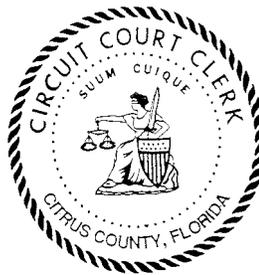


# **AUDIT REPORT**

**BOARD OF COUNTY COMMISSIONERS**

**ACCOUNTS PAYABLE**

**June 2004**



**Report by  
Internal Audit Division  
Clerk of the Circuit Court**

**Betty Strifler**  
Clerk of the Circuit Court  
Citrus County



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June 10, 2004

The Honorable Betty Strifler  
Clerk of the Circuit Court

Dear Mrs. Strifler:

I have completed the Board of County Commissioners' Accounts Payable Audit. The purpose of this audit was to evaluate compliance with the County's Administrative Regulations, statutory requirements, and policies and procedures.

The period audited was October 1, 2002 through February 29, 2004.

The review validated overall that the Board of County Commissioners' numerous departments, offices and divisions operate within the established policies and procedures. Several findings revealed noncompliance with the Florida Prompt Payment Act, a lack of segregation of duties, and opportunities for management to strengthen internal controls. Other minor matters were noted, but have no material effect on operations.

Responses to the Recommendations for Improvement are incorporated herein.

I appreciate the spirit of cooperation of County and Finance personnel during the course of this audit.

Brenda Fontenot  
Internal Auditor

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## EXECUTIVE SUMMARY

I have conducted the Board of County Commissioners' Accounts Payable audit. The audit was limited to an examination of the accounts payable policies, procedures, and related internal controls. The audit period was October 1, 2002 through February 29, 2004. In my opinion, the County departments, offices and divisions operate, overall, in compliance with the established guidelines and policies. However, several areas of exceptions, internal control weakness, and areas for improvement were noted:

Several invoices submitted for payment were not in compliance with the Florida Prompt Payment Act.

Several departments submitted duplicate invoices, and do not maintain adequate controls to monitor previous billings.

Invoices were submitted after the due date, and others were missing supporting documentation.

Internal controls to block long distance calls are not effective, since the measures in place were circumvented by using an alternate long distance service to make unauthorized calls. The return call feature \*69 was used by one department.

There is no segregation of duties for several volunteer fire department district chiefs who approve family members' requests, as well as their own requests, for fire run payments.

Vendor reports disclosed duplicate names, inappropriate name changes, duplicate payments, missing taxpayer identification numbers and inconsistent data entry.

Receiving reports are not filed with supporting documents.

Other observations for improvement include assigning approval levels for non-conforming purchases, and revising procedures for the special handling of checks.



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## **INTRODUCTION**

The results of the audit are indicated below, beginning with an overall evaluation, followed by detailed discussions of the findings and recommendations, along with management's responses.

## **BACKGROUND**

The Finance Department of the Citrus County Clerk of Courts provides the service of issuing purchasing orders, processing invoices and other disbursements for the Board of County Commissioners' (BOCC) numerous departments, offices and divisions. The Department/Office/Division Directors, or their designees, approve the transactions for purchase and payment for amounts within their authorization levels, indicating the amount to be paid and the general ledger account to be charged. The Finance Department performs the preaudit function for all requested disbursements. The preaudit function determines whether expenditures are in accordance with the Board's purchasing program as outlined in the Office of Management & Budget (OMB) Administrative Regulations and within budgetary constraints (Florida Statute 136.08). Additionally, the Finance Department complies with and monitors compliance with the Florida Prompt Payment Act (Florida Statute 218). A flowchart compiled by the Assistant Finance Director is provided to further aid in understanding the purchase requisition process (Exhibit A.)

## **OBJECTIVES**

The objective of this audit was to evaluate compliance with the OMB Administrative Regulations, statutory requirements, and determine the adequacy of internal controls, separation of duties, and test the validity and correctness of the vendor invoice processing activity.

The audit is a tool to assist management in the evaluation of the organization's internal controls, established policies, procedures, and operations. This audit is not designed to appraise the performance of management.



## **SCOPE AND METHODOLOGY**

The scope of this audit included reviewing selected BOCC accounts payable transactions occurring from October 1, 2002 through February 29, 2004. The following areas were analyzed in performing the audit:

- system of approvals and authorizations
- segregation of duties
- adequate supporting documentation of purchases, invoices, and checks.

