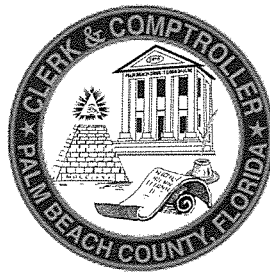


**CLERK & COMPTROLLER
PALM BEACH COUNTY
FINANCE SERVICES
CHECK RELEASE & DISTRIBUTION
PROCESSES**



SHARON R. BOCK

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Division of Inspector General

Audit Services Unit

September 26, 2012



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Palm Beach County

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The Honorable Sharon R. Bock, Esq.
Clerk & Comptroller

We conducted a management-requested review of the check release and distribution processes within Clerk's Finance.

Our objectives were to evaluate the overall effectiveness and efficiency of check release and distribution processes as well as related internal controls and procedures.

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

The review identified various control weaknesses and opportunities to strengthen the Finance check release and distribution processes. Specifically, controls over the release of special handling checks to vendor representatives and County departments required strengthening as well as safeguard controls over access to printed checks and blank check stock. Check release and distribution duties were not adequately segregated among employees. Vendor account record retention procedures required revision to comply with Florida statutes. Opportunities were identified to improve check reporting and recordkeeping, update policies and procedures, and enhance operating efficiencies.

We appreciated the cooperation of management and staff during the course of this review.

Respectfully submitted,

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Introduction

Background

In response to our request for input in developing our Division of Inspector General annual audit plan, Clerk Finance management submitted the opportunity to review the internal controls and security over the release of checks in the Payables Department as well as the distribution of checks in the Revenue & Cash Management Department.

Within the Payables Department, the Business Support Section (BSS), supported by two staff, is responsible for performing back-office functions including vendor change support, 1099 processing, final matching of checks to payment documentation, safeguarding signed checks prior to distribution, and preparation of the warrant list for Board of County Commissioner approval.

Special handling check distribution codes are used in AMS Advantage to separate checks for placement in front counter bins for delivery via regular U.S. Mail, interoffice mail, and Water Utilities Department interoffice mail. In addition, numerous special handling codes are used to separate checks for various reasons including: insertion of supporting documents in envelopes, delivery to foreign addresses, priority processing, and delivery to the Revenue and Cash Management front counter. BSS processed 69,979 special handling checks totaling \$681 million during FY 2011.

Within the Revenue and Cash Management Department, the front counter, supported by two employees, is responsible for the safeguarding and distribution of special handling checks designated for pick up by representatives of vendors, County departments, and interoffice couriers. The front counter handled 2,704 checks totaling \$89 million in FY 2011. The front counter area, located on the second floor of the Government Center, was recently redesigned to improve security over access to the Finance Division offices.

Scope and Methodology

The Clerk's Audit Services Unit of the Division of Inspector General conducted a review of the check release processes within the Payables Business Support Section and the check distribution processes by the Revenue and Cash Management Department front counter area.

The objectives of this audit were to obtain an understanding of the check payment release and distribution processes, evaluate the overall effectiveness and efficiency of processes, determine if existing internal controls adequately mitigate the inherent risks, and verify compliance with pertinent laws and policies. In addition, we evaluated the assignment of responsibilities and system access capabilities to assess whether such assignments were adequately segregated within the processes.

More specifically, the objectives included the following key activities performed by the Payables Business Support Section and Revenue and Cash Management Department front counter area:

- authorized edits to vendor information in AMS Advantage;
- verification of checks to payment supporting documentation;
- safeguarding of all printed and signed checks;
- recordkeeping of printed checks prior to verification to payment supporting documentation; and,
- safeguarding and recordkeeping of signed checks distributed to authorized representatives of vendors, County departments, and interoffice couriers.

