



Cobb County...Expect the Best!

INTERNAL AUDIT DEPARTMENT

Report Number 2019-004

***FINAL Supplemental Letter Report –
Control Weakness Noted in the Cobb County
Electronic Funds Transfer Payment Process***

June 21, 2019

***Latona Thomas, CPA, Director
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COBB COUNTY INTERNAL AUDIT

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Director

June 21, 2019

MEMORANDUM

TO: Rob Hosack, County Manager

FROM: Latona Thomas, CPA, Director 

SUBJECT: **FINAL** Supplemental Letter Report - Control Weakness Noted in the Cobb County Electronic Funds Transfer Payment Process

During our 'Review of the Control Activities over Funds Expended under the Workers' Compensation Plan' (Report Number 2019-003), we found a significant control weakness in the Cobb County (County) electronic funds transfer (EFT) payment process that resulted in payments to an unregistered vendor. Below is a description of the control weakness, the results, other identified risks, and recommendations to strengthen the control activity and eliminate or mitigate those risks. The supplemental letter report should be read in conjunction with the original report.

Impact on the Governance of Cobb County

The recommendations, when implemented, will strengthen the controls over the accountability of over the \$5.5 million¹ payments made to an unregistered vendor via the County's EFT payment process. County leadership and citizens can be assured that the Workers' Compensation Plan funds are handled responsibly and that the administration process is transparent, effective, and efficiently managed.

Responses

The Human Resources and Finance Directors provided responses to our draft report and concurred with each of the three recommendations. The complete responses to the draft report are included in Appendices III and IV. We will perform a follow-up on corrective actions in six months from the date of this report. A copy of this report will be distributed to those affected by the report recommendations. Please contact me at (770)528-2559, or David Murry, Internal Auditor II, at 770-528-2557, if you have questions.

¹ Based on the payments made October 2016 through August 2018. See section 'Payment to an Unregistered Vendor' on Page 2.

Description of the Control Weakness

During the preliminary survey phase of our original, referenced project, we attempted to independently generate a vendor payment/transaction report and agree to the TPA Contract¹ and amounts charged to the respective expenditure object codes. We were unable to generate a vendor payment history for PMA¹ because of the payment process used. We were unable to generate a history of payments to the vendor due to the lack of vendor registration.

We found that the claims and administrative fees payments to PMA are being paid via electronic funds transfer² (EFT) and recorded in the County's financial system, but outside of the County's established two-way match system control process within the Accounts Payable Division. In addition, we found that the current EFT process lacks a validation function to ensure that EFT payments are sent to only valid, registered County vendors. Per Finance staff, the EFT payment process is used due to the contractual timing requirements³ and the current two-way match process requires additional time to process and pay. While we understand the timeliness issue, we believe the two-way match system control process should be used with modified procedures or workflows to address the timely payment requirements. The County's two-match process is a procurement and financial system control to minimize or eliminate the risk of theft, loss, or misappropriation of County assets. The two-way match process is a critical control activity in safeguarding the County's assets.

With the current payment process, the payment authorization memorandums for claims and administrative fees are received from the Human Resources Department (HR) and paid by the Treasury Division of the Finance Department within two to three days of receipt. The vendor payments are then posted to the County's financial system via a journal voucher⁴ (JV) and are not uploaded in OnBase⁵. Neither the payment authorization memorandum nor the vendor payment register/invoice is available electronically in the Accounts Payable module of OnBase. Vendor payments that follow the County's two-way match system control process are both automatically tracked in the County's financial system by vendor and the supporting payment documents uploaded into OnBase. Using the current EFT process to manually process vendor payments outside the Accounts Payable Division resulted in the County paying an unregistered vendor. This process also increases the risk that duplicate vendor payments could go undetected, vendor payments could be posted incorrectly in the financial system, and vendor payment histories are not available for tracking and monitoring without significant manipulation and efforts.

¹ The County has contracted with PMA Management Corp. (PMA) under a third-party claims administration agreement (TPA Contract) to provide claims handling and adjustment services for all Qualified Claims. See 'Background' section of the original report.

² An electronic funds transfer (EFT) is a settlement of a vendor invoice, using a computer-based application, which transfers funds directly from the County's bank account to the vendors bank account.

³ The current TPA Contract requires claims and administrative fees to be paid within 10 and 30 business days of receipt of the vendor invoice statement, respectively. [Source: TPA Contract, Sections 10.b and 11.a-f, Pages 7-8]

⁴ A journal voucher is used to post or correct accounting activity that cannot be accomplished through any other document. [Source: Advantage Financial System User Guide, September 2015]

⁵ OnBase is an enterprise information platform which is used by the County to centralize its records retained electronically in one secure location, to enable the effective and efficient organization, storage and retrieval of documents.