The policies and procedures established in the OMB Administrative Regulations provided the guideline for analyzing the system of approvals and authorizations for purchasing. A random sampling of 23,341 vendor checks with a 95% confidence level generated a report of 138 checks on which to conduct tests to ascertain propriety, validity and accuracy of accounts payable transactions.

Interviews were conducted with the Finance Director, Assistant Finance Director, and the Purchasing and Accounts Payable staff. The auditor observed data entry, requisition approvals, issuance of purchase orders, printing checks, and the check mailing process.

## **OVERALL EVALUATION**

Overall, established internal controls over the accounts payable process are consistently and effectively applied. The audit disclosed several payments of noncompliance with the Florida Prompt Payment Act, a lack of separation of duties for approving payment requests for volunteer firefighters, and opportunities for management to strengthen internal controls.

This audit revealed other minor matters requiring management's attention.



## **FINDINGS & RECOMMENDATIONS FOR IMPROVEMENT**

### **1. Invoices submitted to Finance resulted in Noncompliance with the Florida Prompt Payment Act, F.S. 218.74 (2).**

The Florida Prompt Payment Act requires payment from a local governmental entity within 45 days of receipt of goods or services. An invoice, dated November 5, 2003, was not forwarded to Finance until January 7, 2004. Another invoice, dated December 13, 2002, was received by Finance on February 4, 2003—51 days after receipt of goods.

There was no documentation attached to the invoices to indicate a dispute of the contracted services, or an explanation for the delay in payment of goods received.

### **RECOMMENDATION**

Management should review, approve and submit bills to Finance immediately upon receipt to ensure compliance with the Florida Prompt Payment Act.

### ***MANAGEMENT'S RESPONSE***

*This recommendation was implemented through adoption of A.R. 9.07 by the Board of County Commissioners on February 10, 2004. This section of the AR outlines the requirements of the Florida Prompt Payment Act.*

### **2. There is no internal control of segregation of duties for several district fire chiefs who approve family member's requests for payment for volunteer firefighter fire run payments.**

The district fire chief compares the district call log with fire runs listed on the firefighter's request for payment, along with his own request for payment, signs, and forwards to the Fire Services Accounting Clerk. The Accounting Clerk processes the payment for the correct account expenditure and forwards to Finance.



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## RECOMMENDATION

- a. Even though the district fire chiefs and firefighters are volunteers and their service and commitment to the safety of the residents of Citrus County is invaluable, internal controls and County policy should be followed in the individual fire districts.

The County's Employee Handbook, page 14, item 17, discusses *Fraternization*:

“Some working relationships, which might be detrimental to the best interests of the county or create a concern about the possibility that such relationship might interfere with the operations of the County, may arise. These include the employment of any two employees in a direct supervisory relationship, or in the same department/office/division, where there is between the employees involved (whether they are married or not, or otherwise related or not) a sufficiently close emotional, physical, or romantic relationship.”

- b. The district fire chief should submit to the Fire Services Division for approval all requests for payments. Other internal controls, checks and balances should be implemented as deemed necessary by the County to mitigate risks and eliminate the appearance of any impropriety.

## MANAGEMENT'S RESPONSE

- 2a, 2b. *The Fire Rescue Division prepared a policy to address the payment approval process for volunteer run payments. The policy has been implemented.*



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**3. A review of sampled payments disclosed noncompliance by the BOCC departments regarding accounts payable procedures.**

- a. Three telephone bills were submitted for payment after the due date.
- b. One statement with accompanying tickets was submitted to Finance with incomplete documentation. Check marks and initials on the statement with the tickets indicated the charges were verified by the submitting department. However, four tickets, totaling \$524.25, were not attached to the statement (Exhibit B).
- c. Three departments submitted duplicate invoices for payment (Exhibit C).

**RECOMMENDATION**

- a. Management should review for accuracy and completeness, approve, and submit bills to Finance immediately upon receipt.
- b. A spreadsheet or log to record submitted invoices would eliminate sending duplicate invoices to Finance.
- c. When an original invoice was previously paid from a copy or fax, department/division forwarding the original to Finance for retention should indicate in large lettering or stamp (preferably in red ink) that invoice was previously submitted for payment.

