of management and staff during the course of this audit.

Respectfully submitted,

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Executive Summary

An audit of the Payables Department was performed by the Clerk & Comptroller's Division of Inspector General. This regularly scheduled audit was included on the annual audit plan.

The Payables Department core responsibility is to audit the County's requests for disbursement of funds to ascertain and certify that the requests are: in compliance with applicable laws and regulations, within authorized appropriations, limited to a public purpose, and supported by proper evidence of receipt of ordered goods and services. The Department processed over 193,000 invoices and interface transactions totaling over \$1.2 billion in fiscal year ending 2014.

The objectives were to: perform a risk assessment to identify risks and vulnerabilities impacting the Payables Department processes, evaluate the overall effectiveness and efficiency of the processes and related internal controls to mitigate the risks, verify compliance with pertinent laws and regulations as well as established policies, and compare processes with accepted standards and best practices.

The audit disclosed that the Payables Department generally provides timely and accurate service to its core customers – vendors and Palm Beach County departments. Overall, processes are generally effective and efficient. The audit identified control deficiencies in the Discover Palm Beach County, Inc. (Discover PBC) expense and payment processes, which impacted monitoring practices over advance payments, private partner expenditures, and credit card payments. Reporting tools and existing procedures required strengthening to ensure the department effectively monitored invoice payments for compliance with the Local Government Prompt Payment Act. Revisions were needed to system access and workflow assignments within Advantage and other applications to ensure duties were properly segregated and assets were adequately safeguarded. Departmental performance measures and reporting as well as quality assurance testing of key activities required strengthening to more effectively evaluate performance levels and identify any training and development gaps. Opportunities exist to enhance various procedures and strengthen related process controls.

The report contains six observations and twenty-one recommendations.

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Introduction

Overall Conclusion

The audit disclosed that the Payables Department generally provides timely and accurate service to its core customers – vendors and Palm Beach County departments. Overall, processes are generally effective and efficient. The audit identified control deficiencies in the Discover Palm Beach County, Inc. (Discover PBC) expense and payment processes. Reporting tools and existing procedures required strengthening to ensure the department effectively monitored invoice payments for compliance with the Local Government Prompt Payment Act. Revisions were needed to system access and workflow assignments within Advantage and other applications to ensure duties were properly segregated and assets were adequately safeguarded. Departmental performance measures and reporting as well as quality assurance testing of key activities required strengthening to more effectively evaluate performance levels and identify any training and development gaps.

Objectives, Scope and Methodology

The Clerk's Audit Services Unit of the Division of Inspector General conducted an audit of the core functions within the Payables Department. This regularly scheduled audit was included on the annual audit plan.

The objectives were to: perform a risk assessment to identify risks and vulnerabilities impacting the processes, evaluate the overall effectiveness and efficiency of the processes and related internal controls to mitigate the risks, verify compliance with pertinent laws and regulations as well as established policies, and compare processes with accepted standards and best practices.

In order to meet these objectives, we conducted interviews and reviewed departmental policies and procedures. We identified the pertinent Florida Statutes and other laws and regulations. We performed a risk assessment of the Payables Department core functions by documenting workflows and activities, identifying key risks, and evaluating the adequacy of the internal control environment to mitigate the risks identified. Audit

testing was designed for the risks representing higher vulnerabilities to the department and Clerk's organization.

Our scope included all Payables Department workflows and activities related to payment processes and administration. Testing performed included the period from October 1, 2013 through December 31, 2014.

During the planning and execution of the audit, Finance management requested that we place attention on additional specific issues impacting the Payables Department. As a result, we performed additional research and analysis on specific areas including the: Wells Fargo purchasing card rebate program and compliance with the Federal Office of Management and Budget (OMB) Circular A-87, Tourist Development Council (TDC) expenditures, Palm Beach International Airport (PBIA) customer service recognition program currently under consideration and development, grant reconciliation and administration processes, U.S. Housing and Urban Development (HUD) loan program, State Housing Initiatives Partnership Program (SHIP), purchasing card and payment manager programs, and quality assurance testing processes.