In order to meet these objectives, we conducted interviews, reviewed departmental processes, performed a risk assessment of the areas under review, evaluated the internal control environment, and conducted sample testing of internal controls and transactions. Testing covered checks issued by the Payables Department from October 1, 2010 through February 29, 2012 as posted to the AMS Advantage system. We performed other procedures that were deemed necessary under the circumstances.

Conclusion

The review by the Clerk's Audit Services Unit identified various control weaknesses and opportunities to strengthen the check release and distribution processes within the Finance Services' Payables Department and the Cash & Revenue Management Department.

Specifically, controls over the release of special handling checks to vendor representatives and County departments required strengthening to minimize the risk of loss or theft. Access to printed checks and blank check stock was not adequately safeguarded. Check release and distribution duties were not adequately segregated among employees based on reviews of system access capabilities and process workflows. Opportunities were identified to improve reporting and recordkeeping of check printing, custody, verification and release processes.

In addition, vendor account record retention procedures did not comply with State of Florida requirements as such records were maintained three years rather than four years as mandated. Written policies and procedures require update and preparation in various areas. Other opportunities to enhance controls and improve operating efficiency were communicated to management.

Review Team:

Alan Bray, Deputy Inspector General & Audit Manager

Charles Mansen, Audit Project Administrator

Observations & Recommendations

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

1. Controls over the release of special handling checks require strengthening.

Controls over special handling checks released by the Revenue and Cash Management front counter require improvement to ensure disbursements are not lost or stolen.

- A. The front counter does not create or maintain a list of individuals who are pre-authorized by County department heads and vendors to pick up checks from the front counter. Letters, emails or other form of communication are not maintained on file by front counter staff to document authorization and enable verification. Best practices suggest the creation and use of such authorized lists as well as periodic confirmation for accuracy, though no governing authority or other policy exists that requires this type of pre-authorized list.
- B. Procedures did not define the documentation that was required in order to release special handling checks to County department and vendor representatives. Front counter staff accepted emails from non-supervisory Payables staff to release checks if the communication contained the payee, amount, and contact person. Proper authorization should be based on written communication approved by a County department head or vendor management as well as the Payables manager.
- C. Front counter staff release checks if an individual presents a business card or if the employee is familiar with the County department or vendor representative. Photo or other identification is not required to verify their identity.

- D. Checks designated for pick up by County departments and vendors are occasionally released by the front counter without obtaining a signature. Our review of one week's logs disclosed that four checks were picked up without obtaining a signature. We also noted that checks were released to individuals whose signatures were illegible and not identifiable by front counter staff.
- E. One check (#2700807) payable to Quantum Servicing for \$4,259.69 did not have a payee address but included the words "Mortgage Assistance". Best practices suggest that payee addresses should be included on the checks to reduce the risk of releasing checks to unauthorized individuals. Currently, the majority of checks do have the addresses printed on the checks.

Recommendations:

- A. Maintain a file of pre-authorized individuals, including the related source documentation, who are approved by County department heads, vendors, and Payables management to pick up checks from the front counter. Consider implementing an annual confirmation process to verify the authorized individuals.
- B. Revise procedures by defining the documentation that must be presented prior to check release including written approval from a County department head, vendor management, and Payables manager. Restrict Payables employees from authorizing pickup of checks from the front counter.
- C. Revise procedures to require verification of identity of persons picking up checks based on presentation of photo or similar identification.
- D. Ensure authorized individuals sign off (print and sign name) on the special handling check sign out log when picking up checks at the front counter.
- E. Ensure that all printed checks include proper payee address information to help ensure delivery of checks to authorized recipients.

Management Responses:

- A. Management does not agree with this recommendation as no governing authority exists. In addition, costs of recommendation exceed its benefit and could result in an increased number of County department representatives

requesting to pick up checks. Finally, there mitigating controls in place that significantly reduce the opportunity for fraud such as positive pay and safety features on the check stock.

