

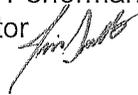


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BUDGET AND PERFORMANCE IMPROVEMENT
Internal Audit Division

INTERNAL AUDIT REPORT

TO: Jorge M. Gonzalez, City Manager
VIA: Kathie G. Brooks, Budget and Performance Improvement Director
FROM: James J. Sutter, Internal Auditor



DATE: January 27, 2011
AUDIT: City Payment Processing Audit
PERIOD: October 1, 2007 - July 31, 2009

This report is the result of a regularly scheduled audit to review the documentation maintained and the internal controls implemented to help ensure that selected Citywide payments are properly processed.

INTRODUCTION

The Finance Department's Accounts Payable Section reviewed and issued 33,945 checks and wire transfers during the audit period to pay City invoices. City departments are responsible for entering their invoices into the City's financial enterprise system's (EDEN) accounts payable module. Approvals are made electronically based upon an approval queue established by City administration. Departments are responsible for forwarding proper documentation to support the expenses to the Finance Department. Payment methods vary based on the items/services purchased with purchase orders, requests for direct payment and purchasing cards as described by the City's Procurement policies and procedures. Required employee approvals are based on the amount and method of the payment subject to budget authority. Once paid, the supporting documentation is attached to a copy of the check and is filed sequentially by check number in locked cabinets inside the Finance Department. Meanwhile, the approvals by the receiver and other relevant information are maintained electronically in the Eden System's Accounts Payable Module.

In order to pay City purchases of goods and services, the following purchasing methods are used according to the City's Procurement policies and procedures.

- Purchase requisitions are initiated by City departments/divisions to obtain commodities and services. Upon receipt of a completed and approved purchase requisition for purchases exceeding \$25,000 the Procurement Division will determine whether to prepare an invitation to bid (ITB), a request for proposals (RFP), a request for qualifications (RFQ) or utilize the "piggyback contract authority" in the City Code for contracts issued by agencies approved by the City Commission. These agencies currently include: Federal GSA, State of Florida, Miami-Dade County, Miami-Dade County School Board and the U.S. Communities Purchasing Alliance. Once the appropriate process has been completed the Procurement Division will issue either a blanket purchase order (for repetitive purchases) or a purchase order (for a one-time purchase) for the purchase of the listed goods and/or services which can be used throughout the fiscal year or until the designated monies are spent.
- Certain items which do not lend themselves to competitive procurement are exempt by Florida Statutes, the Miami Beach City Code, or the City's Policy and Procedures. These types of expenses include travel reimbursements, advertising in newspapers or

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websites, refunds to customers, travel, subscriptions, memberships, legal services, utility payments, etc.

Finally, the City has the following three payment types available to pay for the desired commodities and services received from the vendor:

- Upon receiving all of the required supporting documentation and pre-determined Eden System electronic approvals based on the department and the purchase amount, the Finance Department will issue a City check. Check runs are made twice a week and all checks are to be mailed directly to the payee.
- Similarly, the Finance Department issues wire transfers as needed instead of checks after the electronic approval process is complete and supporting documentation is deemed complete. These wire transfers cost the City between \$2 and \$5 each and are currently used primarily for payroll deduction and bond payments.
- The City's purchasing card (p-card) program is designed to improve efficiency and deliver savings by authorizing designated employees to make payment thereby allowing them to acquire within the City's procurement policies, approved commodities and services directly from vendors without undue delay. The p-card is meant to simplify and streamline the acquisition process for small dollar purchases. The p-card can also be used for paying invoices from City purchase orders. The City receives a designated percentage of all p-card purchases which for example equaled \$143,331 during the 2009 calendar year.