We performed other procedures that were deemed necessary under the circumstances. This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Background

The Clerk serves as the Comptroller, Chief Financial Officer, Auditor and Treasurer for the County by monitoring the County budget, revenue, debt and spending. The Clerk & Comptroller's Payables Department pays all Palm Beach County's bills and maintains an accurate, complete set of financial records in order to produce all required financial statements and reports to comply with state and federal laws and Generally Accepted Accounting Principles (GAAP). As County Auditor, the Clerk & Comptroller Payables Department core responsibility is to audit the County's requests for disbursement of funds to ascertain and certify that the requests are: in compliance with applicable laws and regulations, within authorized appropriations, limited to a public purpose, and supported by proper evidence of receipt of ordered goods and services.

The Payables Department is organized into three sections: Contracts, Special Payables, and Purchase Orders. Responsibilities are summarized below.

- The Contracts section is responsible for maintaining files and logs, and processing payments for executed vendor contracts and grant agreements, including payments for capital projects, non-profit agencies, tourism agencies, and various federal and state grants.
- The Special Payables section processes a variety of payments including, but not limited, to: County utilities, telephone services, workers' compensation, constitutional officer budget transfers, employee travel expenses, petty cash reimbursements, purchasing card payments, and inter-fund transfers. Authority for such payments is generally found in Board approvals of agenda items, Florida Statutes, County ordinances and resolutions, and County Policies and Procedures Memoranda (PPMs).
- The Purchase Orders section processes vendor payments that relate to purchase orders issued by the County Purchasing Department or individual County departments. Vendor accounts are distributed to staff by the first letter in each vendor's name or by commodities. Payments require completion of an automated three-way match in the Advantage financial system, linking a purchase order, a receiver, and a vendor invoice. The automated match generates a Pay Request Matching (PRM) document and an automated disbursement (AD) check.

The Payables Department collected and reported the following key performance measures for the most recent fiscal years ending September 30.

Performance Measure	FY2014	FY2015 Target
Invoices and Interface Transactions Processed	193,041	195,000
Payments	\$1,216,369,610	\$1,300,000,000
County Grants Reviewed	332	350

The Payables Department has been proactively leveraging technology in the past couple years to improve processes and provide a higher level of customer service. Some examples include:

- Implemented Wells Fargo's Payment Manager Program in 2014, which allows vendors the option of receiving payment via a merchant account instead of a

paper check. This program has created staffing and cost efficiencies and is expected to generate annual rebates/revenues to the County of approximately \$450,000.

- Initiated Card in Hand program for vendor payments.
- Assisted Finance Business Analysis with creating the online training for the PCard (purchasing card) program.

The Payables Department is supported by three supervisors and 29 staff employees under the direction of Carol Richmond, Payables Manager, who assumed her position on January 12, 2015. The budget for FY 2015 is \$2.1 million, with 98% allocated to departmental employee compensation and benefits.

Audit Team:

Charles Mansen, Senior Internal Auditor

Observations & Recommendations

The audit identified certain policies, procedures and practices that could be improved. The audit was neither designed nor intended to be a detailed study of every relevant system, procedure or transaction. Accordingly, the observations and recommendations presented in this report may not be all-inclusive of areas where improvement may be needed.

1. Payments processed for Discover Palm Beach County require additional oversight.

Discover Palm Beach County, Inc. (Discover PBC) operates as a non-profit corporation under a contract with Palm Beach County to provide tourism marketing services to the county. The Tourist Development Council (TDC) has oversight of Discover PBC as well as four other non-profit marketing agencies. Discover PBC expenses are submitted to TDC for review and approval, and then forwarded to the Payables Department for processing and payment.

Various deficiencies and improvement opportunities were identified in the controls over the Discover PBC expense and payment processes, which are highlighted below.

a. Monitoring Advance Payments

Section 28.235, Florida Statutes authorizes the Clerk & Comptroller to make advance payments on behalf of Palm Beach County for goods and services, including but not limited to, maintenance agreements and subscriptions, pursuant to rules or procedures adopted by the State of Florida Chief Financial Officer (CFO). The CFO established such rules and procedures in the *Reference Guide for State Expenditures*, which provides that advance payments may be made if the payments result in a savings that is equal to or greater than the amount that would be earned by investing the funds and paying later, or if the payments are essential to the operations of the agency and the goods or services are available only if advance payment is made.

