Review of the Accounting Division Disbursement Processes

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Officce of the County Auditor

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Executive Summary

This report presents our review of controls over County disbursements processed by the Accounting Division.

We previously issued an interim report to the Board dated March 29, 2012, identifying a series of issues indicating a lack of fundamental control over disbursements processing. The interim report included recommendations to: establish management control over the process; require proper supporting documentation for all payment requests; and end reliance on agency authorization in lieu of supporting documentation.

As indicated in our agenda report of May 1, 2012, management had taken immediate steps to reestablish control over payment processes following our first discussion of our findings in February 2012. Management’s efforts are continuing and a brief summary of their progress in addressing control deficiencies is presented in Appendix A on page 11.

Since our interim report, we have:

- Completed our original scope of work,
- Tested procedural changes implemented in response to our interim recommendations,
- Examined documentation to determine the appropriateness of the payment exceptions noted in our testing samples, and
- Initiated separate reviews at other County agencies that have significant roles in the payment process. These reviews are currently in various stages of completion.

Our review disclosed that:

- Payment requests were routinely processed without audit or sufficient supporting documentation,
- Lack of Segregation of Duties existed among key accounting personnel,
- Use of available financial systems technology could improve process efficiency, and
- Management has made substantial progress in addressing the control deficiencies.

We recommend the Board of County Commissioners direct the County Administrator to periodically report on management’s progress in addressing the lack of controls over disbursements to include presentation of the Matrix Consulting report referenced in finding four on page 10.
Objectives, Scope, and Methodology

Our objectives were to:

- Evaluate the adequacy and effectiveness of disbursement controls in the Accounting Division to prevent and detect improper or unauthorized payments,
- Determine compliance with the payment processing procedures promulgated in Chapter 3 of Accounting Division Internal Control Handbook (ICH), and

Our review included disbursements processed by the Accounts Payable Section of the Accounting Division (Accounts Payable) for the period between October 1, 2009 and May 4, 2012. Disbursements processes at agencies other than the Accounting Division\(^1\) are the subject of separate reviews and are excluded from this report.

To accomplish our objectives we:

- Reviewed policies and procedures for disbursements of public funds established in the County Charter, Broward County Administrative Code, Chapter 3 of the Accounting Division ICH, and Accounts Payable Desktop Procedures,
- Interviewed staff from Accounts Payable and observed the disbursement process,
- Analyzed disbursement data for fiscal year 2011,
- Evaluated internal controls and compliance for proper authorization and supporting documentation,
- Randomly and judgmentally selected a sample of 314 payment requests representing 81 check payments for compliance testing, and

\(^1\) Our review excluded ad valorem redemptions processed by the Records, Taxes & Treasury Division and risk management payments processed by the Risk Management Division.
Background

Disbursements of public funds by Broward County are governed by Florida Statutes, Broward County Code of Ordinances, Broward County Administrative Code, and the Accounting Division ICH. In addition, payment processing must comply with the requirements of underlying contracts, bond indentures, and trust arrangements.

The Charter of Broward County establishes the Department of Finance and Administrative Services (FASD) as the agency “responsible for all financial matters related to the County government” to include the fiscal functions and duties as the custodian of all County funds, auditor and recordation of public documents. These Charter responsibilities are codified in the Broward County Administrative Code. Chapter 3, section 3.9 c of the Administrative Code requires the Accounting Division to pre-audit all payment requests before disbursement, specifically, it states, “Audit before payment all bills, invoices and other claims to determine that they were authorized, and to determine that the merchandise, materials, articles, or services enumerated have been received or rendered.”

