



**Internal Audit Committee  
of  
Brevard County, Florida**

**Internal Audit Review of**

**Accounts Payable**

**Prepared By:  
Internal Auditors of Brevard County  
July 15, 2003**

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July 15, 2003

The Audit Committee of  
Brevard County, Florida  
Viera, Florida 32940-6699

Pursuant to the approved 2002/2003 internal audit plan, we hereby submit our internal audit report covering Accounts Payable. The internal audit of accounts payable focused on the invoice handling, approval and disbursement process. Therefore, we did not review the purchasing and receipt process. We also excluded travel and entertainment and the 'purchasing card' expenditures. These areas will be addressed in a separate audit. We will be presenting this report to the Audit Committee at the next scheduled meeting on August 20, 2003.

Our report is organized in the following sections:

<b>Background</b>	This provides an overview of Accounts Payable.
<b>Objectives and Approach</b>	The internal audit objectives and focus are expanded upon in this section as well as a review of the various phases of our approach.
<b>Issues and Recommended Action</b>	This section gives a description of the issues, the impact and recommended action. Management's response has been incorporated into this section as well.

The follow-up process for the issues identified in this report will consist of the following:

- ❑ County Management will follow-up with responsible personnel and report to the audit committee on a quarterly basis using the approved format.
- ❑ Due to the significance of our findings we believe a full scope review should be conducted within 6 months after the changes have been implemented. The expanded follow-up will be reported back to the audit committee at the regularly scheduled meeting.

We would like to thank all those involved in assisting the Internal Auditors in connection with their review of Accounts Payable.

Respectfully Submitted,

***INTERNAL AUDITORS***

# **Background**

# Background

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## Overview

For purposes of this internal audit we segregated the accounts payable process into the following areas:

### *Accounts Payable*

The accounts payable processing and payment function is the responsibility of County Finance. The function is made up of twelve individuals who are responsible for processing invoices (after being reviewed for accuracy and in accordance with County procedures), running reports, matching invoices with checks, sending the checks to the vendors and scanning the original documents received by the departments into the FYI System for record retention. Accounts Payable is also responsible for reconciling the general ledger with the subsidiary ledgers. The following expenses are keyed into SAP directly by County Finance, court related items, travel advances, overnight travel reimbursement, refunds, FPL directly bills and witness expenses.

### *Departmental*

With the conversion to the SAP computer system in 1999, portions of the accounts payable function were decentralized and are now the responsibility of each department. The departments are linked to SAP via the County intranet and are responsible for inputting vendor invoices into SAP. Each department has a dedicated person who is responsible for making sure that purchase orders are established before items can be purchased and invoices are processed. Each department is also responsible for approving the invoices prior to submission to County Finance - the Accounts Payable Department ("Accounts Payable"). Copies of the invoices are maintained in the departments. Originals are forwarded to Accounts Payable.

### *Record Retention (Invoices)*

The County is required to maintain copies of invoices and any other supporting documentation necessary to support disbursement of funds. To help alleviate the need for storage space to maintain such documents, County Finance has been imaging records since 1989. They updated the software in October 1997 to a system called FYI. FYI is an imaging software database that allowed documents to be scanned into and stored onto the database for record retention. This imaging system allows the County to discard hard copies of invoices upon successfully scanning the documentation into the system.

## Statistical Data

Approximate number of checks per year	<u>31,200</u>
Approximate number of invoices per year	<u>95,300</u>
Number of employees with accounts payable (data entry and view) authorization in SAP	<u>270</u>
Number of departments that process invoices	<u>30</u>

## **Objectives and Approach**

# Objectives and Approach

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## Objectives

Objectives of the internal audit review of Accounts Payable include the following:

<input type="checkbox"/> Determine if invoices are processed and paid in accordance with Brevard County Policies.
<input type="checkbox"/> Determine if invoices processed are for authorized expenditures.
<input type="checkbox"/> Determine if controls relating to reporting accounts payable are adequate and provide for appropriate reconciliation's.
<input type="checkbox"/> Determine if records and documentation for accounts payable are sufficient to establish an audit trail for all transactions involving disbursements.
<input type="checkbox"/> Review controls over accounts payable including procedures and documents that assure the data used to generate disbursements are adequate.
<input type="checkbox"/> Determine that access to accounts payable is controlled.

## Approach

Our audit approach consisted of three phases:

### Understanding and Documentation of the Process (Phase 1)

During phase 1, we interviewed the Assistant County Finance Director, Supervisor of Accounts Payable and other personnel in Accounts Payable to discuss the scope and objectives of the audit work and obtain preliminary data. We conducted interviews with responsible personnel and their supervisors from various departments related to accounts payable and documented their role in the process. We reviewed Florida Statutes, administrative orders, County policies and other resources related to accounts payable.

# Objectives and Approach - continued

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## Detailed Testing (Phase 2)

We conducted the following procedures to meet our audit objectives outlined above:

### Process mapping

- ❑ In order to obtain an understanding of the accounts payable process and identify critical controls we conducted on-site visits and inquires of departments and County Finance to obtain detailed documentation of the process. This, along with the detailed tests noted below, enabled us to identify control gaps which are outlined in our report.

### Accounts Payable at the Department level:

- ❑ Test of invoice processing methods, practices, documents and procedures.
- ❑ Test of invoice approval, documentation and reporting.
- ❑ Review of forms utilized.
- ❑ Test for duplicate payment of invoices.
- ❑ Test for duplicate vendors.
- ❑ Test of vendors accounts receivable ledger for unapplied payments by the County.
- ❑ Test for address matches between vendors and employees.
- ❑ Test for vendors setup with initials as their name.
- ❑ Test for vendors with P.O. Boxes and Personal Mail Boxes for their address.

### Accounts Payable processing

- ❑ Review reconciliation of the County's general ledger control accounts with the subsidiary ledgers.
- ❑ Observe the 'payment process' of invoices.
- ❑ Observe the distribution of checks.
- ❑ Test cash disbursements.
- ❑ Test compliance with regulations and laws.
- ❑ Review maintenance of invoices.