In addition, PBC Administrative Code Section 305.02 states that payments in advance are generally prohibited, with exceptions allowed for items such as professional memberships, trade show registrations, and any other expenses deemed necessary for County business.

The Payables Department regularly processes advance payments to Discover PBC. Payables management indicated that they review advance payment requests and consider whether such requests are authorized by Florida Statutes. However, the process is generally informal. Detailed written procedures are not in place to guide staff to ensure that advance payments meet the CFO criteria and goods and services paid for in advance are subsequently received or appropriate amounts are refunded. When advance payments are made, the County is at an increased risk that the goods or services may not be provided; any recourse may be limited if disagreements arise with vendors. In addition, payments to Discover PBC and other TDC marketing agencies are regularly made for reimbursement of expenses without adequate supporting documentation to prove that such expenses represent paid invoices.

A tracking mechanism is not in place in Clerk's Payables to monitor advance payments to Discover PBC for subsequent receipt of goods and services or credits and refunds that are due to Discover PBC. For example, one credit for \$10,299.32 from Visit Florida to Discover PBC on January 24, 2014 was processed by Clerk's Payables on April 1, 2014 for a refund of a portion of a payment on September 1, 2013 for booth fees for a 2014 SITV Tourism and Travel show. A credit of \$1,845 from the SITV International Tourism & Travel Show was also received for registration fees for the same show.

Recommendations:

- A. Develop and implement procedures to ensure that advance payments to Discover PBC and other TDC agencies comply with Section 28.235, Florida Statutes.
- B. Establish procedures to ensure that goods or services paid for in advance are either subsequently received by the County or a timely refund of the overpayment is required.
- C. Obtain adequate proof of payment of expenses from TDC marketing agencies to support reimbursement of those expenses.

Management Responses:

- A. Management agrees and will implement an advance payment procedure for TDC. The contracts are reimbursable based, meaning that the agencies incur the cost first, and then submit for reimbursement after the event has occurred or service is complete. We will discuss appropriate proof of payment, which should be submitted

with reimbursement request, when we meet with TDC management in the near future. Additionally, the contract addresses advance payments in section 3 "Compensation and Method of Payment." Per the contract, when the bureau is able to establish that payment of expenditures in advance will provide a cost savings, the bureau shall be paid in advance. This complies with the rules and procedures set forth in the Reference Guide for State Expenditures, as well as County Administrative Code 305.02. Advance payments are rare, and when they occur, they are typically for trade show registrations, which are specifically mentioned in County Administrative Code 305.02.

Target Completion Date: 12/31/15

B. Management agrees and will implement a procedure for TDC. The contracts are reimbursable based, meaning that the agencies incur the cost first, and then submit for reimbursement after the event has occurred or service is complete. We will discuss appropriate proof of payment, which should be submitted with reimbursement request, when we meet with TDC management in the near future. Payables will track any advance payments on a spreadsheet and discuss the process with TDC.

Target Completion Date: 12/31/15

C. Management agrees that adequate proof of payment of expenses is needed. A meeting with TDC management will be scheduled in the near future to discuss this. However, the contract terms state that each invoice "shall be supported by copies of the corresponding vendor invoices and proof of receipt or performance of the goods or services invoiced." The payment requests are submitted according to these terms. We will discuss the process with TDC management when we meet.

Target Completion Date: 12/31/15

b. Monitoring Payments Involving Private Partner Funds

Various invoices were processed in which the business purpose of the expenditure of the goods or services was not clearly documented and it appeared that private Discover PBC partner funds should have been used to offset County public funding. The contract between Palm Beach County and Discover PBC (Section 3: Compensation and Method of Payment) requires the TDC Director or County Administration to determine whether the claimed expenses for the goods or services should be offset or reduced by non-public funding or contribution of goods and/or services. Our testing identified the following observations.

