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Memorandum

Date: May 31, 2019
From: Roger Trca, Inspector General
To: Darlene Malaney, Chief Operating Officer of Finance
Subject: Three-Way Match Process

A. Background and Objective:

On October 16, 2018, the Board of County Commissioners of Palm Beach County, Florida issued the Equal Business Opportunity (EBO) Ordinance No. 2018-021 in order to *“ensure that all segments of the business population, including, but not limited to, small, local, minority, and women-owned businesses, have an equitable opportunity to participate in the County’s procurement process”* (Sec. 2-80.20). To achieve this goal, the EBO Ordinance states that *“The County Administrator or designee, in collaboration with the Director of the Office of EBO, the Palm Beach County Clerk & Comptroller, and the Director of Purchasing, shall establish and convene a work group of County personnel to research, explore, and recommend a variety of options for accelerating payment of invoices in ten days or less”* (Sec. 2-80.26).

The Clerk’s office has constitutional responsibilities to serve as a public trustee, which includes the obligation to establish controls and oversight over public funds. Within the Clerk’s office, the Finance Department is responsible for ensuring that timely payments are made to vendors and suppliers for goods and services on behalf of Palm Beach County (County). Duties include ensuring that such payments are properly approved, received, based on original invoices, and meet purchasing and budget specifications, as well as ensuring related payments are accurate, timely and properly recorded.

County departments are responsible for maintaining written policies and procedures that address the procurement function, including obtaining purchasing approvals and recording and maintaining receiving documentation. Each County department is responsible for determining its procurement needs (e.g., what, when, and how often goods or services are required) and ensuring that all goods ordered have been properly approved and received prior to payment by the Clerk’s office.

The Clerk's office Payables team faces several challenges in meeting this EBO Ordinance goal of accelerating the payment of invoices to ten-days or less. The Clerk's office Payables team shares several responsibilities with the County's Purchasing Department as well as County user departments. The County is responsible for setting up contracts and purchase orders as well as recording timely receipt of goods and services. The Clerk's office ensures accurate and timely vendor payments are issued after County user departments verify and document that the goods were received for the authorized order. As such, ongoing collaboration by each party is critical.

Clerk's office Finance management met with the Division of Inspector General (Clerk's IG) and stated that one of the core changes required to achieve the EBO Ordinance ten-day invoice payment goal was to efficiently execute the three-way matching process for all County departments. The three-way matching process refers to matching key purchasing components in three documents, including the purchase order, receiver and invoice, prior to making payment to the vendor.

Clerk Finance management requested that we provide an opinion of the importance of the three-way match process based on our knowledge of best practices and professional standards. We conducted meetings with Clerk's Finance management and staff to obtain relevant information. We obtained and reviewed professional standards and guidance, policies and procedures, studies and best practices related to the three-way matching process.

B. Statement of Opinion:

Our review confirmed that professional standards and guidance recommend usage of the three-way match process and segregating related procurement responsibilities (e.g., authorization, receipt, and invoice processes) within the payables function. In particular, automating the three-way match process will be a critical step in attempting to expedite the payment process and achieve compliance with the ten-day payment processing goal defined in EBO Ordinance 2018-021. For an accurate and timely three-way match to occur, each component (purchase order, receiving document and invoice) must be timely recorded in the Advantage System with sufficient details to enable proper matching of essential information. To achieve this goal, the Clerk's Payable team will need to collaborate with the County Administrator, Director of Purchasing and County department heads.

C. Professional Standards and Guidance:

We performed a review of professional standards and guidance related to the three-way match process and identified the following sources of information. It should also be noted that segregation of these related purchasing duties is an important element of the three-way match process.

The Government Accounting Office (GAO) "Policy and Procedures Manual for Guidance of Federal Agencies" in Title 7 (May 1993). This manual includes guidance that refers to the proper matching of goods or services ordered, evidence of receipt, and related invoice.

- *"The preparation of the disbursement voucher includes the essential steps of assuring, apart from any subsequent audit, that (1) goods or services were ordered by an authorized official, evidenced by a purchase order, contract, or other authorization, (2) goods or services ordered have been delivered and accepted, evidenced by receiving and inspection reports, and (3) an invoice or bill has been received."*

The United States General Accounting Office (GAO) Standards for Internal Controls in the Federal Government (Green Book, September 2014) provides guidance over segregation of duties. Key excerpts are provided below.

