

Meeting Date
July 12, 2016



AGENDA	
Section	CONSENT
Item No.	II, D, 10

AGENDA REPORT
BREVARD COUNTY BOARD OF COUNTY COMMISSIONERS

SUBJECT:	Acceptance, Re: Purchasing Card; Economic Development Commission-Grant Compliance; Public Works-Road Construction Monitoring Assistance; Road and Bridge iMaint Audit Reports and the Accounts Payable and Cash Reconciliation Cycle Audit Reports.
DEPT/OFFICE:	County Manager's Office

Requested Action:

It is requested that the Board of County Commissioners accept the Audit Committee's Purchasing Card; Economic Development Commission-Grant Compliance; Public Works-Road Construction Monitoring Assistance; Road and Bridge iMaint Audit Reports and the Accounts Payable and Cash Reconciliation Cycle Audit Reports.

Summary Explanation & Background:

The Internal Auditors completed the Purchasing Card; Economic Development Commission-Grant Compliance and the Public Works-Road Construction Monitoring Assistance Audit Reports and presented them to the Audit Committee on April 20, 2016. They also completed the Accounts Payable and Cash Reconciliation Cycle Audit Reports and the Road and Bridge iMaint Audit Report and presented them to the Audit Committee on June 22, 2016. All reports were unanimously accepted and recommended to the Board of County Commissioners by Audit Committee.

April 20, 2016 Reports:

The Purchasing Card Audit Report is organized as follows:

Executive Summary - Background - Objectives and Approach - Issues Matrix - Other Observations

The Economic Development Commission-Grant Compliance Audit Report is organized as follows:

Executive Summary - Background - Objectives and Approach – Observations

The Public Works-Road Construction Monitoring Assistance Audit Report is organized as follows:

Objectives and Approach – Project Snapshot – Process Maps

June 22, 2016 Reports:

The Accounts Payable and Cash Reconciliation Cycle Audit Reports are organized as follows:

Executive Summary - Background - Objectives and Approach - Issues Matrix

The Road and Bridge iMaint Audit Report is organized as follows:

Executive Summary - Background - Objectives and Approach - Observation Matrix – Process Maps

Clerk to the Board instruction:

Exhibits Attached: 1) Purchasing Card 2) Economic Development Commission-Grant Compliance 3) Public Works-Road Construction Monitoring Assistance 4) Road and Bridge iMaint Audit Reports, 5) Accounts Payable and 6) Cash Reconciliation Cycle Audit Reports.

Contract /Agreement (If attached): Reviewed by County Attorney Yes No PR

County Manager
Stockton Whitten

Assistant County Manager
Venetta Valdengo

Department Director / Extension

Assistant County Manager
Frank Abbate



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July 13, 2016

MEMORANDUM

TO: Stockton Whitten, County Manager

RE: Item II.D.10., Audit Committee's Acceptance of Purchasing Card, Economic Development Commission-Grant Compliance, Public Works-Road Construction Monitoring Assistance, Road and Bridge iMaint Audit Reports, and the Accounts Payable and Cash Reconciliation Cycle Audit Reports

The Board of County Commissioners, in regular session on July 12, 2016, accepted the Audit Committee's Purchasing Card, Economic Development Commission-Grant Compliance, Public Works-Road Construction Monitoring Assistance, Road and Bridge iMaint Audit Reports, and the Accounts Payable and Cash Reconciliation Cycle Audit Reports.

Your continued cooperation is greatly appreciated.

Sincerely yours,

BOARD OF COUNTY COMMISSIONERS
SCOTT ELLIS, CLERK

Tammy Rowe, Deputy Clerk

/kp

cc: Finance
Budget



**Internal Audit Committee of
Brevard County, Florida**

**Internal Audit of
Purchasing Card**

March 26, 2016

Prepared By:



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March 26, 2016

The Audit Committee of
Brevard County, Florida
2700 Judge Fran Jamieson Way
Viera, Florida 32940-6699

Pursuant to the approved 2015/2016 internal audit plan, we hereby submit our internal audit report covering the Purchasing Card function. The internal audit of the purchasing card function focused on cardholder approval, reconciliation of purchases, appropriate usage and other policy compliance issues. Therefore, we did not review the invoice approval and disbursement process or vendor screening. These areas will be addressed in a separate audit of Accounts Payable. We will be presenting this report to the Audit Committee at the next scheduled meeting on April 20, 2016.

Our report is organized in the following sections:

Executive Summary	This provides a summary of the issues related to our internal audit of the Purchasing Card function.
Background	This provides an overview of the Purchasing Card function.
Objectives and Approach	The internal audit objectives and focus are expanded upon in this section as well as a review of our approach.
Issues Matrix	This section presents the results of our audit procedures, including our findings and recommendations as well as management's response.
Other Observations	This section provides a summary of observations made during the internal audit process and recommendations.

We would like to thank all those involved in assisting the Internal Auditors in connection with our review of the Purchasing Card function.

Respectfully Submitted,

INTERNAL AUDITORS

Executive Summary

Executive Summary

Overview

The Purchasing Card function can be effectively segregated into the following three primary components:

- Cardholder setup and maintenance – County Finance and the department/office where the cardholder is assigned are responsible for this component.
- Monthly reconciliations – individual reconciliations for each cardholder are performed at the department/office level while County Finance reconciles each of the individual reconciliations to a consolidated statement.
- General monitoring of program – the department/office Director or representative is responsible for reviewing each Purchasing Card expenditure to ensure the goods or services were in accordance with applicable County policies and Administrative Orders.

Objective

The objective of this internal audit was to assess whether the system of internal controls over the Purchasing Card function is adequate and appropriate for promoting and encouraging consistent application of management's objectives for compliance with policies and procedures, as applicable.

Issues

During the course of our work, we discussed the control design and identified operating deficiencies with management. Our observations and recommendations for improving controls and operations are described in detail in the Issues Matrix included in this report. A summary of issues identified and their relative risk rating is provided on the following page.

Relative risk is an evaluation of the severity of the concern and the potential impact on operations. Items rated as "High" risk are considered to be of immediate concern and could cause significant operational issues if not addressed in a timely manner. Items rated as "Moderate" risk may also cause operational issues and do not require immediate attention, but should be addressed as soon as possible. Items rated as "Low" risk could escalate into operational issues, but can be addressed through the normal course of conducting business.

There are many areas of risk to consider including financial, operational, and compliance, to name a few. For public sector organizations, we also consider public perception risk when determining the relative risk rating.

Executive Summary - continued

Issues	Risk Rating
<p>1. Purchasing Card Limits</p> <p>Each cardholder's profile in Bank of America's purchasing system (Works) has automated controls designed to decline any transactions that exceed the cardholder's single purchase transaction limit or monthly transactions limit. For 1 out of 40 purchasing card holder employees tested, we noted that Bank of America had the incorrect single and monthly purchasing limits in their system. The exception related to a parks and recreation purchasing card employee. Parks and Recreation purchasing card employees were granted approval for temporary overrides for the various summer camps, recreational activities for May 5, 2015 through September 4, 2015.</p> <p>A temporary override to increase the purchase limits was properly authorized by the Department and put in place by County Finance but was to expire on September 5, 2015 and then revert back to the cardholder's regular set purchasing limits. Bank of America failed to reset the purchase limits back to the Cardholder's regular purchasing limits after September 5, 2015 for the new credit card. Instead, the much higher temporary purchasing limits remained on the new card after September 5th.</p>	<p>Moderate</p>
<p>2. Purchasing Card Quotation Requirements</p> <p>Relative purchasing card quote requirements, AO-41 notes the following:</p> <p><i>For those purchases exceeding the County's small purchase limit outlined in Procurement Policy BCC-25, quoting documentation must also be attached for audit purposes by using the Purchasing Card Quote Log (Exhibit D). Exceptions from documentation are purchases made with vendors already awarded under a competitive process.</i></p> <p>We originally selected 40 items for our purchasing issuance and transaction testing which included 6 purchases \$1,000 and greater. However, to gain additional coverage in testing compliance with the procurement requirements, we sorted the transaction population to target purchases of \$1,000 and greater and selected 14 more items to arrive at 20 items as our total sample size for transactions \$1,000 and above. 11 of these 20 items selected required written quotations and quote log. We noted the following exceptions:</p> <ul style="list-style-type: none"> • 4 out of the 11 items did not include the required written quotation documentation or the purchase quote log. • For one of these items, the required written quotes were not provided to County Finance. However, the Card holder indicated in a memo that 3 written quotations were obtained and retained. Upon follow-up during our procedures, we obtained the written quotes from the Department in support of the purchase in compliance with BCC-25. However, AO-41 requires this documentation be submitted to County Finance as part of their monthly review. 	<p>Moderate</p>
<p>3. Split Purchases</p> <p>AO-41, Section III.3.G.4.b states the following regarding the splitting of purchases:</p> <p><i>A purchase may be made of multiple items; however, charges for purchases shall not be split to stay within the single purchase limit or small dollar purchase limit. One time purchase to exceed single transaction limit may be approved by the County Manager, or Assistant County Managers.</i></p> <p>In testing for possible split purchases, we noted that 5 out 60 items selected were split into multiple credit card charges at the same Vendor and location on the same day to stay within their respective single purchase limits and did not include evidence of proper approval by the County Manager, or applicable Assistant County Manager.</p>	<p>Moderate</p>

Background

Background

Overview

Purchasing cards are a convenience tool for personnel who work on field projects and are not intended to replace all transactions normally made under traditional methods such as blanket purchase orders. The purchase cards are issued through Bank of America and, presently earn 1.10% cash back on all purchases made by the County. The County currently has four employees with administrator rights that can add or delete cardholders as well as modify (change transaction limits, suspend, etc.) their cards.

For purposes of this internal audit we segregated the purchasing card management process into the following areas:

Cardholder Setup and Maintenance

The purchasing card issuance and maintenance function is the responsibility of County Finance and the Department/Office where the cardholder is assigned. Department Directors request the purchasing cards by submitting to County Finance a *Purchasing Card Information Maintenance Form* that includes a monthly spending limit and a single transaction spending limit. Upon receiving the request, County Finance reviews the form to ensure that the form is properly filled out and that the appropriate authorization is given. County Finance submits the request to Bank of America for fulfillment and files the original form. Cardholder account changes are also initiated from the related Department/Office through County Finance using the same form. Card issuance is completed centrally by County Finance and employees are required to sign an *Agreement to Accept the VISA Purchasing Card* as an act of receipt. Those forms are also kept on file at County Finance. When an account is closed, the *Purchasing Card Information Maintenance Form* is completed and kept on file in County Finance.

Monthly Reconciliation

The Cardholder or Department/Office Representative is required to track all purchases using the *Monthly Reconciliation Form*. Individual cardholder statements are mailed by Bank of America monthly to the Department/Office and the cardholder and Department/Office Representative complete the reconciliation process and forward all forms and receipts to County Finance. On a monthly basis, County Finance receives a consolidated statement of all accounts from Bank of America and prepares a reconciliation of all statements. In addition, County Finance verifies that a *Monthly Reconciliation Form* has been prepared for each account (except Clerk of the Court employees) and that the forms have all the proper documentation and have been properly approved. The Clerk of the Court reimburses the County for all its charges and has its own internal control process outside the scope of this audit. Once reconciled, the consolidated statement along with a copy of the reconciliation is forwarded to the Purchasing Card Administrator for entry into the general ledger accounting system. *The Monthly Reconciliation Forms* are kept on file in accordance with County record retention policies.

General Monitoring of Program

It is the Department/Office Director or Representative's responsibility to review each purchasing card expenditure to ensure the goods or services were for official use and were necessary in accordance with applicable County policies and Administrative Orders. The County Finance office considers the Approving Official's signature on the *Monthly Reconciliation Form* as proper approval of expenditures, however; they also review for prohibited or restrictive uses justification letters and travel requests, if applicable. Annually, County Finance will send out a list of cardholders with no activity in the past 90 days to the Department/Office Directors. The Department/Office Directors are responsible for reviewing the list to determine whether the cardholders are still active employees, still need purchase cards, or need a different transaction limit.

Background - continued

Selected Statistics: Provided by County Finance from Bank of America "Works" System (Unaudited)

The following tables and pie charts present select statistics derived from the Bank of America "Works" system that County Finance utilizes in administering the purchasing card program (Calendar Year Basis):

Card holders Overall Usage	2012	2013	2014	2015
Number of active card holders	602	605	579	581
Number of transactions	21,083	22,225	21,555	20,537
Purchases (net of returns)	\$3,159,104	\$3,258,604	\$3,194,458	\$3,271,902
Average dollar amount per transaction	\$150	\$147	\$148	\$159
Average dollar amount per active card holder	\$5,248	\$5,386	\$5,517	\$5,632

The above table summarizes card holder usage for active card holders who are part of the purchasing card program administered by County Finance and thus includes not only all Board of County Commissioners' Departments / Programs, but also two constitutional offices and one other entity as follows:

- Supervisor of Elections
- Clerk of Court
- Space Coast TPO

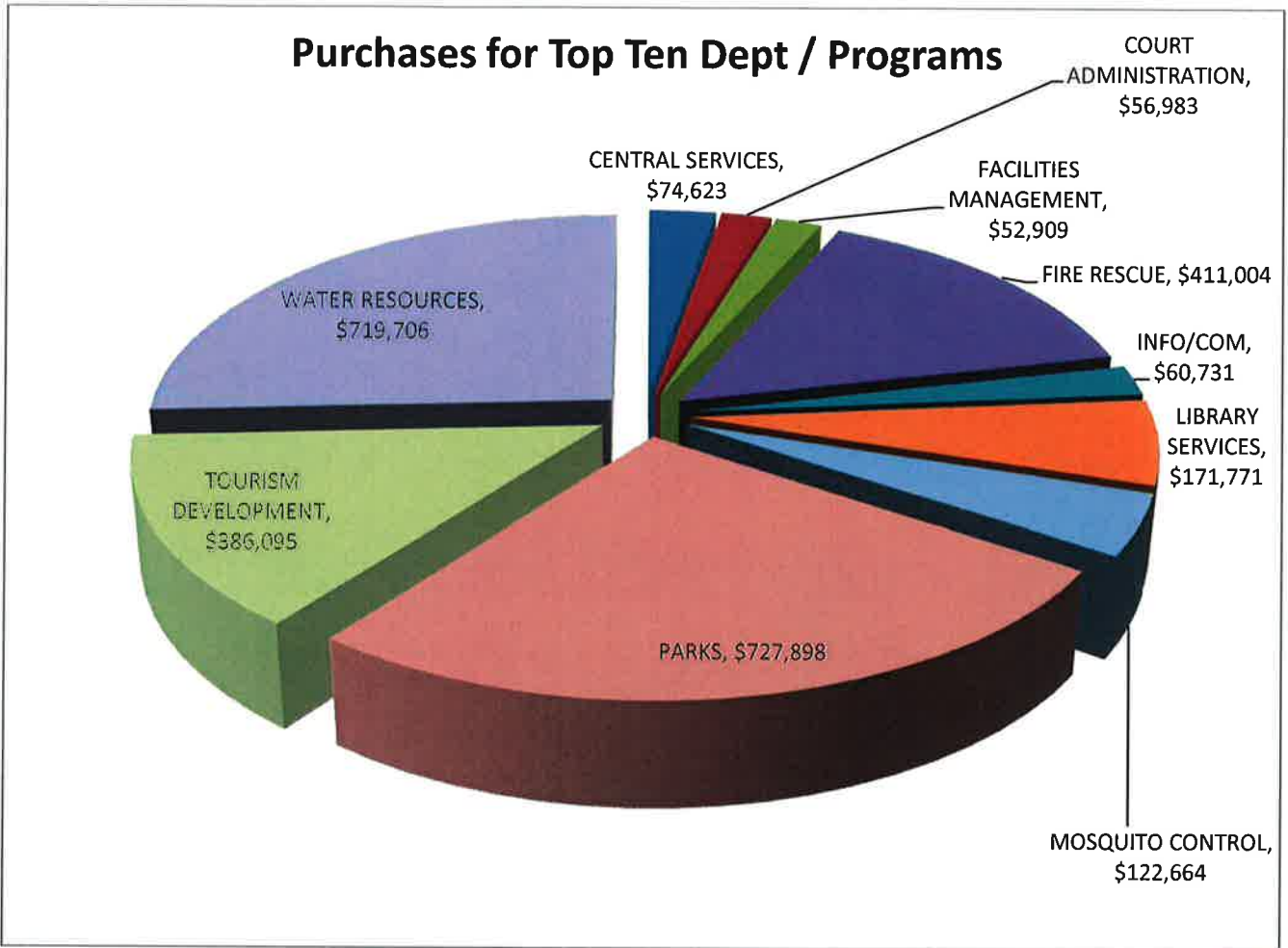
The following table displays the combined purchasing card usage by net purchases for calendar year 2015:

Entity	Purchases, net	% Purchases	Number of Transactions	% Transactions	\$ / Transaction
Board of County Commissioners	\$ 3,150,601	96.3%	19,885	96.8%	\$ 158
Supervisor of Elections	63,957	2.0%	276	1.3%	232
Clerk of Court	37,018	1.1%	265	1.3%	140
Space Coast TPO	20,326	0.6%	111	0.5%	183
Totals	\$ 3,271,902	100.0%	20,537	100%	\$ 159

The additional detailed statistical analysis for the card holder purchasing program usage below which includes the Top Ten Department / Programs and Top Ten Vendors pertain only to the Board of County Commissioners (Board) in keeping with the scope of this internal audit.

Background - continued

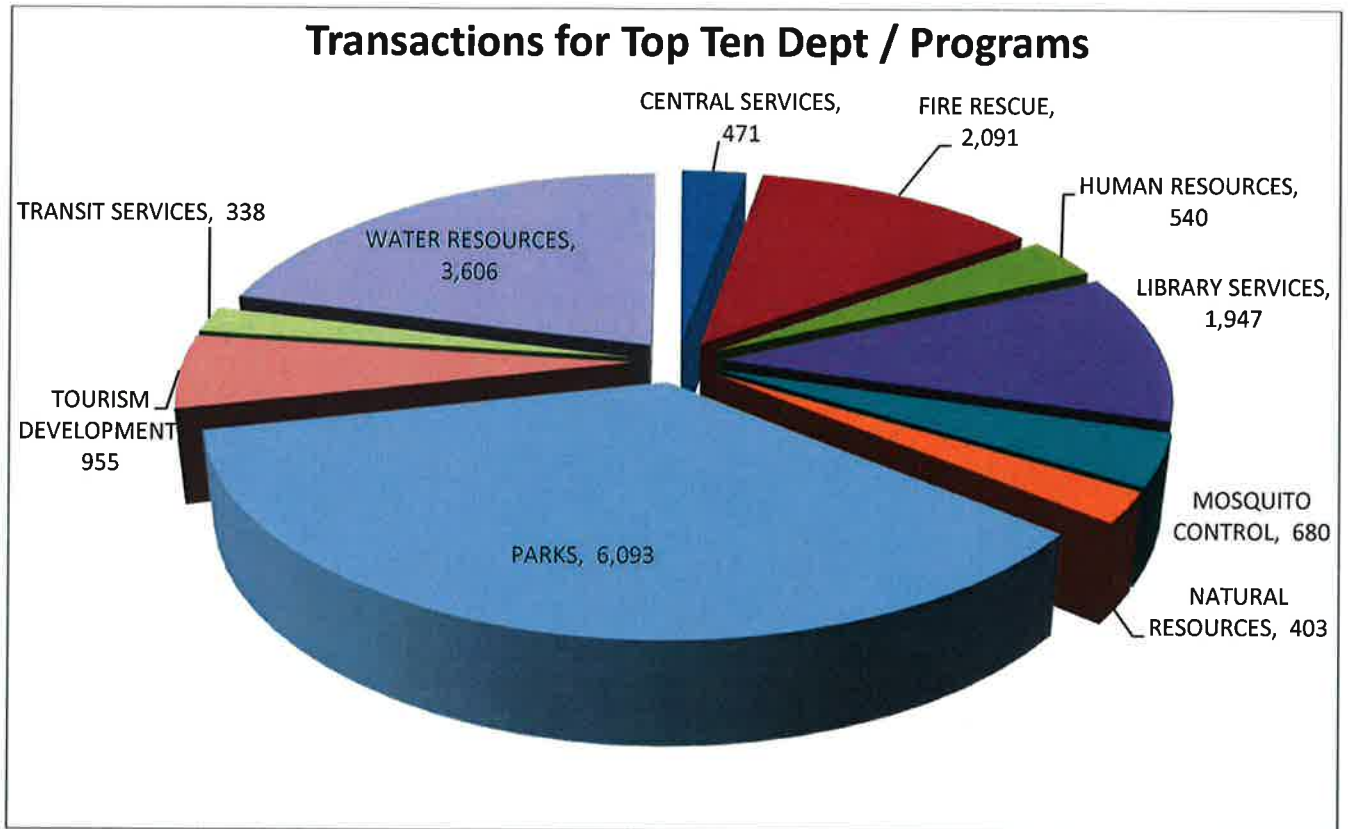
Selected Statistics – continued



For Calendar 2015 – The chart above identifies the Top 10 Departments / Programs net purchases which account for \$2,784,384 or approximately 88% of the total Board net purchases, \$3,150,601.