## Reporting (Phase 3)

At the conclusion of our audit, we documented our understanding of the process surrounding accounts payable based on our interviews at the County and summarized our findings related to accounts payable. We conducted an exit conference with the Supervisor of Account Payable, Assistant County Finance Director, Assistant County Manager of Management Services Group and County Manager. We prepared our report and related findings and provided copies to appropriate County Personnel. We have incorporated management's responses into our report.

**Issues, Impacts, Recommended Actions  
and Management Response**

# ***Summary of Process Flow and Identified Control Gaps***

As noted in the background section of this report the accounts payable function was decentralized in 1999. It is critical that controls be in place, functioning and well documented to ensure that expenditures are valid, authorized and for the intended purpose. During our audit procedures, we conducted a detailed walk through and process mapping of the accounts payable function.

Due to the nature of the issues identified we have summarized the critical control gaps below. Each of the control gaps identified our specifically addressed in the following issues and recommendations.

## **1. Outside Vendors**

Entities and organizations complete a vendor application through the Purchasing Department to request to be on the RFP bidders list. Through this process the vendor is automatically given an active vendor number in SAP thus allowing payments to be processed to the vendor through the system. This increases the opportunities for fraud. Further discussion in Issue #1.

## **2. Vendor Registration and Approval**

New vendors may be setup by the Purchasing Department by receiving a vendor request form from personnel within individual departments or by the vendor completing a vendor application form. We noted that not all vendors are required to complete a vendor application form and the vendor request form omits critical information. See Issue #1.

## **3. Approval, Screening and Research of New Vendors**

New Vendors can be setup by both the Purchasing Department and Accounts Payable (see #8 below). There is no formal screening or approval process to detect valid vendor ID numbers, etc. See Issue #1.

## **4. Department Approval of Invoices Processed**

Invoices are received and input by the individual departments. The original invoices are forwarded to Accounts Payable and processed for payment. Invoices are not reviewed by Accounts Payable for documented approval by the Department. We noted a significant number of invoices processed and paid without documented approval. See Issue #4.

## **5. Overriding System Controls**

The SAP system is programmed to identify and prompt the user when processing a potential duplicate payment at point of entry. However, this control can and is being overridden. Additionally, exception reports are not being generated to review overrides. As further discussed in Issue #2 this could be the cause of duplicate payments being processed.

## **6. Authorized Signature Cards**

Prior to the decentralization of the accounts payable function, Accounts Payable utilized 'signature cards' to verify that all invoices where appropriately approved. With the decentralization of the function, that verification is not being completed by Accounts Payable or by the departments. As detailed in our testing, we noted a significant number of invoices processed and paid without the appropriate level of approval (see number 4 above). The appropriate verification process would ensure invoices are approved and expenditures are authorized. See Issue #4.

## ***Summary of Process Flow and Identified Control Gaps, continued***

### **7. Monthly Reports**

Monthly detailed general ledgers and/or actual to budget expenditure reports are not consistently reviewed by the Departments. This control gap is intensified due to item #3 regarding approval weaknesses by the departments. Further discussion is included in Issue #4.