Payments to An Unregistered Vendor

We noted that payments for the Workers' Compensation Plan claims and administrative fees were processed and paid via EFT to PMA, an unregistered vendor. Specifically, the payments total approximately \$5.5 million⁶ to PMA between October 2016 through August 2018. We verified that PMA was selected and approved through the County's procurement process, but no subsequent vendor registration process was completed. Current County practice is to have all vendors doing business with the County to complete the County's vendor registration process, which includes completing an Internal Revenue Service (IRS) Form W-9⁷. The IRS Form W-9 is used by the County to make a determination regarding any IRS reporting requirements for payments made to vendors. In addition, we received verbal acknowledgment and initially validated that other vendors are not registered with the County or are reflected as inactive in the County's financial system. It is our understanding that these vendors are also being paid via the EFT payment process, but we have not evaluated how many other unregistered vendors are being paid via EFT. See Page 3 for additional audit procedures to be performed. Without an IRS Form W-9, the County cannot be assured of its compliance with IRS reporting regulations. Having all the County's vendors registered also reduces the risk of improper payment of vendors, theft, and other misappropriation of County assets.

As referenced above, we also found that vendor transaction/payment histories are not captured in an efficient manner and in accordance with the County's financial system functionality. Specifically, we could not download PMA vendor payments paid via EFT and posted via a JV. We had to perform extensive manual procedures, subsequent data analysis and validation, which created inefficiencies in our independent reconciliation of the Workers' Compensation Plan financial transactions. Vendor transaction histories⁸ allows users to search for specific information related to vendor transactions, calculate total vendor payments for a specific timeframe, and perform other system-generated search and report functions. In addition, complying with the County's established two-way match process will allow for retaining of records in an organized manner via OnBase. The lack of vendor transaction histories increases the risk that vendor transactions and payments cannot be properly tracked and monitored and circumvents the County's system audit trail control. HR should coordinate with the Finance Department to revise the current payment process and follow the County's two-way match process, which includes the control that payments are only sent to registered vendors. HR should also review its current list of vendors paid via the EFT process to ensure that each has completed the County's registration process. Upon receipt, the Finance Department should evaluate the IRS reporting requirements for each of the newly registered vendors.

⁶ Note: This amount includes an overpayment of \$22,981 that is discussed in detail in the original, referenced report.

⁷ Request for Taxpayer Identification Number and Certification [Source: www.irs.gov]

⁸ Source: Pages 193-196 of the Advantage Financial System User Guide, September 2015.

Recommendations

The Human Resources Director or designee should:

Recommendation 1: Coordinate work with the Finance Department to develop a process to ensure that all claims and administrative fees payments are paid using the County's established two-way match process. Specific procedures should be implemented to include notification of pending payment requests with time-sensitive dates and the immediate review and processing for payment via EFT.

Auditee Response: **Concur.** The Human Resources Manager for Systems & Records Division and her staff will coordinate with Finance to implement a process to ensure that all claims and administrative fees payments are paid using the County's established two-way match process. Specific procedures will be documented in Standard Operating Procedures to include notification of pending payment requests with time-sensitive dates and the immediate review and processing for payment via EFT by October 1, 2019.

Recommendation 2: Coordinate work with the Finance Department to have review its current list of vendors paid via the EFT process to ensure that each has completed the County's registration process. For each of their unregistered vendors, contact the respective vendors and have them complete the County's vendor registration process to include the completion of an IRS Form W-9.

Auditee Response: **Concur.** The Human Resources Manager for Systems & Records Division and her staff will coordinate with Finance to review its current list of vendors paid via the EFT process to ensure that each has completed the County's registration process. For each of their unregistered vendors, contact the respective vendors and have them complete the County's vendor registration process to include the completion of an IRS Form W-9 by October 1, 2019.

The Finance Director/Comptroller or designee should:

Recommendation 3: Evaluate the IRS reporting requirements for each of the newly registered vendors and perform the necessary procedures to ensure County compliance.

Auditee Response: **Concur.** The Accounts Payable Finance Division Manager will be evaluating the IRS reporting requirements and the County's compliance with these requirements as it relates to organizations/vendors that received electronic funds transfer through the Treasury Division. A procedure will be established for the review and approval of all invoices that are required to be paid by the Treasury Division. The Finance Department will complete the compliance review and prepare a draft procedure for review by the end of August 2019.

Additional Internal Audit Procedures to be Performed

Based on the verbal acknowledgment and initially validated that other vendors that are not registered with the County or are reflected as inactive in the County's financial system, we have initiated additional procedures to evaluate how many other unregistered vendors are being paid via EFT, the overall Countywide impact, and/or any additional potential risks. The results will be communicated in a separate report.