***MANAGEMENT'S RESPONSE***

- 3a. Management agrees with this recommendation.*
- 3b. The recommendation to log each invoice would be impractical to implement based on the volume of invoices the County processes annually. We will review procedures with the Finance Director that would strengthen the accounts payable software's ability to discern duplicate payments.*
- 3c. The recommendation to label items as previously submitted will be followed.*



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**4. A review of telephone bills indicated unauthorized long distance calls and additional charges that should be investigated to lower costs.**

- a. One department established the control for eliminating long distance charges by placing a toll blocking feature on the phone line. A review of the telephone bill revealed the toll blocking feature was bypassed by dialing an alternate long distance company.
- b. Review of another department's telephone bill indicated the use of the return call \*69 feature.
- c. Several departments incurred monthly line guard charges, which should be investigated to determine the necessity for this service (Exhibit D).

**RECOMMENDATION**

- a. Monthly telephone bills should be carefully reviewed upon receipt for unauthorized charges which may then be investigated on a timely basis.
- b. Management should review current Sprint invoices to determine the necessity of line guard protection on County telephone lines. Those departments providing critical services, such as fire, traffic control, water, etc., must maintain constant telephone service. However, other offices not critically impacted may be able to reduce telephone costs by eliminating line guard charges.

***MANAGEMENT'S RESPONSE***

- 4a. Unauthorized Long Distance Phone Calls: Line blocking is the only effective way to reduce unauthorized long distance phone calls; but if this is being bypassed, it is clearly a disciplinary matter for the appropriate department or division. Bills should be monitored, and long distance numbers should be traced back to the offending party, if possible, and the employee disciplined in accordance with the County Employee Manual.*

*One other alternative would be to remove the phone completely and rely on cell phones; however, this may not be cost effective.*



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4b. **\*69 Feature:** *This feature is an added charge and can be easily removed from the telephone line, which eliminates the charge. It would be my recommendation to notify those departments and divisions that have individual phone lines and have them make the request to remove the \*69 feature from the line.*

4c. **Monthly Line Guard Charges:** *My understanding of this feature is that it provides line repairs past the phone switch, which is normally the owner's responsibility. For this charge, Sprint will repair or replace these lines at no charge. The County does not have a telephone lineman in-house, and all of these functions are subcontracted to an outside vendor. The phone lines indicated are individual lines that are used for items, such as alarm systems for lift stations (water/waste water), dial-up access to remote fuel sites (Fleet Management), and modem lines for access to State programs (Title III). Since phone line repairs are subcontracted, I believe that this nominal fee is justified in most, if not all, cases.*

*All of these lines, with the exception of one (Fleet Management), fall under other divisions or departments. Maintenance Operations does not oversee individual phone lines that other departments and divisions utilize in the course of their operations. Therefore, once the final recommendations are in place, I would suggest that each department/division be contacted in order to see that they are carried out.*

**5. Vendor reports revealed duplicate names, inconsistent data entry, inappropriate name changes, duplicate payments, and missing taxpayer identification numbers.**

- a. A review of 3200 of 7200 vendor names revealed 100 duplicate names, spelling variations, misspelled names, inconsistent format for data entry, seven duplicate payments, and missing taxpayer identification numbers.
- b. It was also noted in the Pentamation software application that modifying a vendor name changes all prior transactions under that particular vendor number, which virtually eliminates an automated audit trail for transactions occurring under the previous name.



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## RECOMMENDATION

- a. Finance should generate a current Master Vendor Report that will identify duplicate vendor names, multiple mailing addresses, inconsistent data entry of periods, spaces, abbreviations, spelling variations, and missing taxpayer identification numbers.
- b. Write a procedure outlining the use of commas, periods, ampersands, abbreviations, and titles for consistent data entry to reduce the possibility of duplicate vendor names and mitigate the risk of duplicate payments. Eliminating unnecessary keystrokes will result in a more efficient data entry process. Once the data entry process is standardized, implement a schedule for reviewing and updating the vendor records.
- c. Eliminate “DO NOT USE” in the vendor name by utilizing the “HOLD” feature under Miscellaneous Information for the vendor. This feature will not allow payments to the vendor and is a more reliable method for preventing the use of an inactive or duplicate vendor.
- d. To minimize creating a new vendor number when a payment must be sent to another address, accounts payable clerks should use the alternate address feature in Pentamation.
- e. When a name changes due to a merger or a sale, a new vendor number should be created to reflect activity of the new entity, thereby leaving previous transactions as originally recorded.
- f. When possible, use Inc., LLC, etc., to indicate that vendor is a corporation. This will facilitate Form 1099 preparation each January by eliminating unnecessary research to determine whether a vendor should receive a 1099. It should be noted that attorneys and law firms must receive a 1099, since the IRS “corporation rule” does not apply.