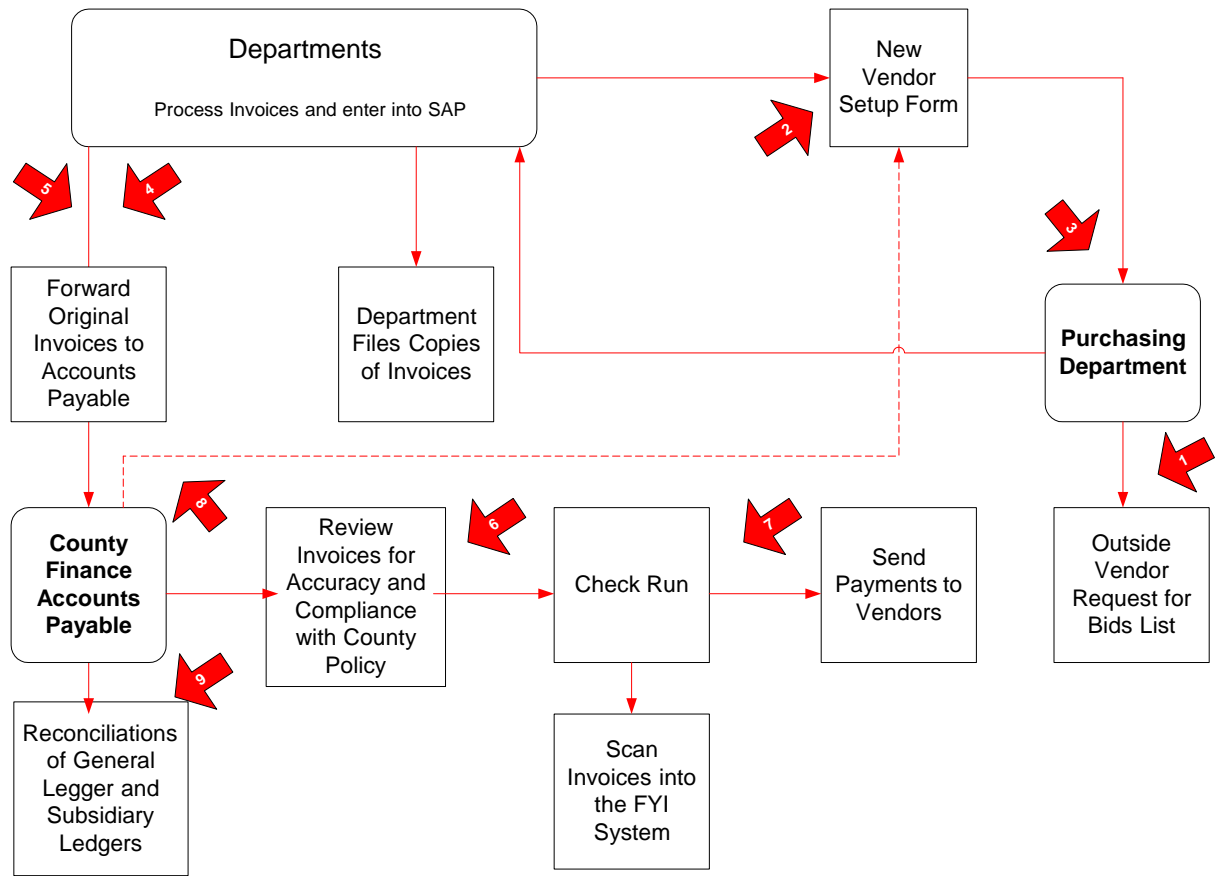
### **8. Segregation of Duties**

In addition to the Purchasing Department, Accounts Payable has the ability to setup new vendors. This is a segregation of duties issue as Accounts Payable also makes payments to vendors. See Issue #1.

### **9. Vendor Statements**

Based on our observation and discussions with the Accounts Payable Supervisor, vendor statements are not being consistently forwarded to the Accounts Payable Department, for review and reconciliation. See Issue #6 for further discussion.

# Summary of Process Flow



## Critical Control Gaps

See Summary of Process Flow and Control Gaps

<b><i>Issue #1</i></b>	<b><i>Vendor Setup</i></b>
	<p>We reviewed the County’s process surrounding setup of new vendors and changes and/or deletions to vendor master files and noted the following:</p> <p><b><i>Vendor Registration and Approval</i></b>  New vendors may be setup by the Purchasing Department by receiving a vendor request form from personnel within individual departments or by the vendor completing a vendor application form. We noted that not all vendors are required to complete a vendor application form and the vendor request form omits critical information.</p> <p><b><i>Vendor Master File Changes</i></b>  For changes to existing vendor master files, a vendor change form is required to be completed by the Department. Such form may be prepared by anyone in the department. As with the vendor application, no approval is required to process vendor changes.</p> <p><b><i>Duplicate Vendors</i></b>  See Issue #3.</p> <p><b><i>Screening of New Vendors</i></b>  New Vendors are setup by the Purchasing Department, or in some cases, the Accounts Payable Department. As noted above, the requests are not approved and we noted the new vendors are not screened prior to setup. For example, is the vendor a valid business entity, etc?</p> <p><b><i>External Requests</i></b>  Organizations wanting to be on the County bidders list are required to complete and submit a “Vendor Application Form”, which is processed through the Purchasing Department. Once the organization is setup on the bidders list, they are automatically given an active vendor number in the SAP system. As noted above, the form does not include a line for approval and there is no screening of the organizations prior to inputting them in the SAP system.</p> <p><b><i>Vendor Setup – Segregation of Duties</i></b>  In addition to the Purchasing Department, the Accounts Payable Department may also setup a new vendor. Consistent with the process outlined above there is no formal approval required to setup new vendors. We noted new vendors can be setup by an email request or other informal process from the Department. Such informal requests tend to omit critical vendor information. The functions of processing payments and setting up new vendors should be segregated. This is an internal control deficiency that could lead to payments to fictitious vendors.</p> <p><b><i>PO Boxes and Personal Mailboxes (“PMB’s”)</i></b>  During our testing we noted more than 3,000 of the 13,000 vendors setup in the system have PO Boxes or PMB’s as addresses. We reviewed a sample of these vendors in an attempt to determine if they are valid entities, and reviewed the nature of the transactions they have with the County. P.O. Boxes and PMB’s tend to be a red flag and could be a sign of billing schemes. PMB’s are often used in billing schemes and fraudulent activity because the forwarding information of the owner is not public information and thus can not be traced.</p> <p>Vendor setup is a critical function in the accounts payable process. Weaknesses in this critical function increase the opportunities for fraud.</p>

**Issue #1****Vendor Setup, continued****Impact**

- ❑ Inadequate controls and procedures over vendor setup could lead to fictitious or duplicate vendors which could ultimately lead to misappropriation of funds.
- ❑ Without an approval/verification process for new vendors, fraudulent vendors could be added into the system.
- ❑ In addition, vendors may be added who are not licensed or a valid business entity.
- ❑ Critical information may be omitted during vendor setup.
- ❑ This control gap could also lead to duplicate vendors in the system as identified in Issue #3.

**Recommended Action****Vendor Registration and Approval**

The vendor application should be fully completed in all instances. The County should further review and evaluate the effectiveness of having the vendor complete this application as an additional control point. See exceptions below under segregation of duties.

**Vendor Master File Changes**

The Purchasing Department should implement a standard approval process for vendor master file changes. Again, the County should review the effectiveness of having these changes initiated by the vendor and completed by the Purchasing Department.

**Duplicate Vendors**

See Issue #3.

**Screening of New Vendors**

The Purchasing Department should develop and implement a standard process for screening new vendors prior to setup in SAP. At a minimum, it should include:

- Verification the vendor is a legitimate business entity or equivalent.
- Verification to determine if a vendor is already setup before establishing a new vendor.
- Query the system to see if any of the vendor information matches with employees of other related parties.

This screening process is a critical preventative control for possible misappropriation of funds.

**External Requests**

We recommend that vendors requesting to be on the County bid list be assigned an “inactive” vendor number. Upon executing a purchase order the status would be changed to active.

**Vendor Setup - Segregation of Duties**

Setting up new vendors in SAP should be limited to the Purchasing Department. We understand that there are certain vendors that Accounts Payable should maintain and submits payments to without the involving the Purchasing Department. These exceptions include travel and court related reimbursements. However, we recommend that new vendor setups and vendor master file changes be performed by an individual within the department who does not have access to making the payments to the vendors.

**PO Boxes and Personal Mailboxes (“PMB’s”)**

All vendors should be required to provide a physical location address.

