




**TO:** Final Report Distribution

**FROM:** Mark Pinsley, County Controller 

**DATE:** September 13, 2024

**RE:** Compliance Audit – 2023 Vendor Payments

We have completed an audit of vendor payment activity and for the calendar year ending December 31, 2023. The Office of Fiscal Affairs is responsible for the preparation and authorization 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 24-22 is attached.

The results of our audit include:

- Approximately 26,400 vendor payments amounting to \$247 million were issued by the Office of Fiscal Affairs during calendar year ending December 31, 2023. The Accounts Payable staff should be commended for their efforts in processing the payments with minimal issues.
- There remain findings from the 2022 Vendor Payment audit which have not been addressed, and continue to exist.
- Controls over payment review, system processing, approvals, and the identification of duplicate payments should be strengthened.
- Controls over changes to the Vendor Master File should be strengthened.
- Departmental processes in forwarding copies of current executed vendor contracts and related certificates of insurance to the Office of Fiscal Affairs to ensure accurate payment processing should be strengthened.

Attachment



COUNTY OF LEHIGH, PENNSYLVANIA

INDEPENDENT AUDITOR'S REPORT

*Compliance Audit of Vendor Payments  
For the Calendar Year 2023*

REPORT NO. 24-22

COUNTY OF LEHIGH, PENNSYLVANIA  
COMPLIANCE AUDIT OF VENDOR PAYMENTS

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COUNTY OF LEHIGH, PENNSYLVANIA  
COMPLIANCE AUDIT OF VENDOR PAYMENTS

***Background:***

**Vendor Payment Compliance:**

All demands for payments are received, reviewed and approved by applicable departments and business units of the County. Once authorized for payment, the approved demand is forwarded to the Office of Fiscal Affairs where the following is performed in compliance with the *County of Lehigh County of Lehigh Administrative Code (as amended)*:

Section 604.3. No bill, demand, or claim shall be paid unless it contains an itemized statement of the items or services, stating by the party claiming payment that it is correct, and is certified that the items have been received, or the services rendered to the County.

Section 604.4. All bills, claims and demands against the County shall be approved in accordance with action of the Director of the Department of Administration. A voucher, on a form prescribed by the Director of the Department of Administration, shall be presented for each bill, claim or demand and shall be paid only upon the audit, warrant and approval of the Director of the Department of Administration.

When demands are reviewed, audited and approved for payment by the Office of Fiscal Affairs, the Controller's Office, in compliance with the County's Home Rule Charter and Administrative Code noted below, performs a final review prior to payment.

*Lehigh County Home Rule Charter (as amended):*

§ 503: The Controller shall examine the records, files, and procedures pertaining to the receipt and expenditures of County funds by all officers, agents, and employees of the County and all agencies thereof, to determine if they are in accordance with law, and the provisions of this Charter...

*County of Lehigh Administrative Code (as amended):*

Section 502: The Office of the Controller shall have and exercise all powers and duties stated in Article V, Section 503 of the Charter. The duties of the office shall be organized to perform the following functions:

- (b) Review all warrants for the expenditures 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.

Additionally, the Office of the Controller is responsible to audit the receipt of submitted campaign finance forms as described in Section 801.5(D) of the County of Lehigh Administrative Code.

*County of Lehigh Administrative Code (as amended):*

Section 801.5.E: The Lehigh County Controller shall, on an annual basis, audit the campaign finance disclosure forms for all County Vendors to ensure the form is affixed to the contract and that the form is facially complete, and shall be authorized to perform any other audits he/she deems appropriate, as set forth in Section 801.4, including review of the disclosure forms required by Section 801.5.C.3, herein.



Timothy Reeves, Chief 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, and validated compliance with the submission of required campaign finance forms for applicable contracts in accordance with the County of Lehigh Administrative Code, for the calendar year 2023. 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 2023 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.

### **Management's Response to the Audit**

The Office of Fiscal Affairs management did not provide a written response to our audit. However, we did receive verbal confirmation that our recommendations will be taken under advisement. Office of Human Resources management did provide a response to Finding #4 which is noted on page six of this report. We did not audit management's responses 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.