## ***FINANCE DEPARTMENT’S RESPONSE***

*5a, 5b. These two recommendations will be added to our Accounts Payable goals for 2005.*

*5c, 5d. Finance will research the utilization of the HOLD feature and the alternate address feature. It is our belief that utilization of the HOLD feature will still*



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*allow an invoice to be keyed to that vendor, but will just not issue a check. At one time, the alternate address feature in Pentamation did not function properly. We will see if this has been resolved.*

*5e. This recommendation will be partially implemented. If the EIN number changes, there should be a new vendor number created. If the EIN number remains the same, the name on that vendor number will have to be changed in order for 1099's to process correctly.*

*5f. Finance will implement this recommendation.*

## **6. Receiving reports are not filed with supporting documents.**

The County uses a copy of a purchase order to indicate services or goods were received. Standard operating procedures for a good accounts payable system ensure that copies of receiving reports are attached to invoices. During this review, confirmation of actual receipt of goods could not be verified by comparing the invoice to the receiving document. Segregation of duties could not be determined, since it was unknown if the person ordering the goods also received the goods.

### **RECOMMENDATION**

Management should ensure the original copy of the receiving report is attached to the invoice, and someone other than the purchaser validates receipt of the goods.

### ***FINANCE DEPARTMENT'S RESPONSE***

*County practice has been to utilize a copy of the Purchase Order for the receiving report. This is due to the fact that no receiving report is provided for many of the types of good and services purchased by the County.*



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**7. Approval levels for non-conforming purchases could be established to expedite handling and reduce unnecessary paperwork for the Office of Management & Budget and the County Administrator.**

A request for reimbursement under \$10 was processed in accordance with AR 9.01.02-3, Nonconforming Purchases, and was routed through the Fire Services Accounting Clerk, the Fire Services Director, Public Safety Director, Management/Budget Director, and the County Administrator prior to reaching the Finance Department approximately 26 days later.

**RECOMMENDATION**

- a. While the intent of AR: 9:01.02-3 is to reduce the occurrence of non-conforming purchases, it would seem reasonable to establish a dollar amount for approval by the various levels of authority. The cost to approve non-conforming purchases of low dollar amounts far outweighs the benefits of the extensive approval requirements.
- b. A report could be submitted by the departments to keep OMB apprised of non-conforming purchase activities exempted from subsequent approvals.

***MANAGEMENT'S RESPONSE***

*7a. A revised AR 9.01-02.3, Nonconforming Purchases, will be reviewed with the County Administrator and if approved, submitted to the Board of County Commissioners for approval.*

**8. Special handling of accounts payable checks creates weakness in internal controls, provides an opportunity for fraud, and is not an efficient use of employees' time.**

This finding was addressed in a prior audit and continues to be a concern. The special handling process, requested by some Departments and vendors, occurs when the checks must either be returned to the originator of the request, or when a vendor requests to pickup a check.



A significant control weakness and opportunity for fraud exist when the check is returned to the person originating the request. Possibilities of fraud include altering the check by either changing the name of the payee or the amount. If the check becomes lost or misplaced, and found by another party, the funds could be diverted.

Vendors' checks, employee travel expenses and volunteer firefighter checks are part of the special handling process. Records from bank reconciliations indicate outstanding checks to employees and firefighters that were never cashed—either lost or never picked up. This is especially true when a firefighter's check is delivered to one fire station, but the firefighter has transferred to another district.

There is no control to require a payee to sign for a check after it is delivered via courier. Therefore, location of a lost check cannot be determined and recovery may not be possible. The bank must be notified to stop payment of a lost check, and the check is either re-issued or eventually included in the abandoned property.

Not only do lost checks produce extra accounting steps, but vendors' checks prepared for pickup require a lengthy handling process.

The special handling process entails a number of steps that are not an efficient use of employees' time. These checks must be separated and processed, monitored and handled by the accounts payable staff, and manually controlled by front counter personnel to ensure delivery to the vendor.

A review of the weekly vendor pickup log from 1/16/04 – 3/23/04 disclosed that, overall, only 49% of the checks are picked up by vendors on the release date, and some checks are eventually mailed (Exhibit E).

## **RECOMMENDATION**

- a. To strengthen internal controls, minimize processing costs, and maximize employee efficiency, management should consider discontinuing the special handling process for vendors to pick up checks at the front counter.
- b. Develop a proof of delivery form requiring employee's signature when a reimbursement check has been handled via courier. This protects the courier, the person receiving the incoming mail, and ensures the employee received the check.