Procedures for the required pre-audit of payments are established in Volume 6 of the Administrative Code. Volume 6 consists of the Accounting Division’s ICH, Volumes 1 and 2. The ICH has established procedures for disbursement of public funds designed to meet the Administrative Code’s requirements. Volume 1 of the Accounting Division’s ICH, provides detailed guidance to other County agencies for submitting payment requests for processing in the Accounting Division. Volume 2 includes the detailed procedures to be performed within the Accounting Division to complete the mandated pre-audit of payment requests and issue checks or other forms of payments (e.g., electronic transfers). These procedures include fundamental internal controls and documentation standards. Controls are the tasks and activities that help to prevent and detect errors and irregularities, such as mistakes in processing or intentional wrongdoing. In addition to the ICH, the Accounting Division maintains desk procedures to assist staff in processing payments.

Disbursements processed through the Accounting Division

Accounts Payable processes payment requests for most County agencies. For fiscal year 2011, approximately 104,000 payment requests resulting in over 58,000 checks and totaling $902 million were processed through Accounts Payable. These amounts do not include payments processed via electronic funds transfer, ad valorem tax related refunds/redemptions processed by the Records, Taxes and Treasury Division, and claims payments processed by the Risk Management Division.

Performance measures for disbursement related activities in the Accounting Division for fiscal years (FY) 2010 and 2011 are shown in Table 1 on page 6:

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2 Broward County ICH procedures, Volume 6: Accounting, Payroll & Tangible Property Procedures, Chapter 3: Payment Process.
Table 1: Accounting Division’s Performance Measures for disbursement related activities

<table>
<thead>
<tr>
<th>PERFORMANCE MEASURES</th>
<th>FY 10 Actual</th>
<th>FY 11 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of invoices processed</td>
<td>114,838</td>
<td>104,426</td>
</tr>
<tr>
<td>Average number of days to pay invoice from receiver date</td>
<td>13</td>
<td>12</td>
</tr>
<tr>
<td>Average number of days to pay invoice from invoice date</td>
<td>38</td>
<td>34</td>
</tr>
<tr>
<td>Cost per check/direct deposit</td>
<td>$ 2.53</td>
<td>$ 2.52</td>
</tr>
</tbody>
</table>

Source: Office of Management and Budget - Annual Performance Report

The Accounting Division’s Staffing Levels

The Accounting Division is comprised of five operating sections: Accounting/Financial Reporting, Administration, Payables, Payroll and Systems. At the end of FY2012, there were a total of 39 staff positions in the Accounting Division. As illustrated in Table 2 below the Division experienced a 36% reduction in staffing since 2007.

Table 2: Accounting Division Staffing Levels FY 2007-FY2012

<table>
<thead>
<tr>
<th>Accounting Division</th>
<th>FY07 Actual</th>
<th>FY08 Actual</th>
<th>FY09 Actual</th>
<th>FY10 Actual</th>
<th>FY11 Actual</th>
<th>FY12 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Positions</td>
<td>61</td>
<td>55</td>
<td>46</td>
<td>41</td>
<td>41</td>
<td>39</td>
</tr>
<tr>
<td>Staffing Reductions</td>
<td>-</td>
<td>6</td>
<td>9</td>
<td>5</td>
<td>-</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Office of Management and Budget – Adopted Fiscal Year Operating Budgets for FY2009-2011; FY2012 staffing levels provided by the Accounting Division.
Findings

Finding 1

Payment requests were routinely processed without audit or sufficient supporting documentation.

Chapter 3 of the Broward County Administrative Code requires the Accounting Division to audit invoices and other claims before payment. The Accounting Division Internal Control Handbook (ICH) provides specific guidance for payment processing, including required documentation, elements for a proper invoice, and procedures for handling special payment requests. These procedures are designed to ensure payments are made based on documentation supporting:

- The County’s obligation to pay the invoice,
- The public purpose of the purchase,
- Actual receipt of goods and services by County personnel, and
- Approval of the transaction by appropriate management personnel.

From our samples of 314 payment requests, we found 240 (76%) of payment requests with one or more of the following errors or deficiencies:

- No supporting documentation of receipt of the goods or services,
- No invoice,
- Payment in advance for capital improvements not included in the vendor’s contract,
- Payment to the wrong payee, and
- Paid more than once.

Subsequent in-depth review of these payment requests disclosed that some agencies retained supporting documentation for payment but were not required to submit the details to the Accounting Division for audit.