Background - continued

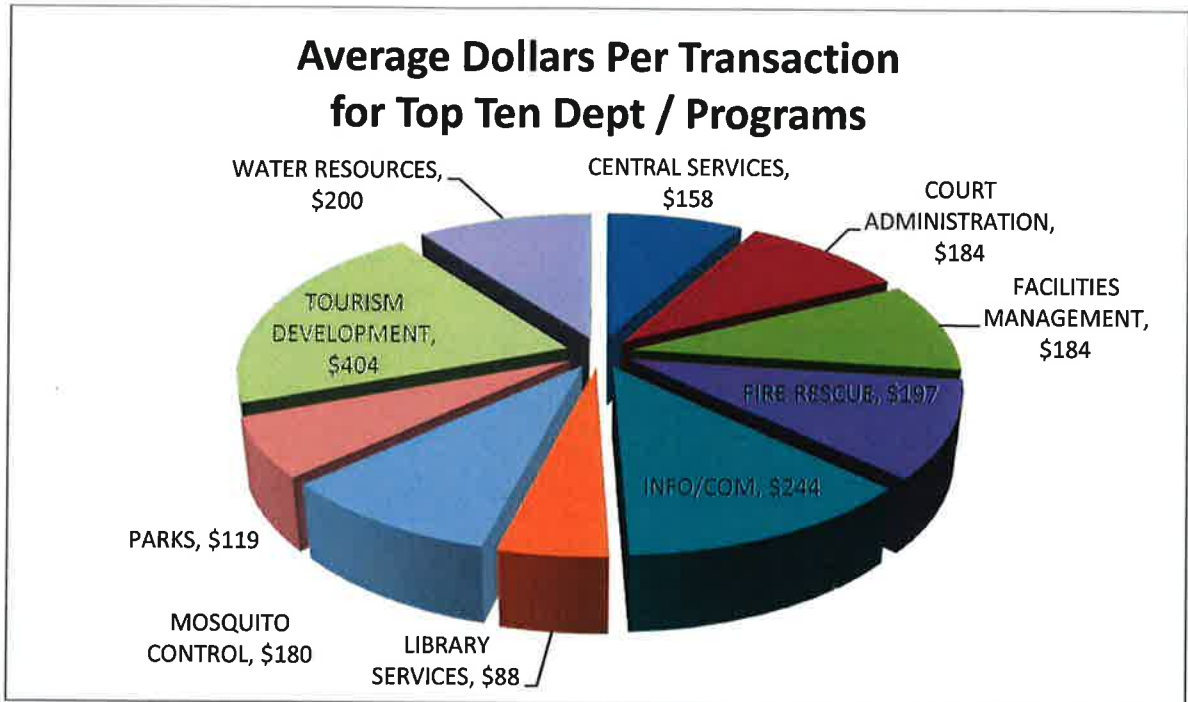
Selected Statistics – continued



For Calendar 2015 – The chart above depicts the Top 10 Departments / Programs total number of purchase transactions which account for 17,124 purchase transactions or approximately 86% of total Board purchase transactions, 19,885.

Background - continued

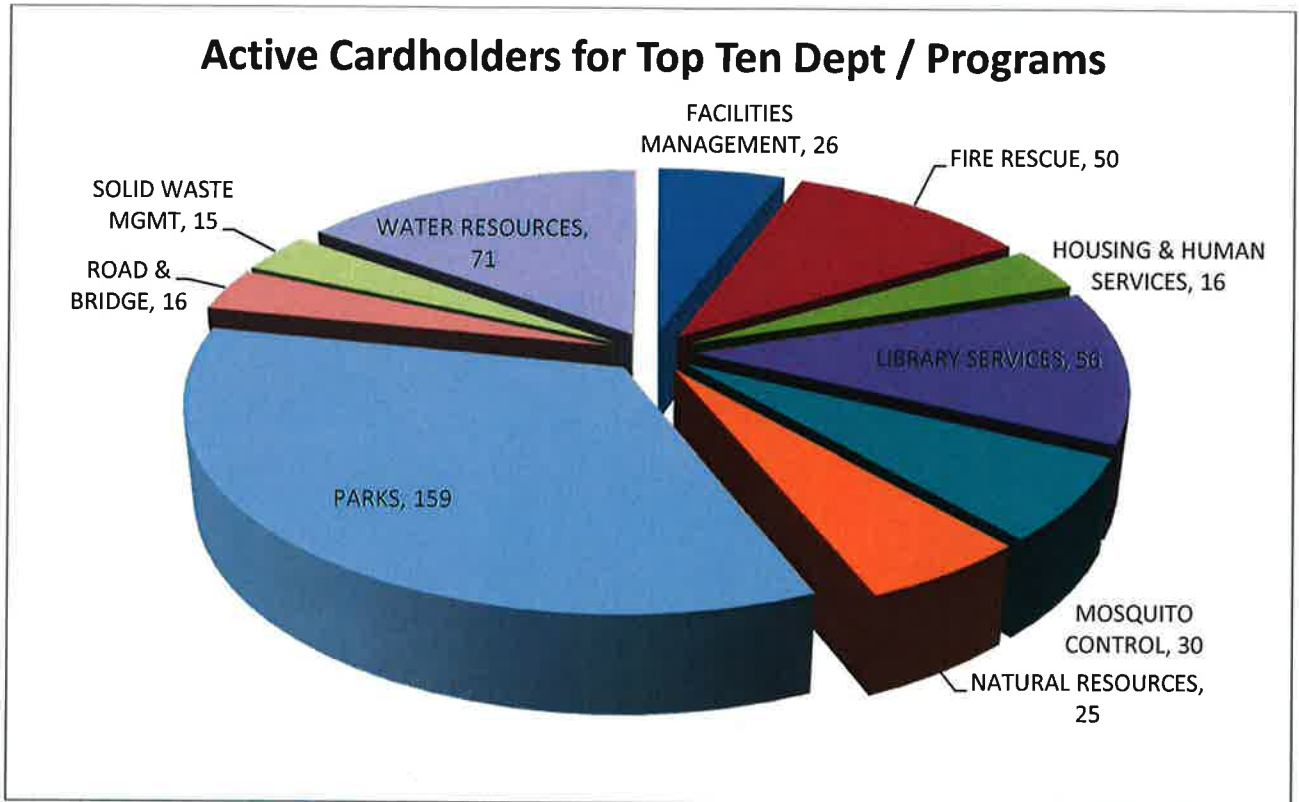
Selected Statistics – continued



For Calendar 2015 – The chart above identifies the Top 10 Departments / Programs average dollars per transaction (based on Board net purchase dollars for the Top Ten Departments / Programs).

Background - continued

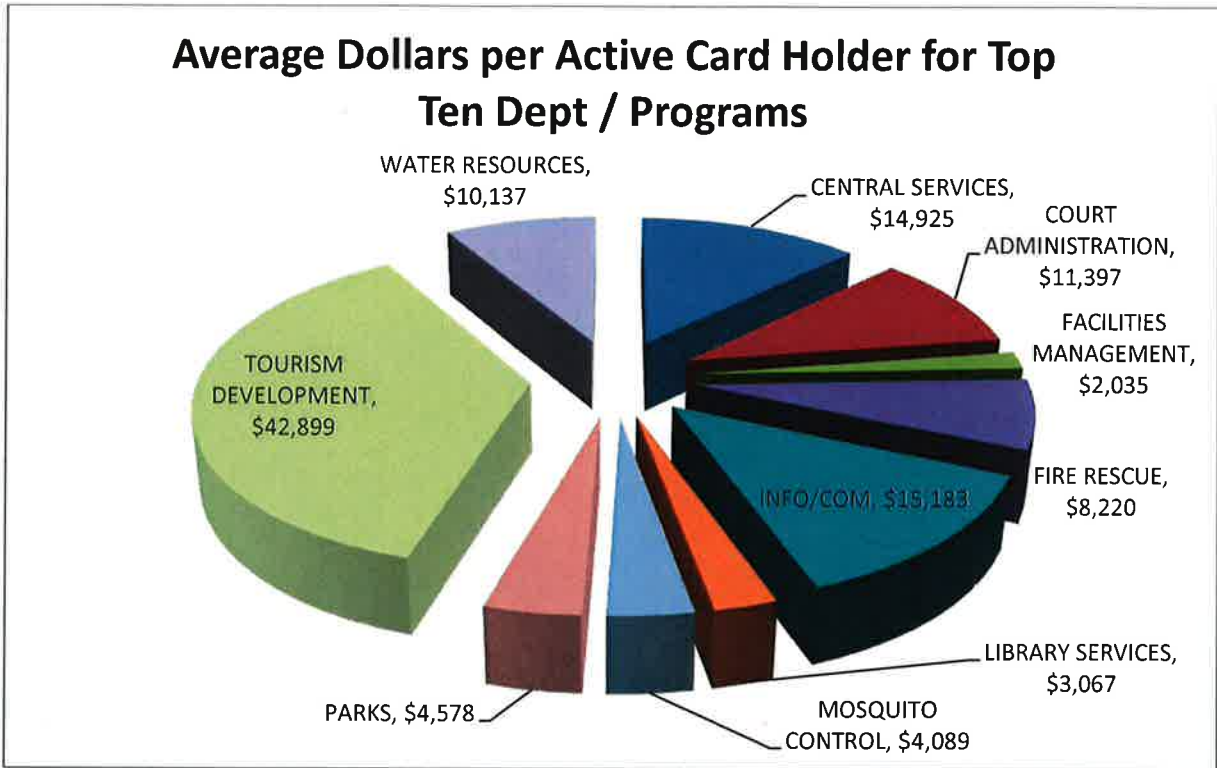
Selected Statistics – continued



For Calendar 2015 – The chart above notes the Top 10 Departments / Programs which account for 464 active card holders or approximately 83% of total active Board card holders, 558.

Background - continued

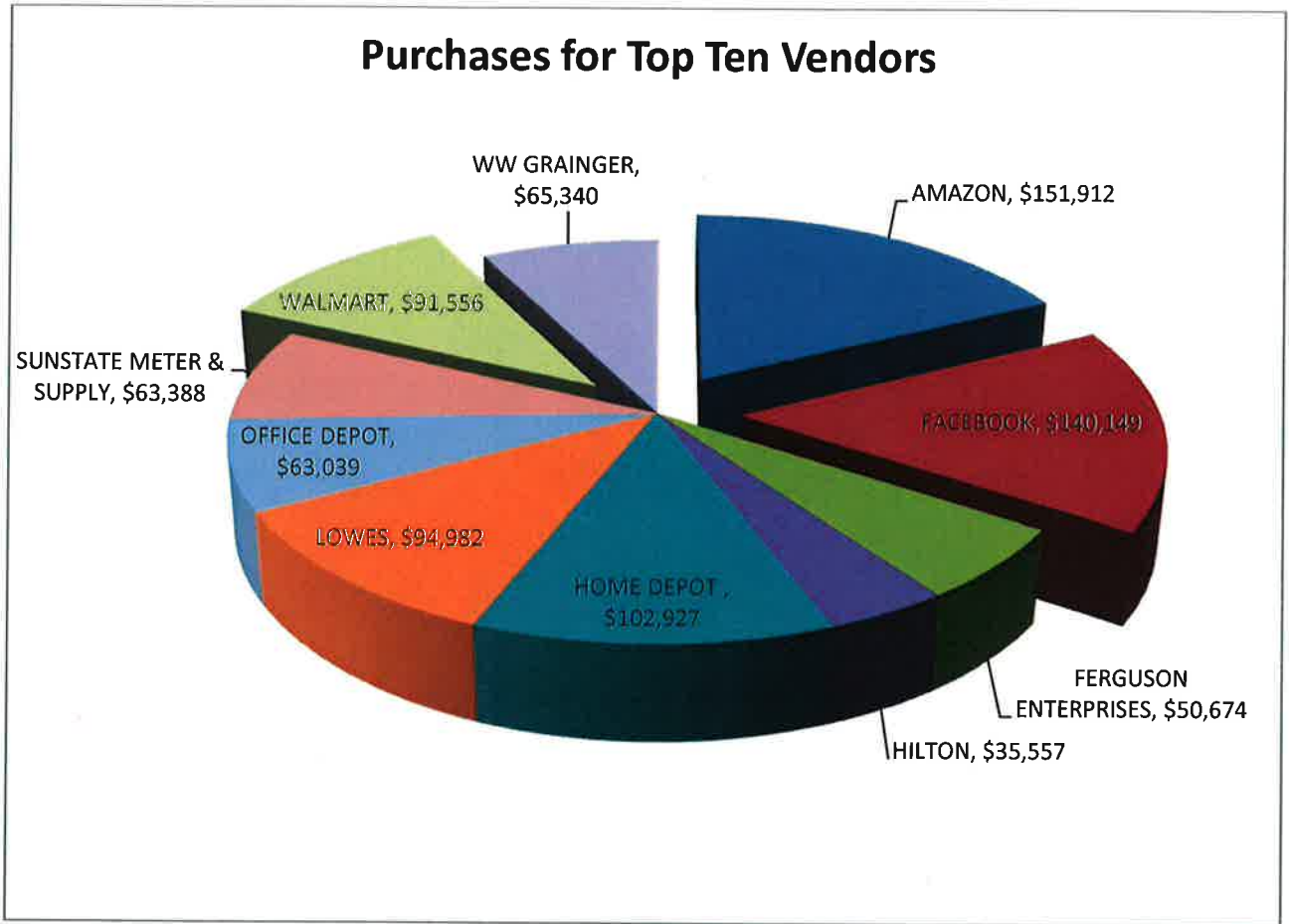
Selected Statistics – continued



For Calendar 2015 - The chart above displays the Top 10 Departments / Programs average dollars per active Card Holder (based on Board net purchase dollars for the Top Ten Departments / Programs).

Background - continued

Selected Statistics – continued



For Calendar 2015 – The diagram above presents purchases for the Top 10 Vendors which account for \$859,524 or approximately 27% of total Board net purchases, \$3,150,601. The table below provides a high level analysis of three of the top ten vendors noted above:

	Purchases, net	%	Transactons	\$ / Transactions
AMAZON:				
COURT ADMINISTRATION	\$44,209		227	\$195
FIRE RESCUE	26,634		166	\$160
LIBRARY SERVICES	39,195		824	\$48
	\$110,038	72%		
FACEBOOK:				
TOURISM DEVELOPMENT	\$140,149	100%	247	\$567
WALMART				
FIRE RESCUE	\$14,378		108	\$133
LIBRARY SERVICES	18,496		130	\$142
PARKS	35,914		535	\$67
	\$68,788	75%		

Background - continued

Selected Statistics – continued

We selected these three Vendors from the Top Ten due to their dollar volume significance and / or due to the fact they provide a variety of products to be procured and the assigned merchant code descriptions in Works alone do not provide any transparency into the specific nature of the items purchased (Amazon and Walmart in particular). For these 3 selected vendors, we identified the top 3 Departments / Programs that comprised most of these purchases. Not one of the other Departments / Programs that purchased items from Amazon or Walmart made up more than 5% respectively.

We noted the following about these selective statistics related to the Top Ten Vendors for the Top Three Department / Programs included in the table above:

Amazon and Walmart

- **Amazon**
The merchant code description in Works used throughout the year for Amazon was one of the following: "Books Stores", "Continuity / Subscriptions", "Hardware and Equipment Supplies" or "Records" "Miscellaneous and Retail Stores." Given the variety of products that can be purchased at Amazon, we cannot identify what those purchases primarily are comprised of since Works does not provide products and service descriptions beyond these merchant code descriptions.
- **Walmart**
The merchant code descriptions in Works used throughout the year for Walmart was one of the following: "Grocery Stores, Supermarkets" or "Discount Stores". Given the variety of products that can be purchased at Walmart, we cannot identify what those purchases primarily are comprised of since Works does not provide products and service descriptions beyond these merchant code descriptions.

Facebook

Only Tourism Development had any purchases related to Facebook. All of these expenditures related to advertising charges from Facebook for maintaining a Facebook account to promote and develop tourism for the County. This relates to the work of the Tourism Development Commission.

The other Top Ten Vendors noted in the pie diagram above and their primary merchant code descriptions are listed below for reference and given the nature of the Vendor's primary business, no further comment is considered necessary:

- FERGUSON ENTERPRISES – Plumbing and Heating Equipment and Supplies
- HILTON – Hotel related
- HOME DEPOT – Home Supply Warehouse Stores
- LOWES - Home Supply Warehouse Stores
- OFFICE DEPOT – Stationary, Office Supplies and Printing
- SUNSTATE METER & SUPPLY – Industrial Supplies
- WW GRAINGER – Industrial Supplies

Objectives and Approach

Objectives and Approach

Objectives

Objectives of the internal audit review of the Purchasing Card function include the following:

- Determine if purchasing cards were issued and used in accordance with County Policies.
- Determine if purchasing cards were used for authorized expenditures.
- Identify and assess effectiveness of accounting and administrative controls over Purchasing Card processing to provide appropriate reconciliations.
- Assess that controls over Purchasing Card expenditures include procedures and documents that assure the data used to generate disbursements are adequate.
- Determine whether the records and documentation for Purchasing Card expenditures are sufficient to establish an audit trail for all transactions involving disbursements.
- Determine that purchasing cards were issued to active employees.

Approach

Our audit approach consisted of three phases:

Understanding and Documentation of the Process

During the first phase, we held an entrance conference with the Purchasing Card Administrator and other personnel to discuss the scope and objectives of the audit work, obtain preliminary data, and establish working arrangements. We then conducted interviews with responsible personnel and documented their role in the processes.

Detailed Testing

The purpose of this phase was to test detailed purchasing card records and related transactions based on our understanding of the process. The period under review was from January 1, 2015 through December 31, 2015. Our fieldwork was conducted at County Finance where we utilized sampling and other auditing techniques to meet our audit objectives outlined above. The procedures we performed included the following:

- Test a sample of purchasing card issuances for proper approval and documentation of receipt by employee.
- Test a sample of purchasing card transactions to verify the following:
 - Transactions were not split to avoid Single Transaction Limit,
 - Purchases were not backordered or for prohibited/restricted items,
 - Florida sales tax was not paid, and
 - Quote Logs were used for purchases over \$1,000 when applicable.
- Test a sample of Monthly Reconciliation Forms for proper completion and documentation of expenditures.
- Review and test County Finance's consolidated reconciliation process.
- Review of forms utilized.
- Test for authorized and valid cardholders.
- Review the procedures for lost/stolen cards.
- Test cardholder activity for unusual transactions.
- Review organizational structure.
- Review compliance with statutes, policies, procedures, administrative orders, as applicable.

Reporting

At the conclusion of our audit, we documented our understanding of the Purchase Card function based on our interviews at the County and summarized our findings related to this process. We conducted an exit conference with management and have incorporated management's responses into our report. We prepared our report and related findings and provided copies to appropriate County personnel.

Issues Matrix

Purchasing Function

Internal Audit Report

Issues Matrix

Rating	Issues	Recommendation	Management Response
Moderate	<p>1. Purchasing Card Limits</p> <p>Each cardholder's profile in Bank of America's purchasing system (Works) has automated controls designed to decline any transactions that exceed the cardholder's single purchase transaction limit or monthly transactions limit. For 1 out of 40 employees tested, we noted that Bank of America had the incorrect single and monthly purchasing limits in their system. The exception related to a parks and recreation purchasing card employee. Parks and Recreation purchasing card employees were granted approval for temporary overrides for the various summer camps, recreational activities for May 5, 2015 through September 4, 2015. County Finance determined that this exception was due to the cardholder reporting a lost card and obtaining a new one from Bank of America. At the time, a temporary override to increase the purchase limits had been put in place by County Finance and was set to expire on September 5, 2015 and then revert back to the cardholder's regular set purchasing limits. Bank of America failed to reset the purchase limits back to the Cardholder's regular purchasing limits after September 5, 2015 for the new credit card. Instead, the much higher temporary purchasing limits remained on the new card after September 5th. County Finance does not typically verify the single purchase limit and monthly purchase limit for the respective cardholder reviewed as part of their standard monthly purchasing card reconciliation procedures due to the automated controls administered by Bank of America. Therefore, we performed additional procedures reviewing the card holder's purchase transactions subsequent to September 4, 2015 noting no purchases exceeding his regular, lower single purchase and monthly transaction limits through 12/31/15.</p>	<p>We recommend the following:</p> <ol style="list-style-type: none"> 1) County Finance should inquire of Bank of America to address this issue related to Bank of America's failure in the case of temporary overrides to properly reset the cardholder purchase card single and monthly limits profile back to the card holder's regular purchasing limits profile. 2) County Finance receives emails from Bank of America whenever the single limits and/or monthly limits card holder profiles are adjusted. We recommend that County Finance verify that upon notification from Bank of America that any reductions in the respective limits are properly adjusted in Works by Bank of America. <p>This will reduce the risk of cardholder's exceeding their respective single and monthly transaction limits in the event that the Bank of America automated purchase limits in the respect card holder's profile are inaccurate.</p>	<p>Response:</p> <ol style="list-style-type: none"> 1) County Finance has contacted Bank of America and made them aware of the problem encountered. They are investigating the occurrence and looking at resolving the issue. 2) County Finance upon receipt of emails from Bank of America when limits are reduced, will verify in the Works system that the reductions have taken place. <p>Responsible party: Mark Peterson, Purchasing Card Administrator</p> <p>Estimated completion date: May 31, 2016</p> <p>Next testing date: November 30, 2016</p>

