



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

**Internal Audit of
Accounts Payable**

**Prepared By:
Internal Auditors**



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May 10, 2023

The Audit Committee of
Brevard County, Florida
2725 Judge Fran Jamieson Way
Viera, Florida 32940-6699

Pursuant to the approved 2022/2023 internal audit plan, we hereby submit our internal audit of accounts payable. We will be presenting this report to the Audit Committee at the next scheduled meeting on May 24, 2023.

Our report is organized in the following sections:

Executive Summary	This provides a summary of the observations related to our internal audit of accounts payable.
Background	This provides an overview of the accounts payable process.
Objectives and Approach	The internal audit objectives and focus are expanded upon in this section as well as a review of our approach.
Observations Matrix	This section provides the results of our internal audit procedures, including our recommended actions and management's responses.

We would like to thank all those involved in assisting the Internal Auditors in connection with the internal audit of accounts payable.

Respectfully Submitted,

Carr, Riggs & Ingram, L.L.C.

INTERNAL AUDITORS

Executive Summary

Overview

Accounts Payable operations can be effectively segregated into the following four components:

- Setting up new vendors and managing existing vendors.
- Receiving vendor invoices and recording the related liability in SAP.
- Paying vendor invoices and reducing the related liability in SAP.
- Reconciling vendor statements to amounts recorded in SAP.

Objective

The primary objective was to assess whether the system of internal controls over the accounts payable function is adequate and appropriate for promoting and encouraging consistent application of management’s objectives for compliance with policies and procedures, as applicable.

Observations

During the course of our work, we discussed any identified observations with management. Our observations and recommendations for improving controls and operations are described in detail in the Observations Matrix included in this report. A summary of observations is identified and their relative risk rating is provided below.

Observation ratings are a subjective evaluation of the severity of the concern and the potential impact on the operations. An observation rating of “High” represents an issue of immediate concern and could cause significant operational issues if not addressed soon. A “Moderate” rating is an issue that may also cause operational issues and does not require immediate attention but should be addressed as soon as possible. Observations given a “Low” rating could escalate into operational issues but can be addressed through the normal course of conducting business.

We selected a random sample of 50 invoices from the period of January 1, 2022 through December 31, 2022. All 50 invoices selected included approvals for payment from the respective County agencies (County departments /offices) without exception. We did have the following observations below related to compliance with Administrative Orders 33 and 39:

Observation	Risk Rating
1. Invoice Processing - Date of Delivery/Service - For 7 of 50 invoices, the delivery date or date of service, as applicable, was not indicated on the invoice.	Moderate
2. Invoice Submission – Timeliness - 7 of 50 invoices were not submitted to County Finance within ten days. 1 of 50 invoices were not paid within the 45 day requirement.	Moderate
3. Authorized Signatures – Verification – For 1 of 50 invoices, the signature on the invoice did not match the signature per the authorized signature form.	Low

Background

Overview

Accounts Payable operations can be effectively segregated into the following four components:

- Setting up new vendors and managing existing vendors.
- Receiving vendor invoices and recording the related liability in SAP.
- Paying vendor invoices and reducing the related liability in SAP.
- Reconciling the vendor statements to amounts recorded in SAP.

The Accounts Payable processing and payment function is the responsibility of County Finance. The function is made up of individuals who are responsible for processing invoices (after being reviewed for accuracy and in accordance with County procedures), running reports, matching invoices with checks, sending the checks to the vendors and scanning the original documents received by the Departments into the DMS system for record retention. Accounts Payable is also responsible for reconciling vendor statements with the subsidiary ledgers. The following expenses are keyed into SAP directly by County Finance: travel advances, overnight travel reimbursement, refunds and FPL summary and club bills. Portions of the Accounts Payable function are decentralized and are the responsibility of each Department. The Departments are linked to SAP via the County intranet and are responsible for inputting vendor invoices into SAP. Each Department has a dedicated person who is responsible for making sure that purchase orders are established before items can be purchased and invoices are processed. Each Department is also responsible for approving the invoices prior to submission to County Finance – the Accounts Payable Department. As part of this invoice approval process, each Department is responsible to perform the three-way-match (purchase order, receipt, and invoice) as applicable to verify: Goods purchased / services rendered were properly authorized, paying only for goods received / services rendered, paying correct price/rate. Copies of the invoices are maintained in the Departments. Originals are forwarded to Accounts Payable.