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- c. Mail checks to the volunteer firefighters via US mail. This preferred method results in additional security and strengthens internal controls. Any undeliverable checks will be returned directly to the County.

***FINANCE DEPARTMENT'S RESPONSE***

- 8a. *This option was put in place by the Clerk to provide greater Customer Service. We feel the risk is mitigated by the following internal control procedures: a) a pickup authorization form is obtained from the vendor at the time they request the service, b) anyone who comes to pickup a check must provide a picture ID in order to receive the check, and c) the checks are locked in a drawer at the front counter to provide further security. We will continue to offer this service until ACH service is available, which we have been told by Pentamation to expect by the first quarter of 2005.*
- 8b. *There is a sheet that the Courier has each department representative sign that they received the checks for their department. Those sheets are then returned to the Accounts Payable Supervisor to retain.*
- 8c. *We will try to stop sending their checks to the Fire Stations once ACH is available, which according to Pentamation should be the first quarter of 2005.*

# On-Line Purchase Requisition Entry

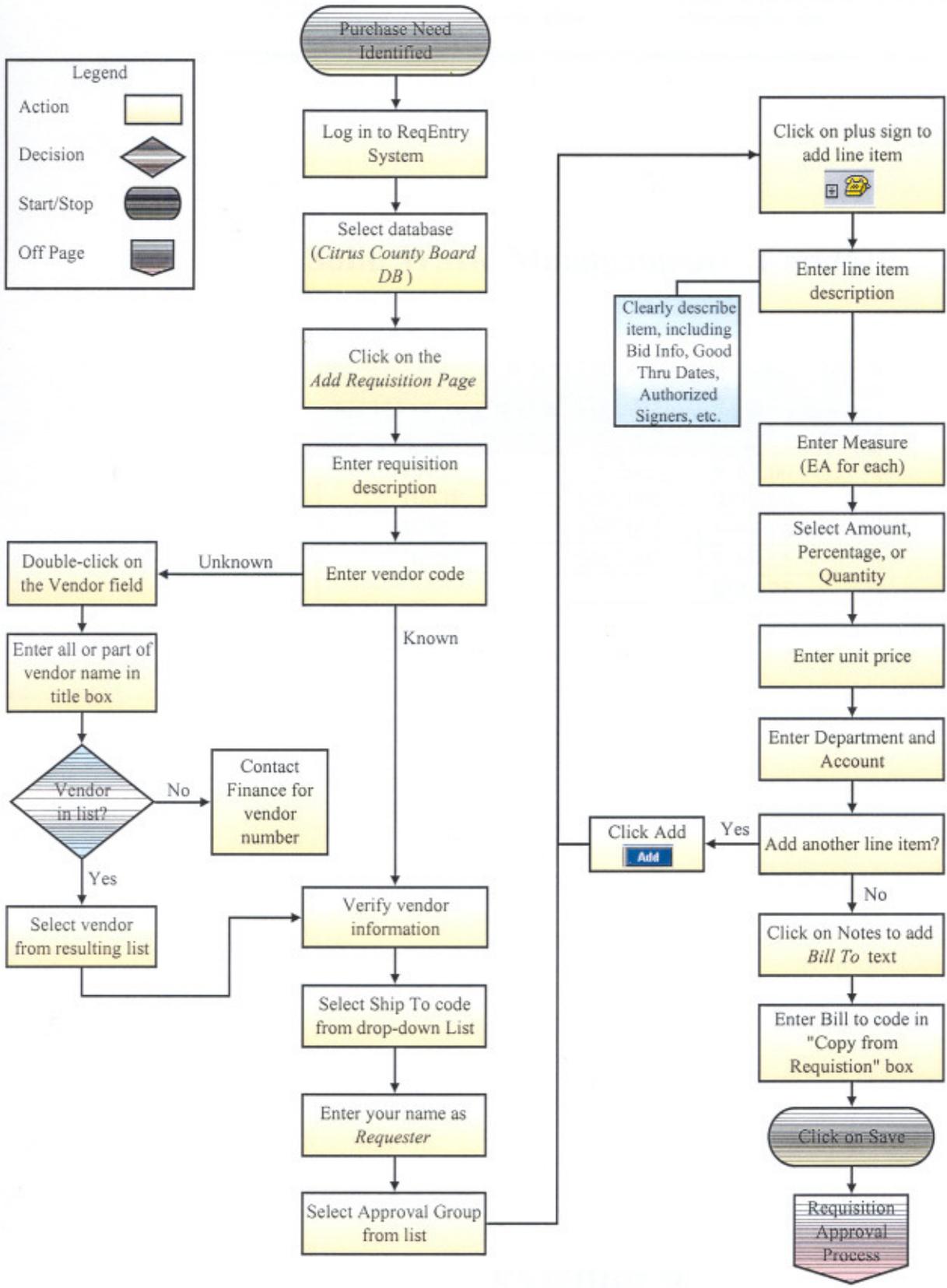


EXHIBIT A



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## Solid Waste Management – Landfill