OVERALL OPINION

The Finance Department's Accounts Payable Section process a large number of invoices and checks each year so it is imperative that Procurement rules and policies and procedures are strictly followed by departments. Additionally, internal controls need to be followed and sufficient documentation maintained. Internal Audit's testing showed that operations and systems appear to be essentially functioning as intended except for the following incidents noted below which are in need of improvement:

- Three of the one hundred fifty-nine or 1.88% of the tested City issued checks and wire transfers were missing supporting documentation to substantiate the payment.
- Sixteen Requests for Direct Payments were processed for temporary labor, recreational coaches, meal allowances, etc. even though these purchased items/services did not fall into any of the Allowed Categories. Procedures for paying these types of expenditures have been subsequently corrected.
- Incomplete vendor information was noted in the Eden System as physical mailing addresses, telephone numbers and/or federal identification numbers were occasionally missing.
- Five vendor accounts were apparently opened for the same vendor with all containing entries thereby creating confusion as to the correct account and decentralizing payment information.
- Tested purchase card transactions found that the Finance Department is correctly reviewing purchases and having individuals reimburse the City for any personal expenditures. However, ten purchases were noted that do not comply with the policies

and procedures but were accepted because they were approved by the Department Directors and monies were available in the budget.

PURPOSE

The purpose of this audit is to determine whether items were paid in accordance with City Code and operating policies and procedures; whether transactions are economically and efficiently processed, accurately and promptly recorded, reported, and followed up; whether key forms, records, files and systems are properly safeguarded and controlled, and access thereto is restricted in accordance with management's criteria; whether the amounts paid to confirmed vendors agrees to documented prices; and whether all transactions were correctly and timely recorded in the City's Financial System.

SCOPE

1. Confirm that comprehensive policies and procedures exist, are known and are followed by staff.
2. Confirm that maintained accounting records and supporting documentation is organized, complete and sufficient.
3. Confirm that the internal control process is adequate and that a proper segregation of duties exists.
4. Confirm that tested vendors' pertinent financial data is centralized under one vendor number.
5. Confirm that tested vendors are actual businesses via phone calls, internet research, address verification, etc.
6. Confirm that tested payments are timely and properly approved so that any vendor offered discounts are utilized.
7. Confirm that tested payments are for City business purposes in accordance with City policies, contracts, etc.
8. Confirm that voided checks are correctly labeled, recorded and maintained.
9. Confirm that items paid through a D.P. (Request for Direct Payment) were correctly paid as such.
10. Confirm that tested p-card and purchase order purchases were made within authorized spending limits and in accordance with City policies.
11. Confirm that tested transactions were accurately recorded in the City's Financial System.

FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

1. Finding – *Documentation Shortcomings*
One hundred fifty-nine out of 33,945 payments made by the City (123 checks and 36 wire transfers) were randomly selected for testing. In reviewing these City payments, the following documentation shortcomings were noted:
 - a. Check number 257464 was issued payable to a skating coach at the Scott Rakow Youth Center, totaling \$618.75. There were no supporting documents attached to the Request for Direct Payment that would warrant the issuance of

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this check (time sheets signed by both the coach and the City supervisor, a listing of customers, etc.). Similarly, check number 268269 payable to another skating coach for \$307.50 also did not contain similar supporting documentation.

- b. Check number 281117 was issued payable to a City employee for April 2009 cellular telephone reimbursement for \$40.00 with an approved Request for Direct Payment form without any supporting documentation attached.

Recommendation(s):

Supporting documentation should always be attached to the copy of the check to justify the issuance of the check to an independent observer.

Management Response:

An approved Direct Payment form approved by the authorized supervisor is proper documentation for direct payments. These forms are attached to a copy of the check. The Director of Procurement has been added to the Eden Invoice Approval Queue to ensure that requested direct payments are in accordance to the City Code.

2. Finding – *Requests for Direct Payment (D.P.s)*

The Procurement Division's operating policy and procedure state "The Request for Direct Payment (D.P.) is to be used by Departments when one time payments are required for the procurement of products or services that are exempt from the City's Purchasing Procedures. A list of Allowed Categories for which the D.P. form may be used is provided herein." A standardized D.P. form may be completed by the originating department or the transaction can be processed electronically in the Eden System where it is approved by the applicable parties based on the payment amount and submitted to the Finance Department's Accounts Payable Section for final review and the issuance of a City check.