These requirements related to the accounts payable function are primarily specified in the following Administrative Orders:

- Administrative Order 33 – Prompt Payment of Invoices (AO-33)
- Administrative Order 39 – Signature Authorized Forms (AO-39)
- Administrative Order 74 – Electronic Signature (AO-74)

The County is required to maintain copies of invoices and any other supporting documentation necessary to support the disbursement of funds. To help alleviate the need for storage space to maintain such documents, County Finance has been imaging records since 1989. The County uses an imaging software database which allows them to scan documents and store them in a database for record retention. This imaging system allows the County to discard hard copies of invoices upon successfully scanning the documentation into the system.

Staffing

Key personnel from County Finance that were involved in our engagement included:

Title
Finance Director
Accounts Payable Supervisor

Objectives and Approach

Objectives

The primary objective was to assess whether the system of internal controls over the accounts payable is adequate and appropriate for promoting and encouraging consistent application of management's objectives for compliance with policies and procedures including compliance with AO-33, AO-39 and AO-74. The testing period covered the twelve months January 1, 2022 through December 31, 2022, and included the following:

- Determined the adequacy of the Brevard County policies and if invoices were processed and paid in accordance with the policies.
- Determined if invoices processed were for authorized expenditures.
- Determined if records and documentation for Accounts Payable were sufficient to establish an audit trail for all transactions involving disbursements.
- Reviewed controls over Accounts Payable including procedures and documents that assure the data used to generate disbursements were adequate.

Approach

Our approach consisted of three phases:

Understanding and Documentation of the Process

During the first phase, we held an entrance conference with the Assistant Finance Director to discuss the scope and objectives of the audit work, obtained preliminary data, and established working arrangements. We reviewed Florida Statutes, administrative orders, County policies and other resources related to Accounts Payable. We conducted interviews with responsible personnel from the selected Departments related to Accounts Payable and documented their respective roles in the processes. We updated our understanding of the Accounts Payable process and relevant controls.

Detailed Testing

The purpose of this phase was performance of testing procedures based on our understanding of the accounts payable function, applicable County ordinances, and State Statutes. Our procedures included interviewing relevant personnel and testing individual transactions. We met with responsible personnel from County Finance related to Accounts Payable and documented their role in the process. The testing period covered the twelve months January 1, 2022 through December 31, 2022 to address the objectives noted above:

- Test of invoice approval process, including AO-33, AO-39 and AO-74:
 - The invoice is marked with the date received (no pencil).
 - Invoice was submitted to County Finance within ten (10) days after receipt.
 - An authorized complete signature or digital signature is on the invoice.
 - The authorized signature was verified by County Finance via checkmark.
 - Contained the vendor name and address.

- Contained the Purchase order/contract number (if applicable).
 - The invoice was itemized and included number of items, type of items, unit price, extended price, division of parts and labor charges, if applicable, and total price.
 - Contained the delivery date or date of service.
 - Sales tax was not paid.
 - Invoice (except for the purchase of construction services) was paid within 45 days as required by the Florida Prompt Payment Act (218.70 – 218.80, Florida Statutes).
- Test Three-Way-Match (purchase order, receiver, and invoice) at the Department level.

At the County-wide level, perform the following:

- Verify that active vendors have a W-9 on file when required.
- Test for duplicate payment of invoices.
- Test for address matches between vendors and employees addresses to identify possible fictitious vendors.

Reporting

At the conclusion of our procedures, we documented our understanding of accounts payable and summarized our findings related to this process. We conducted an exit conference with management and have incorporated management's responses into our report. We prepared our report and provided copies to appropriate County personnel.

Observations Matrix

Rating	Observations	Recommendation	Management Response
Moderate	<p>1. Invoice Processing – Date of Delivery/Service</p>		
	<p>We selected a random sample of 50 invoices from the period of January 1, 2022 through December 31, 2022. All 50 invoices selected included approvals from the respective agencies (County departments /offices) without exception.</p> <p>However, we noted the following with respect to compliance with AO-33 (relevant section indicated below) as it relates to certain items to be indicated on the invoice:</p> <p>a. For 7 of 50 invoices, the delivery date or date of service, as applicable, was not indicated on the invoice (V.A.7.).</p>	<p>We recommend that County Finance request that County management circulate a memorandum reminding the County agencies of the following pursuant to AO-33:</p> <p>a. Invoices are to indicate the date of service or date of delivery as applicable.</p> <p>This will facilitate proper compliance with this AO-33 requirement and provide clarity as to what period the service date or delivery date pertains to for recording in the proper accounting period.</p>	<p>Response: County Finance will work with County Management on a communication to remind County agencies of the date of delivery/date of service requirements of AO-33 as recommended.</p> <p>Responsible party: Kathleen Prothman, County Finance Director</p> <p>Estimated completion date: July 31, 2023</p>