Target Completion Date: N/A

- B. Management currently restricts Payables employees from authorizing pick-up of checks from the front counter. Authorization for pick-up of checks is restricted to Payables Manager and Supervisors and is notated on check register with initials. Additionally, there are mitigating controls in place that significantly reduce the opportunity for fraud such as positive pay and safety features on the check stock.

Target Completion Date: Completed

Procedure will be updated to include requirements for check release, which include photo identification and business card (for vendor). Management does not agree with including written approval from a County Department Head, Vendor Management or Payables Manager.

Target Completion Date: 01/01/13

- C. Photo ID is currently required.

Target Completion Date: Completed

- D. Finance has added a line in the check register for special handling checks which now allows for "printed name" as well as a signature. Now individuals picking up checks must print their name as well as sign. Current controls also include positive pay and safety features on checks that significantly reduce the probability of fraud.

Target Completion Date: Completed

Procedures will be updated to include printed names.

Target Completion Date: 01/01/13

- E. Payables will begin using an electronic check sealer in the coming weeks. Once this new procedure is implemented, the address will not print on the check; rather, it will print on the non-check portion of the paper. Therefore, Finance cannot agree to this recommendation. However, as noted above, there are a number additional controls in place that reduce the opportunity for fraud such as positive pay and safety features on check stock.

Target Completion Date: N/A

2. Safeguard controls over blank check stock and printed checks require strengthening.

Controls over safeguarding blank check stock and printed checks require improvement.

Within the Payables Department:

- A. Non-supervisory Payables employees have access to printed special handling checks and deliver unsealed envelopes containing checks to the Revenue and Cash Management front counter, increasing the risk of loss or release to unauthorized recipients.
- B. The general disbursement check stock inventory log file prepared by BSS for tracking check control numbers is not encrypted or password protected and is stored on the Payables shared drive.
- C. We observed that the key to the BSS cabinet used for storing blank check stock was left in the storage cabinet lock during the work day. This practice may allow blank check stock to be removed from the BSS work area and used to create unauthorized checks.
- D. The BSS safe is used to store excess blank check stock and printed checks. During the audit, we observed that the BSS safe was left unlocked during the day.
- E. Procedures state that spoiled check stock designated for destruction must be approved by the Payables manager and placed in a locked bin for shredding. Procedures and related controls would be enhanced by requiring a second individual to verify and sign off on the destruction.

Within the Revenue and Cash Management Department:

- F. We observed that the key to the see-through drop-box cabinet at the front counter was kept in the lock during the work day.

- G. Unsealed envelopes containing checks that are distributed through the U.S. Mail and County interoffice mail are placed into open unsecured mail bins. During the audit, management improved security over the mail bins by adding locking cabinet doors to restrict access to the mail bins.

Recommendations:

- A. Ensure that access to and handling of printed special handling checks is limited to Payables supervisors as required by policies and procedures.
- B. Establish a secure folder on the Payables Department shared drive for the general disbursement check stock inventory log. Secure the log with encryption and password protection on the Payables server.
- C. Store keys to locked cabinets in a secure location at all times.
- D. Close and lock the BSS safe at all times when access to the safe is not necessary.
- E. Consider requiring a witness for verification, witness, and signoff of destruction of spoiled check stock.
- F. Secure the front counter drop-box cabinet during the work day.
- G. Consult with the Clerk's Mailroom manager to determine if envelopes containing printed checks can be sealed prior to release to Clerk's Mailroom staff.