<b><i>Issue #1</i></b>	<b><i>Vendor Setup, continued</i></b>
	<b><i>Management Response</i></b>
<p align="center"><b>Response</b></p>	<p><b><u>Vendor Registration and Approval</u></b></p> <p>Departments have the authority to obtain quotes for purchases up to \$15,000, and in doing so, frequently establish business with new vendors. A Vendor Add/Change/Delete Form is utilized by Purchasing Services to obtain pertinent information for the creation or change of a vendor account. Additionally, a Vendor Application form is utilized to allow vendors to register directly to Purchasing Services. Both methods require submittal of an IRS W-9 form providing and certifying a Taxpayer Identification Number.</p> <p>Purchasing/Central Services will review common practices of surrounding counties and municipalities and propose alternatives, which may include registration by the vendor only, and/or departmental submittal of new vendor registrations that requires two departmental signatures, one of which must be from staff at the Program Manager level.</p> <p><b><u>Vendor Master File Changes</u></b></p> <p>Purchasing will implement a standard process for vendor master file changes. In order to expedite such changes and not to delay processing of purchase orders and payments to vendors staff believes that departments should also be able to request changes. Again, Purchasing/Central Services will review common practices of surrounding counties and municipalities and propose alternatives, which may include submittal of changes by the vendor only, and/or departmental submittal of new vendor changes that requires two departmental signatures, one of which must be from staff at the Program Manager level.</p> <p><b><u>Screening of New Vendors</u></b></p> <p>Purchasing staff does not have the resources or expertise to undertake screening of vendors in the manner recommended by the Auditors. The W-9 form required of vendors provides that the vendor certify the information as correct. Provision of a false statement is made under penalty of perjury. The requirement of a signed W-9 form provides a tool for prosecution if needed. It is worth noting that current electronic vendor registration by the State of Florida does not require submittal of a W-9 form. Purchasing/Central Services will evaluate this recommendation in conjunction with those made in regards to vendor registration and changes to determine what level of screening is required as a result of procedural changes regarding vendor registration and vendor master file changes.</p> <p><b><u>External Requests</u></b></p> <p>Purchasing will enter new vendors into SAP as “deleted vendors” which in effect places them in an inactive status. Vendors will be placed in the active status upon a departmental request.</p>

<b><i>Issue #1</i></b>	<b><i>Vendor Setup, continued</i></b>
	<b><i>Management Response, continued</i></b>
<b>Response</b>	<p><b><u>Vendor Setup – Segregation of Duties</u></b></p> <p>Accounts Payable procedures will be amended to provide that new vendor setups and vendor master file changes will be performed by an individual within the department who does not have access to making payments.</p> <p><b><u>PO Boxes and Personal Mailboxes (“PMB’s”)</u></b></p> <p>For purchasing vendors staff will revise forms to further clarify the requirement for a physical location address.</p>
<b>Time Frame</b>	September 30, 2003
<b>Person Responsible</b>	Kathy Prothman, Assistant Finance Director – Accounts Payable Vendors Steve Stultz, Central Services Director – Purchasing Vendors

**Issue #2****Duplicate Payments**

In order to confirm whether duplicate payments existed for calendar year 2001 and 2002 potential duplicate items were identified. We reviewed pertinent information for each paid invoice selected, including, vendor name and number, invoice number, date and amount. Based on this review, a report was generated that identified 'potential' duplicate payments by cross referencing key fields (similar vendor information input into SAP). We tested a sample of 130 potential matches.

Our findings are detailed below.

**SAP Overrides**

SAP is programmed to prompt the user when they are going to process a potential duplicate payment. However, the processor may override that prompt. SAP only prompts the user if it is an 'exact' duplicate. Override exception reports are not generated to review the appropriateness of override. The following invoices were input and paid twice in SAP.

<b>Vendor Name</b>	<b>Invoice #</b>	<b>Date</b>	<b>Amount</b>
IKON Office Solutions, Inc.	12355244	06/27/01	\$ 1,234.05
IKON Office Solutions, Inc.	12357344	06/29/01	\$ 257.34
CED, Inc.	1111-402692	01/12/01	<u>\$ 449.85</u>
			<u>\$ 1,941.24</u>
Olsen Associates, Inc.	2001010	02/08/01	\$13,242.60*
Dixon Electric Co., Inc.	3638	07/23/02	\$ 5,540.00*
Nautilus Shwinn Fitness Gp.	BOWFLEX STA 63	12/11/01	\$ 1,600.00*
Miller Bearing, Inc.	6174451-01	06/20/01	\$ 1,023.20*
Miller Bearing, Inc.	6173958-01	05/31/01	\$ 960.45*
Douglas Lee Simon	3184	03/12/02	\$ 120.00*
Douglas Lee Simon	3185	03/12/02	<u>\$ 120.00*</u>
			<u>\$ 22,606.25</u>

**Invoice Data Input Error**

The following identifies invoices that were paid twice due to a data input error (incorrect invoice number or PO number) at the department level. It is Accounts Payable responsibility to verify the accuracy of the data input by the Departments.

<b>Vendor Name</b>	<b>Invoice #</b>	<b>Date</b>	<b>Amount</b>
Rinker Materials Corp.	95745542	01/27/01	\$ 745.25
Rinker Materials Corporation	95783382	04/03/01	\$ 188.00
Rinker Materials Corporation	0095762424	03/29/01	\$ 163.05
Sunrise Animal Clinic	029318	02/13/02	\$ 183.00
Pitney Bowes, Inc.	3222883-OT01	12/04/01	\$ 199.87
Pat's Typing Service	2002-08-KSC	09/06/02	\$ 2,485.50
Oxford University Press, Inc.	104282276	11/12/01	<u>\$ 225.00</u>
			<u>\$ 4,189.67</u>
Atlantic Testing Laboratories	22229	04/12/01	\$ 1,000.00*

**Issue #2*****Duplicate Payments, continued******Duplicate Vendor Numbers***

As further discussed in Issue #3, we noted numerous vendors with duplicate setups. The duplicate payments were a result of the vendor being setup more than once in the vendor master files.