Issues Matrix - continued

Rating	Issues	Recommendation	Management Response
Moderate	<p>2. Purchasing Card Quotation Requirements The County's purchasing card quote requirements, AO-41 states the following: <i>For those purchases exceeding the County's small purchase limit outlined in Procurement Policy BCC-25, quoting documentation must also be attached for audit purposes by using the Purchasing Card Quote Log (Exhibit D). Exceptions from documentation are purchases made with vendors already awarded under a competitive process.</i> BCC-25 requires that the three informal, written quotes be obtained for purchases that range from \$1,000 to \$15,000.</p> <p>We originally selected 40 items for our purchasing issuance and transaction testing which included 6 purchases \$1,000 and greater. However, to gain additional coverage in testing compliance with the procurement requirements, we sorted the transaction population to target purchases of \$1,000 and greater and selected 14 more items to arrive at 20 items as our total sample size for transactions \$1,000 and above. 11 of these 20 items selected required written quotations and quote log. We noted the following exceptions:</p> <ul style="list-style-type: none"> • 4 out of the 11 items did not include the required written quotation documentation. • For one of these items, the required written quotes were not provided to County Finance. However, the Card holder indicated in a memo that 3 written quotations were obtained and retained. Upon follow-up during our procedures, we obtained the written quotes from the Department in support of the purchase in compliance with BCC-25. 	<p>We recommend the following:</p> <ol style="list-style-type: none"> 1) Consistent application of the purchasing quote requirements by the respective Department and County Finance should be followed to include the required written purchase quotation documentation. 2) Further, where obtaining the quoting documentation is not required pursuant to BCC-25 and AO-41 for purchases \$1,000 and above (due to acceptable exceptions), we recommend that County Finance request the respective Department to provide written explanation and relevant support, where applicable, to address the reasons or exceptions to these policies for compliance and audit purposes. This documentation should be retained. <p>This will help promote compliance with AO-41 and BCC-25 and ensure proper supporting documentation relative to the applicable procurement rules that exist for small purchases. This also helps facilitate compliance with AO-41 for the respective Department and County Finance in their review and reconciliation process.</p>	<p>Response:</p> <ol style="list-style-type: none"> 1) County Finance agrees that we need to be more consistent in applying the purchasing quote requirements pursuant to BCC-25. 2) County Finance also agrees to request the respective Departments to provide written explanation and relevant support, where applicable, to address the reasons or exceptions to these policies for compliance and audit purposes. 3) Training for the following areas will be included in the annual End of Year Workshop Purchasing Training Class: <ol style="list-style-type: none"> a) What Every PCard Holder Needs to Know b) PCard for Travel c) PCard for Commodities d) PCard for Verifiers and App e) PCard Refresher for Cardholders <p>Responsible party: Mark Peterson, Purchasing Card Administrator, Leslie Rothering, Purchasing Manager</p> <p>Estimated completion date: September 30, 2016</p> <p>Next testing date: March 31, 2017</p>

Issues Matrix - continued

Rating	Issues	Recommendation	Management Response
<p>Moderate</p>	<p>3. Split Transactions</p> <p>AO-41 states the following regarding the splitting of purchases Section III. G.3.b. <i>A purchase may be made of multiple items; however, charges for purchases shall not be split to stay within the single purchase limit or small dollar purchase limit. One time purchase to exceed single transaction limit may be approved by the County Manager, or Assistant County Managers.</i></p> <p>We noted that 5 out of 60 items selected were split into multiple credit card charges at the same vendor on the same day to stay within their respective single purchase limits without evidence of proper approval as required above. Further, based on discussions with County Finance the following provision in AO-41 is not followed on a periodic basis, Section III.G.4.c.</p> <p><i>Purchasing Services, in collaboration with the Finance Department, will provide the appropriate department or office with periodic reports showing transaction activity that appear to be split purchases to stay within the single purchase limit or small dollar purchase limit. Departments and offices will be required to provide details of the transactions and corrective actions taken. The County Manager is to receive a report identifying activities that appear to be split purchases with department/office explanations. The Department/Office Directors can identify those reoccurring transactions with a vendor that appear to be split, however due to the nature of the transaction are not (i.e. FDLE background checks). The County Manager may approve those reoccurring transactions as not being in violation of Section III.C.4 (b) of his Administrative Order.</i></p>	<p>We recommend the following:</p> <ol style="list-style-type: none"> 1) As part of County Finance's regular monthly reconciliation of the individual card holder statements, review all credit card charges that are for the same date and vendor that cumulatively would exceed the card holder's single transaction limit for possible split transactions. 2) Purchasing Services in concert with County Finance should run periodic reports to identify possible split transactions to be sent to the respective Department to facilitate their responsibility to address and identify splits and take any corrective actions pursuant to AO-41, Section III.G.4.c. (noted in Issue 3 column) <p>This facilitates proper compliance with AO-41 and proper supporting documentation relative to the requirement not to split purchases to stay within the card holder's single purchase limit or the small purchase limit to avoid the procurement requirements of BCC-25.</p>	<p>Response:</p> <ol style="list-style-type: none"> 1) County Finance agrees to put these additional procedures in place to help identify any potential split purchases for follow-up with the respective Departments. 2) County Finance will run a report from Bank of America Works program to help identify potential split transactions and send to the respective Departments for further explanation. 3) Training for the following areas will be included in the annual End of Year Workshop Purchasing Training Class: <ol style="list-style-type: none"> a) What Every PCard Holder Needs to Know b) PCard for Travel c) PCard for Commodities d) PCard for Verifiers and App e) PCard Refresher for Cardholders <p>Responsible party: Mark Peterson, Purchasing Card Administrator; Leslie Rothering, Purchasing Manager</p> <p>Estimated completion date: September 30, 2016</p> <p>Next testing date: March 31, 2017</p>

Other Observations

Purchasing Card Reconciliation

"The Purchasing Card Reconciling Procedures" (internal procedures memo/checklist provided by County Finance – revised 10/1/13) are designed to act as a step by step checklist to facilitate consistency and compliance with AO-41 (and related policies) in the respective Department and County Finance monthly purchasing card approval and reconciliation process. Based on discussions with County Finance, and our purchasing card testing, we noted that in the "Purchasing Card Reconciliation Procedures" provided by County Finance that outlines the reconciling procedures for both the respective Departments and County Finance, many of the requirements of AO-41, are explicitly identified; however there are applicable provisions specially outlined in Section III. Procedures, which are not addressed. Examples included, but are not limited to:

- Cardholder Use Policy – restricted to name on card
- Dollar Limitations – single, monthly limitations; required approvals for temporary increases, split transactions, etc.
- Other Conditions (4. a through c)
- Prohibited Uses of Purchasing Cards (5. a. through i)

We recommend that County Finance review and revise the written "Purchasing Card Reconciliation Procedures" to include specific steps/lists to address the AO-41 provisions noted above to facilitate consistency and full compliance with the AO-41 and related policies. At a minimum, the specific restricted and prohibited items could be detailed in the "Purchasing Card Reconciliation Procedures" themselves to make apparent to the reviewer the specific items that should be addressed as part of the reconciliation process each month.

Terminated Employees

The respective Departments are to notify County Finance of any purchasing card employees that are terminated so that County Finance can properly cancel their purchasing card in Works to prevent unauthorized usage. County Finance, as a mitigating control, obtains a list of terminated employees from Human Resources each pay period throughout the year to identify any terminated Purchasing Card employees that may have not been properly or timely reported to County Finance for cancellation by the Department or Card holder. In performing our testing for terminated employees, we obtained a listing of terminated employees from Human Resources noting some of the terminated employees did not appear on the listing obtained by County Finance by pay period throughout the year. As such, these terminated employees were not subject to this mitigating control performed by County Finance each pay period. Upon further investigation, County Finance noted that for these instances noted, there was a delay in the processing of these respective terminated employees by Human Resources. Human resources would include them in the previous pay period in which the termination took place – a pay period already reviewed by County Finance. For the terminated employees selected for testing, including the terminated employees not subject to this mitigating control, the terminated purchasing card employees were properly identified and cancelled by County Finance.

We recommend that County Finance request Human Resources to notify County Finance of any terminated employees that are identified after the circulation of the original list. This will help ensure that all of the terminated employees throughout the year are subject to County Finance mitigating, proactive control to identify any terminated purchasing card employees not previously reported to them.

Other Observations - continued

AO-41 and BCC-25

We identified some items for consideration related to the consistent and efficient application and / or compliance with AO-41 and BCC-25 in the administration of the purchasing card program, including the respective Department and County Finance's purchasing card reconciliation functions.

AO-41

We noted during our testing above that for the 7 out of 11 tested transactions that properly provided the required written quotations for small purchases \$1,000 and above, only two of these also included the purchase quote log which is also required by AO-41. Since the required written quotations were provided, we addressed this matter here as an Other Observation. In addition to the provision that requires written quotations be provided for purchases \$1,000 and higher pursuant to the BCC-25 procurement requirements, AO-41 also requires the submittal of a purchase quote log that BCC-25 does not require. The intent and substance of AO-41's requirement seems to be to ensure compliance with BCC-25 to submit written quotations where required. Currently, if County Finance receives the required written quotations without the purchase quote log, it has the additional requirement to follow-up with the respective Card holder and/or Department to obtain a completed purchase quote log to be compliant with AO-41.

BCC-25

In the course of our internal procedures, we noted that BCC-25 contains potentially confusing and contradictory provisions regarding the threshold for obtaining oral quotes vs. written quotes that may lead to the misapplication of the intent of this provision for purchases up to \$15,000. BCC-25 states the following:

Section III. D: "Small purchases of less than \$1000 cumulative total which are not covered under a bid agreement have no mandatory quotation or bid requirements. (R)"

Section III. E. 1:

Every effort shall be made to solicit at least three (3) responsive and qualified sources for purchasing thresholds referenced in this section. The requisitioning approval authority, award authority and payment approval authority based on annual cumulative amounts shall be according to the thresholds below. Splitting of requisitions to circumvent competition required at established thresholds is not allowed.

1. \$1000 and up to \$25,000: Department Head via informal quote as defined in Section II.Q or via formal quote, as defined in Section II.J, solicited by Purchasing Services .. (R)

For purchases up to \$15,000, Section II. Q applies, which states:

Informal Quote: Any telephonic, written or verbal offer by a vendor to furnish the County specific goods and/or services at a stated price, quantity, quality, and delivery timeframe up to \$15,000 in value. Telephonic or verbal quotes may be utilized for items less than \$ 1,000 in value. All informal quotes of \$1,000 up to \$ 15,000 shall be obtained in writing. All quotations shall be documented and retained by the user department/agency and referenced on all purchase requisitions.

The section noted above was not updated to reflect the changes in the other two sections noted previously. Since the threshold for requiring written quotes is \$1,000 and up, the provision to allow for telephonic or verbal quotes is rendered mute since if the purchase is under \$1,000, no quotes - telephonic, verbal or written - are required. The previous version of BCC-25 purchase threshold for requiring telephonic, verbal or written quotes was \$750 and up.

We recommend that the County consider revising the provisions noted above for both AO-41 and BCC-25 to facilitate accurate and efficient compliance and application of both AO-41 and BCC-25.

Other Observations - continued

Rebates

Rebates are received from Visa via Bank of America based on purchasing card usage. Depending on the threshold of purchases, the rebate percentage increases.

Here are the current recent purchasing history and related rebates received for the last three years:

Calendar Year	Purchases, net	Rebate Received	Rebate Percentage
2013	\$3,258,361	\$35,842	1.1%
2014	\$3,193,985	\$35,134	1.1%
2015	\$3,271,838	\$35,990	1.1%

The next purchasing threshold is \$3.5M and the rebate percentage increases from 1.1% to 1.4%. The available rebate in reaching this next threshold amounts to \$49,000 – an additional \$13,010 with the increased rebate rate of 1.4%.

We recommend that different avenues be explored to identify strategic ways to increase purchasing card volume to take advantage of the higher rebate percentages offered. In doing so, the risk and cost of expanding the purchasing card program should be taken into consideration in addition to the economic benefit of increased rebates.



**Internal Audit Committee of
Brevard County, Florida**

**Internal Audit of
Economic Development Commission: Grant Compliance**

April 4, 2016



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Appendices:

- A: Grant Agreement
- B: Annual Financial Report FY14-15
- C: EDC Strategic Plan Overview FY14-15
- D: EDC Annual Report FY14-15



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April 4, 2016

The Audit Committee of
Brevard County, Florida
Viera, Florida 32940-6699

Pursuant to the approved 2015/2016 internal audit plan, we hereby submit the following internal audit report related to grant compliance of the Economic Development Commission of Brevard County (EDC). We will be presenting this report during the next scheduled audit committee meeting on April 20, 2016.

Our report is organized in the following sections:

Executive Summary	This provides a summary of the results related to our assessment of the Internal Audit of EDC: Grant Compliance.
Background	This provides an overview of the EDC organization.
Objectives and Approach	The internal audit objectives and focus are expanded upon in this section as well as a review of the various phases of our approach.
Observations	This section gives an overview of the observations we noted during our review.

We would like to thank the EDC, County management and all those involved in assisting the Internal Auditors in connection with the internal audit of Economic Development Commission: Grant Compliance.

Respectfully Submitted,

RSM US LLP

INTERNAL AUDITORS

Executive Summary

Executive Summary

The Economic Development Commission ("EDC") of Florida's Space Coast is a countywide, not-for-profit partnership between the Brevard County Government ("County") and the Space Coast business community. The EDC was founded in 1989 and is a 501(c)(6) not-for-profit entity. Organizations that are categorized as 501(c)(6)'s are focused on supporting overall industry needs, such as economic development, as opposed to 501(c)(3) organizations that serve to support religious, charitable, scientific or educational purposes.

The EDC is not an agency of the County, and as such, any activities that do not fall under the specific and direct use of County funds were considered out of scope. The primary objectives of this internal audit were to:

- Test the EDC's compliance with the grant agreement with Brevard County, and
- Determine if the County grant funds are being tracked separately and spent in accordance with the agreement.

As noted above, the EDC is an organization that is completely separate from the County. The EDC and the County have a grant agreement that stipulates the amount of funding the County will provide, the allowable uses of the grant funds, public record requirements, EDC's Ad Valorem Tax Exemption advisory role, terms and renewals of the agreement, payment schedule and reporting requirements.

EDC has had a contract or a grant agreement with the County since its inception in 1989. The funding amounts for the last five fiscal years are as follows:

Grant Year	Grant Amount
2011-12	\$1,400,050
2012-13	\$1,400,050
2013-14	\$1,400,050
2014-15	\$1,400,050
2015-16	\$1,400,050

*This information was provided by the EDC

A copy of the grant agreement is included at Appendix A. Pursuant to the agreement, the EDC can use the County funds in the following ways:

1. Providing assistance to companies that are interested in investing in the county through relocation, retention and/or expansion of their business in the County;
2. Marketing the county and promoting its competitive advantages to targeted business industries through multiple outlets and trade missions;
3. Creating and distributing materials and publications with relevant and timely economic demographic data for use by the business community;
4. Working with elected officials and community partners to develop a competitive business environment in the county; and
5. Identifying and providing resources designed to expand opportunities for existing manufacturing and high tech businesses in the county.

The breakdown of the use of County funds for the year ended September 30, 2015, as provided by the EDC, is as follows:

Grant Expense	Amount
Marketing, Communications & Program	\$ 180,903
Facilities & Occupancy	115,642
General Administration	31,886
Personnel	1,054,919
Professional Services	16,750
Total Expenses	\$ 1,400,099

*This information was taken from the EDC's Annual Financial provided to the County (Appendix B).

Executive Summary

In accordance with the grant agreement, EDC has the following reporting requirements:

- Annual submission of a report to the Board of County Commissioners to include at a minimum:
 - The manner in which County grant funds were expended;
 - The results of the EDC's efforts in retaining existing businesses, attracting new businesses, or relocating businesses from other areas; and
 - The EDC also agrees to voluntarily furnish the County each year with a copy of the annual audit of the EDC's financial records and a financial report.

Results

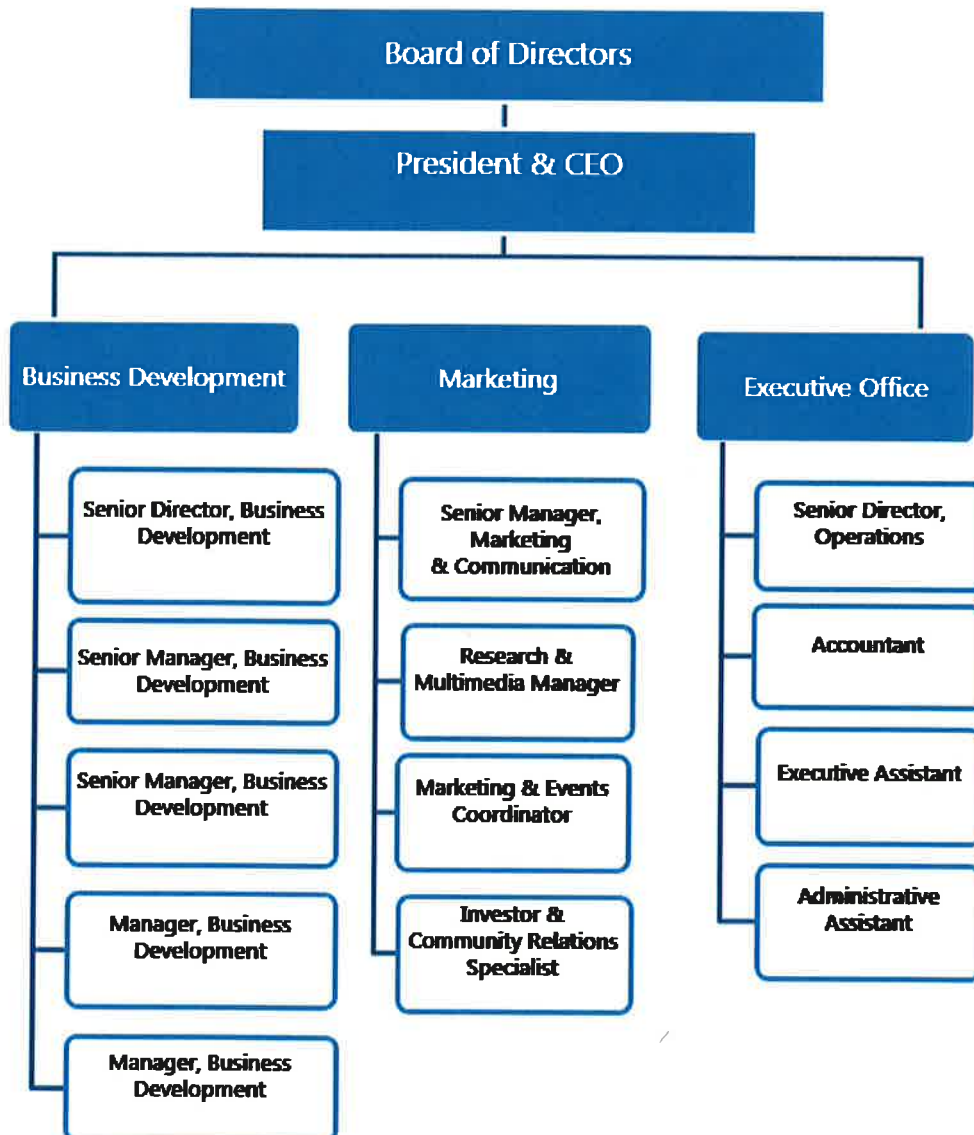
During the course of our audit we found no instances of non-compliance with the grant agreement. As the majority of the County funds were used to pay salaries and benefits, we tested this by mapping the EDC strategic plan to the five categories of the County grant agreement. The goals and strategies of the EDC are aligned with the allowable uses noted within the grant agreement thus we have concluded that salaries and benefits are allowable expenditures. We also tested a sample of non-personnel transactions and noted all transactions tested have sufficient supporting documentation and are within one of the five required categories included in the grant agreement. We have included one observation regarding the clarity of EDC policy in the observations matrix. Observations are process improvement opportunities, and are less impactful than issues and thus are not risk rated, do not require management response and follow-up procedures will not be conducted.

Background

Background

The Economic Development Commission ("EDC") of Florida's Space Coast is a countywide, not-for-profit partnership between the Brevard County Government ("County") and the Space Coast business community. The EDC was founded in 1989 and is a 501(c)(6) not-for-profit. Organizations that are categorized as 501(c)(6)'s are focused on supporting overall industry needs, such as economic development, as opposed to 501(c)(3) organizations that serve to support religious, charitable, scientific or educational purposes.

Organizational Structure



Background - continued

Board of Directors and Councils

Per EDC bylaws, the Board of Directors is vested with the management of the business and affairs of EDC. Directors should be residents of Brevard County, Florida and should normally be the senior official of a company, agency head, or member of an agency Board of Directors, located in the Brevard County area. The Board of Directors currently consists of 140 members (12 ex-officio) who meet every two months to discuss EDC's objectives, plans, present activity and any issues at hand. In addition, the EDC has an Executive Committee who meet monthly, and 5 Officers. There are also 9 councils that act as subcommittees to the Board of Directors. These councils focus on key areas that the EDC has identified in their Strategic Plan as priorities. Currently 141 volunteers serve on one or more EDC Councils. Each council is made up of at least one chairperson, which is a member of the Board, and one EDC staff member. The current council structure is illustrated below.

Aerospace, Aviation and Defense Council	Mission: Facilitates communication among stakeholders to strategically develop actions and identify policies that enhance the health and growth of the aerospace, aviation and national defense industries in Brevard.
Ad Valorem Tax Abatement Council	Mission: Assists in the processing of AVT applications by reviewing submissions and recommending the level of qualifying tax abatement to Brevard County Commission.
Certified Production Technician Council	Mission: Assists staff in the promotion of the Certified Production Technician training programs through presentations and sponsorship requests.
Community Marketing Council	Mission: Assists staff in identifying marketing opportunities and resources supporting the organizations program of work; to include manufacturing image and attraction campaign.
Development Council	Mission: Represents the development, engineering, architectural, building and contracting fields, to promote implementation of process improvements at county and local levels.
Government Relations Council	Mission: Supports staff with communications and outreach efforts targeted to elected officials at local, state and national levels to garner support of economic development policies.
Industry Council	Mission: Serves as the advisory council to the Regional Manufacturing Association of Florida's Space Coast (MASC) to ensure MASC serves as the succinct voice for Brevard County's manufacturing base.
Innovation Council	Mission: Supports the development of an innovation ecosystem in Brevard County that will
Resource Development Council	Mission: Support the organization's short term and long term sustainability objectives related to the retention and recruitment of EDC Investors.