Management Responses:

- A. Access to and handling of printed special handling checks is limited to BSS staff and Payables Supervisors and Manager. Procedures have been updated accordingly.
Target Completion Date: Completed
- B. Management has established a secure folder on the Payables Department shared drive for the general disbursement check stock inventory log. This log is password protected. Access to this folder will be limited to BSS staff, Payables Senior Accountant, and Payables Manager.
Target Completion Date: 01/01/13

- C. It is current procedure to store keys to locked cabinet in a secure location at all times. The importance of this will be stressed to BSS staff and proper disciplinary action will be taken if this procedure is not followed. Additionally, access will soon be restricted to BSS area by a door, which will also lessen risk.
Target Completion Date: Completed
- D. It is current procedure to close and lock the BSS safe at all times when access to the safe is not necessary. The importance of this will be stressed to BSS staff and proper disciplinary action will be taken if this procedure is not followed. Additionally, access will soon be restricted to BSS by a door, which will also lessen risk.
Target completion date: Completed
- E. Management agrees to require a witness from Revenue & Cash Management for verification, witness, and signoff of destruction of spoiled check stock.
Target Completion Date: 01/01/13
- F. The key to the check box is required to be kept in a box, which is kept in a desk drawer and locked up each evening. Procedures will be updated to include this requirement.
Target Completion Date: 01/01/13
- G. This issue will be resolved with the implementation of a check-sealer, a project currently in progress.
Target Completion Date: 01/01/13

3. Check release and distribution duties were not adequately segregated.

Best practices indicate that a proper segregation of key duties is a fundamental component of strong internal controls. The basic concept is that no individual should have incompatible duties that allow them to commit systemic errors or fraud in the normal course of their duties without detection. In general, the principal incompatible duties to be segregated include: custody of assets (checks),

authorization of invoices and payment requests, recording or reporting of transactions, and reconciliation or execution of the transactions.

We reviewed the security profiles within AMS Advantage and the Wells Fargo CEO Portal in conjunction with employee responsibilities over manual processes including: vendor account setup and modification, payment processing, check printing, check distribution and release, and positive pay exception approval or rejection.

The following observations were noted that require management attention to improve the segregation of duties.

Within AMS Advantage and the Wells Fargo CEO Portal:

- A. The Payables manager and two supervisors can approve or reject positive pay exceptions. Unauthorized checks could be created and cleared by overriding positive pay rejections. Risk is partially mitigated via compensating controls including monthly bank reconciliations by Financial Reporting and ongoing cash disbursement reviews by Financial Reporting and County fiscal staff.
- B. Six non-supervisory employees can process current and prior year void check transactions, which is incompatible with their ability to approve invoices and payment requests. Management indicated that policies state that voided checks cannot be processed by the same person that created the check, with authority limited to the Payables manager, supervisors, coordinators and accountants.
- C. The review of sign-out signatures on the BSS special handling check sign-out log and manual check log disclosed that checks were released to one non-supervisory employee, which is incompatible with their authority to approve invoices and payment requests. This employee had system access to enter an encumbrance (e.g., KPO or GAE) and related vendor invoice as well as subsequently retrieve the check for special handling, which represent incompatible duties. Also, supervisory employees could sign out checks as well as approve invoices and check requests.
- D. The review of employee signatures in the BSS void check log disclosed that supervisory as well as non-supervisory employees signed for the release of

original checks and payment voucher documents for processing void payment transactions.

- E. A Finance Business Analysis employee is responsible for system administration duties, which is incompatible with their emergency backup responsibility for approving or rejecting positive pay exceptions.

Recommendations:

- A. Ensure that duties and related procedures over handling checks (printed, manual and voided) are adequately segregated. Data entry for documents related to encumbrances (e.g., KPO, GAE) and invoices should be segregated. Check release responsibilities should be limited to supervisory management.
- B. Ensure that original payment voucher documents are released only to the Payables manager and supervisors for correction or processing void transactions. Establish management review of the status of lost payment voucher documentation and related checks or void checks.
- C. Ensure that positive pay decisions are made by employees who do not have system administration responsibilities and who do not have responsibilities related to custody, authorization, recording and reconciliation.