MARK PINSLEY



Lehigh County Controller

August 29, 2024  
Allentown, Pennsylvania  
Audited by: Brian O'Donnell

### **Final Distribution:**

Kay Achenbach, Human Services Director  
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COUNTY OF LEHIGH, PENNSYLVANIA  
COMPLIANCE AUDIT OF VENDOR PAYMENTS

*Schedule of Current Audit Findings and Recommendations*

1. Strengthening Controls Over Payment Review Procedures

**Condition #1:**

- Based on an analytical review of 2023 payment transactions, we identified 7 duplicate payments over \$500.00 totaling approximately \$538k. A list of additional potential duplicate invoice payments was provided to the Accounts Payable Manager for review.

**Recommendations:**

- The Office of Fiscal affairs should validate the receipt of refunds/credits for all identified duplicate payments and determine the validity of the additional potential duplicate payments.
- The Office of Fiscal Affairs should consult with the Information Technology department to create a weekly edit report identifying possible duplicate entries prior to the processing of payments. Criteria should include matching on vendor, invoice number, invoice date, and amount.
- The Chief Fiscal Officer should continue to reinforce the needs to strengthen countywide department controls, and to follow policies and procedures regarding the review and submission of invoices for payment. Management of each department should document and review departmental payment processing procedures with their staff. This will help to mitigate duplicate payment of invoices.

**Management's Response:** Office of Fiscal Affairs management did not provide written comments in response to our report. However, as per discussions with Management, the recovery of the duplicate payments, and the creation of a weekly edit report will be pursued. Management also stated that they will continue to reinforce the countywide need to strengthen controls, and to follow policies and procedures regarding vendor payments.

**Condition #2:**

- When documenting the Office of Fiscal Affairs' invoice review and payment processing workflow, several areas were identified for consideration to strengthen controls, including the following:
  - Prior to processing, all payments are not reviewed to confirm authorized signature approval, which could lead to the processing of unauthorized or fraudulent payments.
  - Additionally, pricing compliance to applicable contracts is not validated for all payments, which could lead to the processing of incorrect payment amounts.

**Recommendations:**

- The Office of Fiscal Affairs' management should review and assess the identified areas of opportunities to strengthen controls over vendor payment processing.
- The Chief Fiscal Officer should consider evaluating the benefits of a comprehensive accounts payable solution to enhance payment controls, integrations, accessibility, and processing efficiencies. Consideration of an invoice imaging system would expedite review from all offices/departments in validating submitted invoices.

**Management's Response:** Office of Fiscal Affairs management did not provide written comments in response to our report. However, as per discussions with Management, the recommendations will be taken into consideration and pursued based on assessed risk.

## 2. Strengthening Controls Over Vendor Master File Changes

**Condition:** As noted in prior Vendor Payment audit reports, we identified the following areas where controls over changes to the vendor master file changes can be strengthened:

- Lack of segregated duties: Changes to the Vendor Master are performed by personnel responsible for vendor payment review and processing.
- Changes to the Vendor Master, both newly added and changes to existing vendors, are not reviewed by management outside of the personnel responsible for vendor payment review and processing.
- Audit testing identified 30 new vendors in the Vendor Master file, entered in 2023, that contains no names or additional information. It appears that no payments were issued to those vendors during the year, however, this gives the appearance that the integrity of the vendor master file is not being periodically reviewed for completeness.

### **Recommendations:**

- The Chief Fiscal Officer should review staff responsibilities regarding vendor file maintenance to ensure that changes performed to the vendor master file are properly segregated. Additionally, the weekly Vendor Change Report should be reviewed by the Chief Fiscal Officer, or their designee, ensuring proper oversight of all changes, file integrity, and appropriate access. This review should be properly documented.

**Management's Response:** Office of Fiscal Affairs management did not provide written comments in response to our report. However, as per discussions with Management, the recommendations will be taken into consideration and pursued based on assessed risk.

## 3. Strengthening Vendor Contracts (Certificate of Insurance Controls)

**Condition:** As noted in prior Vendor Payment audit reports, a current certificate of insurance from the vendor, validating required insurance coverage limits, must accompany the contract when executed and must be obtained for each year of the contract. While the current process restricts contracts from becoming effective without proper evidence of required insurance limits, there is no ongoing verification of insurance for the duration of the contract term. The Office of Fiscal Affairs did not possess certificates of insurance for 6 out of 20 sampled Professional Service Agreements exceeding \$25k during 2023. Non-compliance may put the County at risk for potential liability.