<b>Vendor Name</b>	<b>Invoice #</b>	<b>Date</b>	<b>Amount</b>
Brenntag Mid-South, Inc.	522320390001	07/26/01	\$ 366.90
Brenntag Mid-South, Inc.	522297290001	06/05/01	\$ 262.50
Brenntag Mid-South, Inc.	522298370001	06/05/01	\$ 262.50
Brenntag Mid-South, Inc.	522488850001	09/10/02	\$ 225.00
IKON Office Solutions Inc.	12585104	12/20/01	<u>\$ 764.49</u>
			<u>\$ 1881.39</u>
United Humanitarians Corp.	4/19-4/28/02	04/28/02	\$ 4,175.60*
IKON Office Solutions, Inc.	12355272	06/27/01	<u>\$ 625.47*</u>
			<u>\$ 4,801.07</u>

***AO-33 Compliance***

The following duplicate payment was processed twice: once via a faxed shipping document and once via the invoice. This is not in conformance with AO-33. (See Issue #5)

<b>Vendor Name</b>	<b>Invoice #</b>	<b>Date</b>	<b>Amount</b>
National Waterworks, Inc.	74983598	06/21/01	<u>\$ 460.09</u>
			<u>\$ 460.09</u>

***Approval of Invoices***

This payment was duplicated because the same invoice was sent twice by the vendor with slightly different invoice numbers. Additionally, the invoices were not appropriately approved by the department. See Issue #5

<b>Vendor Name</b>	<b>Invoice #</b>	<b>Date</b>	<b>Amount</b>
Mike Gattos Goodyear, Inc.	370976	08/14/02	<u>\$ 107.50</u>
			<u>\$ 107.50</u>

We noted that a duplicate payment for travel was made to a County employee. In this situation, both a detailed expense report and a summary expense report were submitted, approved and paid. The difference of \$0.58 is 2 additional miles included on the detailed expense report.

<b>Employee Name</b>	<b>Invoice #</b>	<b>Date</b>	<b>Amount</b>
Employee A	N/A	11/30/01	\$ 94.83
Employee A	N/A	12/03/01	<u>\$ 95.41</u>
			<u>\$ 190.24</u>

<b>Issue #2</b>	<b><i>Duplicate Payment, continued</i></b>
	<p>* Duplicate payments recovered by the County. Six out of one hundred thirty possible duplicate payments sampled were paid twice but received a refund from the vendor. Refunds from the vendors were received between three and seven months later. Four out of one hundred thirty possible duplicate payments sampled were input twice but were identified before a check was sent to the vendor. A credit was input to offset the duplicate invoice.</p> <p>We noted that some of the invoices processed for payment were faxed copies received from the vendor. As a result invoices may be input twice (once from the original and again from the fax copy)</p> <p>At the current time, Accounts Payable is reviewing the potential duplicate items above. Further follow up will be completed by us when the additional information is received.</p> <p><b><i>Impact</i></b></p> <p>The duplicate payments identified above were the direct result of decentralization without appropriate and documented control procedures. The control deficiencies identified if not corrected could lead to additional overpayments and/or misappropriations of funds.</p> <p><b><i>Recommended Action</i></b></p> <p>Accounts Payable should request refunds for the invoices noted above for amounts due from vendors due to duplicate payments.</p> <p>In addition, we recommend the following:</p> <p><b><i>SAP Overrides</i></b> Over ride reports should be generated and reviewed at a minimum of monthly to detect users that are over riding the system.</p> <p><b><i>Invoice Data Input Error</i></b> The verification process in Accounts Payable should be reviewed to ensure input errors from the departments are identified and corrected.</p> <p><b><i>Duplicate Vendor Numbers</i></b> As further discussed in Issues #1 and #3, controls should be established to reduce duplicate vendors in SAP.</p> <p><b><i>AO-33 Compliance</i></b> Ensure that original invoices are received from the vendor prior to making payment as noted in AO-33. Fax copies should not be used as an input source document. See additional recommendations related to AO-33 in Issue #5.</p> <p><b><i>Approval of Invoices</i></b> Each department should approve invoices as documented by County policy. Issue #4 includes detailed recommendations surrounding the approval process and Accounts Payables role in the verification of the required approval. As further expanded in Issue #6, all vendor statements should be forwarded to Accounts Payable from the Departments and reviewed at a minimum quarterly by Accounts Payable and reconciled to identify any duplicate payments.</p>

<b>Issue #2</b>	<b><i>Duplicate Payment, continued</i></b>
	<b><i>Management Response</i></b>
<p><b>Response</b></p>	<p>The auditor's recommendations will be implemented, as detailed below. It should be noted that Accounts Payable processed approximately 190,000 invoices during this time period. County Finance staff is in the process of reviewing all 400 potential duplicate payments for fiscal years 2001 and 2002 identified by the audit. At this point, after reviewing approximately 95% of the identified potential duplicates, only 8 duplicate payments, in addition to the 27 cited in the audit, have been identified.</p> <p><b><i>SAP Overrides</i></b> With current resources, it is not possible to generate an override report, as recommended by the auditors, however, Accounts Payable now generates a report that lists potential duplicate payments and reviews this prior to checks being released each week.</p> <p><b><i>Invoice Data Input Error</i></b> Departments will be instructed (via memo and discussion during annual purchasing workshop) not to ignore the warning message that SAP generates when a potential duplicate payment is generated. Accounts Payable procedures will be updated to include additional steps to ensure that invoice numbers have been properly entered.</p> <p><b><i>Duplicate Vendor Numbers</i></b> See Response to Issue #1 and #3.</p> <p><b><i>AO-33 Compliance</i></b> The use of fax copies as input documents will be strongly discouraged, however, we believe that controls already in place, such as the duplicate invoice check provided by SAP as well as the review by accounts payable are sufficient to compensate for any potential risk in accepting fax copies. See response for Issue #5.</p> <p><b><i>Approval of Invoices</i></b> See Response to Issues #4 and #6.</p>
<p><b>Time Frame</b></p>	<p>Potential duplicate payment report- Implemented July 2003 Communication with departments - September 30, 2003 Accounts Payable procedures updated- September 30, 2003</p>
<p><b>Person Responsible</b></p>	<p>Kathy Prothman, Assistant County Finance Director</p>