All five County Commissioners have a designee included on the Board of Directors. Currently, Commission Chairman Jim Barfield is an executive committee member and Board of Director. The designee for Commissioner Robin Fisher sits on the Governance / Finance Council and the designee for Commissioner Barfield sits on the Resource Development Council.

Background - continued

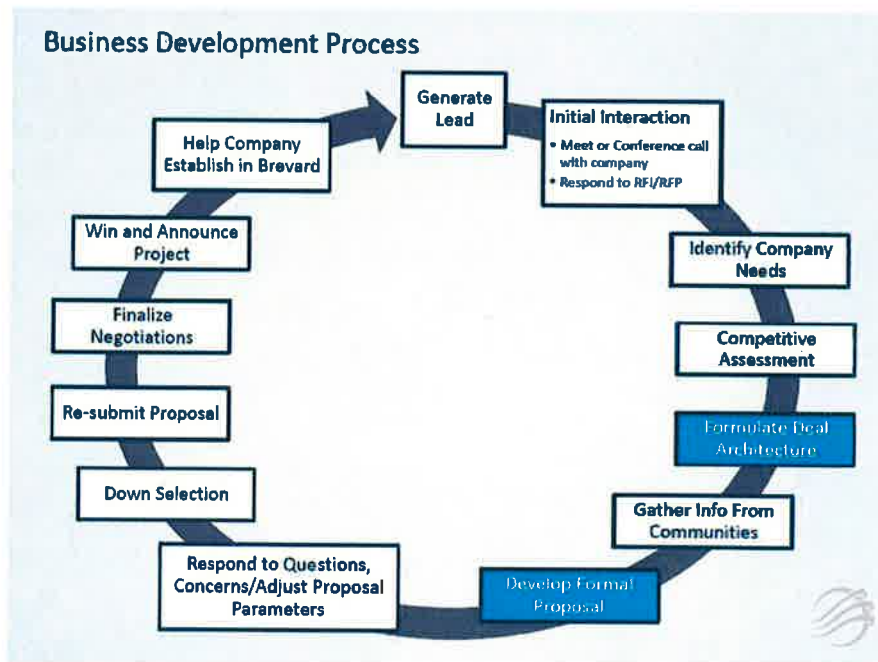
Economic Development

No single definition incorporates the multitude of factors that encompass economic development. The main goal of economic development is often stated as improving the well-being of a community through efforts that entail job creation, job retention, and tax base enhancements and quality of life. The EDC has identified the four strategic priorities for the organization to ensure a focused approach is applied to their economic development efforts. These priorities are outlined in the Strategic Plan included in Appendix C.

The business development process in Brevard County is a fluid process. The needs of each business vary with the size of the organization, timeline and industry. Regardless of the point in the process where each business falls, the EDC plays the role of a facilitator and advisor. The process typically begins with a lead, at which time a determination is made regarding the prospective client project and the resources available; which may include land, facility, state and local tax structure, costs of doing business, local permitting and more. Business development is a highly competitive process, both inter- and intrastate. As such, closely cooperative, and confidential efforts are needed to maintain the trust of the prospective business.

Leads are generated from various organizations such as Enterprise Florida (EFI), the Florida Department of Economic Opportunity (DEO), Brevard County and marketing or networking efforts. Businesses also call the EDC directly using online search engines and other social media; however, the majority of the leads are generated from the partnerships and relationships the EDC has with various state and local agencies.

The diagram below depicts, from EDC's perspective, the ideal flow of the process from lead generation to announcement of the business expanding within or moving to Brevard County.

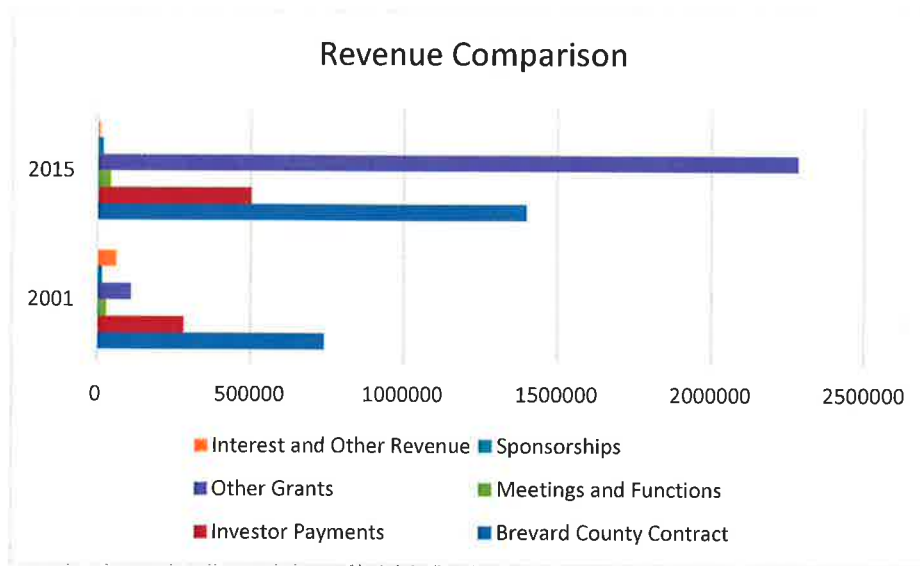


The EDC works closely with the business clients through the entire process. They identify State and County incentives for which the company may qualify and guide them through the application process. In addition to relocation and/or expansion projects, the EDC provides existing businesses with resources and tools to encourage growth and profitability. The EDC utilizes a database called EPIC CRM to track business leads and contact points.

Background - continued

Funding and Financial Data

Funding sources for the EDC come primarily from three places: State Grants, the Brevard County grant and Investor Payments. The funding structure has changed significantly over the years as both the County and the EDC have grown. Currently, the majority of EDC funding comes from State grants (52% in the fiscal year ending September 30, 2015) and the County grant is the second largest (35% in the fiscal year ending September 30, 2015.) This is in contrast to 64% of funding coming from the County grant in 2001. It should be noted that the State grant funding passes through the EDC in the form of incentives and other payments to subrecipients and is not used to fund EDC operations.



*Information was taken from audited financial statements in the given year

The funds received from the County and other State grants are leveraged to generate additional revenues. The breakdown of revenue sources for fiscal year ended September 30, 2015 is as follows:

Revenue	Amount
Brevard County	\$ 1,400,050
Investor payments	501,020
Investor meetings and functions	45,500
State grants	2,222,017
Federal grants	63,514
Program sponsorships	20,350
Interest income	3,013
Other income	4,422
Total Revenue	\$ 4,259,886

*Information provided by EDC, from audited financial statements for FY 2014-15

Background - continued

As with the majority of non-profit and service-oriented businesses, the services provided by EDC are generated through the staff of professionals that work there. Therefore a significant percentage, \$1,364,503 or 32.2%, of total expenses are salaries and benefits.

Expenses	Amount
Expenses Under Grants	\$ 2,256,653
Salaries and Benefits	1,364,503
Advertising and Promotions	149,907
Administrative and Miscellaneous	471,979
Total Expenses	\$ 4,243,032

*Information provided by EDC, from audited financial statements for FY 2014-2015.

Confidentiality

The EDC is a separate private agency that receives funding from the County via a grant agreement. The benefits of keeping this service outside the spotlight of the public sector are primarily due to the confidential nature of the work performed. This confidentiality is also bolstered by Florida Statute 288.075 that states "Proprietary confidential business information" is considered confidential. This information is defined as:

"Information that is owned or controlled by the corporation, partnership, or person requesting confidentiality under this section; that is intended to be and is treated by the corporation, partnership, or person as private in that the disclosure of the information would cause harm to the business operations of the corporation, partnership, or person; that has not been disclosed unless disclosed pursuant to a statutory provision, an order of a court or administrative body, or a private agreement providing that the information may be released to the public; and that is information concerning: Business plans, Internal auditing controls and reports of internal auditors, reports of external auditors for privately held companies"

When a company is relocating or if an existing company is thinking of expanding, it is of a highly confidential nature for many different reasons. With the services being performed by an outside agency this confidentiality can be maintained for the success of the program and strengthens the relationship with Leads as the ability to have such confidentiality facilitates trust. Once the various agreements are reached with these businesses, the necessary public announcements are made.

Background - continued

Brevard County Grant Agreement

The EDC is not an agency of the County, and is an organization that is completely separate the County. The EDC and the County have a grant agreement that stipulates the amount of funding the County will provide, the allowable uses of the grant funds, public record requirements, EDC's Ad Valorem Tax Exemption advisory role, terms and renewals of the agreement, payment schedule and reporting requirements.

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2015-16	\$1,400,050

*This information was provided by the EDC

A copy of the grant agreement is included at Appendix A. Pursuant to the agreement, the EDC can use the County funds in the following ways:

- 1 Providing assistance to companies that are interested in investing in the county through relocation, retention and/or expansion of their business in the County;
- 2 Marketing the county and promoting its competitive advantages to targeted business industries through multiple outlets and trade missions;
- 3 Creating and distributing materials and publications with relevant and timely economic demographic data for use by the business community;
- 4 Working with elected officials and community partners to develop a competitive business environment in the county; and
- 5 Identifying and providing resources designed to expand opportunities for existing manufacturing and high tech businesses in the county.

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Professional Services	\$ 16,750
Total Expenses	\$ 1,400,099

*This information was taken from the EDC's Annual Financial provided to the County

In accordance with the grant agreement, EDC has the following reporting requirements:

- Annual submission of a report to the Board of County Commissioners to include at a minimum:
 - The manner in which County grant funds were expended;
 - The results of the EDC's efforts in retaining existing businesses, attracting new businesses, or relocating businesses from other areas; and
 - The EDC also agrees to voluntarily furnish the County each year with a copy of the annual audit of the EDC's financial records and a financial report.

Objectives and Approach

Objectives and Approach

Objectives

The primary objectives of this internal audit were to:

- Test the EDC's compliance with the grant agreement with Brevard County, and
- Determine if the County grant funds are being tracked separately and spent in accordance with the agreement.

To accomplish this, we planned to:

- Determine whether the records and documentation are sufficient to establish an audit trail for transactions that were purchased using County Grant Funds;
- Analyze compliance and procedures surrounding financial recordkeeping;
- Verify appropriateness of expenditures for public funds;
- Determine that policies and procedures are effective, documented and in place; and
- Review and verify compliance of the scope of services listed in the contract.

Approach

Our audit approach consisted of three phases:

Understanding and Documentation of the Process

During phase one, we interviewed selected EDC personnel, County personnel, Commissioners and EDC Board members, to discuss the scope and objectives of the audit work, obtain preliminary data, and establish working arrangements. We obtained a copy of the agreement between EDC and the County and discussed the scope of services and outcome criteria contained in the agreement. We reviewed other documents including fiscal year 2015 financial statements and the 2014 tax return, budgets of both EDC and the County, and the bylaws and mission statement of EDC. Additionally, we reviewed EDC's web site, and selected Florida Statutes and County Ordinances applicable to this audit.

Detailed Testing

The purpose of this phase was the development of applicable tests of compliance. Our testing was concentrated in two different components: Contract Compliance and Use of Grant Funds.

Contract Compliance - We reviewed the contract between EDC and the County and tested compliance as follows:

Reporting - We tested the reporting requirements of the contract as follows:

- Reviewed requirements of the contract,
- Verified content of submissions, and
- Reviewed dates for submission of required reports.

Use of Grant Funds - We tested the use of grant funds as outlined in the contract.

- As the majority of the County funds were used to pay salaries and benefits, we tested this by mapping the EDC strategic plan to the five categories of the County grant agreement.
- We tested a sample of non-personnel transactions for sufficient supporting documentation and are in accordance with the five required categories included in the grant agreement.
- We also reviewed and tested the documents and publications below:
 - Strategic plan
 - Web site and marketing materials
 - EPIC CRM Database
 - Membership listings, Board and Committee make-up
 - By-laws

We also:

- Obtained the annual financial reports provided to the County.
- Obtained the EDC's overall annual report, which documents the results of EDC's efforts in retaining existing businesses, attracting new business, or relocating businesses from other areas.
- Reviewed Board meeting minutes for both the Board of Directors and executive committee.

Observations Matrix

Observations Matrix

Observations

Observation: As previously noted, all expenditures selected for test were compliant with the County grant and properly supported. The EDC has an Internal Financial Controls policy and Travel Expense policy to manage the approval and use of spending, including the County grant funds. We tested 25 non-salary transactions, noting some transactions that did not fully comply with the EDC's internal policy for written approvals, both before and after purchase. As changes have been made internally since the policy inception, the EDC should consider updating the policies to allow for more flexibility on items that are pre-approved and reflect the procedure currently being followed.

Appendix

Appendix A - Grant Agreement

GRANT AGREEMENT

THIS GRANT AGREEMENT is entered into by and between BREVARD COUNTY, a political subdivision of the State of Florida (hereafter referred to as the "County"), and THE ECONOMIC DEVELOPMENT COMMISSION OF FLORIDA'S SPACE COAST, INC., a Florida Corporation Not-for-Profit (hereafter referred to as the "EDC");

RECITALS

WHEREAS, the Board of County Commissioners has assigned the County Manager and his/her designated staff to function as the economic development agency for the County with legal assistance from the County Attorney; and

WHEREAS, under section 125.045(3), Florida Statutes, the County is authorized make grants to private enterprises for the expansion of businesses existing in the community or the attraction of new businesses to the community; and

WHEREAS, EDC is a private, not-for-profit corporation engaged in the activity of attracting new business investment, retaining and expanding existing businesses, and encouraging entrepreneurship to and in all communities and jurisdictions within the county, including the 16 municipalities, the unincorporated area, the Melbourne International Airport Authority, the Titusville-Cocoa Airport Authority, the Canaveral Port Authority, and military installations; and,

WHEREAS, EDC has a focus on the manufacturing and high tech industry, which advances growth in corporate investment, job creation and business sustainability for the long-term vitality of the county economy through the direct and indirect impact associated with the investment of businesses within our community; and,

WHEREAS, economic development efforts within a community must include a wide range of programs and resources to compete globally;

NOW THEREFORE in consideration of the following covenants and provisions the parties hereto agree as follows:

- 1. Recitals.** The Recitals set forth above are true and correct and incorporated by reference herein.
- 2. Grant.** The County hereby agrees to provide a grant to the EDC in fiscal year 2014-2015 in the amount of \$1,400,050.00. This grant is authorized by 125.045, Florida Statutes.

Appendix A - Grant Agreement - continued

3. **Use of Grant Funds.** The grant funds provided by the County to the EDC shall be used exclusively for EDC efforts to retain existing businesses in the County and to attract new businesses to the County. The grant funds will enhance the programs of work and strategic goals of the EDC to improve the economic growth and stability of the county. These programs of work focus on:

- (a) Providing assistance to companies that are interested in investing in the county through relocation, retention and/or expansion of their businesses in the County.
- (b) Marketing the county and promoting its competitive advantages to targeted business industries through multiple outlets and trade missions.
- (c) Creating and distributing materials and publications with relevant and timely economic and demographic data for use by the business community.
- (d) Working with elected officials and community partners to develop a competitive business environment in the county.
- (e) Identifying and providing resources designed to expand opportunities for existing manufacturing and high tech businesses in the county.

Notwithstanding anything herein to the contrary, at the discretion of the EDC, the grant funds may be used for administration, travel, office expenses, salaries or other expenses related to the EDC's program of work involving the retention or expansion of existing businesses and attraction of new businesses within the county.

4. **Public Records.** The County and EDC acknowledge that EDC is a private corporation and not subject to Florida's Public Records law, per se. The County and EDC also acknowledge that the Board of County Commissioners has also designated the County Manager and his designees as the economic development agency for the County, for the purposes of County Projects, as defined below, encompassed by the provisions of section 288.075, Florida Statutes. However, when the EDC is working on a County Project all records related to the EDC's work on that project in coordination with the EDC's private business client and the County are deemed to be public records available for inspection by any person, unless those records are otherwise exempt or confidential under Florida Public Records laws. For the purposes of this Grant Agreement, a "County Project" is defined as a project:

- a. where employees or officials of County government, or of any special district dependent to County government, have received a written request from a private business for a confidentiality/non-disclosure exemption in accordance with the provisions of section 288.075, Florida Statutes; or
- b. where a business has filed a written request for one or more County economic incentives to induce that business to locate, expand or relocate in the County,

Appendix A - Grant Agreement - continued

regardless of whether the business has submitted a request for confidentiality under the provisions of section 288.075, Florida Statutes. Such incentives may include, but are not limited to, ad valorem tax exemptions; cash grants; or lease or conveyance of county-owned property.

The term "County Project" shall not include any EDC activities involving private companies; municipal corporations; airports; ports; chambers of commerce or other private organizations, but not involving the County.

5. EDC's Ad Valorem Tax Exemption Advisory Role. The parties acknowledge and agree that EDC has no approval or decision-making authority in County government other than acting in an advisory capacity solely for the purpose of reviewing ad valorem tax exemption applications, in which circumstances the EDC committee responsible for that function must conduct advertised, public meetings in accordance chapter 286, Florida Statutes (the Florida Sunshine Law). Any record or document generated as a result of the EDC committee's activity in an advisory capacity related to the review of ad valorem tax exemptions shall be deemed public record and open for public inspection, unless otherwise exempt or confidential under Florida law.

6. Term and Renewals. The term of this Grant Agreement is one year, commencing on October 1, 2014 and ending on September 30, 2015; provided this Grant Agreement shall automatically renew for additional one year periods over a maximum period of ten additional years should the Board of County Commissioners adopt an annual county budget setting aside funds for an renewal grant for each such renewal year. In the event the Board does not adopt an annual county budget setting aside grant funds for the EDC prior to October 1 of the upcoming renewal year, this Grant Agreement shall be deemed terminated.

7. Payment Schedule. Payments shall be made on a quarterly basis in the amount of \$350,102.50 due on October 10, 2014, January 10, 2015, April 10, 2015, and July 10, 2015.

8. Reporting Requirement. Prior to September 30, 2015 or the same date in any subsequent year for which this Grant Agreement has been automatically renewed, the EDC shall submit a report to the Board of County Commissioners setting forth as to County Projects, at a minimum, the following:

- a. the manner in which County grant funds were expended; and
- b. the results of the EDC's efforts in retaining existing businesses, attracting new businesses, or relocating businesses from other areas.

Appendix A - Grant Agreement - continued

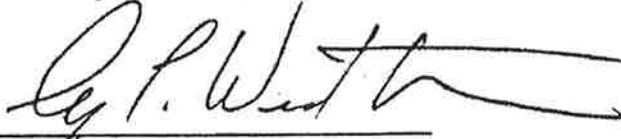
c. The EDC also agrees to voluntarily furnish the County each such year with a copy of the annual audit of the EDC's financial records and operations conducted by a certified public accountant, as well as a financial report.


9. **Effective Date; Prior Agreements Superseded.** All prior agreements between the EDC and the County are superseded and rendered inoperative as the effective date of this Grant Agreement, which is October 1, 2014.

WHEREFORE, the parties have executed this Grant Agreement on this 16th day of September, 2014.

**Economic Development Commission
of Florida's Space Coast, Inc.**

Brevard County


BY: 
Lynda Weatherman, Executive Director

BY: 
Mary Bolin Lewis
(As approved by the Board on September 16, 2014)

DATE: 9/29/14

Date: 9-16-2014

ATTEST:


Scott Ellis, Clerk of the Circuit Court
in his capacity of Clerk to the Board

Appendix B - Annual Financial Report FY14-15

EDC of Florida's Space Coast

Annual Financial Report

FY14/15

Schedule of Brevard County Grant Funds Expended

	<u>Grant Funds</u>
Ordinary Income/Expense	
Income	
Brevard County Grant	\$ 1,400,050
Total Income	<u>\$ 1,400,050</u>
 Grant Expense	
Marketing, Communications & Programs	\$ 180,903
Facilities & Occupancy	\$ 115,642
General Administration	\$ 31,886
Personnel	\$ 1,054,919
Professional Services	\$ 16,750
Total Expense	<u>\$ 1,400,099</u>
 Net Ordinary Income	<u>\$ (49)</u>
 Net Income	<u><u>\$ (49)</u></u>

Appendix C - Strategic Plan Overview FY14-15



FY 14/15 Strategic Plan

GOALS

<p>BUSINESS GROWTH AND DIVERSIFICATION Achieve business growth and diversification of Brevard County's economic base through a targeted approach, resulting in new capital investment, job creation and increased opportunities for existing industry growth.</p>	<p>COMPETITIVE BUSINESS ENVIRONMENT Implement and/or advocate for a minimum of one public policy or new program per year which will enhance Brevard County's economic development competitiveness and lead to a business friendly community.</p>	<p>SECURE EARNED MEDIA Capitalize on local and national media coverage showcasing business success stories and Brevard County community advantages resulting in a minimum of \$1 million of earned media per year.</p>
-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

PRIORITIES

<p>TARGET INDUSTRY FOCUS Business development efforts will be centered on industries providing value added jobs which produce a higher direct and indirect economic impact for the community. Target industries include: Aerospace and Aviation; Advanced Communications; Electronics; High-Tech Manufacturing; and Emerging Technologies.</p>	<p>ENHANCE COMPETITIVE LANDSCAPE Programs and advocacy efforts will be pursued based on the relevancy and sustainability in developing a competitive business environment for our target industries, existing industries and military installations.</p>	<p>ENGAGE COMMUNITY LEADERS Engage and educate community volunteers and elected officials to serve as economic development leaders throughout Brevard County.</p>	<p>ENGAGE PARTNERSHIPS Partner with economic development agencies and supporting organizations to ensure a streamlined coordinated process benefiting economic growth in Brevard County.</p>
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PROGRAM OF WORK

An integrated approach ensures our strategic priorities and goals remain the primary focus. Area-specific strategies identified below support the established objectives and serve as the guiding principles for management.