We reviewed all forty-eight direct payments from the 123 checks selected from our initial testing. We noted that sixteen of the forty-eight reviewed D.P. payments' stated purpose or 33.33% did not appear to satisfy any of the Allowed Categories. These deviations centered mainly on the purchase of temporary labor and professional services (swim coaches, skating coaches, etc.).

This listing also includes four payments to eligible employees for meal allowances earned when employees work three consecutive hours or more of pre-shift or post-shift overtime in accordance with the union contracts. These payments are typically small and can be voluminous and do not fit any of the Allowed Categories.

There should be consistency and uniformity in the preparation of payments through either D.P.s or Standing/Purchase Orders. Otherwise, City departments will most likely choose the more expedient D.P.s and the Finance Department's workload would be increased.

Recommendation(s):

The Procurement Division, in cooperation with the Finance Department, should review the Allowed Categories for Direct Payments and determine if any revisions need to be made. Once this is done, City departments should be advised of the revisions as well as

the need to adhere to the listed categories, to obtain the required signatures and provide supporting documentation.

The Finance Department's Accounts Payable Section should be instructed to process only those D.P.s that comply with all the stated requirements. Enforcement actions (i.e. notification of applicable Assistant City Manager or City Manager) should be taken against any repeat offenders to help improve compliance.

Finally, it is recommended that payment for future meal allowances through the payroll system should be explored rather than continued payment through D.P.s thereby reducing the need to issue so many small reimbursement checks.

Management Response:

The Direct Payments Allowed Categories List ("DP List") is periodically revised and distributed to all departments with guidance and direction on proper procedures relative to Direct Payments. The DP List will be posted on the Procurement website as part of our policies and procedures. The Director of Procurement has now been added to the Eden approval queue for direct payments to ensure that they are in accordance to the City Code. The DP List will be discussed as part of any training conducted by the Finance Department or Procurement Division, and will be updated on an "as needed" basis. Further research will be made as to the reasonableness of paying meal allowances through other methods (petty cash). The City has developed an independent contractor process to insure that the existing practice was changed to require professional services agreements with all recreational coaches and instructors.

3. Finding – Vendor Information

Twenty vendors out of the 159 selected above were randomly tested to determine the completeness of their contact information entered into the Eden System's Accounts Payable Module. The creation of these vendor accounts is restricted to four designated Finance Department employees and two Procurement Division employees. The following informational items were noted in our analysis that could allow for the creation of fictitious businesses if not corrected in the future:

- Eight of the twenty vendors sampled or 40% did not contain a physical mailing address as only a P.O. Box or similar information was listed. Internal Audit's concern is that a P.O. Box can be opened by anyone and does not contain the vendor's physical location which can then be more easily verified by independent sources.
- Two of the twenty vendors sampled or 10% entries did not include a phone number at which the company could be reached. This list includes one of the aforementioned vendors whose address consisted of only a P.O. Box.
- Four of the twenty vendors sampled or 20% did not include their federal tax identification number.

Despite this missing information raising concerns as to the vendors' legitimacy, Internal Audit confirmed their existence through internet research and phone calls with no exceptions noted.

Recommendation(s):

Designated Finance and Procurement employees should ensure that such information as the vendor's physical address, phone number and federal tax identification number are fully completed before creating the vendor in the Eden System. Furthermore, this information should be updated when and if the vendor's information changes. Current centralized contact information is beneficial in the event that City personnel need to speak with vendor representatives and it helps facilitate independent confirmation as the vendors' existence.

Management Response:

We currently require a completed W-9 form before entering a vendor in the system. Our system does not have the capacity to enter both a physical address and a mailing address. We will be asking Eden for this enhancement.

4. Finding – Duplicate Vendor Accounts

In a separate cursory review of some of the vendors in the City financial system utilizing the inquiry function, we found five vendors which had at least two different vendor numbers in the Eden System. These duplicated vendor accounts included Franmar Corporation, Hazen and Sawyer P.C., Maroone Chevrolet, and Palmetto Ford Truck Sales Inc. Many contained current payments but some had not had any entries in several years.