## Issue #3

## Master Vendor Listing

### **Duplicate Vendors**

As noted in Issue #2, we generated a report to identify potential duplicate payments. We noted the following during our testing with respect to the vendors setup in SAP:

Vendors setup with multiple vendor ID numbers	751
Different vendors setup with the same Tax ID number	207
Different vendors setup with the same address	811
Different vendors setup with the same phone number	71

As discussed in Issue #1, no formal approval is needed to setup a new vendor nor is there an approval needed to change/delete existing vendor information.

The setup of duplicate vendors is primarily due to the following:

- Minor differences during the vendor setup process. For instance, three separate vendors may be setup for ABC Contracting, ABC Contracting Co. and ABC Contracting Company.
- Accounts Payable and Purchasing setup separate vendor numbers to the same vendor in SAP. See Segregation of Duties with Accounts Payable as detailed in Issue #1.

### **“Old” Vendors**

In addition to Duplicate Vendors we noted a significant number of active vendors that did not have activity in the past 24 months. We did not attempt to quantify how many vendors had no activity.

### **Impact**

- Multiple vendors could lead to inefficiencies, possible delay in payment of invoices and duplicate payments. Delays in processing could cause the County not to be in compliance with the Florida Prompt Payment Act.
- Duplicate vendors as noted above increase the likelihood of duplicate payments which may go undetected as the controls setup in SAP to detect them may not catch the error.
- Duplicate vendors create opportunities for fraud.

### **Recommended Action**

We recommend the following:

#### **Duplicate Vendors**

- The Purchasing and Accounts Payable Departments review the vendor master files and eliminate duplicate vendors
- As recommended in Issue #1 controls should be implemented over vendor setup to reduce the likelihood of duplicate vendors in the system.

#### **“Old” Vendors**

Accounts Payable should review and de-activate vendors who have not had activity for a period of 24 months. A monitoring program should be established to query and de-activate vendor without activity for a specified period.

<b><i>Issue #3</i></b>	<b><i>Master Vendor Listing, continued</i></b>
<b><i>Management Response</i></b>	
<p><b>Response</b></p>	<p>The review of old and duplicate vendors was last performed in November 2001. As a result, 3339 standard vendors (Z001) are flagged “delete” indicating an inactive status.</p> <p>Many of the vendor records indicated as duplicates on the report provided by the Auditor are not duplicate as many may have different order addresses or different remit addresses. The State of Florida and Brevard Community College are two such examples where multiple vendor accounts are created under the same vendor name due to activities with many different agencies or offices.</p> <p>Accounts Payable and Purchasing will work together to jointly review the vendor file.</p>
<p><b>Time Frame</b></p>	<p>December 2003</p>
<p><b>Person Responsible</b></p>	<p>Kathy Prothman, Assistant Finance Director – Accounts Payable Vendors Steve Stultz, Central Services Director – Purchasing Vendors</p>

<b><i>Issue #4</i></b>	<b><i>Invoice Authorization</i></b>
	<p>The processing of invoices changed with the implementation of the SAP system in 1999. The process, as mapped on page 7, is decentralized. The Departments approve and input the invoices into the SAP system and Accounts Payable verifies the input once they receive the original invoice from the departments.</p> <p>The County departments do not utilize a consistent invoice approval process. Per AO-33, the County requires departments to approve all invoices prior to submission to accounts payable. During our testing we noted:</p> <ul style="list-style-type: none"> <li>❑ Forty-three of the seventy three invoices sampled did not contain documentation of supervisor approval.</li> <li>❑ The invoices entered into SAP are not currently authorized and released electronically by a supervisor. We understand the current version of SAP if upgraded could provide this capability.</li> <li>❑ Accounts Payable is verifying the entry of the invoices by the department in accordance with Administrative Order AO-33 “Prompt Payment Of Invoices”, (See Issue #5) however they are not verifying (not required by administrative order) that the invoices were appropriately approved. Signature cards are not being used to verify the authorization of the invoices. We were informed that signature cards were used prior to the implementation of SAP. However, the decision was made to eliminate the signature cards once SAP was put in place. Thus there is no control in place to ensure that invoices are properly authorized.</li> </ul> <p>We understand the departments do not currently receive on a regular/routine basis a detailed list of expenditures (i.e. detailed general ledger or budget to actual expenditure comparison) made.</p> <p><b><i>Impact</i></b></p> <ul style="list-style-type: none"> <li>❑ Without proper documented review and approval of invoices, unauthorized expenditures may be made, thus resulting in misappropriation of funds.</li> </ul>

<b>Issue #4</b>	<b>Invoice Authorization, continued</b>
	<p><b>Recommended Action</b></p> <p>The County should consider the cost/benefit of utilizing the Workflow function in the SAP system to allow the appropriate management level individual to electronically approve and release invoice entry in SAP.</p> <p>The following manual controls should be implemented if the County decides not to utilize the workflow function:</p> <ul style="list-style-type: none"> <li>❑ Invoices should not be entered into SAP by the Department without proper documented authorization. Such documentation should be included on the face of the invoice. Use of a stamp “Approved for Payment” with the supervisors’ signature would be adequate.</li> <li>❑ All personnel who are authorized to approve invoices should complete a signature card and submit it to Accounts Payable. Accounts Payable should verify appropriate approval when reviewing invoice for accuracy.</li> <li>❑ As an additional control, detailed general ledger or budget to actual expenditure comparisons could be used monthly by the Departments to ensure authorization of expenditures.</li> </ul>
	<p><b>Management Response</b></p>
<p><b>Response</b></p>	<p>Implementation of the Workflow functionality within SAP is a resource issue for the County. Staff will continue to request funding for an upgrade of SAP to include Workflow with the necessary number of licenses.</p> <p>Accounts Payable staff will work with County Departments to update signature authorities and maintain a signature listing. Additionally, Accounts Payable Staff will work with County Management to establish internal procedures for invoice authorization and processing.</p> <p>Detailed general ledger and budget to actual comparisons are available to SAP users at any time. County Finance provides training on how to use these reports upon request. While County Staff may not print these reports it is believe they are reviewed by the appropriate financial staff within County departments on a regular basis.</p>
<p><b>Time Frame</b></p>	<p>January 2004</p>
<p><b>Person Responsible</b></p>	<p>Kathleen Prothman, Assistant County Finance Director Stockton Whitten, Assistant County Manager</p>