Business Development

- Partner with local, regional, and state partners to identify prospects
- Promote government contracting programs to existing businesses through G.O. Contracts
- Increase awareness of local manufacturers through Made In Brevard campaign
- Promote opportunities for commercialization
- Support an Innovative business climate through Accelerate Brevard, the Innovation Council and NASA technology partnership

Business Climate

- Interface with industry leaders to identify barriers to business start-up and growth
- Educate national policy makers on programs supporting local economic development
- Support military policies which can provide positive economic growth in Brevard County
- Support development of a labor supply which meets manufacturing industry demand

Marketing

- Promote the advantages of doing business in Brevard
- Raise awareness of business capabilities and successes.
- Ensure media interaction is at local and national levels
- Utilize Web-based marketing and social media

Community Relations

- Educate elected officials and municipal employees on the programs of the EDC to promote collaboration
- Facilitate an understanding of economic development and the impact of job creation through speaking engagements, opinion editorials, and published articles
- Increase the reach of EDC Investors as a business resource
- Increase opportunities for Investors to volunteer and support economic development

Operations

- Increase Private Funding year over year
- Increase workflow efficiencies through enhancements in software programs and equipment
- Provide opportunities for staff professional development

Appendix D - EDC Annual Report FY14-15



FISCAL YEAR 2014-2015
**EDC OF FLORIDA'S SPACE COAST
ANNUAL REPORT**

OUR MISSION
A COMMUNITY
COALITION FOR A
BETTER BREVARD

Appendix D - EDC Annual Report FY14-15 - continued



LOOKING FORWARD

Fiscal Year 2014-2015 has been a tremendous year for the Economic Development Commission of Florida's Space Coast (EDC). We have worked together to tell our story and demonstrate to the country that the Space Coast is open for business.

This past year we have further developed our existing programs and introduced new ones, expanding the resources for our business community. We are working with industry leaders to develop innovative solutions to manufacturing challenges. Our newest program, Technology Docking, a strategic alliance with NASA Headquarters, is opening doors to product development tools for commercialization from new technologies. Our Certified Production Technician (CPT) pilot program is addressing the skills gap in manufacturing and developing an awareness of this industry as a career of choice.

Our efforts to enhance business growth has gained recognition for our community as a leader in economic development. We received four national awards of recognition this past year. Including Southern Business & Development Magazine - Top 4 Economic Development Organization; and Expansion Solutions Magazine - Top 5 Award for Aerospace, Aviation and Defense Recruiting.

We have much to be proud of; we are a community and an economic development organization engineered for success. With ten company announcements and commitments for 1,494 direct jobs, retention of 270 existing jobs and a total capital investment exceeding \$270 million; we are spurring an entire ecosystem of opportunities for future generations.

The continued support and investment from the business community, key partners and stakeholders enables the EDC to continue to cultivate a strong economic engine for today, tomorrow and the future.


Debbie Goode
Chair of the Board


Lynda Weatherman
President & CEO

EDC OFFICERS



Debbie Goode
Chair of the Board



Winston Scott
Chair Elect



Phil Hayes
Secretary



Dana Kilborne
Treasurer



Mark Mikolajczyk
Associate Past Chair



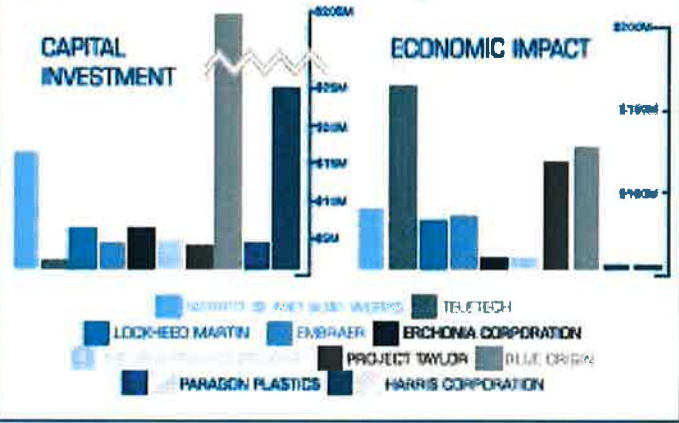
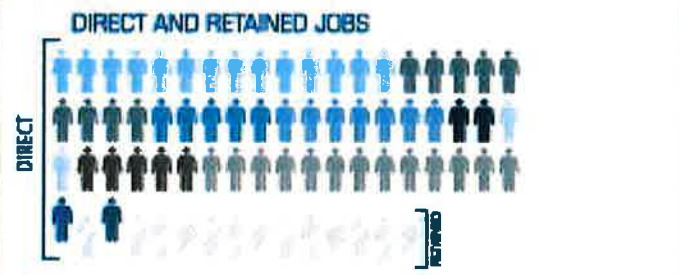
Lynda Weatherman
President & CEO

Appendix D - EDC Annual Report FY14-15 - continued



BY THE NUMBERS FY 2014-2015

PROJECT ACTIVITY



INVESTMENT



MARKETING EARNED MEDIA

\$ 1,892,842
EARNED MEDIA

+13% OVER FY 14/14



WEBSITE METRICS

39,022
WEBSITE VISITS



+24.2%
WEBSITE OVER FY 14/14

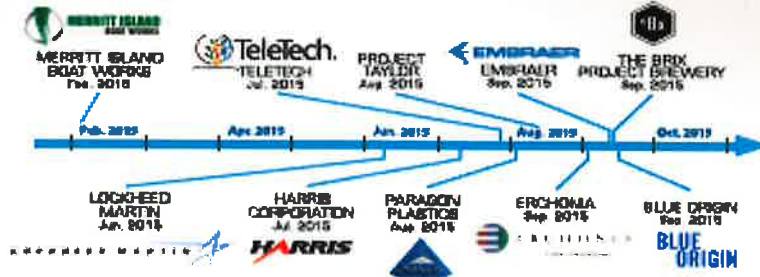
Appendix D - EDC Annual Report FY14-15 - continued

BUSINESS GROWTH AND DEVELOPMENT

Working to GROW and DIVERSIFY Brevard County's economic base through targeted recruitment and retention programs, the EDC realized robust project activity this year that led to substantial injection of new capital and jobs across the county.

RESULTS & HIGHLIGHTS

Secured company commitments to create 1,484 direct new jobs, retention of 270 existing jobs, and over \$270 million in capital investments.



By teaming with NASA for a unique Regional Economic Development Initiative, known as Technology Docking, we are helping local companies solve technology challenges. This year the EDC matched nine local companies with NASA Subject Matter Experts. Together, they will address specific technology challenges and pursue solutions for the development of a commercial product by the company. Through Technology Docking, the EDC has provided 45 companies with direct interface to NASA technology experts.



A structured and focused innovation initiative targeting entrepreneurs, innovators, academics, and existing businesses is helping to build Brevard's innovation ecosystem. AccelerateBrevard.com is an on-line portal designed to stimulate thought, conversations and interactions between people and organizations leading to enhanced competitiveness and increased economic growth.



G.O. Contracts, a program that connects Brevard businesses to government contracting opportunities online through a searchable, bid monitoring system continues to produce in success stories. The program has led to 37 contract wins valued at more than \$27 million since its inception in 2013.

Appendix D - EDC Annual Report FY14-15 - continued

MARKETING AND EARNED MEDIA

CAPITALIZING on our EXTENSIVE business development efforts, the EDC promoted our business and community advantages to local, regional and national media, earning highly visible placement in a number of respected industry outlets.

RESULTS & HIGHLIGHTS

- Exceeded our goal for earned media, generating \$1.9 million – an increase of 13% over the previous year.



- The *Made in Brevard* program communicates how diversified the industry base is in Brevard County. Throughout the year we promote and celebrate companies that manufacture products locally. In FY14/15 we continued to grow our *Made in Brevard* showcase event, introduced a video advertisement at The Orlando-Melbourne International Airport and promoted locally made products through a local ad campaign.



<p>TOP 3 ECONOMIC DEVELOPMENT ASSETS in Florida with the Florida & International Forum SOUTHERN 2015</p>	<p>TOP 4 BEST LOCAL ECONOMIC DEVELOPMENT AGENCIES in Florida SOUTHERN 2015</p>	<p>BEST LOCAL ECONOMIC DEVELOPMENT INITIATIVES SOUTHERN 2015</p>	<p>TOP 5 AWARD OF EXCELLENCE ECONOMIC DEVELOPMENT ORGANIZATIONS in Florida EXPANSION 2015</p>
--------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------



- Brookings Institution named the Space Coast #7 in the U.S. for our advanced industry share of total employment.

Appendix D - EDC Annual Report FY14-15 - continued

COMPETITIVE BUSINESS ENVIRONMENT

The EDC continues to PROMOTE the economic COMPETITIVENESS of Brevard County by enhancing and advocating for public policies and practices which lift impediments to doing business here.

RESULTS & HIGHLIGHTS

▶ As interest in manufacturing careers decline, the EDC is leading an effort to address a skills gap within the Space Coast manufacturing sector. We have engaged stakeholders, existing industry, and community partners in our pilot program focused on Certified Production Technician (CPT) training and educating on the importance of promoting manufacturing as a career of choice.



▶ The EDC works closely with our military leaders to identify opportunities to further engage with our community and implement programs with mutual benefit. The EDC has engaged with our local municipalities and Patrick Air Force Base (PAFB) to identify qualifying projects for the military's Public-Private-Partnership (P4) program. P4 enables the development of a partnership that will reduce overall costs and enhance services to both the military and civilian community. Our P4 initiatives have led to the City of Satellite Beach contracting with PAFB for shared recreational space, child care programs and youth center services.



▶ The Annual Community Leader's Trip commenced with a summer visit to Washington D.C where business and political leaders reinforced the key roles our military and aerospace sectors play on the Space Coast through meetings with elected officials.



▶ S.N.A.P. (Simplified, Nimble, Accelerated Permitting) program continues to streamline the way permitting is done in Brevard. The EDC is working with S.N.A.P. central communities to ensure continued process improvements remain a priority.



▶ \$75,000 in state Defense Reinvestment Grant funds were secured this year. These funds enable the EDC to further strengthen our advocacy and programs designed to protect, enhance and retain local military installations and their contributions to the local economy.

Appendix D - EDC Annual Report FY14-15 - continued



EMBRAER: THE EVOLUTION OF A CLUSTER

In 2008, the EDC brought an international jet maker, Embraer, to the Space Coast. Today, five facility announcements later, and with sites on both ends of the county, Embraer has shown us that sometimes the potential for 'what could be' is greater than 'what we can see' at the moment. Embraer brought not only an international presence with them, but also, the power to influence and grow a flourishing aviation cluster. Some of the company's major projects on the Space Coast include:

Customer Delivery Center

Manufacturing & Assembly Building

Engineering and Technology Center USA

Melbourne Final Assembly Facility

Aero Seating Logistics Facility (under construction)

EDC COUNCILS FY 2014-2015

AEROSPACE, AVIATION AND DEFENSE

Chairperson: Joseph T. Mayer
Lockheed Martin Space Systems Company

- ▀ Council endeavors to stimulate, promote, and assist in the development of space related business opportunities and policy enhancements for the Space Coast at Cape Canaveral Air Force Station and NASA's Kennedy Space Center.

AD VALOREM TAX ABATMENT

Chairperson: Julie Song
FL Business & Manufacturing Solutions, Inc.

- ▀ A community team committed to showcasing the competitive advantages of the Space Coast to both Brevard County residents and external audiences.

COMMUNITY MARKETING

Chairperson: Travis Proctor
Artemis II, Inc.

- ▀ A community team committed to showcasing the competitive advantages of the Space Coast to both Brevard County residents and external audiences.

DEVELOPMENT

Chairpersons: Luke Miorelli
M.E. Construction, Inc.

- ▀ Representing the development, engineering, architectural, building and contracting fields, members identify and mitigate potential impediments to the structural growth of Brevard County.

GOVERNANCE/FINANCE

Chairperson: Claudia Jones
Deen Mead

- ▀ Provides guidance in the governance of the organization and the development of financial strategies and oversight to ensure organizational transparency through policy development and compliance with established bylaws. The EDC Audit Review Committee will serve as a sub-committee of this council.

GOVERNMENT RELATIONS

Chairperson: Christine Deaton
AAR Alliance Group, Inc.

- ▀ An experienced group of public affairs and government relations professionals tasked with identifying legislative opportunities and challenges.

INDUSTRY

Chairperson: Michael Ennis
Harris Government Communications Systems

- ▀ Tasked with developing and deepening the EDC's understanding of pertinent issues impacting the manufacturing and high tech community.

INNOVATION

Chairperson: Dr. Abram Walton
Florida Institute of Technology

- ▀ Council is committed to creating the salience of innovation in the Space Coast community and to raising the tide of our innovation ecosystem through strategic community outreach and engagement.

RESOURCE DEVELOPMENT

Chairperson: Mica Layne
Wells Fargo

- ▀ Establish short-term sustainability objectives related to the retention and recruitment of EDC investors.

Appendix D - EDC Annual Report FY14-15 - continued

BOARD OF DIRECTORS FY 2014-2015

Ms. Gwendolyn Anello
 Anello Consulting/Digital Story
Mr. Matthew Aubrey
 Clear Channel Outdoor
Mr. Kristin Baltes, CRJ
 LEAD Brand
Mr. Courtney Barber
 City of Seaside Beach
Mr. Jason Bartlett
 Building Management Systems, Inc.
Mr. Arthur Becker
 Health First
Mr. Stephanie Bedesark
 Space Exploration Technologies
Mr. Barney T. Bishop
 Barney Bishop Consulting, LLC
Ms. Benny Block
 Balfour Beatty Construction
Mr. Julie Bragg
 Residence Inn by Marriott
Mr. Thomas Brandon
 Brandon Development
Mr. Linda S. Brown
 Brown Korst & Company
Mr. Adam Broadway
 Certified General Contractors
Ms. Collins Brown
 Kean University
Mr. Sandra Budge
 Wells Fargo
Honorable William Caputo*
 City of Palm Bay
Mr. Pamela Carroll
 Weather Health System
Ms. Chris Chavez
 United Launch Alliance
Mr. Wayne Cooper
 Representing Commissioner Anderson
Mr. Erik Curtis
 W & J Construction
Mr. Bob Carroll
 Coastal Steel, Inc.
Ms. Carol Craig
 Craig Technologies
Ms. Andrea Crotech
 InoMetric Health Applications, LLC
Mr. Brian Curtis, RJE*
 BRPH Companies
Mr. Bill Davis
 IM Solutions, Inc.
Ms. Christine Denton*
 EDC Government Relations Council
Mr. Cindy D'Amico, AEC*
 City of Melbourne
Mr. Cynthia Drogosz*
 Cocoa Beach Regional Chamber
Honorable Stephen Eby
 City of West Melbourne
Mr. Michael Eder*
 EDC Industry Council
Mr. Ben Evans*
 At-Large Representative
Mr. Josh Field
 SCE Marketing

Honorable Robin Plaker*
 Broward County Board of County
 Commissioner
Mr. Barry Forbes
 Branch Banking and Trust Co.
Mr. Peter Francis
 Representing Commissioner Smith
Mr. Bart Gagliardi*
 Florida Power & Light Company
Mr. Kevin M. Gilchrist
 CVG Strategy, LLC
Ms. Carey Glasgow
 Representing Commissioner Barfield
Ms. Debbie Goode*
 Carr, Riggs, & Ingram, CPAs & Advisors
Mr. Michael Graham
 Merrill Lynch/Bank of America
Ms. Karen Gregory
 HRSS Consulting Group, LLC
Mr. Don Guat
 All Service Graphics, Inc.
Mr. Erik Hall
 Sentry View Systems
Mr. Rich Hall
 Luba & Associates
Mr. Paul Hansen*
 Bright House Networks
Mr. Randall Harris*
 Government Contracting Resources
Mr. Steven Hartman
 AAR AirBN Group
Ms. Debbie Harvey
 Ron Jon Surf Shop
Mr. Mike Harvey, II
 American Services Technology
Mr. Phil Hayes, MBA, AIA*
 Herman Haykins Wright & LeHorn,
 CPAs and Associates, LLP
Mr. Bill Hendricks
 Hiram Melburne Realo Place
Mr. Ben Hinn, CPA
 City of Rockledge
Mr. Tom Hermansen
 Ocean Partners Associates, LTD
Mr. Jay Heed
 Mount Island Boat Works
Mr. Bob Houtz*
 Melbourne Regional Chamber
Ms. Raine Jamison*
 Lockheed Martin
 Space Systems Company
Mr. Neal Johnson
 At-Large Representative
Mr. Stephen L. Johnson
 The Vets Company
Ms. Claudia Jones*
 Dean Wood
Mr. Robert Jordan
 Representing Commissioner Fisher
Mr. Jean Joubert
 City of Cocoa
Honorable Wayne Justice
 Canaveral Port Authority

Mr. Jeff Kral
 FLORIDA TODAY
Mr. Dana Kibben*
 Florida Bank of Commerce
Mr. Thomas Kirk
 FirstWave Florida
Mr. Tommy Kiser*
 Thurston Area Chamber
Mr. David Korach*
 HART Corporation
Mr. Gary Krueger
 TLC Engineering for Architecture
Mr. Phil Krull*
 Embree Executive Aircraft, LLC
Ms. Leslie Lake
 RSMI, Inc.
Mr. Brian Light*
 At-Large Representative
Mr. Mark Males*
 At-Large Representative
Mr. Billy Mares
 Mowit Engineering
Mr. Rich Matthews
 Northrop Grumman Corporation
Mr. Joseph T. Mayor
 Lockheed Martin
 Space Systems Company
Mr. Dean May
 Sheldon Cove, LLP
Mr. Troy McElwain
 AT&T Florida
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 Eastern Florida State College
Dr. George Miller*
 Parulth Medical Center
Dr. Lauren Miller
 University of Central Florida
Mr. Mark Mihalajczyk*
 Castg Technologies
Ms. Luba Morrison, P.E.*
 M.E. Construction &
 Mid-Florida Engineering
Mr. Ben Moore
 Walbridge Florida Group
Mr. Todd Morley
 City of Cape Canaveral
Mr. Paul Newman
 Sabcom Direct
Mr. Matt Nye
 Representing Commissioner Infantini
Mr. Gary Palmer*
 Comprehensive Health Services
Honorable Rita Pridemott
 City of Titusville
Mr. Travis Prester*
 Arbutus, Inc.
Mr. Thomas Preece
 DMC Parks & Resorts at KSC, Inc.
Mr. Glen Rucker-Wilke*
 Waste Management
Mr. Lisa Rina
 CareerSource Broward
Mr. Jim L. Robinson
 Courtyard by Marriott
Mr. Miles Roggers
 SunTrust Bank
Mr. Gilbert Russell
 At-Large Representative
Mr. Jack L. Ryals
 National Realty of Broward, Inc.

Mr. Robert Salonen*
 Greater Palm Bay Chamber
Dr. Jack Schuckhaber*
 Melbourne International Airport
Mr. Mel Scott
 AECOM
Carl Weston Scott*
 Florida Institute of Technology
Mr. John Seibach
 J. Herbert Corporation
Mr. Corey Smith
 HUB International Florida
Mr. Forrest Stedley
 Florida City Gas
Mr. Julie Song*
 FL Business & Manufacturing Solutions
Mr. Susan Smith
 Smith & Associates
Mr. Scott T. Sorenson
 Sorenson Moving and Storage
Mr. Emmanuel Torrance
 The Peering Company
Mr. Todd Touchdown
 Rockwell Collins, Inc.
Mr. Harold Walls
 Vail Law Office, P.A.
Mr. Abrams Wilburn, Ph.D.*
 Florida Institute of Technology
Mr. Dan Walsh
 Walsh Companies
Ms. Lynn Whaley*
 Space Coast REALTORS
Mr. Jacquelyn Whitaker
 DoubleTree by Hilton Cocoa Beach
Mr. Dan Whitaker
 Whitaker Cooper Financial Group
Mr. Bill Williams
 A Car Above Video Productions, Inc.
Mr. Michael H. Williams
 M.H. Williams Construction Group
Mr. Mike Wise*
 Wells Fargo
Mr. Jordan Young*
 PNC Bank

EX-OFFICIO MEMBERS

Dr. Bernard Blackburn
 Broward Public Schools
Mr. B. Mason Blalock*
 Dean Wood
Rev. Glen B. Bames, Jr.
 Lead Broward 2015 "A Under 40"
Mr. Frank Binkala
 Space Florida
Mr. Nathalia Boman
 Lead Broward 2015 "A Under 40"
Col. Shawn Fairman
 45th Space Wing
Mr. Eric Garvey
 Tourism Development Council
Mr. Amos Patel
 Lead Broward 2015 "A Under 40"
Mr. Janet Peters
 NASA
Mr. Bob Ralve
 United Way of Broward
Captain John Seger
 NOAA US Navy
Mr. Victor Toranzo
 Lead Broward 2015 "A Under 40"

* District Executive Committee Member



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**Brevard County – Public Works
Road Construction - Monitoring Assistance
April 11, 2016**



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Transmittal Letter

April 11, 2016

The Audit Committee of
Brevard County, Florida
2700 Judge Fran Jamieson Way
Viera, Florida 32940-6699

Pursuant to the approved 2015/2016 internal audit plan, we hereby submit the following report related to our monitoring assistance of the Barnes Boulevard Widening and St. Johns Heritage Parkway Southern Segment construction projects. Our report is organized in the following sections:

Objectives and Approach	The objectives of our procedures and our approach to the execution of those procedures are expanded upon in this section.
Project Snapshot	This section provides an overview of the current status of each project subjected to our procedures.
Process Maps	This section provides a visual depiction of the workflow of all key processes included within our scope.

