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Inspector General

**OFFICE OF INSPECTOR GENERAL
PALM BEACH COUNTY**

“Enhancing Public Trust in Government”

REDACTED

Audit Report

2014-A-0002

January 8, 2014

*“Provide leadership in the promotion of accountability and
integrity of Government in Palm Beach County”*



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OFFICE OF INSPECTOR GENERAL
PALM BEACH COUNTY
AUDIT REPORT: 2014-A-0002
PALM TRAN CONNECTION
REPORT ON AUDIT FOLLOW UP

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"Enhancing Public Trust in Government"

SUMMARY RESULTS AT A GLANCE

The Office of Inspector General ("OIG") issued Audit Report: 2012-A-0001 in December 2011. The audit of Palm Tran Connection ("PTC") was conducted to determine whether appropriate controls were in place over the purchase of office supplies and equipment. This follow-up audit found that while corrective actions were taken on all twelve recommendations from our prior report, only seven recommendations were fully implemented. Five recommendations require additional action to ensure effective implementation. The five recommendations relate to the following:

- Recommendation (1) - Maintenance of appropriate segregation of duties in the Advantage system.
- Recommendation (3) - Surplus equipment and the documentation of a spare parts inventory.
- Recommendation (4) - Periodic review of Inventory and disposal of excess items in keeping with "best business practices".
- Recommendation (7) - Establishment of a formal access control policy at PTC.
- Recommendation (12) - Palm Tran management's timely implementation of audit recommendations.

We wish to acknowledge that management was diligent in their efforts to address all twelve recommendations and has been taking action during the follow up audit to address the five recommendations that were not fully implemented.

The status of all twelve recommendations is discussed in more detail in the remainder of this report. Management concurred with our findings and has taken or proposed action to address our recommendations. Management's response is summarized in the body of the report and included in its entirety as Attachment 1.

BACKGROUND

On August 5, 2011, Palm Tran management reported to our office an alleged theft of toner cartridges by the PTC Senior Secretary. The OIG coordinated with the State Attorney's Office and the matter was investigated with the assistance of the Palm Beach County Sheriff's Office. The investigation, which determined that the theft at PTC consisted of 162 items valued at \$18,934 stolen over a three year period, resulted in

criminal felony charges filed by the Palm Beach County State Attorney's Office in August of 2011. Our original audit was initiated following the criminal investigation.

OBJECTIVES, SCOPE AND METHODOLOGY

The primary objective of our follow up audit was to evaluate the effectiveness of the corrective actions taken to implement the original audit report's twelve recommendations with the goal of improving internal controls and operational practices.

The audit methodology included but was not limited to:

- Verifying the existence of policies, procedures, and processes established to implement the audit report's recommendations.
- Interviewing appropriate personnel.
- Conducting limited testing, where appropriate, to evaluate the effectiveness of corrective actions.

This review was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the work to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for the findings and conclusions based on our audit objectives.

AUDIT FOLLOW-UP RESULTS

FINDING (1): PURCHASING CONTROLS AT PTC NEED TO BE STRENGTHENED

Previously Reported in Audit Report 2012-A-0001

Purchasing duties were not properly segregated during the period from October 1, 2008 through January 1, 2011. We also reported that there was a high correlation between increases in the purchases of office supplies (specifically toner cartridges) and the alleged theft and subsequent sale of those items on eBay by an office employee. This trend went unnoticed by PTC management. We made the following two recommendations:

Recommendation (1): Management needs to ensure that appropriate segregation of duties are maintained in the Advantage system and are carried out in practice. The individual with authority to initiate purchases should ensure those purchases are necessary and the individual with authority to certify receipt should verify that goods have been received.

Recommendation (2): PTC purchasing procedures should include a review of the purchasing trends for consumable supplies.

Audit Follow Up Results

PTC has partially corrected this finding. With regard to Recommendation (1), PTC management established an Advantage (accounting system) security matrix. The requirement for reviewing and maintaining the security matrix to ensure proper segregation of duties was defined in departmental PPM #PT-F-020A. However, in our follow up review, we identified one employee who could purchase and receive merchandise. We also identified another PTC finance employee who has the ability to purchase without the finance supervisor's approval. During our review, management corrected the Advantage access permissions in these two instances to ensure proper segregation of purchasing duties.

With regard to Recommendation (2), PTC defined a requirement for a bi-annual review of purchasing trends for office supplies in departmental PPM PT-M-701, Section F. We reviewed the semiannual office supply trend analysis and verified that it was complete and accurate.

The receipt of goods reconciliation process is a control procedure noted in the Advantage receiver process. Although not reported as a finding in our original report, we included this purchasing process control in our follow up review and noted that in 5 of the 6 transactions we tested, there was no documentation to verify that a reconciliation was performed or that the goods had been received.