<b><i>Issue #5</i></b>	<b><i>Administrative Order 33 “Prompt Payment of Invoices”</i></b>
	<p>We tested compliance with Administrative Order 33 “Prompt Payment of Invoices”. The purpose and scope of this administrative order is:</p> <p>“To specify the process for receiving invoices, evaluating invoices for proper content, notifying vendors of improper invoices and resolving disputes related to invoices, so that timely payment occurs.”</p> <p>During our sample testing we noted the following exceptions:</p> <ul style="list-style-type: none"> <li>❑ Forty-two out of seventy-three invoices sampled were not date stamped when received by the Department.</li> <li>❑ One invoice sampled was not provided to Accounts Payable within five days of receipt. We were unable to determine if forty-two invoices were provided timely due to a lack of date stamps.</li> <li>❑ Seventeen invoices did not include the purchase order/contract numbers on the invoice from the vendor.</li> <li>❑ One of the invoices tested was not paid within 45 days of receipt by County Finance.</li> <li>❑ As mentioned in Issue #4, forty-three of the seventy-three invoices did not have the signature approval of a supervisor or manager. See Issue #4</li> </ul>

<b>Issue #5</b>	<b>Administrative Order 33 “Prompt Payment of Invoices”, continued</b>
	<p><b>Impact</b></p> <ul style="list-style-type: none"> <li>❑ The primary purpose of Administrative Order #33 is to ensure payment is made only for actual goods and services which have been received, authorized and approved by appropriate personnel. Failure to comply with these policies and procedures may result in payment for unauthorized good and services.</li> <li>❑ When invoices are received by Accounts Payable with incomplete information, there could be a delay in paying the invoices or an inadvertent mispayment. If invoices are not paid in accordance with Florida Statutes 218.74 “Procedures for calculation of payment due dates”, then the County is responsible to pay interest on invoices paid late.</li> </ul> <p><b>Recommended Action</b></p> <p>We recommend the following:</p> <ul style="list-style-type: none"> <li>❑ Re-educate department personnel on the importance of ensuring that vendor invoices are processed in accordance with the requirements established in Administrative Order 33. In addition, review AO-33 to ensure that procedures are clear and precise</li> <li>❑ Notify the vendor within 10 days if an improper invoice is received (AO-33) and inform them what is needed in order for their invoice to be considered proper for payment.</li> <li>❑ See Issue #4 for recommended action on approval of invoices.</li> </ul>
<b>Management Response</b>	
<b>Response</b>	A comprehensive review and re-edit of AO-33 will be conducted. Reeducation of departmental personnel, including the requirement to notify vendors of improper invoices will be accomplished during annual Purchasing/Budget/Accounts Payable workshop.
<b>Time Frame</b>	September 30, 2003
<b>Person Responsible</b>	Kathleen Prothman, Assistant County Finance Director Stockton Whitten, Assistant County Manager

**Issue #6*****Credit Balances and Vendor Statements***

As part of our procedures, we sent confirmations to 340 of the County's largest vendors to review the payment history and identify credit balances which may be potentially due to the County. We received 159 confirmations back. We noted the following credit balances which could represent potential overpayments.

<b>Vendor Name</b>	<b>Amount</b>
Harcros Chemical Inc	\$ 582.40
Aramark Uniform Services Corporation	\$ 56.79
Ten-8 Fire Equipment Inc	\$ 232.00
ISIS Supply	\$ 14.50
Mike Gato Inc	\$ 1,393.70
Communications International Inc	\$ 544.64
Belcorp Inc	<u>\$ 6,311.78</u>

Total Identified Credits \$ 9,135.81

At the current time, Accounts Payable is reviewing these items. Further follow up will be completed by us when the additional information is received.

Vendor statements are, in most cases, received by the Departments and either filed or thrown away. According to the Accounts Payable Supervisor, the statements are not being consistently forwarded to the Accounts Payable Department, for review and reconciliation.

***Impact***

Without regular statements from vendors to perform reconciliations to the subsidiary ledger, credit balances generated from duplicate payments, returns, unapplied discounts and the like may be due the County without their knowledge.

***Recommended Action***

We recommend Accounts Payable receive statements directly from the vendors. These statements would be reviewed by the Accounts Payable Clerks and reconciliations should be completed to identify credits due the County and to verify the books and records are accurate. This process should at a minimum be completed quarterly.

The above credit balances should be further researched by Accounts Payable and credits obtained as applicable.