- A Southeast Educational Conference invoice with the description “MPI SEC Silver” for \$3,000 was submitted by the Discover PBC. It did not include documentation to identify sponsorship benefits or registration to support the apparent partner sponsorship expense, nor identify the participants to determine whether public or non-public funds should be used to fund the expense.
- A Majestic Princess Cruises Inc. charter agreement was noted for a private charter on May 6, 2014 for 20 guests totaling \$3,738.10. The supporting documentation did not validate a public purpose or promotion of tourism. Also, the documentation did not include a guest list to substantiate attendance included qualified tourist industry representatives or whether the event was attended by Discover partners that would then require all or a portion of the expense to have been paid from private funds instead of public tourist development tax funds.
- An AmEx charge for \$4,128 for a Discover Partner event on February 12, 2014 at The Addison was submitted on a Travel Expense Report (TER) stating the expenditure was “to promote Palm Beach County”. The guest list included Discover PBC partners and Discover PBC staff. The Addison invoice indicated the event was a “Discover Palm Beach Partners Event” and an attached agenda indicated that the event included sessions on “Social Media” and “Partner Portal Launch”. The reimbursement documentation failed to clearly demonstrate it was a tourism promotion event as defined by F.S. 125.0104(5)(a)3. A Discover PBC eNews webpage identified the Addison event purpose as a launch of the Partner Portal that was included in the Partner-only section of the website, and a social media presentation to provide “*insight into Social Media and ideas on how Partners can work better in the social world with DPBC*”. Therefore, we believe private partner funding should have been used for the event instead of funding from public tourist development tax funds.

Recommendation:

- A. Develop and implement a process for documenting the TDC Executive Director’s determination of whether claimed expenses for goods or services should be offset or reduced by non-public funding or contribution of goods and/or services for tradeshows and other events attended by Discover PBC partners. Coordination of these efforts with the TDC Executive Director will help ensure the TDC’s compliance with the terms of the contract with Palm Beach County.

Management Response:

- A. Management agrees that there should be additional documentation from the TDC Executive Director regarding the offset of non-public funding. However, the contract states that the TDC Executive Director determines that “there has been no offset or reduction of the claimed expense by non-public funding or contribution of goods and services,” meaning the Director needs to determine whether non-public funds were used (likely to avoid paying for services that have already been paid for), not whether they should have been used. We will discuss the process when we meet with TDC management.

Target Completion Date: 12/31/15

Inspector General Follow-up Response:

We would only reiterate that we believe public funds received through tourist development taxes should not be used to pay for private partner events.

c. Payment Requests Via Monthly Credit Cards

Discover PBC utilizes an American Express (AmEx) card for various types of charges (e.g., travel, entertainment, office supplies, and marketing). Discover PBC subsequently submits copies of portions of the AmEx monthly statement for specific charges for which payment reimbursement requests are made to Clerk’s Payables. Partial payments are made by Discover PBC to AmEx to cover portions of the monthly AmEx statements. This process poses the risk that Clerk’s Payables may not detect a charge that Discover PBC previously submitted for payment. To mitigate this risk, Clerk’s Payables reviews previously paid reimbursement requests when uncertainty arises, which is inefficient and time consuming. Clerk’s Payables does not track prior AmEx card expenses and reimbursements; therefore, it is possible that a previously paid card expense could be resubmitted and paid. We noted that AmEx statements generally indicated a past-due balance existed. Payables management stated that tracking of card expenses and reimbursements would require two to three additional staff.

This observation is similarly true for payment requests submitted by the Sports Commission.

Recommendation:

- A. Coordinate efforts with Discover PBC to enhance the efficiency and effectiveness of the credit card expense submission process. Consideration should be given to Discover PBC submitting a single reimbursement packet for all allowable charges on each monthly AmEx credit card bill at one time to Clerk's Payables.

Management Response:

- A. Management agrees and a meeting will be scheduled with TDC management to discuss the process.

Target Completion Date: 12/31/15

d. Mileage Reimbursements

Mileage reimbursements may not be in alignment with guiding statutory regulations.