Management Responses:

- A. Management agrees to segregate duties relating to the data entry of encumbrance documents. Duties and related procedures over handling checks are already adequately segregated. Where a potential risk may exist, compensating controls are in place.
Target Completion Date: 10/01/12
- B. Under new Payables Management, BSS procedures have been revised to state that checks may only be released to Supervisors and the Payables Manager. Management has reiterated to BSS staff that only Supervisors and the Payables Manager may sign out checks.
Target Completion Date: Completed

- C. Management has contacted Finance Business Analysis to ensure that the segregation of duties and positive pay decisions are limited to the Payables Manager and Senior Accountant. Procedures will be updated.
Target Completion Date: 01/01/13

4. Opportunities exist to improve reporting and recordkeeping.

The Payables Business Support Section (BSS) uses various forms and documents in the check printing, custody, verification and release processes that should be strengthened to enhance internal controls over the processes.

- A. Finance records retrieval request forms are completed by BSS and delivered to the Clerk's Records Management Department to identify missing or misplaced payment vouchers that are released to Payables staff for correction. The following observations were noted over the use of the form.
- 1) The form did not include signature lines for the requesting employee and approval by supervisory staff for release of original payment voucher documents. The form was revised during the audit to add a signature line for the requestor and approval by the Payables manager.
 - 2) No additional reports or logs were used to monitor the status of missing or misplaced original payment voucher documents.
 - 3) Lost or misplaced original payment voucher documentation is not reported to supervisory management for review and resolution.
- B. Payables management represented that the void check log maintained by Payables BSS is not reliable for monitoring the effectiveness of BSS in identifying payment matching problems. The void check log maintained by BSS may contain entries for void checks that have not been voided in AMS Advantage and delivered to unauthorized recipients.
- C. BSS procedures require reconciliation of spoiled checks to check stock control numbers recorded in the general disbursement check stock inventory log prior to

next day mailing of checks. In addition, the procedures require the Payables manager to verify the spoiled check logs on a monthly basis. We observed that checks are mailed prior to reconciliation of spoiled checks and verification by management. Our review of the logs for August 2010 to December 2011 disclosed that Payables staff did not review the logs until after February 2012 and the logs were not signed as reviewed by the Payables manager. In addition, the following errors were noted in the logs.

- 1) Twenty-two unreconciled differences between total checks issued and the verification totals.
- 2) Ten differences between the reported and audited hand counts of spoiled checks, one reported negative hand count, and several control numbers that were not recorded on spoiled check logs.
- 3) Spoiled check logs were missing for three days in August 2010.
- 4) One instance in which identical ending and beginning control numbers were reported for consecutive check printing runs.
- 5) Four spoiled checks were distributed to a County department instead of being retained by Payables for destruction.

Recommendations:

- A. Ensure that all Finance records retrieval request forms used to replace lost payment voucher documents submitted by Payables employees are signed by the employee and approved by management.
- B. Periodically monitor the void check log to evaluate the reasons for voiding checks and verify that listed voids are processed as void checks in the financial system.
- C. Develop procedures that ensure spoiled checks are accurately reconciled to the general disbursement check inventory log prior to release of checks, with periodic management verification for accuracy.

Management Responses:

- A. BSS will not allow records to be removed without a completed Finance records retrieval request form, which has recently been updated to allow only Payables Manager or Supervisor to complete.

Target Completion Date: Completed

- B. Management now periodically runs a crystal report for voids processed and matches against the void check log.

Target Completion Date: Completed

- C. Procedures have been developed to ensure that spoiled checks are accurately reconciled to the general disbursement check inventory log prior to the release of checks. A crystal report has been developed to identify checks with multiple continuation pages and spoiled stock is now reconciled daily. Additionally, this issue will be decreased, if not eliminated entirely, when the check sealer is implemented as we have a concurrent project in progress to eliminate multiple check stubs.

Target Completion Date: 01/01/13

5. Vendor account record retention practices did not comply with requirements.

Payables BSS vendor account procedures state that vendor records are required to be retained for three years whereas the State of Florida requires such records to be retained for four years.