<b><i>Issue #6</i></b>	<b><i>Credit Balances and Vendor Statements, continued</i></b>
	<b><i>Management Response</i></b>
<b>Response</b>	Departments will be instructed to send any vendor statements they receive to Accounts Payable. Accounts Payable will notify the vendor that future statements should be sent directly to Accounts Payable. The above referenced requirements will be outlined in AO-33. The possible credit balances identified in the audit have been researched and credits obtained, if applicable.
<b>Time Frame</b>	September 30, 2003
<b>Person Responsible</b>	Kathleen Prothman, Assistant County Finance Director

<b>Issue #7</b>	<b>Documented Policies &amp; Procedures</b>
	<p>Given the decentralized nature of the departments, inconsistencies exist in the invoice process from department to department. We understand based upon our interviews there are no formal standard written policies and procedures over invoice processing at the department level. As a result, Departments are utilizing varying methods to input, approve and process invoices for submission to Accounts Payable. A decentralized system requires consistent and formal procedures to ensure that expenditures are appropriate and properly authorized.</p> <p>During our review, we noted that the County maintains on-line Business Process Procedures (“BPP”) which explains payment processing. However, during our interviews with the departments, they were often not aware that these BPPs were available. While these payment processing policies do not have a direct effect on the Department, an understanding of the payment process would facilitate invoice processing.</p> <p>As noted in Issues #4 and #8, policies do not exist related to:</p> <ul style="list-style-type: none"> <li>• Approval of invoices</li> <li>• Payments to employees</li> </ul> <p><b>Impact</b></p> <ul style="list-style-type: none"> <li>❑ Without formal documented policies and procedures on processing invoices, critical functions may be omitted and errors could occur and not be detected in a reasonable time period.</li> <li>❑ In the event of employee turnover, lack of written policies and procedures could lead to inefficiencies, fraudulent activities and possible delay in payment of invoices. This delay could cause non-compliance with the Florida Prompt Payment Act.</li> </ul> <p><b>Recommended Action</b></p> <p>Detailed written policies and procedures should be established over vendor invoice processing. Consistent standardized policies and Accounts Payable department procedures will help ensure that invoices are properly approved and authorized by appropriate personnel.</p> <p>We recommend that Accounts Payable inform each department of the location of the BPPs regarding payment processing. This will help ensure a complete understanding of the payment process and compliance with the Florida Prompt Payment Act.</p> <p>As further recommended in Issues #4 and #8, policies related to approval of invoices within the Departments and non-payroll related payments to employees should be incorporated into the policies and procedures.</p>

<b><i>Issue #7</i></b>	<b><i>Documented Policies &amp; Procedures, continued</i></b>
	<b><i>Management Response</i></b>
<b>Response</b>	Accounts Payable staff and County Management will incorporate the above referenced recommended actions in the rewrite of AO-33 or in a separate administrative order that addresses the invoice payment process. Departments will be directed to establish internal departmental invoice processing procedures that are consistent with the guidelines outlined in the revised Administrative Order.
<b>Time Frame</b>	October 1, 2003
<b>Person Responsible</b>	Kathy Prothman, Assistant County Finance Director Stockton Whitten, Assistant County Manager

<b>Issue #8</b>	<b><i>Non-payroll Payments to Employees</i></b>
	<p>As part of our procedures we generated a data match to identify payments made to employees (excluding payroll). We noted 576 payments made to employees through the accounts payable process over a two year period.</p> <p>The payments primarily related to reimbursement of travel expenditures, benefit premiums, health care payments, and other approved reimbursements. However, we noted payments to employees for other services.</p> <p>The County does not have a policy which governs payments to employees for services outside of payroll, related benefits and travel reimbursements.</p> <p><b><i>Impact</i></b></p> <p>Without a formal policy related to payments to employees for outside services the County is at risk of the following:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Mis-appropriation of funds.</li> <li><input type="checkbox"/> There could be a public perception that the transactions are not “arms length”.</li> <li><input type="checkbox"/> Possible Department of Labor violations.</li> <li><input type="checkbox"/> Lack of a clear understanding by managers and supervisors of what is appropriate.</li> </ul> <p><b><i>Recommended Action</i></b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> We recommend the County evaluate the circumstances related to employee payments outside of payroll, related benefits and travel to ensure that they are in compliance with rules and regulations of the Department of Labor and the Fair Labor Standards Act.</li> <li><input type="checkbox"/> In addition, we recommend the County develop a formal policy which addresses the approval and provides guidelines related to payments to employees for services.</li> </ul>
	<b><i>Management Response</i></b>
<b>Response</b>	<p>The County is not aware of, nor has it been presented with any instances where it is in violation of the Fair Labor Standards Act in regards to this particular issue.</p> <p>Policy BCC-03, Conflicts of Interest addresses outside employment for County employees. Staff believes that Hiring Authorities are fully aware of the appropriateness or inappropriateness of utilizing their staff or other County staff for contracted services, however staff will review and implement an administrative order and/or policy that further clarifies the County requirements.</p> <p>Additionally, Staff will draft a letter to the Department of Labor seeking clarification of their rules regarding this issue.</p>
<b>Time Frame</b>	October 1, 2003
<b>Person Responsible</b>	Stockton Whitten, Assistant County Manager Frank Abbate, Human Resources Director

<b>Issue #9</b>	<b><i>Users with Accounts Payable Access</i></b>
	<p>As discussed in the background section, the processing of invoices begins in the individual departments. The invoices are input by employees in the departments and reviewed in Accounts Payable. We noted that over 270 employees in the 30 different departments have data entry and view access to the accounts payable module. This is not including those in County Finance.</p> <p>Access to the accounts payable module would enable processing invoices and without limiting access could result in mis-appropriation of funds</p> <p><b><i>Impact</i></b></p> <p>The excessive access to the accounts payable module, combined with the critical control gaps identified throughout the report increases the opportunity for fraud. Unauthorized invoices could be input and subsequently processed through the system if access is not limited.</p> <p><b><i>Recommended Action</i></b></p> <p>We recommend the County review the current accounts payable access levels. Such review should include the level of access required, if any. Due to the critical control gaps identified in Issue #3 related to invoice approvals, we believe access to the SAP accounts payable module should be limited to required authorized users. We further recommend policies and procedures over granting access or changes in access levels be reviewed on a routine basis.</p>
	<b><i>Management Response</i></b>
<b>Response</b>	Staff will review current accounts payable access and authorizations and make the necessary adjustments.
<b>Time Frame</b>	December 1, 2003
<b>Person Responsible</b>	Kathy Prothman, Assistant Finance Director Stockton Whitten, Assistant County Manager