Audit Follow Up Recommendation (1): To ensure proper segregation of duties, management should conduct a thorough review of the Advantage Security Access Report taking into consideration the users' finance duties, functions within the accounting system and level of security access.

Audit Follow Up Recommendation (2): In accordance with *the Purchasing Policy and Procedures*, PTC should implement a reconciliation process upon receipt of goods. Documentation of the receipt process would ensure verification of the correct merchandise, quantity and price.

Management Response:

(1) Palm Tran agrees with the audit follow up results and will continue to maintain the Advantage security matrix. A thorough review of the Advantage Security Access Report will be conducted on an annual basis.

(2) Palm Tran will implement a formal reconciliation process upon receipt of office supplies to verify correct merchandise, quantity and price.

FINDING (2): CONTROL OVER AND RETENTION OF SURPLUS EQUIPMENT SHOULD BE EVALUATED

Previously Reported in Audit Report 2012-A-0001

A significant number of surplus items such as spare computer and office equipment were stored on site as spare parts. In addition, there were (50) toner cartridges and ancillary office items stored in this area. These items, parts, and toners were not being maintained on an inventory list. In checking the items sold by the Senior Secretary on eBay, it was determined that she not only allegedly stole “toners” but also some “spare” computer accessories from the PTC’s surplus property area.

Recommendation (3): Palm Tran Connection should maintain a documented inventory of spare parts and toner cartridges and those items should be stored in a secure environment.

Recommendation (4): The inventory should be reviewed periodically to ensure that the minimum number of items needed is maintained and excess items are disposed of in keeping with “best business practices.”

Audit Follow Up Results

PTC has partially corrected this finding. PTC created a toner cartridge inventory system and is utilizing it on an ongoing basis. Toner cartridge operational levels have been identified by location and are delivered to the various locations based on those levels. However, during our initial site visit of the spare parts inventory, we found that the office suite was in disarray and equipment and ancillary office items were comingled throughout the office space. We were not provided with an inventory list on this visit. In comparing our results to recommendation (3), PTC did not establish and complete the work on the inventory prior to our site visit. We returned the following week and were presented with a detailed inventory list by area, shelf, description and amount. In addition, the spare parts inventory was placed in an organized structure. Management had taken prompt action to correct the conditions found on our prior week’s visit.

PTC also conducted a review and identified surplus property for disposal in August 2012. During our follow up audit, we were also given a prepared “Request to Transfer Assets to Fixed Assets Management Office” form. However, the form was not prepared based on a defined schedule but initiated as a result of our follow up audit.

Audit Follow Up Recommendation (3): PTC should continue to maintain and update the inventory of spare parts, keep the items in an organized secure environment, and establish a procedure and time line for review and disposal of surplus supplies and equipment to the County’s fixed asset management department.

Management Response:

(3) Palm Tran provided a completed inventory list of spare parts. The site visit did reveal a less than orderly storage room, and the timing of Connection's upcoming move may have contributed to this. Greater management emphasis will be placed on keeping the spare parts organized and in a secure environment in Palm Tran Connection's new location. Palm Tran has established a procedure for the ongoing review and disposal of surplus supplies and equipment as defined in departmental PPM# PT-O-027A.

FINDING (3): SURVEILLANCE CAMERA COVERAGE NEEDS TO BE ENHANCED

Previously Reported in Audit Report 2012-A-0001

Pursuant to section 119.071(3) Florida Statutes, the following, relating to physical security, has been redacted.

[REDACTED]

Recommendation (5):

[REDACTED]

Recommendation (6):

[REDACTED]

Audit Follow Up Results

PTC has adequately corrected this finding.

[REDACTED]

FINDING (4): BUILDING ACCESS SECURITY CONTROLS NEED IMPROVEMENT

Previously Reported in Audit Report 2012-A-0001

[REDACTED]

[REDACTED]

Recommendation (7): [REDACTED]

Recommendation (8): [REDACTED]

Audit Follow Up Results

PTC has partially corrected this finding. [REDACTED]

Audit Follow Up Recommendation (4): [REDACTED]

Management Response:

(4) [REDACTED]

FINDING (5): EMPLOYEE TIMECARDS AND THE PAYROLL TIMESHEETS WERE NOT ALWAYS CERTIFIED AS TRUE AND CORRECT

Previously Reported in Audit Report 2012-A-0001

We reviewed a total of 357 timecards for March and June of 2011 and found that 50 (14%) of the timecards were unsigned and there was no evidence of supervisory approval. PBC PPM CW-P-048, Time and Attendance Records Policy, states, "At the end of a pay period the time and attendance form must be signed by the employee and their supervisor certifying the time as reported is correct". There is no assurance that employees were not overpaid or underpaid regular time as a result of an undetected timecard error or unapproved timecard change. At the conclusion of our initial audit, PTC implemented a new Time Management System ("TMS"), eliminating the existing manual time card process. As a result of the new TMS no recommendation was made related to this finding.

