



1993 • 2001 • 2017

CITY OF DELRAY BEACH



100 N.W. 1ST AVENUE ~ DELRAY BEACH, FLORIDA 33444 ~ (561) 243-7010

Internal Audit Report: #21-01 Overpayments (Consulting Services)

SERVICE PERFORMANCE INTEGRITY RESPONSIBLE INNOVATIVE TEAMWORK

Executive Summary

August 31, 2021

Dear Mayor and Commissioners,

Duplicate payments are one of several types of overpayment errors that can occur within the accounts payable process. This type of overpayment represents a vulnerability to any organization, and a loss if remains undetected.

Internal Audit performed a limited-scope performance audit of the City of Delray Beach consulting payments processed by the Finance Department. The audit was prompted by the identification of an overpayment issued in January 2021 for internal auditing services.

Given that the overpayment took place in January 2021, the scope of this audit included a review of a sample of payments issued for consulting services between December 1, 2020 and February 28, 2021.

Audit results provided herein are based on inquires, transaction examinations, and the review of other audit evidence and provide reasonable, but not absolute assurance that controls are in place and effective. In addition, effective controls in place during and audit may subsequently become ineffective as a result of technology changes or reduced standards of performance on the part of management.

Audit Objective

Determine whether adequate controls are in place to prevent overpayments to vendors (consulting services).

This limited-scope performance audit was conducted in accordance with generally accepted government auditing standards. These standards require that the internal auditor plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objective. The evidence presented herein is believed to provide a reasonable basis for the findings and conclusions based on the audit objective.

Apart from the overpayment which triggered this audit, no further duplicate payments were identified during the period under audit. Recommendations to strengthen and improve controls over the invoice payment process and to reduce the likelihood of future overpayments are included in this report.

I extend my appreciation to the Finance Department's management and staff for their cooperation during this audit. Please contact me for questions or comments on this report.

Sincerely,



Julia Davidyan, DBA, CPA, CGAP
City Internal Auditor

Internal Audit Report #21-01: Overpayments (Consulting Services)

Audit Authority & Statement of Independence

The Internal Audit function is administratively and operationally independent of the programs and departments it audits, both in appearance and in fact. The Internal Auditor is accountable to the Delray Beach City's Commission in accordance with the City's Charter Section 4.10-4.11. Although the Internal Auditor reports exclusively to the City Commission, she shall review any matter related to city business upon request of the majority of the City Commission or the City Manager. The performance audit was conducted at the request of Ms. Jennifer Alvarez, Interim City Manager.

Performance Audit Overview

The United States Government Accountability Office (GAO) promulgates government generally accepted auditing standards (GAGAS) that provide a framework for performing high-quality audit work with competence, integrity, objectivity, and independence to provide accountability and help improve government operations.

Performance audits are audits that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against a criteria. Such audits include objective analysis to assist management and those charged with governance in using the information to improve program performance, operations, and facilitate decision making by parties with responsibility to oversee or initiate corrective action and contribute to enhanced public accountability.

Compliance with Governmental Auditing Standards

This limited-scope performance audit was conducted in accordance with GAGAS. These standards require that the internal auditor plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objective. The evidence presented herein is believed to provide a reasonable basis for the findings and conclusions based on the audit objective.

Internal Audit Responsibility

The Internal Audit function strives to assist managers with the effective discharge of their responsibilities to achieve departmental goals and contribute to the City's mission. Internal Audit promotes effective controls and furnishes management with an independent appraisal and recommendations related to the activities reviewed. Internal Audit's role is vital to maintaining the public's trust that the City's resources are used effectively and efficiently.

Management Responsibility

City management is responsible for ensuring that resources are managed properly and used in compliance with laws and regulations; programs are achieving their objectives; and services are being provided efficiently, effectively, and economically.