Attorney General Opinions (AGOs) have consistently opined that the shorter distance/constructive distance rule should apply. The County Policy & Procedure Memorandum (PPM) for travel (CW-F-009) appears to contradict Florida Statutes (Section 112.061) and AGO guidance (e.g., AGO 75-275) related to the shorter distance rule. We observed that the County PPM for travel expenses currently allows for reimbursement of "After-hours Travel", which provides for computing mileage from the point of origin to the point of destination, without regard to the shorter distance/constructive rule expressed by multiple AGOs. The shorter distance rule requires mileage reimbursements to be based on the shorter of the distance from the employee's home or the primary work location to the alternate work site.

Our limited testing identified three instances in which mileage reimbursements were made in accordance with County PPM but did not comply with Florida Statutes and AGO guidance. Commute mileage was reimbursed to employees totaling \$86.77 based on the employees' home instead of their primary work location.

Recommendation:

- A. Payables management should meet with County administration to coordinate and implement a change in the County travel policy to align reimbursements for after-

hours travel and mileage with Section 112.061 FS and the shorter distance rule as interpreted by Florida AGOs.

Management Response:

A. Management is reviewing further and will work with the Finance Director to determine appropriate resolution.

Target Completion Date: 12/31/15

2. Local Government Prompt Payment Act monitoring practices require strengthening.

Key provisions within the Local Government Prompt Payment Act (Sections 218.70 – 218.80, Florida Statutes, referred to hereafter in this report as the Prompt Payment Act) require payment of invoices within specified time periods, interest payments on late payments, and a dispute resolution process. The audit identified the following observations.

- a. The Payables Department reporting tools do not adequately monitor the receipt date to accurately monitor compliance with the Prompt Payment Act deadlines. Per Section 218.73, Florida Statutes, payment of non-construction vendor invoices is required within 45 days from the receipt date of a proper invoice, or if a proper invoice is not received, the latter of the date on which: delivery of property is accepted, services are completed, a rental period begins, or as specified by contractual payment periods.

The Payables Dashboard does not report needed measures for assessing whether payments are being timely processed in compliance with the Prompt Payment Act. The Dashboard only reports the average turnaround time between the tracking date (proper invoice date) and the date of payment (submission of invoice in Advantage).

Weekly Invoice Processing and Timeliness Reports, which are used by Payables supervisors, do not measure the elapsed time from the due date criteria specified by the Prompt Payment Act to the date of payment when a proper invoice has not been received. During the audit, Payables management changed the tracking date from the date when an invoice is stamped in as received to the date when an invoice is considered "proper". However, the new measurement criteria would still not be accurate when a vendor invoice and/or goods and services are received or accepted by

a County department but the invoice is not timely delivered or forwarded to Payables for payment.

Review of Finance Payables Invoice Processing and Timeliness Reports noted various instances where the number of days elapsed for payment of vendor invoices exceeded the due date deadlines required by the Prompt Payment Act. From these reports, we reviewed 30 late payments that did not appear to comply with the Prompt Payment Act deadlines (45 business days for non-construction payments and 20 or 25 calendar days (depending on if agent approval is needed) for construction payments) to determine the root causes. Our observations are summarized below.

- Nineteen payments were late due to County delays in either providing an approved invoice on a timely basis or delays in entering receivers and/or purchase orders required for processing payments of invoices.
- One payment was late due to a delay by Payables in entering the invoice.
- Payables staff entered incorrect invoice dates for seven of the invoices, resulting in inaccurate timeliness measures on the Invoice Processing and Timeliness Reports. These errors in key measurement data indicate that the reports may not be reliable.

Additional testing of 30 special handling checks identified two late payments that exceeded the statutory deadline due to County delays in approval and submission of invoices and supporting documents.

