



COUNTY OF LEHIGH
OFFICE OF THE CONTROLLER

LEHIGH COUNTY GOVERNMENT CENTER
17 SOUTH SEVENTH STREET
ALLENTOWN, PA 18101-2400
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GLENN D. ECKHART
COUNTY CONTROLLER

THOMAS GROGAN
DEPUTY CONTROLLER

TO: Timothy Reeves, Fiscal Officer
FROM: Glenn Eckhart, County Controller G.E.,
DATE: June 5, 2019
RE: Compliance Audit – 2018 Vendor Payments

We have completed an audit of vendor payment activity for the calendar year ending December 31, 2018. 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 19-11 is attached.

The results of our current (2018) audit are:

- Approximately 33,000 vendor payments amounting to \$225 million were issued by the Office of Fiscal Affairs during calendar year ending December 31, 2018.
- Inadequate controls over Cedarbrook Investment Advisory funds.
- Payment review procedures should be strengthened.
- Policy needed for petty cash transactions.
- Potential cost savings opportunity
- Prior audit findings have not been addressed.

COUNTY OF LEHIGH, PENNSYLVANIA

INDEPENDENT AUDITOR'S REPORT

*Compliance Audit of Vendor Payments
For the Calendar Year 2018*

AUDIT NO. 19-11

COUNTY OF LEHIGH, PENNSYLVANIA
COMPLIANCE AUDIT OF VENDOR PAYMENTS

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Timothy Reeves, Fiscal Officer
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 2018. 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 2018 except for the management issues that are described in the accompanying "*Schedule of Audit Findings and Recommendations*" and "*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.

If provided, 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, Phillips Armstrong, County Executive; Edward Hozza, 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.



Glenn Eckhart
County Controller

June 4, 2019
Allentown, Pennsylvania

Audited by: Thomas Schweyer

xc: Kay Achenbach, Human Services Director
Phillips Armstrong, County Executive
Board of Commissioners
Jason Cumello, Cedarbrook Administrator
Janine Donate, Director of Corrections
Joseph Hanna, Sheriff
Edward Hozza, Director of Administration
James Martin, District Attorney
Eric Minnich, Acting Coroner
Richard Molchany, General Services Director
George Nader, Procurement Officer
Andrea Naugle, Clerk of Judicial Records
The Honorable Edward Reibman, President Judge
John Sikora, Deputy Court Administrator
Kerry Turtzo, Court Administrator

COUNTY OF LEHIGH, PENNSYLVANIA
COMPLIANCE AUDIT OF VENDOR PAYMENTS

Schedule of Audit Findings and Recommendations

1. Inadequate Controls over Cedarbrook Investment Advisory Spending

Condition: Controls are not adequate to monitor Cedarbrook Investment Advisory accounts spending compliance.

Background: Over the years cash donations have been made to the county for the benefit of Cedarbrook residents. In addition, profits from canteen and craft sales have been earmarked for the benefit of the residents as well. Available funds from these sources amounted to \$412,413 as of December 31, 2018 (per the county trial balance for fund 3204, not audited by the Controller's Office).

In 1993 a policy was issued by Cedarbrook Administration providing guidelines for the use of these funds. This policy has been updated several times with the latest version revised in September 2013. Per the policy, funds shall be utilized to enhance the quality of life and activities for the residents of Cedarbrook - Allentown and Cedarbrook – Fountain Hill. Specific activities include out of facility trips, entertainment, decorations, flowers for memorial services, etc. Dollar limits for entertainment have been set for each location and performance. Per the policy, requests for expenditures are reviewed and approved by Cedarbrook Administration and the Therapeutic Recreation Director. Expenditures in excess of \$2,000 shall be approved by the County Executive. Purchases and payments are to be made in accordance with established purchasing procedures.

This activity occurs outside the county budget approval and tracking process resulting in avoidance of automated controls ensuring compliance with spending guidelines. In addition, most of the approvals come from Cedarbrook Management which creates a possible conflict of interest in determining if an expenditure is a resident quality of life expense or a nursing home operation cost.

Recommendation: The Cedarbrook Investment Advisory Funds should be placed in a separate fund subject to annual budgeting oversight and approval. A new investment advisory committee should be formed including County Administration, Cedarbrook Administration, and Cedarbrook resident representation. Without proper oversight these funds could be used to subsidize nursing home operations instead of resident quality of life enhancements.