Accounts Payable Process Background

The City's accounts payable process is centralized within the Finance Department. The Accounts Payable (AP) staff are responsible for the receipt and processing of invoices for payment, assisting in the resolution of vendor issues, check printing, and providing support to all City departments. They are also tasked with effectively managing and monitoring the recording of all expenditures within the City and providing assurance that all payments made by the City are financially accurate. The Finance Department has two full-time equivalents (FTE) dedicated to the centralized payment function. The table below shows the activity carried out by the AP staff.

All Commodities:

Fiscal Year	Number of Invoices Processed	Total Dollar Amount of Invoices Processed
10/1/2019 – 09/30/2020	16,085	\$67,198,485
10/1/2018 – 09/30/2019	18,412	\$64,068,467

Consulting Services Only:

Fiscal Year	Number of Invoices Processed	Total Dollar Amount of Invoices Processed
10/1/2019 – 09/30/2020	513	\$10,204,774
10/1/2018 – 09/30/2019	491	\$3,913,017

Achievement of accurate and timely payments to vendors is the primary goal of the AP staff. However, to achieve this goal, they must collaborate with other departments in the City. The City uses the Tyler New World (TNW) software to manage its financials. Department staff procure goods and services by creating an electronic requisition in TNW.

The requisition is converted to a purchase order by the Purchasing Department and then sent to the vendor. The duties of vendor set-up and Master Vendor File maintenance reside with the Purchasing Department for proper segregation of duties. All vendors are required to register with the City. A W-9 must be submitted by the vendor before business can be conducted with them.

When an invoice for the goods or services is received by the Finance Department, it is sent to the appropriate/responsible department for entry into TNW. A designee within each department compares the invoice to the purchase order, and enters it into the system. Some contractual agreements will not have a purchase order. The majority of invoices are submitted electronically via email. Prior to payment, all invoices must be reviewed by the department manager. Duties required to process accounts payable transactions are adequately segregated. Once approved by the respective department manager, TNW continues the routing of the invoice and an AP clerk in Finance can review and approve it, which posts the debit to the corresponding expense account. Invoices approved and processed will advance to the weekly check run process or electronic funds transfer (EFT) payment process. Prior to the release of checks and EFT payments, an additional review is performed by the Accounting Manager or designee in Finance. Over 90% of payments are via checks.

January 2021 Duplicate Payment Identified

On January 8, 2021, AP issued check #586755 (\$3,560) for vendor #15603, for internal auditing services invoice #1008 (for November, 2020). There was no balance forward on this invoice.

At time of issuance of invoice #1009 (for December, 2020), the November invoice of \$3,560 remained unpaid, and as such, the vendor included it as a balance forward, along with the \$1,600 December charges, for a total invoice amount of \$5,160.

On January 22, 2021, AP issued check#586952 (\$5,160), and as such overpaying by \$3,560 the December, 2020 invoice. The check should have been for \$1,600 only. The Finance Department was made aware of this overpayment by the vendor and the check was returned and voided on February 10, 2021. On February 12, 2021, the correct check#587322 was issued for the amount of \$1,600.

As noted in the description of the AP process, the balance forward should have been identified by the AP clerk during the review of the invoice already entered for payment by the respective department. The overpayment was also not caught in the secondary review before the payment was approved for payment. In discussing this overpayment with the Chief Accounting Officer, it was concluded that it was due to a human error. Staff was subsequently re-trained on the procedures for invoice review and approval prior to check issuance.

Subsequent Audit Objective

Given the overpayment discovered, the objective of this limited-scope audit was to determine whether adequate controls are in place to prevent overpayments to vendors (consulting services).

Audit Scope & Methodology

The scope of this audit included a review of the current policies and procedures. The control testing covered the three months period of December 1, 2020 through February 28, 2021. During this period, 119 invoices for consulting services were processed, totaling \$1,774,729. The audit work included the following procedures:

- Interviews with management and staff.
- Research of best practices for AP.
- Review of written policies and procedures over AP.
- Duplicate payments/overpayments control testing of a sample of randomly selected invoices:
 - Internal control and compliance testing sample selected was based on the sample guidance provided by the American Institute of Certified Public Accountants (AICPA) *Audit and Accounting Guide Government Auditing Standards and Single Audits*.