Audit Follow Up Results

Our audit review and results of the TMS implementation is discussed on page 9 of this report.

FINDING (6): FOUR NON-EXEMPT EMPLOYEES WERE NOT MAINTAINING AN APPROVED DAILY TIME RECORD

Previously Reported in Audit Report 2012-A-0001

For four non-exempt employees we found there were no daily timecard records and overtime worked was not always recorded on the actual timecard or otherwise documented. Because of inconsistent or incomplete documentation of overtime and no daily timecards, we could not verify that all regular time and overtime payments were correct. As a result of the implementation of TMS at the conclusion of our initial audit, the control deficiency noted in this finding had been addressed and no recommendation was made related to this finding.

Audit Follow Up Results

Our audit review and results of the TMS implementation is discussed on page 9 of this report.

FINDING (7): THE TIMEKEEPER ENTERED PAYROLL RECORDS WITHOUT APPROVED DAILY TIME RECORDS OR CERTIFICATION

Previously Reported in Audit Report 2012-A-0001

As payroll timekeeper, the Senior Secretary entered her own hours worked directly onto the manual timesheet for processing by the Palm Tran payroll staff. We noted that the Senior Secretary prepared as well as authorized the payroll input into Time Server,

where the payroll is processed for payment. The Senior Secretary was a non-exempt employee; however her supervisor did not require her to keep daily time records. With no timesheet approval required by her supervisor, the Senior Secretary could have falsified time work records to financially benefit her and others. There was no recommendation related to this finding as a result of the new TMS payroll process implementation.

Audit Follow Up Results

Our audit review and results of the TMS implementation is discussed on page 9 of this report.

FINDING (8): A PATTERN OF USING VACATION LEAVE WITH OVERTIME HAS INFLATED OVERTIME COST

Previously Reported in Audit Report 2012-A-0001

We found that a non-exempt employee at PTC has a pattern of using vacation time in the same pay period as overtime earned. In the 56 pay periods, the employee earned overtime in 55 of those pay periods of which 41 of those pay periods used vacation leave. The total cost of this employee's overtime and vacation time from January 11, 2008 through September 10, 2011 was \$60,420 in overtime. In later discussions, we were informed that the employee has outside employment that may contribute to his pattern of regularly taking vacation leave. There was no documentation for approval of outside employment.

Recommendation (9): PTC Management needs to review the approval process for the use of overtime, especially in situations where it is combined with the regular use of vacation leave.

Recommendation (10): Palm Tran management should complete the current efforts underway to establish a policy to require formal approval of outside employment of its employees similar to Palm Beach County Merit System Rule 10, Outside Non-County Employment.

Audit Follow Up Results

PTC has adequately corrected this finding. Management monitors the combination of overtime with the use of vacation leave on a monthly basis. We requested copies of the monthly overtime and vacation report generated from the payroll department and a copy of the monthly management compliance spreadsheet. After review, we selected (10) employees appearing on the overtime and vacation report. All payroll events appeared on the monthly compliance report and it was noted that the report was reviewed by management. A justification for the combination of overtime and vacation is requested from the division heads. We found that all (10) payroll combinations of

overtime and vacation leave were justified and in compliance with the established process.

Palm Tran has created a policy, "Secondary Employment: PPM PT-H-501, which prohibits employees from engaging in any activity that may conflict with company interest. In addition, the policy has an Attachment A: "Request for Approval of Outside Employment" that employees with secondary employment need to complete.

PALM TRAN MANAGEMENT ACTION TO IMPLEMENT THE TIME MANAGEMENT SYSTEM (TMS)

Previously Reported in Audit Report 2012-A-0001

We reviewed the internal controls over TMS and concluded that it effectively resolves three of the control issues in findings previously identified:

Finding (5) - Employees timecards and the payroll timesheets were not always certified as true and correct.

Finding (6) - Four non-exempt employees were not maintaining an approved daily time record.

Finding (7) - The timekeeper entered payroll records without approved daily time records or certification.

Recommendation (11): Considering the TMS System will address several control deficiencies identified in this report, we recommend that management conduct a follow-up review of the TMS system to ensure that the key internal controls are working as intended and to evaluate the effect of the locking of files procedure prior to implementing the automated upload of payroll data to Time Server.

Audit Follow Up Results

We documented and reviewed PTC's implementation of the TMS payroll process. The payroll department reviews and audits payroll reports throughout the bi-weekly payroll process, and the payroll is approved and locked prior to being sent for payroll payment calculation.