Appendix I

FINAL Supplemental Letter Report Distribution List

Dr. Jackie McMorris, Deputy County Manager
Tony Hagler, Human Resources Director

Finance Department

Bill Volckmann, Finance Director/Comptroller
Curtis (Buddy) Tesar, Finance Department/Associate Comptroller

Outcome Measure⁹

This appendix presents detailed information on the measurable impact our findings and subsequent corrective actions taken, will have on County governance. These benefits will be incorporated into our annual report to the Board of Commissioners, Audit Committee, and County Manager.

Type and Value of Outcome Measure:

- Increased Safeguards over County Assets – Actual; Recommendations, when implemented, will provide increased controls over Workers’ Compensation payments to vendors and any corresponding IRS reporting requirements. (See Pages 1-3).

Methodology Used to Measure the Reported Benefit:

We found that approximately \$5.5¹⁰ million was paid to an unregistered vendor because the payments were made outside of the County’s established two-way match system control process within the Accounts Payable Division. Without the required vendor registration documents, there is no assurance that the County is meeting the IRS reporting requirements for vendor payments.

⁹ See Report Number 2019-0XX for additional outcome measures.

¹⁰ Based on the payments made October 2016 through August 2018. See section ‘Payment to an Unregistered Vendor’ on Page 2.

Human Resources Department's Response to the Draft Report



COBB COUNTY HUMAN RESOURCES

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MEMORANDUM

DATE: June 18, 2019

TO: Latona Thomas, CPA, Director, Internal Audit

FROM: Tony Hagler, Director, Human Resources 

SUBJECT: Supplemental Letter Report - Control Weakness Noted in the Cobb County Electronic Funds Transfer Payment Process

This memo is in response to the subject report dated June 14, 2019. Your report identified opportunities to improve the overall Electronic Funds Transfer Payment process. Several recommendations were made and our response to those recommendations are below

Recommendations

The Human Resources Director or designee should:

Recommendation 1: Coordinate work with the Finance Department to develop a process to ensure that all claims and administrative fees payments are paid using the County's established two-way match process. Specific procedures should be implemented to include notification of pending payment requests with time-sensitive dates and the immediate review and processing for payment via EFT.

Response: Concur

The Human Resources Manager for Systems & Records Division and her staff will coordinate with Finance to implement a process to ensure that all claims and administrative fees payments are paid using the County's established two-way match process. Specific procedures will be documented in Standard Operating Procedures to include notification of pending payment requests with time-sensitive dates and the immediate review and processing for payment via EFT by October 1, 2019.

Recommendation 2: Coordinate work with the Finance Department to have review its current list of vendors paid via the EFT process to ensure that each has completed the County's registration process. For each of their unregistered vendors, contact the respective vendors and have them complete the County's vendor registration process to include the completion of an IRS Form W-9.

Response: Concur

The Human Resources Manager for Systems & Records Division and her staff will coordinate with Finance to review its current list of vendors paid via the EFT process to ensure that each has completed the County's registration process. For each of their unregistered vendors, contact the respective vendors and have them complete the County's vendor registration process to include the completion of an IRS Form W-9 by October 1, 2019.

The Finance Director/Comptroller or designee should:

Recommendation 3: Evaluate the IRS reporting requirements for each of the newly registered vendors and perform the necessary procedures to ensure County compliance. invoice statements and the need to check for accuracy through the recalculation of the vendor invoice statement totals.

cc: Bill Volckmann, Finance Director

*Finance Department's
Response to the Draft Report*

From the desk of:
WILLIAM VOLCKMANN
DIRECTOR/COMPTROLLER
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COBB COUNTY
FINANCE DEPARTMENT



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TO: Latona Thomas, CPA, Director, Internal Audit
FROM: William E Volckmann
Finance Director/Comptroller
DATE: June 20, 2019

SUBJECT: Supplemental Letter Report - Control Weakness Noted in the Cobb County Electronic Funds Transfer Payment Process

This memo is in response to the subject report dated June 13, 2019. Your report identified opportunities to improve the overall Electronic Funds Transfer Payment process. The report made three recommendations, but only one pertained to the Finance Department and our response to that recommendation is below.

Recommendation 3: Evaluate the IRS reporting requirements for each of the newly registered vendors and perform the necessary procedures to ensure County compliance. invoice statements and the need to check for accuracy through the recalculation of the vendor invoice statement totals.

Response: The Accounts Payable Finance Division Manager will be evaluating the IRS reporting requirements and the County's compliance with these requirements as it relates to organizations / vendors that received electronic funds transfer through the Treasury Division. A procedure will be established for the review and approval of all invoices that are required to be paid by the Treasury Division. The Finance Department will complete the compliance review and prepare a draft procedure for review by the end of August 2019.

Prepared By

Handwritten signature of William E Volckmann.

William E Volckmann
Finance Director and Comptroller