### **Recommendation:**

- The Chief Fiscal Officer should partner with Risk Management, the Department of Law, and the Executive Office to consider the creation of a central database of all vendor contracts and certificates of insurance. This will assist in ensuring accuracy, completeness, and accessibility to executed contracts. The database can also be utilized to monitor and document the receipt of applicable vendor certificates of insurance. Management should assign the duty of monitoring expired certificates of insurance to ensure renewal verification is received annually as required by applicable contract terms.

**Management's Response:** Office of Fiscal Affairs management did not provide written comments in response to our report. However, as per discussions with Management, the recommendations will be taken into consideration and pursued based on assessed risk.



4. Lack of Adequate Control Over Review of AblePay Invoices

**Condition:** The County is charged a monthly administrative fee for every employee who has enrolled in the healthcare discount consultant, AblePay. The invoices for these fees were paid without review and confirmation of the eligibility of the participants by the Office of Human Resources. A roster of participating employees for who the fee was charged was not provided by the vendor when invoiced, and there was no evidence of departmental inquiry or review. As such, the County may be paying the administrative fee for ineligible individuals.

**Recommendation:**

- It is recommended that AblePay invoices for administrative fees and claims be reviewed timely by the Office of Human Resources when invoiced to ensure that the amount billed is accurate, and payments are made for eligible employees only. This procedure should be documented and reviewed prior to approving requests for payment of related invoices.

**Management's Response:**

- Keisha McCollin-Bulluck, Chief Human Resource Officer stated that they have implemented a process to verify and review AblePay invoices against the County's employee roster. Additionally, The Office of Human Resources will periodically provide AblePay with employee rosters listing benefit-eligible employees, as well as a report listing new hires and terminations.

COUNTY OF LEHIGH, PENNSYLVANIA  
COMPLIANCE AUDIT OF VENDOR PAYMENTS

*Schedule of Prior Audit Findings and Recommendations*  
(Report #23-15 dated August 11, 2023)

1. Strengthening Controls Over Payment Review Procedures

**Conditions:**

- Based on an analytical review of 2022 payment transactions, we identified 35 duplicate payments totaling approximately \$290k. Payment support for five additional potential duplicates, totaling \$2.4k, could not be located.
- When documenting the Office of Fiscal Affairs' invoice review and payment processing workflow, six opportunities in the payment intake, payment entry, and positive pay areas were identified for consideration to strengthen controls.

**Recommendations:**

- The Chief Fiscal Officer should communicate the need to strengthen countywide department controls pertaining to the review and submission of valid invoices for payment. Management of each department should document and review with staff, departmental payment processing procedures to ensure payment requests are in compliance with county policy approved by authorized personnel, and was not previously paid, prior to submission to the Office of Fiscal Affairs. Any requests not in compliance with the Office of Fiscal Affairs procedures, or the Lehigh County Administrative Code, should be returned to the requesting department.
- The Office of Fiscal Affairs should validate the receipt of refunds/credits for all identified duplicate payments and determine the validity of the five potential duplicate payments.
- The Office of Fiscal Affairs should consult with the Information Technology department to create a weekly edit report identifying possible duplicate entries prior to the processing of payments. Criteria should include matching on vendor, invoice number, invoice date, and amount.
- The Office of Fiscal Affairs' management should review and assess the identified areas of opportunities to strengthen workflow review and payment controls in relationship to potential cost benefits.
- The Chief Fiscal Officer should consider evaluating the benefits of a comprehensive accounts payable solution to enhance payment controls, integrations, accessibility, and processing efficiencies. Consideration of invoice imaging system would expediate review from all offices/departments in determining/validating submitted invoices.

**Current Status:**

The Chief Fiscal Officer communicated the audit recommendation via email to all County employees reinforcing the importance of internal controls surrounding the proper authorization of payments to vendors. No other action was taken by management regarding the remaining recommendations. See Schedule of Current Audit Findings and Recommendations #1 on page 4 of this report.

2. Strengthening Controls Over Vendor Master File Changes

**Conditions:** As noted in the 2021 Vendor Payment audit report, we identified the following where controls over changes to the vendor master file changes can be strengthened:

- Lack of segregated duties: Changes to the Vendor Master are performed by personnel responsible for vendor payment review and processing.