- *"Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.*
- *Segregation of duties helps prevent fraud, waste, and abuse in the internal control system. Management considers the need to separate control activities related to authority, custody, and accounting of operations to achieve adequate segregation of duties. In particular, segregation of duties can address the risk of management override. Management override circumvents existing control activities and increases fraud risk. Management addresses this risk through segregation of duties, but cannot absolutely prevent it because of the risk of collusion, where two or more employees act together to commit fraud."*

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework (Executive Summary May 2013) also provides guidance over segregation of duties. A key excerpt is provided below:

- *“Control activities are the actions established through policies and procedures that help ensure that management’s directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels of the entity, at various stages within business processes, and over the technology environment. They may be preventive or detective in nature and may encompass a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations, and business performance reviews. Segregation of duties is typically built into the selection and development of control activities. Where segregation of duties is not practical, management selects and develops alternative control activities.”*

Management Partners Consultants Accounts Payables Review (March 2018):

Management Partners Consultants conducted a review of the accounts payable function of the Clerk & Comptroller office. The review provided specific guidance on a number of issues, including the three-way match process as detailed below.

- *“Invoice processing for contracts is an all manual process and frequently documents are missing. This audit process involves the financial specialist III sorting documents received, preparing calculator tapes to check and verify hours and payments, and then entering information into the Advantage System. The audit procedure is time consuming and the lack of technology makes it inefficient. Financial specialists are retaining individual spreadsheets to track project hours, payables and balances. This is a duplicate of information maintained in the Advantage System”.*
- The related recommendation stated that the office should: *“determine if an Advantage System module can be used to automate the three-way match process and audit function.”*

D. Relevant Policies and Procedures:

We performed a review of policies and procedures related to the three-way match process and identified the following sources.

The Clerk’s Finance Department Advisory (FDA-002) Processing Vendor Payments was issued on May 1, 2019 and requires payments to be made from original invoices with

valid purchase order numbers and associated receivers. Relevant excerpts of the Advisory are provided below.

- *“Payables will only process payments for:*
 - a) *Approved Palm Beach County vendors that deliver to Payables an original, Proper Invoice that clearly indicates a complete and valid Palm Beach County issued purchase order number.*
 - b) *Proper Invoices for purchases exempt from the Palm Beach County Purchasing Code.*
- *Payables will not provide copies of invoices to Departments for the purpose of receiver entry. Vendors may send a copy to the Department, however all originals should be sent directly to Payables. In the event an original Proper Invoice is received by a Department, it shall be immediately forwarded to Payables.*
- *Discrepancies & Missing Receivers*
 - c) *Payables will provide weekly reports to each Department delineating all 3-way match invoices entered without an associated receiver. Outstanding invoices/payment requests will be escalated...”*

The Clerk & Comptroller Advantage System 3.11.1 Procurement Manual (August 2018): This manual states that a three-way match occurs in the Advantage System when the Decentralized Purchase Order (DPO) is matched to the Receiver (RC) and the vendor invoice (IN). When this occurs, a Payment Request Memo (PRM) is authorized, and an Automatic Disbursement (AD) is created. County user departments are responsible for entering the DPO and RC.

CGI Advantage Financial – Accounts Payable User Guide (3.11.1 Patch Release C): This guide identifies a feature in the Advantage System, the Advantage Matching Manager, which is able to automatically generate a matching payment request (PRM) when specific matching criteria have been met. The PRM is automatically generated from the match process (two-way or three-way) based on the rules that have been established for the matching process.

County Purchasing Department Vendor Information Updates, Invoice and Payments (PPM# PA-O-016): This County policy establishes guidelines for the proper handling of vendor information, invoices and payments by the County Purchasing Department and user departments as well as the Clerk’s office. The Clerk’s office has a role in different aspects of the purchasing function. For example, the policy states that the Clerk’s office

reviews and approves vendor registrations after the Purchasing Department has set up the vendors in the Advantage System¹. The County departments establish the contracts and purchase orders and receive the goods in the Advantage System. The Clerk's office and County departments are responsible for jointly handling discrepancies prior to the Clerk's office issuing payments for vendors' invoices.

E. Three-Way Match Process Risks and Impacts:

Best practices recommend use of the three-way match process to ensure that vendor invoices are valid and accurate and that only authorized purchases for which the goods have been received are reimbursed. For a three-way match to occur, the approved goods (quantity, price and description on the purchase order initiated by the County) should match the actual goods received (quantity and description as verified and recorded by the County) and the vendor invoice (quantity, price and description as verified by the Clerk's office). If the purchase order, receiver and invoice match, then the payment can be issued to the vendor. Unmatched items are researched and resolved prior to issuing payment.