FOLLOW-UP OF PALM BEACH COUNTY INTERNAL AUDIT

Previously Reported in Audit Report 2012-A-0001

One of the audit recommendations from the Palm Tran Purchasing Control audit performed by the County Internal Auditor was Recommendation (5) *The Palm Tran*

Executive Director should ensure that proper segregation of duties of staff involved in the purchasing process is accomplished. While Palm Tran management recognized the applicability of this recommendation at Palm Tran Connection it was not addressed until approximately nine months later. If weaknesses in segregation of duties had been addressed at PTC at the same time as Palm Tran, the alleged theft might have been detected sooner.

Recommendation (12): Palm Tran Management needs to ensure that agreed upon audit recommendations are implemented timely.

Audit Follow Up Results

Palm Tran management took corrective action on all twelve recommendations from Audit Report 2012-A-0001. However, our follow up audit procedures showed that four recommendations require additional actions to ensure that the corrective actions taken are complete. Based on these results, we believe that Palm Tran would benefit from establishing a process to monitor and validate corrective actions taken.

Audit Follow up Recommendation (5): Palm Tran is subject to various types of audits conducted by Federal, State, and County entities. To ensure that all recommendations are fully implemented, Palm Tran should develop a system for monitoring and validating corrective actions taken in response to audit recommendations.

Management Response:

(5) Palm Tran currently utilizes a tracking system and process to review and confirm that corrective actions are implemented in a timely fashion. The review and confirmation process will be revisited by Palm Tran Management.

ATTACHMENTS

Attachment 1 – Complete Management Response

ACKNOWLEDGEMENT

The Inspector General's audit staff would like to extend our appreciation to Palm Tran and Palm Tran Connection management and staff for the cooperation and courtesies extended to us during this audit.

This report is available on the OIG website at: [http:// www.pbcgov.com/OIG](http://www.pbcgov.com/OIG). Please address inquiries regarding this report to Dennis Schindel, Director of Audit, by email at inspector@pbcgov.org or by telephone at (561) 233-2350.

ATTACHMENT 1



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**Palm Beach County
Board of County Commissioners**

Priscilla A. Taylor, Mayor
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Jess R. Santamaria

County Administrator
Robert Weisman

December 30, 2013

Dennis Schindel
Director of Audit
Office of Inspector General
Palm Beach County
P.O. Box 16568
West Palm Beach, FL 33416

Mr. Schindel:

Thank you for your December 20, 2013 draft audit report. We appreciate the time and effort put forward by your staff and Palm Tran is providing the following response to your findings.

The original audit (2012-A-0001) by your staff was based on Palm Tran's staff detecting an internal control issue that allowed for the theft of office supplies. The theft was detected and reported by Palm Tran and the employee was subsequently arrested and convicted for their actions. The original audit report made twelve (12) recommendations and your follow-up report notes that Palm Tran has implemented corrective action in accordance with all of the original recommendations, however (5) five recommendations require additional action to ensure effective implementation. These are discussed below:

Recommendation #1 - Segregation of duties maintained in Advantage system.

- Palm Tran agrees with the noted results and will continue to maintain the Advantage security matrix which provides management with a tool to track credentials by both group and function. The matrix will continue to be updated every time there is a change made to any user profile. Additionally, a thorough annual review (**Audit Follow-Up Recommendation-1**) of the Advantage Security Access Report will be conducted on an annual basis.
- The second follow-up recommendation goes beyond the scope of the original audit; however Palm Tran will implement a formal reconciliation process (**Audit Follow-Up Recommendation-2**) upon receipt of office supplies to verify correct merchandise, quantity and price.

ATTACHMENT 1 (Continued)

Recommendation #3 – Surplus equipment and documentation of spare parts inventory.

- o Palm Tran provided a complete inventory list prior to the follow-up site visit and the subsequent testing of that list indicated that all equipment was accounted for. The site visit did reveal a less than orderly storage room with some comingling of equipment and ancillary office items; however this was subsequently resolved before the end of the audit follow-up. While the timing of Connection's upcoming move (during the review process) may have contributed to this, greater management emphasis will be placed on keeping them in an organized and secure environment in Connection's new location (see recommendation #7).

Recommendation #4 – Periodic review of inventory and disposal of excess items.

- o Palm Tran has established a procedure for the ongoing review and disposal of surplus supplies and equipment (Audit Follow-Up Recommendation-3) which is defined in departmental PPM# PT-0-027A.

Recommendation #7- [REDACTED]

- o [REDACTED]

Recommendation #12: Timely implementation of audit recommendations.

- o Palm Tran currently utilizes a tracking system and process to review and confirm that corrective actions are implemented in a timely fashion (Audit Follow-Up Recommendation-5). The review/confirm process will be revisited by Palm Tran Management.

Sincerely,



Charles D. Frazier
Assistant Executive Director

c: Charles D. Cohen, Executive Director
Shannon LaRocque, Assistant County Administrator
John Murphy, Finance Manager
Ron Jones, Connection Director