- b. Existing procedures do not provide sufficient guidance to ensure ongoing compliance with the Prompt Payment Act with respect to payment deadlines, interest payments, dispute resolution, and reporting requirements. If a vendor invoice is determined to be improper, an informal process is followed where the Payables clerk notifies the vendor and County department by email of the actions necessary to resolve payment problems. Prior to the audit, Payables generally did not elevate instances of processing delays to County department management. Consideration should be given to including key interdependencies and coordination with County departments, such as elements of a formal dispute resolution process in which specific timeframes and deadlines must be met to satisfy statutory requirements.

Recommendations:

- A. Develop processes and enhance procedures to monitor compliance with key provisions of the Prompt Payment Act including:
- clarifying specific time periods in which invoices must be paid.
 - communicating with County department management to resolve issues involving inadequate supporting documentation (e.g., purchase orders, receivers, and invoices).
 - clarifying vendor interest charges may need to be paid in accordance with the Prompt Payment Act and must be reported annually to the Board of County Commissions in December.
 - communicating specific deficiencies to County management when invoices have been disputed to ensure compliance with dispute resolution and related timeframes mandated by the Prompt Payment Act.
- B. Improve the post audit sampling and testing process for monitoring compliance with the Prompt Payment Act. Use the results to inform County management of possible procurement and payment processing timeliness concerns.

Management Responses:

- A. Management has implemented communication with County department management to resolve issues. This change has been very impactful and has produced quick resolutions to outstanding issues. Management will consider implementing the other recommendations based on the success of this new process.

Target Completion Date: 12/31/15

- B. Management has changed the tracking date from the date when an invoice is stamped in as received to the date when an invoice is considered "proper". Management will work with Purchasing to ensure that all County Departments are entering the appropriate receive date (date when goods are delivered or services performed) when entering the receivers in Advantage since this is the date Payables uses for tracking compliance with the Prompt Payment Act.

Target Completion Date: 11/30/15

3. System access and workflow assignments require revision to ensure duties are segregated.

System access authorities assigned to management and employees require reevaluation and revision. Best practices for proper segregation of duties suggest that when a process is performed within a department, there should be another level of review and approval performed by a knowledgeable individual who is independent of the process. In addition, best practices suggest that access should be restricted to access required for business functions and processes, based on least-privilege, need-to-have, and need-to-know principles.

The audit disclosed the following observations.

- a) The Payables Department manager and three supervisors have broad authority in the Advantage system to initiate and approve transactions. For example, these individuals have access authority to:
 - enter and approve invoices, payment requests, and encumbrance corrections. Payables Quality Assurance (PQA) subsequently reviews all payments and matches checks to payment vouchers.
 - enter and approve payment requests with special handling codes, receive the resulting special handling (AD) checks for distribution, and approve positive pay exceptions.
 - request and receive manual checks from PQA, process manual disbursement transactions in Advantage, and approve positive pay exceptions.
- b) The PQA accountant has authority to set up and modify County vendors set up by Payables as well as County Purchasing vendors in Advantage that are not set up in Vendor Self Service. The PQA accountant also has authority to set up Card in Hand online vendor payment accounts and to make online payments by Card in Hand.
- c) One Payables employee had Advantage access authority for AP_Retainage transactions but was not responsible for processing such transactions.
- d) Check printers are located in the common PQA work area accessible to all Finance employees.
- e) Procedures state that a universal login ID and password is used for all online payment accounts for Card in Hand vendors, with no requirement to verify the account is on a

common (https:/) server. Management stated that each website requires a different format of passwords so it is not truly universal.

- f) Special handling checks can be returned to the Payables supervisors and manual checks can be returned to the Payables supervisors and manager, who also have incompatible authority to accept or reject positive pay exceptions.

Recommendations:

- A. Determine whether the manager and three supervisors require submit authority for initiation and approval of transactions. If not, delete initiation authority. If required, implement another level of review and approval performed by a knowledgeable individual who is independent of the process.
- B. Segregate Advantage authority for the PQA accountant to set up and modify vendors from the authority to make online payments by Card in Hand.
- C. Restrict Advantage access authority for retainage transactions to that which is required for business functions and processes, based on least-privilege, need-to-have, and need-to-know principles.
- D. Consider options to secure the check printers or MICR printer cartridges.
- E. Revise procedures for Card in Hand payments so that universal login IDs and passwords are not utilized.
- F. Segregate the authority to handle special handling and manual checks from the authority to accept and reject positive pay exceptions.