- Changes to the Vendor Master, both newly added and changes to existing vendors, are not reviewed by management outside of the personnel responsible for vendor payment review and processing.
- The Vendor Master does not contain edits requiring the entry of certain vendor fields or an audit trail identifying the individual performing the entry.
- Identified 18 vendors in the Vendor Master file that contains no names or additional information (14 entered in 2022). It appears that no payments were issued in 2022 to those vendor numbers. This gives the appearance that the integrity of the vendor master file is not being periodically reviewed for completeness.

**Recommendations:**

- Chief Fiscal Officer to evaluate vendor payment responsibilities and ensure changes performed to the vendor master file are properly segregated.
- The Vendor Change Report should be reviewed to ensure the entry and capturing of required fields to support an adequate audit trail.
- The Vendor Change report should be reviewed and initialed weekly by the Chief Fiscal Officer or Assistant Fiscal Officer ensuring proper oversight of all changes.
- Oversight/Review of the Vendor Master file should be enhanced to ensure file integrity and appropriate access.

**Current Status:**

No action was taken by management regarding recommendations. The Chief Fiscal Officer notes staffing limitations as a hinderance to adequately implementing the audit-recommended segregation of duties. Management will continue to evaluate based on assessed risk. See Schedule of Current Audit Findings and Recommendations #2 on page 4 of this report.

3. Vendor Payment Processing: Credit Card

**Condition:**

An initiative was undertaken in early 2022 to begin paying various vendor invoices using a credit card. The benefit of this initiative was to reduce costs associated with check processing, and receive cashback incentive for the credit card payments. The Office of Fiscal Affairs began credit card payment processing on 4/28/2022, and ended it 6/16/2022 due to miscommunication between Well Fargo and the Office of Fiscal Affairs pertaining to the execution of the transactions. This was discovered when vendors who signed-up for credit card payments contacted the Office of Fiscal Affairs to say they had not received payment of their invoices.

**Recommendation:**

Complete end to end testing should be performed and validated prior to going-live with credit card payments. This would include vendor confirmation of payment receipt.

**Current Status:** The credit card initiative ended in June, 2022. The Office of Fiscal Affairs stated that credit card payment of invoices may be revisited in the future.

#### 4. Strengthening Vendor Contracts and Certificate of Insurance Controls

**Conditions:** As noted in the 2021 Vendor Payment audit report, when departments enter into contractual agreements with vendors, they are directed by the Department of Law to forward copies of executed contracts to the Office of Fiscal Affairs. Although greatly improved over 2021 testing, we noted 5 out of 43 contracts not entered into the Accounts Payable system

In addition, a current certificate of insurance from the vendor, validating required insurance coverage limits, must accompany the contract when executed and must be obtained for each year of the contract. The Office of Fiscal Affairs did not have certificates of insurance for 10 out of 14 sampled Professional Service Agreements exceeding \$25k. Non-compliance may put the County at risk for potential liability.

**Recommendation:**

Consideration should be given by the Chief Fiscal Officer to partner with the Risk Officer, Department of Law, and Executive Office, for the creation of a central database of all vendor contracts when executed, ensuring accuracy, completeness, and accessibility. The database can also be utilized to monitor and report on the receipt of applicable vendor certificates of insurance.

**Current Status:**

No action was taken by management regarding recommendations. See Schedule of Current Audit Findings and Recommendations #3 on page 5 of this report.

#### 5. Lack of Adequate Control Over Care Cost Account Reconciliations

**Condition:**

As noted in the 2021 Vendor Payment audit report, when reconciling the Cedarbrook Allentown and Fountain Hill Care Cost Accounts to the General Ledger, we identified numerous journal entry mis-postings. The mis-postings were not identified through the monthly account reconciliation process performed by the Cedarbrook Financial Services department.

**Recommendation:**

Monthly Cedarbrook Allentown and Fountain Hill Care Cost Account reconciliations should be performed timely and include the validation of applicable general ledger accounts ensuring the accuracy of the postings. Management should actively review to ensure accuracy of entries and the timeliness of the account reconciliations.

**Current Status:**

Cedarbrook management has implemented new procedures to the Cost Care Account reconciliations which have reduced the number of mis-postings between accounts.