Results & Conclusion

Internal Audit selected and obtained a random sample of 25 invoices. The selected invoices were recalculated in terms of the payment amount on the invoice to ensure it was mathematically accurate and the amount paid further agreed with the check stub or EFT payment notification. The selected invoices were further reviewed for any balance forward amounts to ensure no duplication or overpayment of an open invoice or previously paid one.

Based on the testing conducted, no other instances of overpayment were identified. It is concluded that adequate controls are in place to ensure payments are mathematically accurate, properly supported, and that proper internal controls are in place to prevent overpayments to consulting services vendors.

Discussion Points & Recommendations

Although no additional overpayments were identified, the following discussion points and recommendations are made as an opportunity to strengthen and improve the AP processing. The recommendations below, which are based on industry best practices, and discussions held with the Finance Department, are intended to provide additional assurances through increased risk mitigation designed to prevent errors and fraud.

Discussion Point & Recommendation #1:

In addition to re-training of staff and management on the existing procedures for invoice review and approval prior to check issuance, it is recommended that AP staff follow a checklist of specific items to look for during the review process (i.e. balance forward, duplication of amount or invoice number).

Management Representative Responding:

Management concurs with the recommendation. The Accounts Payable staff will follow an internal control checklist with specific steps to mitigate the risk of duplicate payments and to strengthen the invoice review process internal controls.

Date of expected implementation (if any): Implemented in June 2021.

Discussion Point & Recommendation #2:

It is recommended that established cut-off timelines for invoice processing are strictly enforced. Frequent last minute payment requests from City departments place pressure on AP staff to complete processing of invoice payments in a short period of time to meet the cut-off deadline. Such practice limits the proper review of invoices prior to entry for payment.

Management Representative Responding:

Management concurs with the recommendation. Accounts Payable processes checks on Thursdays. AP will ensure that Departments abide to the normal check run schedule and will enforce establish cut-off timelines. Therefore, Departments will be required to complete their invoice approval process and to submit complete documentation to AP by the stated deadline to AP to process complete and accurate invoices in a timely manner. AP will minimize accommodating exceptions to the schedule. In case of emergencies, the Department Director shall seek approval from the Finance Director to process a check outside the normal check run schedule. Approval will be granted on case by case basis.

Date of expected implementation (if any): The process is currently in place.

Discussion Point & Recommendation #3:

There are currently two full-time equivalents (FTE) dedicated to the centralized payment function. The review of the invoices prior to entry into TNW for payment is a manual process. Given the increasing volume of invoices in recent years, it is recommended that the Finance Department should consider requesting additional FTE to ensure the AP function is properly staffed to keep-up with the payment needs of the City while carefully following AP payment procedures.

Management Representative Responding:

Management concurs with the recommendation. Due to budget constraints, Management will be unable to hire an additional AP Specialist. Therefore, Management will provide additional help to the AP staff from the Executive Assistant and Accountants to ensure that invoices are processed timely and efficiently.

Date of expected implementation (if any): August 2021.

Discussion Point & Recommendation #4:

Given the manual nature of the invoice data entry for payment processing and the fact that the January overpayment of the balance forward from the prior invoice was not detected after the fact internally, it is recommended that the Finance Department should consider conducting periodic (quarterly) self-audit of prior check issuances to continue the monitoring of control effectiveness.

Management Representative Responding:

Management concurs with the recommendation. The Accounting Manager and the Chief Accounting Officer will conduct quarterly AP data audits to monitor and improve the AP systems and controls. These audits will help detect and prevent duplicate payments in the future.

Date of expected implementation (if any): October 2021.

Acknowledgments

It is important to recognize the significant accomplishments achieved by the AP function. I commend staff for working diligently to pay invoices considering the volume of payment requests received compared to the small number of employees tasked with making the payments. I also commend staff for proactively taking on additional roles to help expedite payments even though such expedited payments are outside the established policies.

Distribution of Report

This report is intended for the information and use of the Mayor and City Commission, management, and others within the City of Delray Beach. However, the report is a matter of public record and its distribution is not limited.