2. Payment Review Procedures Should Be Strengthened

Condition: There were four payments totaling \$6,102.00 processed by the fiscal office that were not the financial responsibility of the county. In addition, several other payments included sales tax from which the county is exempt.

The payments were found during the weekly vendor payment review by the Controller's office. The payments for non-county costs (\$6,102.00) were voided and those with sales tax were voided and re-issued without the tax.

The fiscal office should review all payment requests to ensure compliance with county policies.

Recommendation: Management should document and review with staff payment processing procedures to ensure payment requests are in compliance with county policy and approved by authorized personnel.

3. Policy Needed for Petty Cash Transactions

Condition: Petty cash expenditures for sundry office and cleaning supplies are not in compliance with existing county policy. While it may be efficient to use petty cash for small dollar purchases the current administrative code requires managers to make such purchases through the Office of Procurement. This option is not always practical, especially for remote locations.

Recommendation: We recommend establishing a policy for low dollar petty cash transactions. The resulting policy should be added to the administrative code.

4. Cost Savings Opportunity

Condition: In 2018 the county issued 2,754 employee expense reimbursement checks amounting to \$498,705. Employee expense reimbursement checks should be added to payroll direct deposit payments which would reduce the number of paper checks issued by the fiscal office.

Recommendation: Employee expense reimbursements should be made via direct deposit payroll system instead of paper vendor checks. The county would see a cost savings in using less paper and postage. Management should also pursue an automated expense reporting system to improve legibility and accuracy for effective review and approval.

COUNTY OF LEHIGH, PENNSYLVANIA
COMPLIANCE AUDIT OF VENDOR PAYMENTS

Schedule of Prior Audit Findings and Recommendations

(Report #18-14 dated April 27, 2018)

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

Condition: Procedures for using a purchase order for contracting professional services less than \$4,000/year are not documented. Written policies and procedures should be developed and formally authorized to facilitate the proper processing of the affected transactions.

Recommendation: 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.

Current Status: Recommendation has not been implemented.

2. One-time Contract Exception Procedures Not Documented

Condition: One-time contract exception procedures are not authorized or documented. Occasionally, a department will request that a one-time payment be made to a vendor without a contract in-place. Most of the one-time exception requests have been due to exigent circumstances involving human services clients. Written policies and procedures should be developed and formally authorized to facilitate the proper processing of the affected transactions.

Recommendation: County Administration should develop a management review and approval process, and establish authorization for the procedures via Administrative Notice.
<https://www.pcrichard.com/Avanti/Avanti-22inch-7-4-Cu-Ft-Top-Freezer-Refrigerator-White/RA7306WT.pcrp>

Current Status: Recommendation has not been implemented.

3. Lack of Adequate Control Over Vendor Insurance Coverage Compliance

Condition: We were unable to locate "Certificates of Insurance" for 10 out of 20 randomly selected vendors. Terms of our contracts require the vendor to provide Certificates of Insurance no 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 Office of Fiscal Affairs 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.

Current Status: Recommendation has not been implemented.

TO: Glenn Eckhart, County Controller
FROM: Timothy A. Reeves, Fiscal Officer
DATE: June 4, 2019
RE: Response to Audit Findings and Recommendations – 2018 Vendor Payments Audit

1. Inadequate Controls over Cedarbrook Investment Advisory Spending

Response: Administration is currently reviewing the policy as updated in September 2013. This review will include but not be limited to determining the need for a separate fund subject to annual budgeting oversight and approval as well as the need for a new investment advisory committee and makeup of such committee.

2. Payment Review Procedures Should Be Strengthened

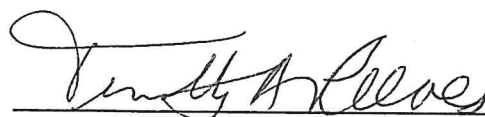
Response: The Fiscal office and Management will continue to review with the appropriate staff our payment processing procedures to ensure compliance with county policy. We process thousands of payments each year without exception, but realize that the weekly review by the Controller's office is a valuable step in ensuring total compliance.

3. Policy Needed for Petty Cash Transactions

Response: Administration will review the establishing of a policy to allow for low dollar petty cash transactions to the Administrative Code.

4. Cost Savings Opportunity

Response: The Fiscal office is currently in the process of upgrading to the next payroll platform with our current vendor JetPay. This upgrade will allow us to reimburse employee expenses via direct deposit payroll vs. cutting paper checks and realize the cost savings associated with this change. We will also be pursuing a more automated expense reporting system as part of our new ERP Implementation.



Timothy A. Reeves, Fiscal Office