Management Responses:

- A. Management will keep existing security set-up in order to approve Payroll MD's when needed. Financial Business Analysis created a crystal report which includes all posted transactions completed by management. This report will automatically generate on a monthly basis and be e-mailed to the Manager and Assistant Manager for review. Management will then document justification for each transaction listed before submitting to Finance Director for review and approval. Approved report will be scanned in the Payables "S" Drive.

Target Completion Date: 10/31/15

- B. Management will remove vendor authority in Advantage or the PQA Accountant
Target Completion Date: 12/31/15
- C. Management has reviewed and restricted Advantage access authority for retainage transactions.
Target Completion Date: Completed
- D. Management will move check printer to locked check stock room.
Target Completion Date: 12/31/15
- E. Management has updated Card in Hand procedure.
Target Completion Date: Completed
- F. Management does agree that segregation is needed due to department procedure PD-GEN-11, which states that the "authorized staff approving Positive Pay exceptions should not be the same person who prepared the check in Advantage."
Target Completion Date: 10/01/15

4. Performance measures and reporting require improvement.

The Payables Department utilizes various key measures and prepares weekly and monthly reports to monitor performance. Certain reports are generated from Crystal report extracts from the Advantage system. The audit identified reporting inaccuracies and improvement opportunities to ensure accurate reporting and statutory compliance monitoring.

The following observations were noted during the review.

- a) As discussed in observation 2.a), the Payables Dashboard and Invoice Processing and Timeliness Reports do not report performance measures that accurately monitor construction and non-construction payment compliance with the due date criteria mandated by the Prompt Payment Act.
- b) Numerous performance measures are in place to track the total transaction and dollar volumes (e.g., invoices processed, unprocessed invoices, payments by various methods, voids). Other key performance measurements should be considered, such as

unclaimed funds and 1099 reporting as well as benchmark measurements for the processing time and cost required to process an invoice, void check, or electronic payment.

- c) Certain performance measures may not be useful to management due to errors in data entry and inconsistent characterization of measurable errors between Payables sections. For example, on the Payables Dashboard, the accuracy measure does not identify or include other key errors such as payments to wrong vendors, duplicate payments, and data entry errors.
- d) Invoice Processing and Timeliness Report data was inaccurate due to data entry of incorrect invoice dates in Advantage. Our testing of thirty invoice payments identified seven instances of data entry errors. For example, two 2014 invoices were entered with a 2004 date.

Recommendations:

- A. Revise and implement performance measures to enable accurate regulatory compliance monitoring, including the Prompt Payment Act, with consideration also given to unclaimed funds and 1099 reporting. Consider implementing other measures for benchmark comparison of payment processing with other Florida government entities.
- B. Consider improvements in the Dashboard accuracy measures by including electronic payment voids, payments to wrong vendors, duplicate payments, and data entry errors.
- C. Enhance performance measure reporting by expanding the formal measures used and reported in clear monthly summaries that are useful for management review.

Management Responses:

- A. Management will review and revise performance measures to include other key measures.
Target Completion Date: 01/31/16
- B. Management will revise the Dashboard to incorporate other key measurements.
Target Completion Date: 01/31/16
- C. Management will review and determine the other key performance measures that may be needed.
Target Completion Date: 01/31/16

5. Monthly quality assurance testing was not consistently and efficiently performed.

The purpose of a quality assurance (QA) function is to proactively detect non-compliance with policies and performance standards, document and report the findings for supervisory review, take corrective action (including training) and monitor performance results. The Payables QA was formerly organized as a centralized function within a separate section of the Payables Department, reporting directly to the Payables Manager. In recent years, the QA function was decentralized into each of the three Payables sections. The following observations were noted.