The Florida General Records Schedule GS1-SL prescribes that vendor W-9 records and supporting documentation must be retained four years from the tax due date of the year to which the record applies.

Recommendation:

- A. Revise BSS procedures and practices so that vendor W-9 records and supporting documentation are retained four years to comply with federal and state record retention requirements.

Management Response:

- A. Management agrees to update procedures and retain vendor W-9 records and supporting documentation for four years.

Target Completion Date: 01/01/13

6. Written policies and procedures require update and preparation.

Written procedures related to some areas of the check release and distribution processes were not in place or required enhancement, thereby not ensuring compliance with management directives and objectives. Best practices in internal controls indicate that written procedures help ensure accuracy and consistency in the quality of work.

Within BSS, the following observations were noted:

- Payables procedures have been available only in draft format for several years and responsibilities for tasks have not been assigned to positions. The procedures were under revision for additional changes planned by management, including potential transfer of BSS responsibilities to other sections of the Payables Department.
- Payables procedures over the release and handling of original checks to be voided and related original payment voucher documents have not been completed, but are referenced in a void check log instruction sheet.
- Procedures require revision to eliminate steps related to a prior process over vendor account creation and modification that the County Purchasing Director requested to be discontinued.

Within the Revenue and Cash Management Department front counter area:

- The Receiving, Releasing Special Handled Checks procedures have not been updated since March 1999. Revisions are necessary to reflect changes in responsibility, limitation of access to printed checks to Payables supervisors, follow-up with County departments and vendors, and deletion of steps involving County employee checks and workers' compensation checks no longer handled by the front counter.

Recommendations:

- A. Update BSS written procedures to reflect current practices and ensure inclusion of key information (e.g., positions responsible for performing tasks; references to laws, regulations, ordinances, County PPM's; copies of example reports, documents and forms; and alternate processing plans in case of emergency).
- B. Revise the Finance vendor account procedures to clarify the proper use of AMS Advantage tables for vendor account setup and modification and eliminate alternate steps that were discontinued as requested by the County Purchasing Director.
- C. Develop written BSS procedures that restrict access to original checks to be voided and release and handling of related original payment voucher documents.
- D. Update front counter procedures to include the revisions and additions recommended in the observation above.

Management Responses:

- A. Management agrees to update BSS procedures.
Target Completion Date: 01/31/13
- B. Management will discuss with the County Purchasing Director the proper use of AMS Advantage tables for vendor account set up and modification and revise vendor account procedures based on the result of the discussion.
Target Completion Date: 01/31/13
- C. Management will develop a written BSS procedure to restrict access to original checks to be voided and release and handling of related original payment voucher document to Supervisors and Payables Manager.
Target Completion Date: 01/31/13
- D. Front Counter procedures for check release will be updated to include required signature, printed name, and identification requirements.
Target Completion Date: 01/01/13

7. Additional processing time is required for invoices received from certain vendors.

Master agreements established by the County Purchasing Department for certain vendors include discount terms that result in net unit prices extended out three or four digits to the right of the decimal place. However, the vendor invoices received by Clerk's Payables record the line items using only two digits (rounded to the nearest penny). Thus, the invoiced line item prices do not match the unit prices recorded in AMS Advantage, resulting in invoice totals not matching check amounts.

These price differences require Payables BSS to flag the exceptions and forward the payment documents to Payables to correct the minor invoice differences. We raised this issue in a prior Payables audit in 2008. The problem was partially resolved by implementing a payment tolerance to eliminate document rejections due to minor rounding errors. However, the exceptions and related processing inefficiency continue to occur.

Recommendation:

- A. Coordinate efforts with County Purchasing and eliminate the processing inefficiency created by invoice rounding differences.

Management Response:

- A. Management agrees to partner with Purchasing and Finance Business Analysis regarding the four digits to the right of the decimal issues. This project has been placed on hold due to other pending projects within Payables.

Target Completion Date: 01/31/14