



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: Timothy Reeves, Fiscal Officer
FROM: Glenn Eckhart, County Controller G.E.
DATE: March 28, 2017
RE: Compliance Audit – 2016 Vendor Payments

We have completed an audit of vendor payment activity for the calendar year ending December 31, 2016. 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 17-5 is attached.

1. The results of our current (2016) audit are:
 - Approximately 37,000 vendor payments amounting to \$182 million were issued by the Office of Fiscal Affairs during calendar year ending December 31, 2016. For 2016, no material adjustments were noted as a result of the Office of the Controller's weekly review of vendor payment activity.
2. The current status of prior year (2015) issues are (refer to pages 3–7):

The following issues from 2015 are not resolved:

- Non-compliance with Section 801.1 of the Administrative Code:
 - No 14-day advance written notice (Admin Form 1) to the Commissioners / Controller / Fiscal Officer for attorney services for mental health court commitments (see finding #2 on page 4).
 - No contracts in-place for attorney services for the above services.
- Procedures for using a purchase order for contracting professional services less than \$4,000/year are not documented (see finding #3 on page 5).
- Procedures for one-time payment exceptions where no contract is in-place are not documented (see finding #4 on page 5).

The Fiscal Officers response (see page 8) indicates these issues have not been resolved since 2015 due to "the Fiscal Office and Solicitor's Office busy workload".

Corrective Actions Have Resolved the Following from 2015:

- Payments Totaling Not Reviewed by Controller's Office (see finding #1 on page 4)
 - Per the President Judge's order, certain Clerk of Judicial Records-Criminal Division disbursements must remain under separate court bank accounts.
 - The adoption of the RFMS system at Cedarbrook resulted in inadequate separation of duties as to vendor payments. We wish to express our appreciation to the Nursing Home Administrator, the Cedarbrook Chief Financial Officer and the county IT management in making several process improvements and control enhancements during 2016 to improve internal control.
- Lack of Adequate Control Over Vendor Insurance Coverage Compliance (see finding #5 on page 6)
 - Management plans to automate tracking of "Certificates of Insurance" with the implementation of the new ERP system.
- Bids Procedures Not Followed (see finding #6 on page 6)
 - Bid procedures are now being followed.
- Affordable Housing Contract Monitoring (see finding #7 on page 7)
 - We wish to express our appreciation to the Office of Economic & Community Development for establishing written guidelines for affordable housing contract monitoring.

Attachment

AUDITS/VENDOR PAYMENTS

COUNTY OF LEHIGH, PENNSYLVANIA

INDEPENDENT AUDITOR'S REPORT

*Compliance Audit of Vendor Payments
For the Calendar Year 2016*

REPORT NO. 17-5

COUNTY OF LEHIGH, PENNSYLVANIA
COMPLIANCE AUDIT OF VENDOR PAYMENTS

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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 2016. 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 2016 except for the management issues that are described in the accompanying *"Schedule of Prior 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.

The Fiscal Officer's response to our audit is included in this report. We did not audit the Fiscal Officer's response and, accordingly, we do not express an opinion on it.

This report is intended solely for the information and use of management, Thomas Muller, County Executive; 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.



Glenn Eckhart
County Controller

March 23, 2017
Allentown, Pennsylvania

xc: Board of Commissioners
J. Timothy Boyer, Director, MH/ID
Stephen Breidigan, CFO, Cedarbrook
Frank Kane, Director, Economic & Community Development
Robert Kennedy, Director, Information Technology
Thomas Muller, County Executive
Andrea Naugle, Clerk of Judicial Records
The Honorable Edward Reibman, President Judge
Catharine Roseberry, Senior Attorney, Department of Law
Christy Schlottman, Solicitor, Controller's Office
Joseph Shahid, Director, Cedarbrook Homes
Matthew Sorrentino, Solicitor, Department of Law
Kerry Turtzo, Court Administrator

COUNTY OF LEHIGH, PENNSYLVANIA
COMPLIANCE AUDIT OF VENDOR PAYMENTS

Schedule of Prior Audit Findings and Recommendations
(Audit Report #16-15 issued May 6, 2016)

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.

Management 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 Judge's insistence to keep the process in place as it has been for many years.

Current Status: Clerk of Judicial Records-Criminal Division bail account – for calendar year 2016, the Clerk issued 263* checks amounting to \$324,456*. **The check process has not been transferred to the Office of Fiscal Affairs as recommended. Any losses in this account would be absorbed by the County of Lehigh.**

Cedarbrook Nursing Homes Resident Trustee Accounts – for calendar year 2016, there were 1,217* checks amounting to \$904,860* issued. Several process improvements and control enhancements were added since this issue was reported:

- July 2016 – printing and mailing of checks from the trustee accounts was transferred to the Office of Fiscal Affairs, enabling review and approval by the Controller’s Office;
- January 2017 – positive pay controls implemented;
- January 2017 - Controller’s signature added to the Allentown location checks;
- February 2017 – Controller’s signature added to the Fountain Hill location checks;
- Control weaknesses not yet addressed –
 - Signature count control (check stock control).

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

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

Condition: A review of weekly vendor checks in April of 2016 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.

Management 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.

Current Status: The Department of Law has determined payments for legal services provided to human services clients (regardless of amount) do not require an Administrative Form #1 per the Administrative Code Section 801.1. **The opinion of the Controller is all legal services should be required to follow 801.1 notification requirements.** Contracts are not in place for all legal services for court commitments. Several vendors exceed \$4,000 per year. Payments continue to be made as authorized by the office manager using a “Request for Payment”. **The opinion of the Controller is all legal services that exceed \$4,000 per year should have a written contract with the County of Lehigh.**

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.

Management's Response: The Fiscal Office will work 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.

Current Status: Procedures for using a purchase order for contracting professional services under \$4,000 have not been completed by the Administration. **The opinion of the Controller is procedures for using a purchase order for contracting professional services less than \$4,000/year should be documented.**

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.

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

Current Status: Procedures for authorizing one-time contract exception payments have not been completed by the Administration. The County administration has been following the abovementioned process for many years. Most of the one-time exceptions have been due to exigent circumstances involving human services clients where the services are already performed and the county is legally liable for payment of services. **The opinion of the Controller is procedures for one-time contract exception procedures should be documented by Administrative Notice.**

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.

Management 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.

Current Status: Management plans to automate tracking of “Certificates of Insurance” with the implementation of the new ERP system. The estimated go-live date for ERP is January 2018.

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.

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

Current Status: Condition has been adequately addressed.

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.

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

Current Status: Condition has been adequately addressed.

TO: Glenn Eckhart, County Controller

FROM: Timothy A. Reeves, Fiscal Officer

DATE: March 23, 2017

RE: Response to Audit Findings and Recommendations – 2016 Vendor Payments Audit

Overall, the responses remain the same from the previous audit. The most significant findings have been adequately addressed with the remaining findings to be addressed as part of the new ERP implementation or as time permits with the Fiscal Office and Solicitor's Office busy workload.

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 finalized steps that will allow us to continue to use the new RFMS system at Cedarbrook, but have transferred 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 coordinate with the Law Office 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 coordinate 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

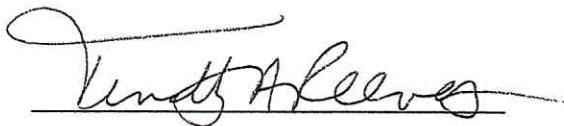
Response: The maintenance of the "Certificates of Insurance" files has been shared by the Fiscal Office and HR over the years. The new ERP system has an automated process that will allow for the documenting and sharing of the Certificates throughout the organization. Until the ERP system is in place, 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