- a) Quality assurance post audits were not consistently performed and did not include performance measures to monitor and report compliance with Prompt Payment Act deadlines. Varying levels of support were allocated and differing QA practices and methodologies were in place.
 - In the Grants & Contracts Section, QA post audit testing was discontinued in February 2014. Previously, monthly post audit random testing of 10% of the work performed by each section employee was performed, though not consistently, to review compliance with section procedures.
 - In the Special Payables Section, QA post audit testing is performed monthly, including 10 random invoices for each team member, with a focus on compliance with County PPMs and section procedures. QA testing did not focus on the accuracy of dollar amounts, invoice numbers, and vendor names.
 - In the Purchase Orders Section, post audit testing was discontinued in November 2014. Previously, an undefined number of randomly selected “pre-determined” documents were selected for each section employee and audited.
- b) Statistical random sample methods were not used to extrapolate results from the sample to the population.
- c) Quality assurance testing results were not consistently provided to management on a regular basis for review and follow up.

Recommendations:

- A. Develop an effective and efficient quality assurance testing program for the Payables Department to monitor key timeliness and accuracy performance measures.

- B. Implement efficient random statistical sampling techniques for post audit sampling and testing.
- C. Implement consistent and timely reporting of useful key performance measures and benchmarks to allow timely monitoring by management. Utilize the results to identify staff training opportunities and to inform County management of possible procurement and payment processing timeliness concerns.

Management Responses:

- A. Management will review and develop centralized process.
Target Completion Date: 01/31/16
- B. Management will review and develop centralized process.
Target Completion Date: 01/31/16
- C. Management will review and develop centralized process.
Target Completion Date: 01/31/16

6. Opportunities exist to improve procedures and enhance related controls.

Numerous procedures are in place that effectively govern Payables Department processes. Certain procedures require further preparation, update or enhancement. Best practices in internal controls indicate that written procedures provide guidance to employees to ensure that processes are performed accurately and consistently in accordance with management's directives. In addition, written procedures help define responsibilities, pertinent laws and regulations, systems involved, and how they are updated and distributed.

The audit identified the following examples in which procedures could be enhanced and related controls could be strengthened.

- a) Various procedures do not adequately identify positions performing tasks to demonstrate that a proper segregation of duties has been established. For example, PQA procedures do not identify the positions authorized to complete and approve vendor request forms.

- b) Purchase Order (PO) procedures should require staff to report instances of untimely or missing supporting documentation (e.g., invoices, receivers, purchase orders) to a County employee at a higher level of supervision (e.g., via inclusion on email notifications to the responsible County employee).
- c) PQA check/voucher matching does not require an exact match of vendor names, resulting in a risk of release of checks to payees with similar names. We recommend that staff verify the address in Advantage if the vendor name is slightly different.
- d) Conflicting void check procedures may result in issuance of duplicate, inaccurate, or fraudulent manual disbursement (AD or MD) checks. PO procedures for void checks were noted that may duplicate and conflict with PQA general procedures for processing void checks.
- e) PQA procedures do not identify a requirement for periodic change of safe combinations.
- f) PQA procedures currently allow reactivation of inactive vendors to enter purchase orders that were not entered into Advantage prior to vendor inactivation. We recommend that in such instances, County Purchasing approval is required.
- g) W-8 Forms are obtained for foreign vendors, but procedures do not include a process for 30% withholding when required and payment to the Internal Revenue Service.
- h) Special Payables section procedures allow entry of invoices or payment requests using a combination of invoice numbers and dates or last date of service or authorization date as the invoice number. We recommend that employees compare the invoice to the vendor payment history to ensure the invoice is an unpaid, unique invoice.
- i) Purchase Order section procedures should require that invoices be sent directly to Payables as a general rule and only on an exception basis to County departments when documented with a reason and authorized by the Purchase Orders supervisor.
- j) Purchase Order section procedures do not require two-way reconciliation of vendor statements and Advantage vendor account payment history by an individual who is not responsible for processing payments to vendors.

Recommendation:

- A. Revise the procedures for the above mentioned observations and strengthen related processes and controls.

Management Response:

- A. Management has reviewed and revised the procedures for B, C, D, E, F, G, H and I. The other procedures (A & J) will be reviewed and addressed at a later date.
Target Completion Date: 12/31/15