We would like to thank the staff and all those involved in assisting the Internal Auditors in connection with this review.
Respectfully Submitted,

INTERNAL AUDITORS



Objectives and Approach

Objectives

The objectives of this engagement for the Barnes Boulevard Widening and St. Johns Heritage Parkway Southern Segment are as follows:

- To assist the County in their construction contract monitoring efforts, leveraging RSM's experience with comparable agreements / projects.
- To develop recommendations for improvement to key construction management processes and controls; facilitated through recurring involvement in the referenced projects throughout their respective contract terms.
- To provide quarterly status reports to the Audit Committee regarding the progress of each project and any recommended improvements identified.

Approach

Our approach consisted of the three phases described below:

Obtaining an Understanding

In order to establish a foundational understanding of each project and to better assist the County, RSM met with the key members of management and construction process owners that are directly involved with the two referenced projects. Major work steps as a part of this phase were as follows:

- Kickoff meeting / facilitated session with management
- Key process owner interviews
- Construction contract review
- Construction contract risk / compliance matrix development
- Policies and Procedures documentation review
- Identification of KPIs and relevant project metrics for reporting

Objectives and Approach - continued

Approach - continued

Recurring Monitoring Assistance

For each quarterly period, RSM will continue to perform select inquiry, review and testing procedures as they relate to the following key construction management processes:

- Pay application approval
- Pay application contractual compliance / support
- Pay application mathematical accuracy / roll forward
- Pay application adherence to best practice and industry standards
- Change order approval
- Change order contractual compliance
- Change order mathematical accuracy
- Change order incorporation into monthly pay applications
- Change order adherence to best practices and industry standards
- Weekly and monthly contractor reporting
- Quarterly jobsite inspection
- KPI / metric monitoring / evaluation

Reporting

We will continue to provide Public Works management and the Audit Committee with a project status report at the end of each quarter (or other acceptable time period). This progress report includes pay applications submitted for the period ended January 31, 2016, finalized by the County in March.

Barnes Project Snapshot - Summary

Barnes Boulevard Widening (as of 01/31/16)

RSM conducted site inspections of the Barnes Boulevard Widening project on 03/29/16, 11/20/15, and 10/5/15. Through information obtained during each inspection and review of pay applications and change orders processed to date, we noted the project schedule has been extended an additional 24 days since our last report, for a total approved project schedule extension to date of 54 days. The current period extension of 24 days occurred as a result of Change Orders #6 and #8, both executed during our most recent interim testing period (7/1/15-1/31/16).

Our site visits included speaking with the County inspector and project management, who noted the general contractor's team was fully engaged and provided sufficient monitoring of subcontractors. We noted the potential for a future claim/change order related to FPL delays during utility pole relocation still exists, as noted in our previous report issued 7/22/15.

Our visual inspection of the project site revealed significant progress including phase 1 pole removal and the elevation of the roadway east of Fiske Boulevard, as well as the construction of sidewalks on both sides of Barnes Road between Fiske Boulevard and Murrell Road.



Barnes Project Snapshot – Metrics

(as of 01/31/16)

Spend vs Schedule Analytic	
\$11,768,598	55%
17 months	48%
	35 months

16

Pay Applications Processed

CO #1	\$13,369
CO #2	\$8,819
CO #3	\$3,818
CO #4	\$2,274
CO #5	\$22,852
CO #6	\$9,298
CO #7	\$21,153
CO #8	\$66,832
CO #9	(\$67,617)
CO #10	\$9,600
Total	\$90,398

Quick Stats	% Complete
Largest Project Costs:	
63x98 Reinforced Concrete Pipe	\$ 1,611,912 93%
Mobilization	\$ 1,068,000 100%
Clearing and Grubbing	\$ 814,270 76%
Regular Excavation	\$ 784,814 93%
Concrete Class IV, box culvert 10'x5'	\$ 758,520 100%

10

Change Orders Approved

0.77%

Change Order Rate

(Note 1)

Note 1: RSM's experience with comparable construction yields a typical change order rate of 5-10%.



Barnes Project Snapshot – Change Orders

Test Criteria	Contractor Entitlement	Mathematical Accuracy	Contractual Compliance	Detailed Cost Breakdown	Proper Approvals
Change Order #6	✓	✓	✓	✓	✓
\$9,298					
+19 days					
Water line changes/extension to serve the Premier parcel					
Test Criteria	Contractor Entitlement	Mathematical Accuracy	Contractual Compliance	Detailed Cost Breakdown	Proper Approvals
Change Order #7	✓	✓	✓	✓	✓
\$21,153					
0 days					
Widening of the sidewalk from 6' wide to 8' wide from the east side of Admiralty Blvd. to the beginning of the turn lane at Sta. 68+66.23, with the exception of the portion that was poured at 6' wide on July 16, 2015					
Test Criteria	Contractor Entitlement	Mathematical Accuracy	Contractual Compliance	Detailed Cost Breakdown	Proper Approvals
Change Order #8	✓	✓	✓	✓	✓
\$66,832					
+5 days					
Stormwater and sanitary sewer changes associated with the West-2 pond relocation plan					
Test Criteria	Contractor Entitlement	Mathematical Accuracy	Contractual Compliance	Detailed Cost Breakdown	Proper Approvals
Change Order #9	✓	✓	✓	✓	✓
(\$67,617)					
0 days					
The interconnect and temporary interconnect changes discussed onsite on July 9, 2015. Brevard County Traffic Operations coordinated the changed with FDOT					
Test Criteria	Contractor Entitlement	Mathematical Accuracy	Contractual Compliance	Detailed Cost Breakdown	Proper Approvals
Change Order #10	✓	✓	✓	✓	✓
\$9,600					
0 days					
Miscellaneous concrete added as a City of Cocoa pay item for thrust blocks where large water mains are to be plugged or capped.					

Note: Detailed cost breakdown: Defined as that which contains at a minimum; (1) Labor rate(s) * estimated hours, (2) Estimated equipment cost(s) * hours / days, (3) Estimated material(s) cost * quantity.



St. Johns Project Snapshot - Summary

St. Johns Heritage Parkway (as of 01/31/16)

Through RSM's site inspections of the St. Johns Heritage Parkway project (conducted 03/29/16, 11/20/15, and 10/5/15), and review of change orders and pay applications processed during this interim period, we noted the project is estimated as 170 days ahead of schedule per the most recent Contractor project schedule which is attributed to greater than expected production on drainage, stabilization, and base work throughout the corridor.

During our latest site inspection on 03/29/16 we noted significant progress with the construction of the roadway and bridge since our previous report on 7/22/15. The bridge beams and walls are up, and the roadways are awaiting pavement. The completion of ROW fencing, roadway construction between Pond G and US-192, and friction course throughout remains on schedule based on the Critical Path provided by the Contractor. We noted a potential future delay regarding Plan Revision 2, as the Contractor and Brevard County are currently negotiating costs for cast in place headwalls.

The County inspector and project management team indicated they were pleased with the work, professionalism and performance of the contractor thus far. The project site appeared clean, safe and well maintained.



St. Johns Project Snapshot – Metrics

(as of 1/31/16)

11

Pay Applications Processed

Spend vs Schedule Analytic	
\$7,751,093	63%
11.5 months	57%
	20 months

Quick Stats

Largest Project Costs:

		% Complete
Embankment	\$ 2,190,092	100%
Mobilization	\$ 726,600	100%
Optional Base, Base Group 09	\$ 675,581	69%
Regular Excavation	\$ 654,642	100%
Retaining Wall System, Permanent, Excluding Barrier	\$ 359,748	89%

3

Change Orders Approved

CO #1	\$7,826
CO #2	\$8,046
CO #3 (Note 3)	\$0
Total	\$15,872

0.20%

Change Order Rate
(Note 1)

Note 1: RSM's experience with comparable construction yields a typical change order rate of 5-10%.

Note 2: The 20 month duration herein reflects a 170 day estimated schedule gain, which has not yet been approved via change order.

Note 3: This was not a cost increase but rather a 1 day delay for Tropical Storm/Hurricane Erika.



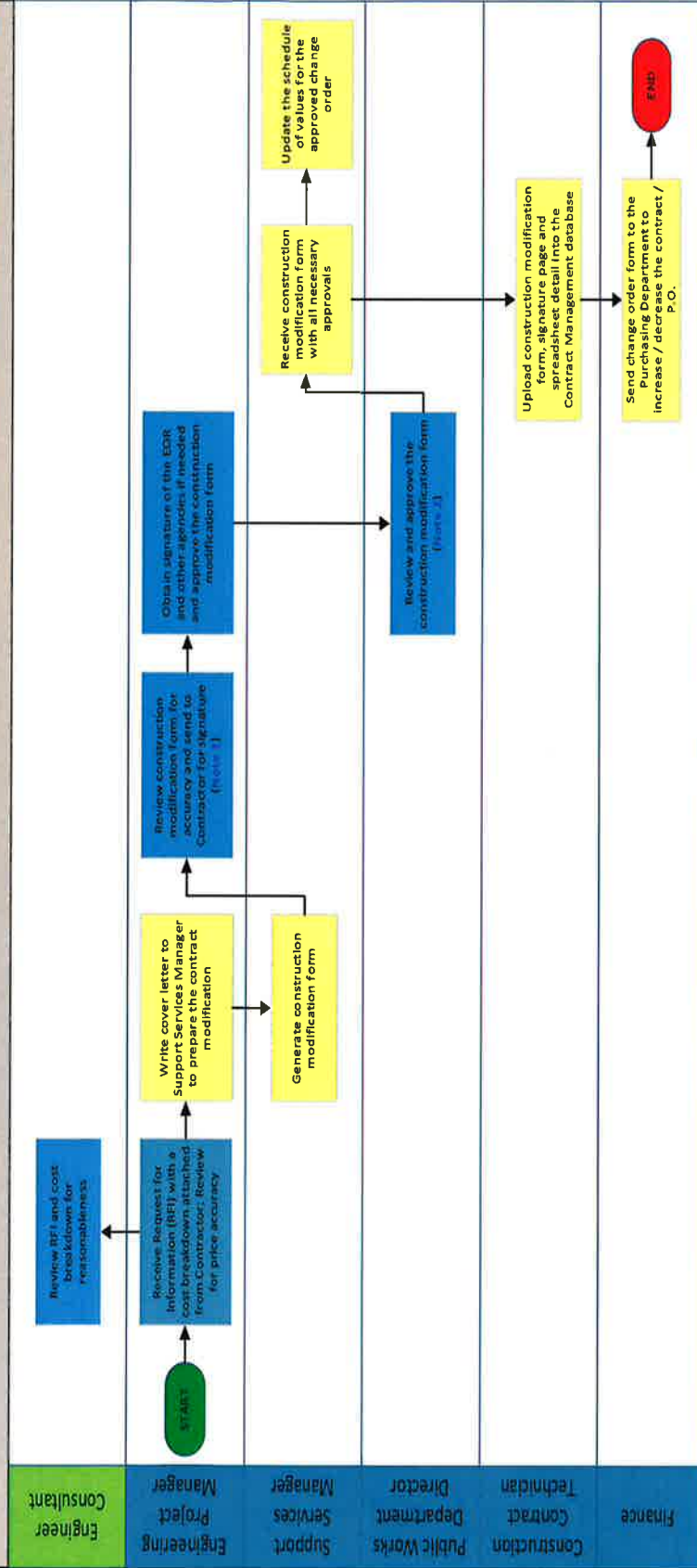
St. Johns Project Snapshot – Change Orders

Test Criteria	Contractor Entitlement	Mathematical Accuracy	Contractual Compliance	Detailed Cost Breakdown	Proper Approvals
Change Order #2	✓	✓	✓	✓	✓
\$8,046					
0 days					
Changing of the storm pipe in Canal C-54 from 48" to 60" diameter and revising the outfall in Pond A to discharge directly into Canal C-54					
Test Criteria	Contractor Entitlement	Mathematical Accuracy	Contractual Compliance	Detailed Cost Breakdown	Proper Approvals
Change Order #3	✓	✓	✓	✓	✓
\$0					
1 day					
1 day extension per Tropical Storm/Hurricane Erika as Contractor spent the day preparing for the potential storm					

Note: Detailed cost breakdown: Defined as that which contains at a minimum; (1) Labor rate(s) * estimated hours, (2) Estimated equipment cost(s) * hours / days, (3) Estimated material(s) cost * quantity.

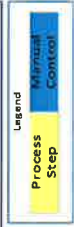
Process Maps

Brevard County – Public Works – Road Construction – Change Order Process

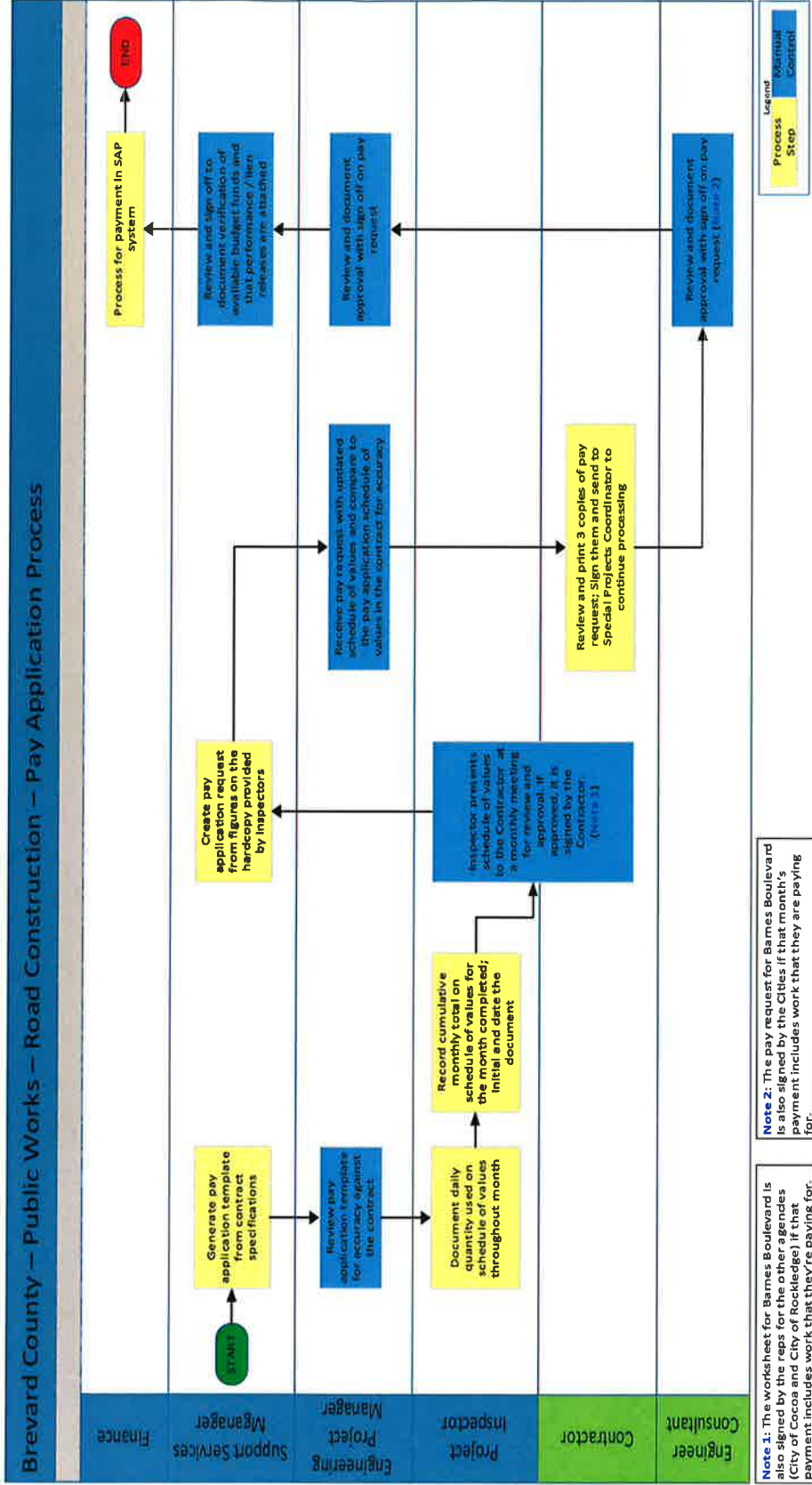


Note 1: Contractor receives change order by email, signs off to document agreement and returns to Engineering Project Manager.

Note 2: Approvals must be obtained in accordance with the matrix below:
 Up to \$25k – Department Director can approve
 \$25k-\$100k – County Manager can approve
 Over \$100k – Formal Board approval required



Process Maps - continued





**Internal Audit Committee of
Brevard County, Florida**

**Cycle Audit of
Cash Account Reconciliations**

**Prepared By:
Internal Auditors
April 18, 2016**



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April 18, 2016

The Audit Committee of
Brevard County, Florida
2700 Judge Fran Jamieson Way
Viera, Florida 32940-6699

Carr, Riggs & Ingram, LLC
215 Baytree Drive
Melbourne, Florida 32940
(321) 255-0088
(321) 259-8648 (fax)
www.cricpa.com

Pursuant to the approved 2015/2016 internal audit plan, we hereby submit our cycle audit of cash account reconciliations. We will be presenting this report to the Audit Committee at the next scheduled meeting on June 22, 2016.

Our report is organized in the following sections:

Executive Summary	This provides a summary of the issues related to our cycle audit of cash account reconciliations.
Background	This provides an overview of the cash account reconciliation process.
Objectives and Approach	The cycle audit objectives and focus are expanded upon in this section as well as a review of our approach.
Issues Matrix	This section gives a description of the issues, recommended action and management's response.

We would like to thank the Clerk of Court County Finance & Accounting department and all those involved in assisting the Internal Auditors in connection with the cycle audit of cash account reconciliations.

Respectfully Submitted,

Carr Riggs & Ingram, LLC

INTERNAL AUDITORS

Executive Summary

Executive Summary

Overview

This cycle audit includes testing for compliance with the Clerk of Courts General Accounting Procedures Manual Section 6.A reconciliation completion and timeframe requirement. This report covers the cash account reconciliations for September 2015 through February 2016. Testing for this cycle audit of cash reconciliations took place during April 2016. This is the third cycle audit of cash reconciliations and we have noticed significant improvements specifically with the timeliness of the reconciliations.

Objective

The primary purpose of this cycle audit is to assess the timeliness, completeness, and review procedures of cash account reconciliations for September 2015 through February 2016.

Issues

A summary of issues identified and their relative risk rating is provided on the following page.

Relative risk is an evaluation of the severity of the concern and the potential impact on operations. Items rated as "High" risk are considered to be of immediate concern and could cause significant operational issues if not addressed in a timely manner. Items rated as "Moderate" risk may also cause operational issues and do not require immediate attention, but should be addressed as soon as possible. Items rated as "Low" risk could escalate into operational issues, but can be addressed through the normal course of conducting business.

There are many areas of risk to consider including financial, operational, and compliance, to name a few. For public sector organizations, we also consider public perception risk when determining the relative risk rating.

Timeliness of Cash Reconciliation Preparation and Review:

In the previous cycle audit, there were six reconciliations prepared that were past due and eight reconciliations reviewed that were past due. During this cycle audit, we noted that six out of the six cash reconciliations reviewed were all prepared and reviewed within the timeframe stipulated in the Clerk of Courts Finance General Accounting Procedures.

Executive Summary - continued

Issues	Risk Rating																																																												
1. Transactions Identified but not Recorded																																																													
<p>Since the consolidated bank account for the period tested (Sept 2015 through Feb 2016) was reconciled within the required timeframe from month end, Transactions Identified but not Recorded, with few exceptions, were posted to the general ledger in the subsequent month. This also marks a vast improvement since the last cycle audit which identified some transactions not posted to the general ledger until seven months after the month end.</p> <p>However, for September 2015 through February 2016, we noted that there were significant Transactions Identified but not Recorded in the month incurred. The reconciliation is not required to be completed until 30 days after the General Ledger is closed – which takes place on the 15th of the month – or 45 calendar days after month end to complete the reconciliation. [Note: For fiscal year-end 9/30, the policy provides for 60 days to complete the September bank reconciliation and the general ledger is held open such that no significant Transactions Identified but not Recorded were noted for the 9/30/15 bank reconciliation.]</p> <p>The following table depicts only the most significant Transactions Identified but not Recorded of the total cash account variance noted by month (see issue matrix below for complete table of reconciling items):</p>																																																													
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<p>The above amounts, except the payroll transactions, represent cash transactions that occurred and were posted to the bank in the month reconciled, but were not posted in the general ledger until after the month closed. The payroll transactions represent amounts deducted from the general ledger upon the pay period ending date, but were not actually disbursed from the bank account until the pay date in the subsequent month. This transaction should be reversed and posted back to the general ledger.</p> <p>Delays in posting activity increase the risk of error or inaccurate posting among months. There are exceptional circumstances in which posting is reasonably delayed, but this should be the exception.</p>																																																													
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Background

Background

Cash Reconciliation Process

The consolidated cash account reconciliation process is conducted by the Clerk of Court County Finance and Accounting Department. The reconciliations include documentation of the preparer, reviewer, and the dates prepared and reviewed. The timeliness standard for reconciliation completions is determined by the Clerk of Court's Finance General Accounting Procedures Manual, which states in Section 6.A., "Reconciliation is to be performed monthly, completed within 30 days after the close of the month. The September reconciliation should be completed within 60 days after the close of the month." Each month is closed on the 15th of the following month as stipulated by the Procedures Manual 3.A.8, Opening/Closing Posting Periods. Therefore, the deadline for other than September, for completing the monthly consolidated cash reconciliation is 45 days after the end of the month. September (FYE), is closed on the 30th.