After our sampling, observations and interviews of staff, it became clear that the Accounting Division:

- Was not auditing payment requests as required by the Administrative Code,
- Routinely made payments based on agency approvals without adequate supporting documentation, and
• Transferred payment processing responsibility to agencies without oversight, monitoring or training.

As a result, the Accounting Division has little assurance that County policies, procedures and audit requirements of the Administrative Code and the ICH are being followed. More importantly, the failure of the Accounting Division to properly audit payment requests exposes the County to the risk of loss of funds due to:

• Payment errors (paying the wrong party or the wrong amount),
• Improper or fraudulent payments, and
• Payments made in advance and subsequent failure of the vendor to complete the delivery or service.

The following two examples demonstrate the significance of the risk exposure:

The risk of loss to the County can be substantial. In our sample, and pursuant to a separate contract compliance review, we identified $2.5 million paid in advance for capital improvements to the company managing the Convention Center. Contrary to the County policy against advance payments and outside of the contract, the contract administrator processed payment requests through the County’s Accounting Division based on memos from SMG requesting payment (in lieu of actual invoices). Furthermore, to facilitate the payment, the contract administrator signed documents indicating that the goods and services were received prior to actual receipt. According to CVB staff the advances were used for improvements to the Convention Center or returned to the County by the end of fiscal year 2012.

The risk of loss to the County is real. An audit by the State of Florida Department of Elder Affairs in fiscal year 2010 resulted in the County’s return of $201,132 to the State for improperly disbursed grant funds. The audit cited non-compliance with the Community Care for the Elderly Program grant provisions, including a lack of required invoices or evidence that proposed projects were completed and insufficient documentation to determine how the grant monies was spent.

3 State of Florida, Department of Elder Affairs, Office of Inspector General Administrative Investigation CCE Expenditures PSA10, OIG Case #I-1011DEA-022.
Finding 2

Lack of Segregation of Duties existed among key accounting personnel.

An important control over disbursements is the segregation of incompatible duties. Proper segregation of duties\(^4\) requires that one individual is not responsible for completing all phases of a transaction. For example, no single individual should have the authority to approve a purchase, certify receipt of the ordered items, and authorize the related invoice payment. We noted:

- All three accounts payable supervisors have the ability to prepare and approve check payment requests in Advantage, and
- One of the supervisors also has access to modify the vendor table.

Providing an individual with the ability to prepare and approve a payment request creates the potential for improper payments. Providing individuals with the ability to access and modify the vendor table further increases the potential for improper payments.

Finding 3

Use of available financial systems technology could improve process efficiency.

Disbursements are processed through the County’s automated financial system, Advantage. The Advantage system, as installed, provides the capability for workflow (online user approval of transactions) and three-way matching of payment requests (electronic comparison of invoice to receiver and purchase order).

In our observations of disbursement processes, we noted that the County has not fully implemented these available system features. Instead, vendor invoices, must be manually reviewed and physically matched to hard copy payment requests, receivers and supporting documentation, prior to creating the electronic payment request in Advantage. These manual processes are highly inefficient and more susceptible to human error than processing with available technology.

\(^4\) Sawyer’s Internal Auditing, The Practice of Modern Internal Auditing, Fifth Edition, Institute of Internal Auditors
Finding 4

Management has made substantial progress in addressing the control deficiencies.

As indicated in our agenda report of May 1, 2012, management had taken immediate steps to reestablish control over payment process following our first discussions of the preliminary findings in March 2012. Management’s efforts to address control deficiencies are continuing and a brief summary of their progress through May 2012 is presented at Appendix A on page 11.

Since May, Accounting continues with efforts to improve controls and streamline payment processing. Accounting management estimates the daily number of pay requests rejected for lack of support has been reduced from 15 to between two and three. In July, the Administration hired a new Director of Accounting and Manager of Accounts Payable. Under the new management, staff are reviewing and updating written procedures and guidelines for payment processing to address the issues noted in our audit and ensure adequate controls over the disbursement processes.