Observations Matrix

Rating	Observations	Recommendation	Management Response
Moderate	2. Invoice Submission - Timeliness		
	<p>We selected a random sample of 50 invoices from the period of January 1, 2022 through December 31, 2022. All 50 invoices selected included approvals from the respective agencies (County departments /offices) without exception.</p> <p>We noted the following with respect to compliance with AO-33 (relevant sections indicated below):</p> <ul style="list-style-type: none"> a. 7 of 50 invoices were not submitted to County Finance within ten days (IV. B).* b. 1 of 50 the invoices were not paid within the 45 day requirement (IX.A).** <p>*Pursuant to AO-33, IV., B.: "All Board agencies are required to submit undisputed invoices for payment to County Finance within ten (10) days after receipt of invoice." Based on review of the explanations provided by the respective county agencies for the processing delay, none were noted as disputed invoices.</p> <p>**The invoice that was not paid by County Finance within the 45 day requirement was due to fact that County Finance did not receive the invoice from the County agency until after 45 days.</p>	<p>We recommend that County Finance request that County management circulate a memorandum reminding the County agencies of the following pursuant to AO-33:</p> <ul style="list-style-type: none"> a. Invoices are required to be submitted to County Finance with 10 days of receiving a proper invoice. <p>This will facilitate proper compliance with the requirement to pay proper invoices within 45 days (non-construction; 30 days for construction related invoices).</p>	<p>Response: County Finance will work with County Management on a communication to remind County agencies of the invoice submission requirement of AO-33 as recommended.</p> <p>Responsible party: Kathleen Prothman, County Finance Director</p> <p>Estimated completion date: July 31, 2023</p>

Observations Matrix

Rating	Observations	Recommendation	Management Response
Low	<p>3. Authorized Signatures - Verification</p> <p>We selected a random sample of 50 invoices from the period of January 1, 2022 through December 31, 2022. All 50 invoices selected included signature approvals from the respective agencies (County departments /offices) without exception. However, we noted that for 1 of 50 invoices, the signature on the invoice did not match the signature per the authorized signature form.</p> <p>“County Finance is responsible for verifying that the signature on the invoices is of a designated authorized individual. Invoices not containing the signature of an authorized individual will be returned to the appropriate department for signature prior to payment” (AO-39, III.C.)</p> <p>County Finance stated that prior to payment, they contacted the department and verified that the signature on the invoice was an authorized signer; however, County Finance was not able to provide written evidence of this verification. As a follow-up, we contacted the department director and verified that the signature on this invoice was an authorized signer.</p> <p>Additionally, “County Finance is required to provide a listing of individuals authorized to approve expenditures to the County Manager, Assistant County Managers and Department /Office Directors on a quarterly basis” (AO-39, III.E.). County Finance indicated that they have not been doing this on quarterly basis.</p>	<p>We recommend the following:</p> <ul style="list-style-type: none"> a. County Finance should remind their staff that manual signatures for invoice approval must match the authorized signature form.* b. County Finance should circulate a memorandum to the County Manager, Assistant County Managers and Department/Office Directors to remind them that manual signatures for approving invoices must match the signatures on the authorized signature forms.* c. County Finance should circulate a listing of individuals authorized to approve expenditures to the County Manager, Assistant County Managers and Department/Office Directors on a quarterly basis. <p>*We noted during our testing that some departments/offices in lieu of manual signatures approved invoices via a digital signature in proper compliance with AO-74.</p> <p>This will ensure clarity in the matching of an authorized signature to the authorized signature form for manual signatures.</p>	<p>Response:</p> <ul style="list-style-type: none"> a. County Finance will remind staff that manual signatures for invoice approval must match the authorized signature form. b. County Finance will circulate a memo to County management to remind them of the need for signatures on invoices to match the one on the authorized signature form. c. County Finance will provide the listing of individuals authorized to approve expenditures to County management as required by AO-39. <p>Responsible party: Kathleen Prothman, County Finance Director</p> <p>Estimated completion date: July 31, 2023</p>