Consolidated and Disbursement Cash Accounts

The County has one primary bank account, referred to as the "Consolidated" account, and two zero balance accounts used for disbursements that are funded from the consolidated account. The funding occurs through automatic transfers of funds from the consolidated account for the amount of checks presented. One disbursement account is used for payroll-related disbursements, and the other is for accounts payable related disbursements. The three accounts below are reconciled monthly as one consolidated reconciliation:

Account Name
Consolidated account
Payroll account
Controlled disbursement account

The County has a Positive Pay service on the disbursement accounts, in which the bank matches the checks presented for payment to a file of approved checks received from the County. Checks that do not match to the file received from the County are returned for investigation before payment. This service is a preventive control over disbursement activity and prevents check fraud and errors in processing.

In addition to the documented monthly bank reconciliations, Finance personnel review and monitor the activities of disbursements and receipts to the online banking activity on a daily basis. Through this process, they are able to identify differences between the cash activity recorded in SAP and the activity per the bank, and perform timely follow-up with departments to obtain the information necessary to post the cash transactions in SAP. The performance of this daily review function reduces the time burden to perform the monthly reconciliation and allows it to be completed more efficiently.

Unclaimed Property

The County follows the unclaimed property rules put forth in Florida Statute, Section 717. The statutes list the dormancy periods for different types of property, and the timeframe under which the property must be submitted to the state in an annual unclaimed property report. For governments, the dormancy period is one year if not otherwise listed in the statutes. The County is required to perform due diligence to locate the apparent owners of unclaimed property items under Florida Statute Section 717.117(4). This includes sending a written notice to the payee of outstanding checks not more than 120 days and not less than 60 days prior to filing the unclaimed property report. The preparation of the annual unclaimed property report is done by the Clerk of Court County Finance & Accounting Department. It includes items that met the required dormancy period in the prior calendar year, and is submitted each April. Due diligence procedures on the unclaimed property are performed and documented by the Accounts Payable or Payroll departments, based on the nature of the outstanding item.

Objectives and Approach

Objectives and Approach

Objectives

Objectives of this cycle audit include the monthly cash reconciliations for September 2015 through February 2016 (6 months):

- Determine timeliness of cash account reconciliation preparation and review.
- Determine whether cash account reconciliations are appropriately reviewed.
- Determine completeness of cash account reconciliations.
- Determine mathematical accuracy of the cash account reconciliations.
- Determine reasonableness and appropriate supporting documentation for significant reconciling items.
- Determine compliance with unclaimed property rules.

Approach

Our cycle audit approach consisted of three phases:

Understanding and Documentation of the Process

During the first phase, we held an entrance conference with the Assistant Finance Director and other personnel to discuss the scope and objectives of the audit work, obtain preliminary data, and establish working arrangements. We then conducted interviews with responsible personnel and documented their role in the processes.

Detailed Testing

The cash reconciliations for September 2015 through February 2016 were reviewed for timeliness of preparation and review. We verified that the reconciliations contained evidence of documented review by someone other than the preparer at the appropriate level within the department. We tested completeness of the reconciliations by tracing the balances to the general ledger and bank statement, and tested the mathematical accuracy of the reconciliations. We reviewed the reconciliations in detail and traced reconciling items to supporting detail and reviewed the reasonableness of the reconciling items. We reviewed the outstanding checklists for checks that would be considered presumed unclaimed property under Florida Statutes, and performed follow-up inquiry.

Reporting

At the conclusion of our audit, we summarized our findings related to the cash reconciliation function. We conducted an exit conference with management and have incorporated management's responses into our report. We prepared our report and related findings and provided copies to appropriate County personnel.

Issues Matrix

Cash Account Reconciling Function

Internal Audit Report

Issues Matrix

Rating	Issues	Recommendation	Management Response
Moderate	<p>1. Transactions Identified but not Recorded</p> <p>Since the consolidated bank account for the period tested (Sept 2015 through Feb 2016) was reconciled within the required timeframe from month end, Transactions Identified but not Recorded, with few exceptions, were posted to the general ledger in the subsequent month. This also marks a vast improvement since the last cycle audit which identified some transactions not posted to the general ledger until seven months after the month end.</p> <p>However, for September 2015 through February 2016, we noted that there were significant Transactions Identified but not Recorded in the month incurred. The reconciliation is not required to be completed until 30 days after the General Ledger is closed – which takes place on the 15th of the month – or 45 calendar days after month end. [Note: For fiscal year-end 9/30, the policy provides for 60 days to complete the September bank reconciliation and the general ledger is held open such that no significant Transactions Identified but not Recorded were noted for the 9/30/15 bank reconciliation.]</p> <p>The table below depicts the Transactions Identified but not Recorded of the total cash account variance noted by month.</p>	<p>We recommend the following:</p> <ol style="list-style-type: none"> 1. We recognize that there are circumstances that can delay the process to gather the necessary support to post the identified but unrecorded transactions to the general ledger. However, the investment activity statements are typically received with enough time to prepare the relevant journal entries to record the investment activity to the general ledger in the month incurred. As such, we recommend that a more concerted effort be made to post the investment transactions to the reconciled month. 2. We also recommend that County Finance determine the most efficient means to reverse the ACH automatic SAP payroll deduction from the cash general ledger account. Since this automatic SAP entry happens on the last day of the pay period at the end of the month, this entry could be set-up as a temporary reversing journal entry to a clearing account so that the amount is properly included in the general ledger account at month end. <p>These steps will remove the delay in posting the most significant unrecorded transactions each month. There are exceptional circumstances in which these postings are reasonably delayed, but this should be the exception.</p>	<p>Response:</p> <ol style="list-style-type: none"> 1) County Finance Staff will make a more concerted effort to post the investment transactions within the appropriate month. 2) Based on the auditor's recommendation, County Finance staff will record the payroll posting to a clearing fund as a temporary entry which will be reversed in the subsequent month. Historically, this entry has only been made at fiscal yearend as it does not affect individual departments' budget or cash position; only the consolidated cash position. <p>Responsible party: Kathleen Prothman, Assistant Finance Director</p> <p>Estimated completion date: June 30, 2016</p> <p>Next testing date: January 31, 2017</p>

Issues - continued

Rating	Issues																																																																										
Moderate	<p>1. Transactions Identified but not Recorded – issue continued</p> <table border="1"> <thead> <tr> <th rowspan="2">Month</th> <th rowspan="2">General Ledger Consolidated Cash Account Balance</th> <th rowspan="2">Reconciled Consolidated Cash Account Balance</th> <th rowspan="2">Net Variance Over (Under)</th> <th rowspan="2">Unrecorded Deposits</th> <th rowspan="2">Transactions Recorded in Subsequent Months Credits (Debits)</th> <th colspan="4">Unrecorded Reconciling Items to Properly Adjust Cash Balance as of Month End: Increases (Decreases) to Cash</th> </tr> <tr> <th>Voided Checks</th> <th>Payroll Manual Checks</th> <th>ACH Processing Payroll Direct Deposit</th> <th>Other Unrecorded minor items</th> </tr> </thead> <tbody> <tr> <td>Feb-16</td> <td>\$131,965,774</td> <td>\$145,640,827</td> <td>(\$13,675,053)</td> <td>\$705</td> <td>\$11,122,723</td> <td>(\$15)</td> <td>\$40,511</td> <td>\$2,511,140</td> <td>(\$10)</td> </tr> <tr> <td>Jan-16</td> <td>\$172,885,626</td> <td>\$155,922,885</td> <td>\$16,962,741</td> <td>\$181,010</td> <td>(\$19,696,524)</td> <td></td> <td>\$38,487</td> <td>\$2,514,294</td> <td>(\$9)</td> </tr> <tr> <td>Dec-15</td> <td>\$213,579,102</td> <td>\$199,326,204</td> <td>\$14,252,899</td> <td>\$433,340</td> <td>(\$14,682,725)</td> <td></td> <td>\$99</td> <td>(\$3,610)</td> <td>(\$4)</td> </tr> <tr> <td>Nov-15</td> <td>\$22,590,577</td> <td>\$48,700,864</td> <td>(\$26,110,287)</td> <td>\$348,148</td> <td>\$25,762,114</td> <td>\$0</td> <td>\$31</td> <td>\$0</td> <td>(\$6)</td> </tr> <tr> <td>Oct-15</td> <td>\$3,086,437</td> <td>\$6,842,612</td> <td>(\$3,756,175)</td> <td>\$328,282</td> <td>\$3,427,895</td> <td>\$0</td> <td>\$4</td> <td>\$0</td> <td>(\$6)</td> </tr> <tr> <td>Sep-15</td> <td>\$26,831,177</td> <td>\$26,812,191</td> <td>\$18,986</td> <td>\$0</td> <td>(\$105)</td> <td>(\$18,646)</td> <td></td> <td>(\$235)</td> <td>\$0</td> </tr> </tbody> </table>	Month	General Ledger Consolidated Cash Account Balance	Reconciled Consolidated Cash Account Balance	Net Variance Over (Under)	Unrecorded Deposits	Transactions Recorded in Subsequent Months Credits (Debits)	Unrecorded Reconciling Items to Properly Adjust Cash Balance as of Month End: Increases (Decreases) to Cash				Voided Checks	Payroll Manual Checks	ACH Processing Payroll Direct Deposit	Other Unrecorded minor items	Feb-16	\$131,965,774	\$145,640,827	(\$13,675,053)	\$705	\$11,122,723	(\$15)	\$40,511	\$2,511,140	(\$10)	Jan-16	\$172,885,626	\$155,922,885	\$16,962,741	\$181,010	(\$19,696,524)		\$38,487	\$2,514,294	(\$9)	Dec-15	\$213,579,102	\$199,326,204	\$14,252,899	\$433,340	(\$14,682,725)		\$99	(\$3,610)	(\$4)	Nov-15	\$22,590,577	\$48,700,864	(\$26,110,287)	\$348,148	\$25,762,114	\$0	\$31	\$0	(\$6)	Oct-15	\$3,086,437	\$6,842,612	(\$3,756,175)	\$328,282	\$3,427,895	\$0	\$4	\$0	(\$6)	Sep-15	\$26,831,177	\$26,812,191	\$18,986	\$0	(\$105)	(\$18,646)		(\$235)	\$0
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The above amounts, except the payroll transactions and voided checks, represent cash transactions that occurred and were posted to the bank in the month reconciled, but were not posted in the general ledger until after the month closed. The payroll transactions represent amounts deducted from the general ledger upon the pay period ending date, but were not actually disbursed from the bank account until the pay date in the subsequent month.

The two most significant unrecorded transactions noted above relate to Investment Activity (included in "Transactions Recorded in Subsequent Months") and the "ACH Processing of Payroll Direct Deposits."

The investment activity is typically recorded in the month subsequent to the investment transaction activity's occurrence – "transactions recorded in subsequent months". Recording the investment activity in the subsequent month significantly affects the cash as reported for the consolidated cash general ledger account. However, this investment activity takes place at the consolidated level only and does not affect the individual department / program fund accounts. Further, for reporting purposes, the investment accounts are reported together with the consolidated cash account as "Cash and Cash Equivalents". The Financial Accounting Supervisor, who performs the treasury function and reconciles the investment account, provides this reconciling amount to the Fund Accountant who performs the consolidated Suntrust bank account reconciliation. As such, the County's consolidated monthly cash and cash equivalents (investments) position was accurately identified within the 45 day reconciliation period.

The "ACH Processing of Payroll Direct Deposits" represent amounts automatically deducted by SAP from the general ledger upon the pay period ending date, but is not actually disbursed from the bank account until the pay date in the subsequent month. This transaction should be reversed and posted back to the general ledger.





**Internal Audit Committee of
Brevard County, Florida**

**Cycle Audit of
Accounts Payable**

**Prepared By:
Internal Auditors
May 13, 2016**



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May 13, 2016

The Audit Committee of
Brevard County, Florida
2700 Judge Fran Jamieson Way
Viera, Florida 32940-6699

Pursuant to the approved 2015/2016 internal audit plan, we hereby submit our cycle audit of accounts payable. We will be presenting this report to the Audit Committee at the next scheduled meeting on June 22, 2016.

Our report is organized in the following sections:

Executive Summary	This provides a summary of the issues related to our cycle audit of accounts payable.
Background	This provides an overview of the accounts payable process.
Objectives and Approach	The cycle audit objectives and focus are expanded upon in this section as well as a review of our approach.
Issues Matrix	This section gives a description of the issues, recommended action and management's response.

We would like to thank all those involved in assisting the Internal Auditors in connection with the cycle audit of accounts payable.

Respectfully Submitted,

Carr Riggs & Ingram, LLC

INTERNAL AUDITORS



Executive Summary

Executive Summary

Overview

Accounts Payable operations can be effectively segregated into the following four components:

- Setting up new vendors and managing existing vendors.
- Receiving vendor invoices and recording the related liability in SAP.
- Paying vendor invoices and reducing the related liability in SAP.
- Reconciling vendor statements to amounts recorded in SAP.

Objective

The primary objective of this cycle audit was to assess whether the system of internal controls over the accounts payable is adequate and appropriate for promoting and encouraging consistent application of management's objectives for compliance with policies and procedures, as applicable. We selected five Departments not tested in previous cycle audits based on significance and volume of accounts payable transactions. Departments selected for accounts payable testing and their approximate respective volumes are as follows (unaudited):

Department	\$ Volume of Transactions	Number of Transactions
Fire Rescue	\$8,800,000	10,400
Library Services	\$3,800,000	11,100
Natural Resources	\$10,600,000	3,700
Solid Waste Management	\$31,200,000	6,000
Utility Services	\$20,700,000	4,400

The total spend for the period covered was approximately \$195M and 83K transactions. The testing period covered the twelve months March 1, 2015 through February 29, 2016.

Issues

During the course of our work, we discussed any identified issues and observations with management. Our observations and recommendations for improving controls and operations are described in detail in the Issues Matrix included in this report. A summary of issues identified and their relative risk rating is provided on the following page.

Relative risk is an evaluation of the severity of the concern and the potential impact on operations. Items rated as "High" risk are considered to be of immediate concern and could cause significant operational issues if not addressed in a timely manner. Items rated as "Moderate" risk may also cause operational issues and do not require immediate attention, but should be addressed as soon as possible. Items rated as "Low" risk could escalate into operational issues, but can be addressed through the normal course of conducting business.

There are many areas of risk to consider including financial, operational, and compliance, to name a few. For public sector organizations, we also consider public perception risk when determining the relative risk rating.

Executive Summary - continued

Issues	Risk Rating
<p>1. Segregation of Duties</p> <p>The Accounts Payable Supervisor, from County Finance, who is one of three personnel in Accounts Payable authorized to process checks, also has access to change the Vendor Master File – to add new vendors and to make edits to existing vendors. County Management represented that this access is for emergency purposes only. Two designated personnel in County Finance have the authority to change the Master Vendor File to setup “fast entry” vendors and “alternate payees” when the remittance address is different from the original vendor address. These two designated personnel in County Finance do not have access to accounts payable to enter vendor invoices or process checks.</p> <p>The risk of misappropriation of funds exists due to this lack of segregation of duties since the Accounts Payable Supervisor has the ability to edit the Master Vendor File and issue checks.</p>	<p>High</p>
<p>2. Invoice Processing - Three-Way-Match</p> <p>We selected a sample of 50 vendor invoices from the period March 1, 2015 through February 29, 2016 - ten each from the five selected Departments (Fire Rescue, Library Services, Natural Resources Solid Waste Management and Utility Services). In terms of County Finance’s and Departments’ review and approval of vendor invoices tested per the applicable Administrative Order requirements (e.g. AO-33 Payment of Invoice – see Objectives and Approach section for detail of requirements), our understanding is that the three-way match control is to be performed at the Departmental level. As such, the applicable Department signatures indicated Departmental review and approval for all vendor invoices tested. However, in reviewing the three-way match support (purchase order, receiver and invoice) obtained from the Departments, we noted that for 5 [Fire Rescue – 4; Natural Resources – 1] out of the 50 invoices tested, the invoiced amount was incorrect. Based on discussions with Departmental management for the five Departments tested, the three-way match is not performed at the Department level. The respective Departments rely on their respective cost centers/field offices/branches to perform this matching function in approving the vendor invoice for payment. The risks associated with this include: Goods purchased / services rendered not properly ordered, paying for goods not received, paying incorrect price/rate.</p>	<p>Moderate</p>
<p>3. Vendor Maintenance (Recurring)</p> <p>We noted that 36 of the 50 vendors tested were created before 9/30/13. 4 were properly marked for deletion. 9 out of the remaining 32 vendors selected had no activity in the last two fiscal years (2014, 2015 through 2/29/16 of FY2016), but were not marked for deletion; therefore these retained their active status. Risks associated with vendors with no activity in the last two years include the potential for inadvertent duplicate payments and provides for the potential fraudulent usage as fictitious vendors.</p>	<p>Moderate</p>

Executive Summary - continued

Issues	Risk Rating
<p>4. Duplicate Vendors (Recurring)</p> <p>Potential duplicate vendors are tested on a County-wide basis since vendor set-up and maintenance is centralized. We obtained a list of all vendors, (excluding the Clerk's vendors) and performed various data sorts to identify duplicate vendors. We excluded the inactive vendors (marked for deletion in vendor file). For total active vendors (excluding Clerk's vendors) of 20,360, we noted the following:</p> <ul style="list-style-type: none"> • Same Name, Different Address(es): 1,064 (709 coded "Alternate Payee") • Same Tax Codes: 1,115 (918 coded "Alternate Payee") • Same Name and Address: 86 <p>We performed additional procedures for these duplicate vendors on a test basis obtaining explanations from management and reviewing relevant support noting there did not appear to be any duplicate payments or fictitious vendors associated with the duplicates reviewed.</p> <p><u>Alternate Payee</u> – County Finance creates a new vendor number when the remittance address is different from the entity's physical address utilized for the initial vendor set-up process. However, whether coded as alternate payee or not, the risks associated with duplicate vendors include the following:</p> <ul style="list-style-type: none"> • Duplicate payments to the same vendor for the same invoice • Inefficiencies and potential inaccuracies in the vendor statement account reconciliation since there can be vendor invoices linked to different vendor numbers and purchase orders (purchase orders are linked to vendor number) • Generating more than one 1099 per Vendor since 1099's are automatically generated by SAP based on individual vendor number 	<p>Moderate</p>
<p>5. Invoice Processing - Date of Service</p> <p>We selected a sample of 50 vendor invoices from the period March 1, 2015 through February 29, 2016 - ten each from the five selected Departments (Fire Rescue, Library Services, Natural Resources Solid Waste Management and Utility Services). In terms of the County Finance's level of review and approval of vendor invoices tested per the applicable Administrative Order requirements (e.g. AO-21 – Travel, AO-33 Payment of Invoice), we noted 1 (Fire Rescue) out 50 invoices tested did not indicate the date the services were performed. Lack of dates of service may inhibit verification of services performed and the ability to resolve any vendor disputes.</p>	<p>Low</p>

Background

Background

Accounts Payable operations can be effectively segregated into the following four components:

- Setting up new vendors and managing existing vendors.
- Receiving vendor invoices and recording the related liability in SAP.
- Paying vendor invoices and reducing the related liability in SAP.
- Reconciling the vendor statements to amounts recorded in SAP.

The Accounts Payable processing and payment function is the responsibility of County Finance. The function is made up of individuals who are responsible for processing invoices (after being reviewed for accuracy and in accordance with County procedures), running reports, matching invoices with checks, sending the checks to the vendors and scanning the original documents received by the Departments into the DMS system for record retention. Accounts Payable is also responsible for reconciling vendor statements with the subsidiary ledgers. The following expenses are keyed into SAP directly by County Finance: travel advances, overnight travel reimbursement, refunds and FPL summary club bills.

Portions of the Accounts Payable function are decentralized and are the responsibility of each Department. The Departments are linked to SAP via the County intranet and are responsible for inputting vendor invoices into SAP. Each Department has a dedicated person who is responsible for making sure that purchase orders are established before items can be purchased and invoices are processed. Each Department is also responsible for approving the invoices prior to submission to County Finance – the Accounts Payable Department. As part of this invoice approval process, each Department is responsible to perform the three-way-match (purchase order, receipt, invoice) as applicable to verify: Goods purchased / services rendered were properly authorized, paying only for goods received / services rendered, paying correct price/rate. Copies of the invoices are maintained in the Departments. Originals are forwarded to Accounts Payable.

The County is required to maintain copies of invoices and any other supporting documentation necessary to support the disbursement of funds. To help alleviate the need for storage space to maintain such documents, County Finance has been imaging records since 1989. The County uses an imaging software database which allows them to scan documents and store them in a database for record retention. This imaging system allows the County to discard hard copies of invoices upon successfully scanning the documentation into the system.

Objectives and Approach

Objectives and Approach

Objectives

The primary objective of this cycle audit is to assess whether the system of internal controls over the accounts payable is adequate and appropriate for promoting and encouraging consistent application of management's objectives for compliance with policies and procedures, and included compliance with Administrative Order 33 (AO-33). We selected five Departments not tested in previous cycle audits based on the significance and volume of accounts payable transactions. Departments selected for accounts payable testing include: Fire Rescue, Library Services, Natural Resources, Utility Services and Solid Waste Management. The testing periods covered the twelve months March 1, 2015 through February 29, 2016, and included the following objectives:

- Determined the adequacy of the Brevard County policies and if invoices were processed and paid in accordance with the policies, including AO-33.
- Determined if invoices processed were for authorized expenditures.
- Determined if records and documentation for Accounts Payable were sufficient to establish an audit trail for all transactions involving disbursements.
- Reviewed controls over Accounts Payable including procedures and documents that assure the data used to generate disbursements were adequate.
- Reviewed controls over Vendor Set-up and Maintenance related to the Accounts Payable function, including controls related to fictitious, duplicate and inactive vendors (County-wide).

