



COUNTY OF LEHIGH
OFFICE OF THE CONTROLLER

LEHIGH COUNTY GOVERNMENT CENTER
17 SOUTH SEVENTH STREET
ALLENTOWN, PA 18101-2400
(610) 782-3082 FAX: (610) 871-2897

GLENN D. ECKHART
COUNTY CONTROLLER

JOHN A. FALK
DEPUTY CONTROLLER

TO: Final Report Distribution
FROM: Glenn Eckhart, County Controller G. E.
DATE: May 6, 2016
RE: Compliance Audit – 2015 Vendor Payments

We have completed an audit of vendor payment activity for the calendar year ending December 31, 2015. The Office of Fiscal Affairs is responsible for the preparation of vendor payments as described in the County of Lehigh Home Rule Charter and Administrative Code (as amended). The Office of the Controller is responsible for auditing county disbursements and reviewing warrants for the expenditure of county monies as described in Section 503 of the County of Lehigh Home Rule Charter and Section 502 of the Administrative Code. Our report number 16-15 is attached.

The results of our audit are:

- Approximately 40,000 vendor payments amounting to \$181 million were issued by the Office of Fiscal Affairs during calendar year ending December 31, 2015. No material adjustments were noted as a result of the Office of the Controller's weekly review of vendor payment activity.
- In our opinion, the Office of Fiscal Affairs complied, in all material respects, with the compliance requirements referred to above that are applicable to vendor payments for the calendar year ending December 31, 2015 except for:
 - Decentralized payment processing without proper authorization;
 - Attorney payments for Mental Health legal services/court commitments;
 - Current practice for handling one-time contract exceptions and using a purchase order as a professional service agreement are not authorized/documented; and
 - Missing/incomplete Certificates of Insurance.

Attachment

COUNTY OF LEHIGH, PENNSYLVANIA

INDEPENDENT AUDITOR'S REPORT

*Compliance Audit of Vendor Payments
For the Calendar Year 2015*

REPORT NO. 16-15

COUNTY OF LEHIGH, PENNSYLVANIA
COMPLIANCE AUDIT OF VENDOR PAYMENTS

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COUNTY CONTROLLER

JOHN A. FALK
DEPUTY CONTROLLER

Timothy Reeves, Fiscal Officer
Office of Fiscal Affairs
Lehigh County Government Center
17 South Seventh Street
Allentown, PA 18101-2400

Compliance

We have audited the Office of Fiscal Affairs management's compliance with the County of Lehigh Home Rule Charter and Administrative Code (as amended) requirements for vendor payments for the calendar year 2015. Compliance with the requirements referred to above is the responsibility of the Office of Fiscal Affairs management. Our responsibility is to express an opinion on the Office of Fiscal Affairs management's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the generally accepted government auditing standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on vendor payment activity. An audit includes examining, on a test basis, evidence about the Office of Fiscal Affairs management's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Office of Fiscal Affairs management's compliance with those requirements.

In our opinion, the Office of Fiscal Affairs management complied, in all material respects, with the compliance requirements referred to above that are applicable to vendor payment activity for the calendar year 2015 except for the management issues that are described in the accompanying "*Schedule of Audit Findings and Recommendations*."

Internal Control Over Compliance

Management of the Office of Fiscal Affairs is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Office of Fiscal Affairs management's internal control over compliance to determine the auditing procedures for the purposes of expressing an opinion on compliance, but not for the purposes of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Office of Fiscal Affairs management's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance on a timely basis. A material weakness in internal control over compliance is a deficiency or combination of deficiencies in internal control over compliance, such that there is reasonable possibility that a material noncompliance with a compliance requirement will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Thomas Muller, County Executive; Daniel McCarthy, Director of Administration; Board of Commissioners, others within the entity, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read 'Glenn Eckhart', with a stylized, cursive script.

Glenn Eckhart
County Controller

May 5, 2016
Allentown, Pennsylvania

xc: Board of Commissioners
Daniel K. McCarthy, Director of Administration
Thomas S. Muller, County Executive

COUNTY OF LEHIGH, PENNSYLVANIA
COMPLIANCE AUDIT OF VENDOR PAYMENTS

Schedule of Audit Findings and Recommendations

1. Payments Totaling \$575,702 Not Reviewed by Controller's Office

Condition: Not all expenditures are being centrally processed nor reviewed by the Office of the Controller before payment is issued. Section 502(1) b. of the Lehigh County Administrative Code states:

The duties of the office shall be organized to review all warrants for the expenditures absorbed of County monies and review the bidding, contract, and other documents constituting the basis for the expenditures and if satisfied that such expenditures are within the budget allotment pertaining thereto and otherwise conform to the applicable legal requirements, shall sign said warrant before it is paid.

The payments in question are issued by the Clerk of Judicial Records-Criminal Division and the Cedarbrook Nursing Homes. For calendar year 2015, checks issued by the Clerk amounted to \$434,312* and for the Nursing Homes they totaled \$141,390*. Any losses in these accounts would be absorbed by the County of Lehigh.

**amounts are derived from office check registers and have not been audited*

All other payments are issued through the Office of Fiscal Affairs. A centralized check process improves controls over payments limiting the risk of unauthorized or unapproved payments.

Recommendation: We strongly encourage the Administration to direct the Clerk of Judicial Records and the Cedarbrook Nursing Home Administrator to transfer the check issuing process to the Office of Fiscal Affairs.