Matrix Consulting has been retained to further evaluate the Accounting Division’s staffing needs and capabilities and payment processing procedures.

Overall, these activities indicate an increased level of involvement and accountability for disbursement processing within the Accounting Division.

Recommendation

We recommend the Board of County Commissioners direct the County Administrator to periodically report on management’s progress in addressing the lack of controls over disbursements to include presentation of the Matrix Consulting report.
Management progress in addressing control deficiencies over disbursements

Management had taken immediate steps to reestablish control over the payment process following our first discussion of our findings in February 2012.

The County Administrator committed to a series of actions including immediate procedural changes and obtaining consulting assistance (see attached memoranda dated March 30, 2012 and April 25, 2012).

In May 2012, our staff observed the following accounts payable procedural changes:

- The requirement that original invoices must be remitted directly to the Accounting Division’s Accounts Payable section was reinstated.
- Updated lists of authorized purchase approvers have been requested from all agencies. All check request signatures are verified with the updated lists prior to processing of the request.
- All requests for payment require proof of delivery or completion of an internal receiver form with the following attestation “I hereby acknowledge that I have personally taken delivery of the items identified above and have them in good condition and acceptable for use by Broward County.”
- All account clerks must complete a payment checklist for each request to ensure verification of the following required documents:
  - Original purchase order or other original initiating document (Receiver, Direct Payment Voucher, etc.).
  - Receiver, showing signature of an approved signee for the relevant agency.
  - Review of contract or payment terms of contract, if applicable.
  - Proof of delivery and/or justification of payment, e.g., a packing slip.
  - Verification that there are separate approved signatures for purchase order, receiver, and payment approver.
  - Public purpose of purchase is evident.
  - Name of payee has been verified as being different from the person authorizing the payment.
  - There is a description of goods or services purchased.
- Use of miscellaneous vendor codes for payment has been restricted. Vendors such as the State of Florida and miscellaneous state agencies have been uniquely identified in the vendor table to specifically identify payments by vendor.
• More payments were being rejected or returned to agencies for clarification or missing supporting documentation. We also observed greater involvement by supervisors in the review of payment requests.

• The requirement that agencies use pre-numbered, pre-printed check request forms, with supporting documentation attached was reinstated. Self-developed agency forms are no longer accepted as valid check requests, with or without supporting documentation.

• One account clerk has been reassigned to audit payment requests. The two auditors are now required to verify both the accuracy of data entry of the payment request and sufficiency of supporting documentation, before the check requests are submitted for printing.

• The check audit function, which compares the printed check to the supporting documentation, has been reinstated. In addition, all checks specified for division pick-up are individually reviewed by a supervisor to ensure it meets additional criteria for division pick-up.

Review of Procedural Changes

To validate the procedural changes listed above, we randomly selected 26 additional disbursements processed during the first week in May 2012 for testing. We found seven of 26 (27%) disbursements lacked proper documentation to substantiate the payment request. Specifically, we found:

• Three payments in a batch totaling $1,979 were made to Fort Lauderdale Police officers for special details at a County facility. In the supporting time cards, we noted one officer approved his own timecard and included administrative hours in the billing. Checks were processed for pick-up by that same officer. There was no evidence of an agreement to permit verification of the rates/hours invoiced.

• Three payment requests from Human Services totaling $3,938 lacked proper evidence that billed services were actually received. One request was supported by an illegible copy of a childcare schedule with a blank signature line for the case manager. The two other payment requests for services provided no evidence or attestation by a Human Services Case Manager that billed services were actually received.

• A payment request from the Housing & Community Development Division was to reimburse a contractor $2,150 for a grant-funded water-sewer connection. The request for payment was signed by the contractor, home-owner and program inspector; however, there was no original invoice from the contractor or reference to an agreement to verify the rates for this service.
The Accounting Division’s new management has made significant progress in restoring the controls over the disbursement process. Additional staff resources and training are essential to ensure further improvement.