MISSING TICKETS	DATE	AMOUNT
10637	5/5/2003	\$158.00
10638	5/5/2003	\$119.00
10653	5/6/2003	\$158.00
10654	5/6/2003	\$ 89.25
		<b>\$524.25</b>

## EXHIBIT B



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## DUPLICATE INVOICES

Department	Date	Invoice Number	Invoice Amount	Vendor Number	Comments
Public Defender	10/30/02	0013099560	43.10	1768	Original invoice; memo authorizing payment
Public Defender	11/08/02	0013099560	43.10	3477	Statement; memo authorizing payment
Circuit Court – Judicial Admin.	12/13/02	HJ86280	332.99	6366.2	Faxed copy of original invoice; received by Finance on 2/4/03 – 51 days after receipt of goods
Circuit Court – Judicial Admin.	---	HJ86280	332.99	6366	Statement received by Finance on 6/22/03
Public Safety - Animal Control	11/26/02	04308	32.50	3509	Check request
Public Safety - Animal Control	02/03/03	ID #4308	32.5	3509	Duplicate check request, date changed
Public Safety - Animal Control	11/26/02	8208	47.00	3511	Check request
Public Safety - Animal Control	02/03/03	ID #8208	47.00	3511	Duplicate check request, date changed
Public Safety - Animal Control	11/26/02	5778	31.50	3512	Check request
Public Safety - Animal Control	02/03/03	ID #5778	31.50	3512	Duplicate check request, date changed
Public Safety - Animal Control	11/26/02	7905	56.75	3513	Check request
Public Safety - Animal Control	02/03/03	ID #7905	56.75	3513	Duplicate check request, date changed
Public Safety - Animal Control	11/26/02	6113	39.75	3514	Check request
Public Safety - Animal Control	02/03/03	ID #6113	39.75	3514	Duplicate check request, date changed

Three of the five Animal Control duplicate checks were voided. Two letters were sent to the vendors requesting repayment—one of which returned the check. It is unknown if the fifth vendor reimbursed the County.

## EXHIBIT C



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## LINE GUARD CHARGES

The following departments incurred monthly line guard charges:

<b>Department</b>	<b>Telephone Number</b>	<b>Amount</b>
Water & Waste Water	746-0791	5.45
Water & Waste Water	746-7714	5.45
Canning Center	746-4324	5.45
Title III C-1	527-1689	5.45
Fleet Maintenance	746-6128	5.45
<b>Total</b>		<b>27.25</b>

Projected line guard costs for the five telephone lines over a ten-year period amount to \$3,270. Since this audit is limited to the sampled population, the possibility exists that other departments incur monthly telephone line guard charges.

## EXHIBIT D



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## WEEKLY VENDOR PICKUP LOG

DATE	# Checks	# Checks Picked Up	# Checks Mailed	Date
1/13/2004	11	5		1/13/04
		2		1/14/04
		1		1/15/04
		1		1/16/04
		1		1/21/04
			1	1/20/04
2/10/04	7	3		2/10/04
		2		2/11/04
		1		2/12/04
			1	2/17/04
2/24/2004	12	5		2/24/04
		3		2/25/04
		1		2/26/04
			3	3/2/04
3/9/2004	**21	17		3/9/04
		3		3/10/04
			1	3/18/04
3/23/2004	9	6		3/23/04
		2		3/24/04
			1	3/30/04

\*\*The week of 3/9 represents a total of 8 vendors, with 14 of the 21 checks picked up by Utilities.

Based on the data table, the percentage of checks picked up on the Board release date averages 56% overall. However, 14 of the 21 checks on week 3/9 were for the Utilities Department, which could have been handled via courier. Factoring out the Utilities checks, 43% of the checks were picked up on the 3/9 release date (3 checks/7 vendors). The overall average then calculates to 49%, less than half of the checks prepared for pickup on the Board release date.

## EXHIBIT E