2. Non-Compliance with Section 801.1 of the Administrative Code

Condition: A review of weekly vendor checks in April of 2015 revealed a missing, outdated contract for professional services (Office of Mental Health legal services). Moreover, payment authorization was lacking for related professional service transactions of a lesser dollar value. Professional Service Agreements should be secured in accordance with Section 801.1 of the Administrative Code.

Recommendation: Management has acquired an updated contract to replace the missing contract denoted above. Other payments for professional services, if not mandated by a court order, should be accompanied by Administrative Form 1 "Agreement for Professional Services (Using a Purchase Order)" or a contract depending on the value of the services, in order to maintain compliance with Section 801.1 of the Administrative Code.

3. Using a Purchase Order for Low Dollar Professional Service Agreements

Condition: Procedures for using a purchase order for contracting professional services less than \$2,000/year are not documented. Also, over the years the threshold for competitive bidding has raised to \$4,000 (where solicitation of bids is optional).

Recommendation: Written policies and procedures should be developed and formally authorized. Written procedures facilitate the proper processing of the affected transactions. Without proper administrative controls in place, unauthorized county payments could occur. County Administration should document the use of the Administrative Form #1 (Using a Purchase Order for Professional Services Agreements) procedures and establish authorization for the procedures via Administrative notice and/or ordinance.

4. One-time Contract Exception Procedures Not Documented

Condition: One-time contract exception procedures are not authorized or documented. Occasionally payments are made to vendor without a contract in-place. These situations are usually unique events that will not result in a long standing contractual relationship. Current practice involves management review and approval process that is not formally documented via Administrative Notice or Ordinance. Written policies should be developed and formally authorized. Without proper administrative controls in place, unauthorized county payments could occur.

Recommendation: The Fiscal Officer should document the one-time exception payment procedures and establish authorization for the procedures via Administrative Notice and/or Ordinance.

5. Lack of Adequate Control Over Vendor Insurance Coverage Compliance

Condition: We were unable to locate "Certificates of Insurance" for approximately 50 current vendors. Terms of our contracts require the vendor to provide Certificates of Insurance not later than ten calendar days before work is begun. We also found several Certificates where Lehigh County was not listed as an additional insurance party also required by our contract.

Recommendation: The current Fiscal Office contract viewing screens include a field to indicate receipt of the Certificate of Insurance. The initial payment for new or extended contracts should require notation that a current certificate was received. All insurance certificates should name the County of Lehigh as an additional insured party. Management should keep Certificates with contracts and file all documents in an electronic format.

6. Bids Procedures Not Followed

Condition: Office of Aging management solicited bids for a wheelchair ramp and contracted with a vendor without Office of Procurement involvement. A Request for Payment for \$10,440.00 lacked proper authorization due to non-compliance to Section 800 of the Administrative Code.

Recommendation: On the recommendation of the Department of Law, the Office of Procurement personnel should be responsible for obtaining all bids to assure proper control.

7. Affordable Housing Contract Monitoring

Condition: Contract monitoring for affordable housing program payments were inadequate to assure proper payments by the Department of Community & Economic Development management. Documentation for reimbursement for actual contractor costs (cancelled check copies) were not required. Independent verification of affordable housing construction-in-progress invoicing was not required. Lack of written procedures and lack of proper supervisory monitoring of contractors could result in unauthorized county payments.

Recommendation: Establish written guidelines for affordable housing contract monitoring.

TO: Glenn Eckhart, County Controller
FROM: Timothy A. Reeves, Fiscal Officer
DATE: May 5, 2016
RE: Response to Audit Findings and Recommendations – Vendor Payments Audit

1. Payments Totaling \$575,702 Not Reviewed by Controller's Office

Response: The Fiscal Office has reviewed the check issuing process at both the Clerk of Judicial Records-Criminal Division and the Cedarbrook Nursing Home. We have initiated steps that will allow us to continue to use the new RFMS system at Cedarbrook, but will transfer the check issuing process back to the Office of Fiscal Affairs. The check issuing process at the Clerk of Judicial Records-Criminal Division will remain the same based on the President Judges' insistence to keep the process in place as it has been for many years.

2. Non-Compliance with Section 801.1 of the Administrative Code

Response: The Fiscal office agrees with the finding and will initiate procedures that payments for professional services will be accompanied by Administrative Form 1 or a contract depending on the value of services.

3. Using a Purchase Order for Low Dollar Professional Service Agreements

Response: The Fiscal Office will work directly with the Solicitor's Office to write an Administrative Notice that will develop and authorize the policies and procedures to ensure proper controls are in place going forward along with raising the threshold for competitive bidding to \$4,000.

4. One-time Contract Exception Procedures Not Documented

Response: See response to #3 above. We will include the one-time exception payment procedures in the Administrative Notice.

5. Lack of Adequate Control Over Vendor Insurance Coverage Compliance

Response: The maintenance of the "Certificates of Insurance" files has been shared by the Fiscal Office and HR over the years. The new ERP system has an automated process that will allow for the documenting and sharing of the Certificates throughout the organization. Until the ERP system is in place, the Fiscal Office will initiate a process to validate that we have the proper Certificate of Insurance documents and that Lehigh County is properly listed as an additional insured party.

6. Bids Procedures Not Followed

Response: The Office of Procurement will be responsible for obtaining all bids (when required) to assure proper control.

7. Affordable Housing Contract Monitoring

Response: The Fiscal Office is working directly with the Department of Community & Economic Development to establish written guidelines for affordable housing contract monitoring.



Timothy A. Reeves, Fiscal Office