Inquiries with Accounts Payable Section personnel found that companies must now furnish a Form W-9 before a vendor account is created to help prevent duplicate vendor accounts from occurring. This form is maintained by the City for verification purposes of the information return for reportable payments made to others. Its other primary purpose is to help the payee (the City) avoid backup withholding as the vendor would now be responsible for these taxes.

Recommendation(s):

Finance Department employees should investigate the aforementioned five vendors to determine which of these accounts are duplicates and can be merged into one so that all pertinent information is centralized to help prevent future confusion. As time permits, this practice should be done globally on the Eden System's vendor accounts to help eliminate further duplication.

Management Response:

Based on current staffing levels as a duplicate vendor is discovered it will be merged using the current system.

5. Finding – Purchasing Cards or P-Cards

A total of one hundred sixty-two City issued purchasing cards or p-cards were assigned to employees during the audit period with sixteen used exclusively for Office Depot purchases. All employees being issued p-cards receive the p-card policy and procedure and must execute a cardholder agreement or vendor card agreement that the card shall not under any circumstance be used for personal expenses and that disciplinary action up to and including termination may result from improper use of the card.

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We selected a random sample of sixty-nine accounts for the current fiscal year 2008/09 and the following exceptions were found:

- Two instances were noted where the p-card was used for personal expenditures. The Finance Department became cognizant of these purchases during their review process and questioned the corresponding individuals. These employees had their p-card privileges revoked and the monies were immediately returned to the City and were deposited into the correct general ledger accounts.
- Beginning August 2008, the Department Directors are required to sign off on the front page of the p-card statement instead of each individual invoice thereby approving all purchases made. Internal Audit encountered a total of eight purchases made that were not in accordance with the p-card policies and procedures (three for not documenting the purpose and attendee(s) for meals, one for not documenting the purpose of snacks, one for not having supporting documentation, one for flowers, and two for gift cards) but they were all approved by the Department Director and charged against line item accounts where monies were available, whether or not for the stated purpose.
- In reviewing the credit limits issued to the different card holders it was noted that nine individuals exceeded \$25,000. These credit limits were established to pay a for purchase orders or for larger single transactions with proper authorization. The Chief Financial Officer already has taken action to lower all individual p-card spending limits and issue specific vendor p-cards that are tied to a specific purchase orders. It was also indicated that if a big ticket item needs to be paid that exceeds the individual's payment limit, then their designated Finance Department representative can have the authority to pay for goods or services if the money is in the department's budget, approved by the Department Director and if items or services have been acquired via the proper purchasing policies and procedures.

The Finance Department is currently updating p-card policies and procedures.

Recommendation(s):

Internal Audit agrees that p-card policies and procedures should be updated and once completed and approved, should be distributed to all p-card holders.

Management Response:

P-card policies and procedures are currently being updated. Upon completion, the Finance department will distribute the information to all p-card holders. Any individuals that misuse their City issued p-card will have their credit cards temporarily suspended and/or completely removed depending on the severity. The Finance Department annually review individuals' credit limits to determine their reasonableness and to ensure that any increases were properly approved.

EXIT CONFERENCE

An exit conference was held to discuss the findings in this report. Participants included Georgina Echert (Assistant Finance Director), Ramon Suarez (Finance Manager) Scott Wagner

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(Financial Analyst III), Gus Lopez (Procurement Division Director), James Sutter (Internal Auditor), Laura Franco-Rubines (Assistant Internal Auditor) and Mark Coolidge (Senior Auditor). All parties were in agreement as to the contents of this report. Management responses were solicited and included in our report.

JJS:LFR:lfr:MC:mc

Audit performed by Laura Franco-Rubines (Assistant Internal Auditor) and Mark Coolidge (Senior Auditor)

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cc: Patricia Walker, Chief Financial Officer
Georgina Echert, Assistant Finance Director
Gus Lopez, Procurement Division Director