In general, the three-way match process (either manual or automated) results in enhanced governance and efficiencies and reduces the risks related to errors, improper payments, and fraudulent actions. Best practices recommend automating the three-way match to reduce labor costs and errors as well as improve payment timeliness. The table below highlights the key risks and related impacts that may result from the lack of a three-way matching process in an organization's purchase-to-payment cycle.

¹ Clerk's Finance management stated that the Clerk's office no longer reviews vendor registrations.

Risks	Impacts
Purchase order (PO) was not appropriately approved.	Payments for unnecessary or unauthorized goods. Payments were inaccurate and/or delayed.
Purchase order did not appropriately specify the quantity, unit price and description of the goods.	Unable to match PO / receiver to invoice, causing payment delays.
Vendor did not provide sufficient information on receiving documents (packing slips/ bill of lading) to enable verification of goods received and proper match to purchase order.	Unable to confirm receipt of goods ordered. Payment delays. Incorrect payment for incorrect quantity or quality of goods compared to goods ordered or received.
Receiver was not entered based on actual goods independently observed and verified as received (e.g., used vendor invoice instead of performing a "blind" count).	Payment for different quantity of goods than ordered or received. Payment for items not received or the acceptance of inferior materials and supplies.
Receiver was entered by the same person authorizing the purchase of goods.	Possible misappropriation of goods.
Receiver information was not entered timely when goods were received.	Payment delays. Available discounts not utilized.
Vendor submitted invoices for goods directly to the County / purchaser instead of Clerk's office Payables.	Duplicate payments may occur. Incorrect quantity received. Incorrect payment for incorrect quantity or quality of goods compared to goods ordered or received
Payments were not processed timely, accurately or in compliance with required terms.	Available discounts not utilized. Incur late penalties. Decreased vendor participation due to frustration with late payments.
Purchasing procedures and practices were not consistent across multiple departments and locations.	Lack of compliance with regulations, policies and procedures.
Duties were not adequately segregated: <ul style="list-style-type: none"> ✓ Preparation of PO ✓ Approval of PO ✓ Physical receipt and confirmation of goods ✓ Enter receiver in system ✓ Receipt of invoices ✓ Preparation of payment ✓ Payment approval ✓ Payment issuance 	Possible misappropriation of goods. Unauthorized purchases. Incorrect payments.

F. Recommendations and Best Practice Improvement Opportunities:

Based on our review of the three-way match process, we are providing the following recommendations and best practices for management consideration to maximize the efficiency and effectiveness of the procure-to-pay process. The Clerk's office Payables Department should collaborate with the County's Director of Purchasing and the County's department heads to strive to implement the following recommendations in an effort to expedite the payment of invoices.

1. Streamline the payment process by utilizing the Advantage System's automated three-way match solution (two-way match also available) to generate payments to vendors after successful match of purchase orders, receivers and invoices. Utilize automated reporting of unmatched items, if available, to expedite research and resolution.
2. Ensure purchase orders (POs) clearly define expectations, including the quantity, price and description of goods to be delivered. For the three-way match to be successful, data fields within the Advantage System must be traceable to information recorded from the receiver and invoice.
3. Ensure that vendors provide sufficient information on shipping documents (e.g., packing list, bill of lading) so that the goods may be physically verified and accurate receivers created and recorded. For example, packing slips and shipping documents should include the PO number, description, serial numbers, and/or other identifying information from the PO.
4. Reinforce that individuals entering receivers into the Advantage System should not be provided with an invoice or PO with the quantities recorded (referred to as "blind" technique). The quantity of goods received should be recorded, independent of the quantity ordered.
5. Ensure that received items are recorded in the Advantage System at the time the goods are delivered. It is a best practice to record receipts within one business day upon receipt of goods or services.

6. Ensure that policies and procedures within County user departments thoroughly reflect that PO and receiving information must be recorded accurately and timely in the Advantage System in a manner that will enable proper matching with the invoice.
7. Ensure that Clerk and County office policies and procedures are aligned when operational interdependencies exist within the two agencies.
8. Ensure that an adequate segregation of duties exists to reduce the risk of error or fraud in the purchasing program. Controls are weakened when an individual can control multiple key elements of a procurement transaction (e.g., purchase order preparation and approval, receipt of goods, invoice receipt, disbursement).

cc: Sharon R. Bock, Esq. – Clerk & Comptroller
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