Approach

Our cycle audit approach consisted of three phases:

Understanding and Documentation of the Process

During the first phase, we held an entrance conference with the Assistant Finance Director to discuss the scope and objectives of the audit work, obtained preliminary data, and established working arrangements. We reviewed Florida Statutes, administrative orders, County policies and other resources related to Accounts Payable. We conducted interviews with responsible personnel from the selected Departments related to Accounts Payable and documented their respective roles in the processes. We updated our understanding of the Accounts Payable process and relevant controls.

Detailed Testing

The purpose of this phase was performance of testing procedures based on our understanding of Accounts Payable, applicable County ordinances, and State Statutes. Our procedures included interviewing and testing individual transactions. We met with responsible personnel from the selected Departments: Fire Rescue, Library Services, Natural Resources, Solid Waste Management and Utility Services related to Accounts Payable and documented their role in the process. The testing period covered the twelve months March 1, 2015 through February 29, 2016. We conducted the following procedures to meet our audit objectives outlined above:

- Test of invoice approval process, including AO-33 and A0-42:
 - The invoice is marked with the date received (no pencil).
 - Invoice was submitted to County Finance within fifteen (15) calendar days after receipt.
 - An authorized signature is on the invoice.
 - The authorized signature was verified by County Finance via checkmark.
 - Contained the vendor name and address.
 - Contained the Purchase order/contract number (if applicable).
 - The invoice was itemized and included number of items, type of items, unit price, extended price, division of parts and labor charges, if applicable, and total price.
 - Contained the delivery date or date of service.
 - Sales tax was not paid.
 - Invoice (except for the purchase of construction services) was paid within 45 day statute.
- Test Three-Way-Match (purchase order, receiver, and invoice) at the Department level

Objectives and Approach - continued

Approach - continued

Detailed Testing - continued

At the County-wide level, perform the following:

- Verify that active vendors have a W-9 on file when required.
- Test for inactive vendors.
- Test for duplicate payment of invoices.
- Test for duplicate vendors.
- Test for address matches between vendors and employees.
- Test for vendors with P.O. Boxes for their address in order to identify possible fictitious vendors.

Reporting

At the conclusion of our audit, we documented our understanding of accounts payable and summarized our findings related to this process. We conducted an exit conference with management and have incorporated management's responses into our report. We prepared our report and related findings and provided copies to appropriate County personnel.

Issues Matrix

Issues Matrix

<p>High</p>	<p>1. Segregation of Duties The Accounts Payable Supervisor, from County Finance, who is one of three personnel in Accounts Payable authorized to process checks, also has access to change the Vendor Master File – to add new vendors and to make edits to existing vendors. County Management represented that this access is for emergency purposes only. Two designated personnel in County Finance have the authority to change the Master Vendor File to setup “fast entry” vendors and “alternate payees” when the remittance address is different from the original vendor address. These two designated personnel in County Finance do not have access to accounts payable to enter vendor invoices or process checks.</p> <p>The risk of misappropriation of funds exists due to this lack of segregation of duties since the Accounts Payable Supervisor has the ability to edit the Master Vendor File and issue checks.</p>	<p>We recommend that the Accounts Payable Supervisor not have access to change the Vendor Master File – to add new vendors and to make edits to existing vendors.</p> <p>This mitigates the risk of misappropriation of funds through the creation of fictitious vendors or the fraudulent use of active or inactive vendors.</p>	<p>Response: We have requested IT remove the Accounts Payable supervisor’s access to change the vendor file in SAP.</p> <p>Responsible party: Kathleen Prothman, Assistant Finance Director</p> <p>Estimated completion date: June 30, 2016</p> <p>Next testing date: July 31, 2016</p>
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Accounts Payable Cycle Audit

Internal Audit Report

Issues Matrix

Rating	Issues	Recommendation	Management Response						
Moderate	<p>2. Invoice Processing – Three-way-match</p> <p>We selected a sample of 50 vendor invoices from the period March 1, 2015 through February 29, 2016 - ten each from the five selected Departments (Fire Rescue, Library Services, Natural Resources Solid Waste Management and Utility Services). In terms of County Finance's and the Departments' review and approval of vendor invoices tested per the applicable Administrative Order requirements (e.g. AO-33 Payment of Invoice – see Objectives and Approach section for detail of requirements), our understanding is that the three-way match control is to be performed at the Departmental level. As such, the applicable Department signatures indicated Departmental review and approval for all vendor invoices tested. However, in reviewing the three-way match support (purchase order, receiver and invoice) obtained from the Departments, we noted that for 5 out of the 50 invoices tested, the invoiced amount was incorrect. Based on discussions with Departmental management for the five Departments tested, the three-way match is not performed at the Department level.</p> <table border="1" data-bbox="998 1249 1453 1858"> <tr> <td data-bbox="998 1249 1031 1858">Fire Rescue (4):</td> </tr> <tr> <td data-bbox="1031 1249 1096 1858"> <ul style="list-style-type: none"> Item purchased not included in contract specifications - \$1,298.75 </td> </tr> <tr> <td data-bbox="1096 1249 1307 1858"> <ul style="list-style-type: none"> Maintenance rate per station incorrect – (5 stations x \$34.00 = \$170.00 overcharge for this one invoice (FR obtained a credit memo for FY2015 totaling \$1,695.00; FR also obtained revised FY2016 invoices (to reflect the correct rate); no FY2016 invoices had been paid before the rate correction). </td> </tr> <tr> <td data-bbox="1307 1249 1339 1858"> <ul style="list-style-type: none"> Invoice price did not match price list - \$0.64 </td> </tr> <tr> <td data-bbox="1339 1249 1388 1858"> <ul style="list-style-type: none"> Invoice included part not in approved price list - \$30.24 </td> </tr> <tr> <td data-bbox="1388 1249 1453 1858"> Natural Resources (1) – Incorrect rate for Sr. Project Engineer – \$5.00 x 1 hr. = \$5.00). </td> </tr> </table>	Fire Rescue (4):	<ul style="list-style-type: none"> Item purchased not included in contract specifications - \$1,298.75 	<ul style="list-style-type: none"> Maintenance rate per station incorrect – (5 stations x \$34.00 = \$170.00 overcharge for this one invoice (FR obtained a credit memo for FY2015 totaling \$1,695.00; FR also obtained revised FY2016 invoices (to reflect the correct rate); no FY2016 invoices had been paid before the rate correction). 	<ul style="list-style-type: none"> Invoice price did not match price list - \$0.64 	<ul style="list-style-type: none"> Invoice included part not in approved price list - \$30.24 	Natural Resources (1) – Incorrect rate for Sr. Project Engineer – \$5.00 x 1 hr. = \$5.00).	<p>We recommend the following:</p> <ol style="list-style-type: none"> County Management should require the Departments to perform the three-way-match and retain the documentation. If high volume and lack of resources do not allow the Department to perform the three-way match for all invoices processed for payment, the Department should perform "spot" audits on a quarterly basis to verify that the three-way-match is being performed by the respective cost center / branch location. In all cases, the cost center / branch location should be required to provide the three-way match documentation to the Department for the Department's retention and spot audits. The three way match involves comparing the vendor name including invoice pricing and quantity ordered to the purchase order (unless open PO), and matching the vendor invoice quantity to the receiving document (may be the vendor invoice if used as the receiving document or relates to services); if the purchase order does not specify pricing or product or service specifications, the Department may use the price/rate list to verify price/rate or contract to verify approved price/rate and/or product or service specifications, as applicable. County Finance should perform sample, surprise audits of the Departments to verify that the Departments are performing the three-way-match (or spot audits) and retaining the documentation. <p>This will reduce the risk of receiving goods/services, not ordered, paying for goods not received and / or paying the incorrect price / rate for goods delivered / services rendered.</p>	<p>Response:</p> <ol style="list-style-type: none"> County Finance will work with Purchasing Services and County Management to develop training and direction to County departments on the three-way-match requirement. County Finance will perform sample surprise audits of department to verify departments are performing the three-way match. Documentation on the surprise audits will be retained. <p>Responsible party:</p> <ol style="list-style-type: none"> Kathleen Prothman, Assistant Finance Director and Leslie Rothering, Purchasing Manager Kathleen Prothman, Assistant Finance Director <p>Estimated completion date: November 30, 2016</p> <p>Next testing date: March 31, 2017</p>
Fire Rescue (4):									
<ul style="list-style-type: none"> Item purchased not included in contract specifications - \$1,298.75 									
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<ul style="list-style-type: none"> Invoice included part not in approved price list - \$30.24 									
Natural Resources (1) – Incorrect rate for Sr. Project Engineer – \$5.00 x 1 hr. = \$5.00).									

Accounts Payable Cycle Audit

Internal Audit Report

Issues Matrix

Rating	Issues	Recommendation	Management Response
Moderate	<p>2. Invoice Processing – Three-way-match - continued</p> <p>The respective Departments rely on their respective cost centers/field offices/branches to perform this matching function in approving the vendor invoice for payment.</p> <p>The risks associated with this include: Goods purchased / services rendered not properly ordered, paying for goods not received, paying incorrect price/rate for good received / services rendered.</p>		



Issues Matrix - continued

Rating	Issues	Recommendation	Management Response
Moderate	<p>3. Vendor Maintenance (Recurring)</p> <p>We noted that 36 of the 50 vendors tested were created before 9/30/2013. 4 were properly marked for deletion. 9 out of the remaining 32 vendors selected had no activity in the last two fiscal years and the first part of FY2016 (10/1/2013 through 2/29/2016), but were not marked for deletion; therefore these vendors retained their active status. Management indicated that the last activity date by vendor is not an available report function for the County Finance SAP user.</p> <p>Risks associated with vendors with no activity in the last two years include the potential for inadvertent duplicate payments and provides for the potential fraudulent usage as fictitious vendors.</p>	<p>We recommend the following:</p> <p>Since last activity date by vendor is not an available report function for the SAP user, County Finance and Purchasing should work with IT to generate a report that identifies all vendors with no activity in the last two fiscal years for deletion and block payment activity for that vendor. This vendor last activity date report should be made available for County Finance and Purchasing and should be used annually to identify any vendors with no activity in the previous two fiscal years.</p> <p>This mitigates the risk of inadvertent duplicate payments and fraudulent vendors.</p>	<p>Response: Accounts Payable will work with Purchasing and IT to develop a report of vendors with no activity within two fiscal years and will use the report to identify and mark those vendors for deletion.</p> <p>Responsible party: Joyce Adams, Accounts Payable supervisor</p> <p>Estimated completion date: November 30, 2016</p> <p>Next testing date: March 31, 2017</p>

Accounts Payable Cycle Audit

Internal Audit Report

Issues Matrix - continued

Rating	Issues	Recommendation	Management Response
Moderate	<p>4. Duplicate Vendors (Recurring)</p> <p>Potential duplicate vendors are tested on a County-wide basis since vendor set-up and maintenance is centralized. We obtained a list of all vendors, (excluding the Clerk's vendors) and performed various data sorts to identify duplicate vendors. For total active vendors (excluding Clerk's vendors) of 20,360, we noted the following:</p> <ul style="list-style-type: none"> • Same Name, Different Address(es): 1,064 (709 coded "Alternate Payee") • Same Tax Codes: 1,115 (918 coded "Alternate Payee") • Same Name and Address: 86 <p>We performed additional procedures for these duplicate vendors on a test basis obtaining explanations from management and reviewing relevant support noting there did not appear to be any duplicate payments or fictitious vendors associated with the duplicates reviewed.</p> <p>Alternate Payee – County Finance creates a new vendor number when the remittance address is different from the entity's physical address utilized for initial vendor set-up. However, whether coded as alternate payee or not, the risks associated with duplicate vendors include:</p> <ul style="list-style-type: none"> • Duplicate payments to the same vendor for the same invoice. • Inefficiencies and potential inaccuracies in the vendor statement account reconciliation since there can be vendor invoices linked to different vendor numbers and purchase orders (purchase orders are linked to vendor number). • Generating more than one 1099 per Vendor since 1099's are automatically generated by SAP based on individual vendor number. 	<p>We recommend the following:</p> <ol style="list-style-type: none"> 1) County Management should work with Purchasing and IT to identify and remove all non-alternate payee duplicate vendors. 2) For duplicate vendors created as alternate payees, County Management indicated that the functionality of SAP does not allow the creation of additional addresses for remittance purposes under the same vendor number. As a mitigating control, County Management should work with Purchasing and IT to develop a method to block payments from being posted to the alternate payee vendor numbers that are created for remittance purposes only. <p>This will help mitigate the risk of duplicate payments, inefficiencies in the vendor statement reconciliation process, 1099 preparation and the creation of fictitious vendors.</p>	<p>Response:</p> <ol style="list-style-type: none"> 1) Accounts Payable will work with Purchasing and IT to identify and remove non-alternate payee duplicate vendors. 2) Accounts Payable staff is in the process of testing blocking posting for the alternate payee vendors. New alternate payee vendors are being blocked for posting. If there are no issues with the test vendors, then we will proceed with blocking all alternate payee vendors. <p>Responsible party:</p> <ol style="list-style-type: none"> 1) Joyce Adams, Accounts Payable Supervisor 2) Joyce Adams, Accounts Payable Supervisor <p>Estimated completion date:</p> <ol style="list-style-type: none"> 1) November 30, 2016 2) July 31, 2016 <p>Next testing date: March 31, 2017</p>

Issues Matrix - continued

Rating	Issues	Recommendation	Management Response
<p>Low</p>	<p>5. Invoice Processing - Date of Service We selected a sample of 50 vendor invoices from the period March 1, 2015 through February 29, 2016 - ten each from the five selected Departments (Fire Rescue, Library Services, Natural Resources Solid Waste Management and Utility Services). In terms of the County Finance's and Departments' level of review and approval of vendor invoices tested per the applicable Administrative Order requirements (e.g. AO-33 Payment of Invoice); we noted 1 (Fire Rescue) out 50 invoices tested did not indicate the date the services were performed. Lack of dates of service may inhibit verification of services performed and the ability to resolve any vendor disputes.</p>	<p>We recommend that County and Department Management obtain the date of service in compliance with the requirements of AO-33. This facilitates the ability to verify that services were performed and helps resolve any disputes regarding performance.</p>	<p>Response: Accounts Payable will remind departments of the requirement that vendor's invoices include the date of service and will perform periodic checks to verify compliance. Responsible party: Joyce Adams, Accounts Payable supervisor Estimated completion date: November 30, 2016 Next testing date: March 31, 2017</p>



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RIGGS &
INGRAM
CPAs and Advisors



**Internal Audit Committee of
Brevard County, Florida**

**Internal Audit of
iMaint Work Order System
for Road and Bridge Fleet Services**

**Prepared By:
Internal Auditors
June 10, 2016**

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June 10, 2016

The Audit Committee of
Brevard County, Florida
2700 Judge Fran Jamieson Way
Viera, Florida 32940-6699

RSM US LLP

7351 Office Park Place
Melbourne, Florida 32940-8229
O 321-751-6200 F 321-751-1385
www.rsmus.com

Pursuant to the approved 2015/2016 internal audit plan, we hereby submit our internal audit report of the iMaint Work Order System for Road and Bridge Fleet Services. We will be presenting this report to the Audit Committee at the next scheduled meeting on June 22, 2016.

Our report is organized in the following sections:

Executive Summary	This section provides a high-level summary of the results of our audit.
Background	This section provides an overview of the iMaint Work Order System for Road and Bridge Fleet Services and the related processes.
Objectives and Approach	The objectives and focus are expanded upon in this section as well as a review of our approach.
Observations Matrix	This section presents the results of our audit procedures, including our findings and recommendations.
Process Maps	This section contains process maps of the current and future state of the work order process

We would like to thank all those involved in assisting the Internal Auditors in connection with the internal audit of the iMaint Work Order System for Road and Bridge Fleet Services.

Respectfully Submitted,

RSM US LLP

INTERNAL AUDITORS

Executive Summary

Executive Summary

Overview

The Public Works Department is composed of several programs including Administration / Finance, Road and Bridge Maintenance (RBM), Engineering, Traffic Operations, and Survey & Mapping. Our internal audit was conducted within the RBM's Fleet Services Division, and focused on the Division's use of *iMaint* work order software, and processes related thereto.

Due to the unique composition of the Road and Bridge Maintenance Program's fleet of equipment, RBM maintains a Fleet Services Division which operates independently of the County's Central Services Fleet. The primary factor in determining which vehicles RBM Fleet Services or Central Fleet will maintain is each vehicle's weight classification. Vehicles with a gross weight of one ton or greater are maintained by RBM Fleet Services, while vehicles that do not meet this weight criteria are maintained by the Central Services – Fleet Services Program. In addition to maintaining vehicles greater than one ton, the Fleet Services Division is also responsible for tracking and maintaining small equipment consumed for fleet maintenance activities such as filters, various fluids, weed wacker lines, car wax, brake cleaner, chemicals, and other miscellaneous items.

Objective

The objectives of this internal audit were as follows:

- *iMaint* Data: To evaluate the design and operational effectiveness of the process and controls currently in place for tracking and logging data / information accumulated throughout the maintenance process. *iMaint* is the software utilized by the County to facilitate this process.
- Labor and "Runner" Productivity: To evaluate the design and operational effectiveness of the process and controls currently in place for transporting parts and materials between locations.
- Asset Management: To evaluate the design and operational effectiveness of the process and controls currently in place for sourcing and inventorying parts and materials.

iMaint

As part of the decentralization of fleet maintenance, *iMaint* was chosen as the work order system, in part, due to the successful implementation of *iMaint* by the County's Solid Waste Management Department. Through our discussions and process walkthroughs with RBM Fleet Services personnel, we noted the implementation of *iMaint* began October 1, 2014 and contained fleet maintenance data for Central Services Fleet and RBM Fleet Services. However, they split into their own databases one year later on October 1, 2015 due to more efficient tracking and reporting as separate groups. The implementation of the RBM database is currently in progress with additional capabilities planned for launch in the future. RBM Fleet Services personnel do not currently have an expected date for full implementation, but believe that implementation of the software, including the modules noted below, will likely extend for an additional year or possibly more. The following capabilities are not currently implemented but will have an impact on efficiency:

- *Automated tracking of preventative maintenance (PM) schedules*: Currently, tracking PM is a manual process as vehicles are tagged with a sticker to show the next time service is needed (based on machine hours). When this process becomes automated, *iMaint* will have the functionality to alert Fleet Services personnel when vehicles require PM service. The implementation of these automated reminders will allow the Division to more reliably track vehicle hours, which will also allow for more timely scheduling of Preventative Maintenance. With more timely completion of PM, the Division believes that the volume of corrective maintenance work orders will decrease in the future.
- *Automated tracking of fuel consumption*: Tracking of fuel consumption by vehicle is currently performed manually via spreadsheet. When the fuel tracking module is fully implemented in *iMaint*, Fleet Services personnel will have access to enhanced real-time fuel data which will allow them to better track costs and review the fuel usage of each vehicle.
- *Mechanic entry of work order data*: Currently, the Operation Support Specialist inputs each work order request and all corresponding materials and notes data into *iMaint*. Eventually, each of the five mechanics in the Fleet Services Division will have the capability to create their own work orders in *iMaint* instead of having to forward their request to the Operation Support Specialist. Fleet Services expects to implement mechanic entry of work order data by October 1, 2016.

Executive Summary - continued

While the current structure and implementation of iMaint has increased the County's ability to access timely and meaningful data, implementation of the capabilities above will allow the Division to be more efficient and more completely capture the full costs of work performed. As such, we recommend the Division continue with its planned rollout of the additional modules and capabilities discussed.

Observations

Below is a summary of the observations we noted during our internal audit. Each observation is assigned a relative risk factor. Relative risk is an evaluation of the severity of the concern and the potential impact on operations. Items rated as "High" risk are considered to be of immediate concern and could cause significant operational issues if not addressed in a timely manner. Items rated as "Moderate" risk may also cause operational issues and do not require immediate attention, but should be addressed as soon as possible. Items rated as "Low" risk could escalate into operational issues, but can be addressed through the normal course of conducting business. Following is a high level summary of the major observations identified during our audit. The details of these observations are included within the *Observations Matrix* section of this report.

Observations	Risk Rating
<p>1. Segregation of Duties</p> <p>From our discussions and observations of roles, responsibilities, and employee access within iMaint, we identified duties that are not appropriately or ideally segregated.</p> <p>Effective segregation of duties helps detect errors in a timely manner, deters improper activity, and improves operational efficiency. Generally, an individual should not have responsibility for more than one of the three transaction components: authorization, custody of assets, and record keeping. In some cases, however, less than ideal segregation of duties may be allowed to exist when either there are effective monitoring procedures in place or the cost of setting up ideal controls exceed the expected benefits.</p> <p>The following areas of conflicting access and lack of segregation were identified:</p> <ol style="list-style-type: none"> 1. Inventory – The Operation Support Specialist, who has custody of the inventory, also has the responsibility and/or access to perform the following: <ol style="list-style-type: none"> a. Physical counts; b. Modify inventory records; and c. Place inventory orders. 2. Work Orders – The Operation Support Specialist has the responsibility and/or access to perform the following: <ol style="list-style-type: none"> a. Create all work orders in iMaint; b. Order all parts; c. Record all parts; and d. Review/approve invoices for the ordered parts. 	<p>High</p>
<p>2. Performance Metrics / Key Performance Indicators</p> <p>Through our discussions, walkthroughs, and observations with Fleet Services personnel, we noted there is currently not a timely, consistent, and documented process for the recurring monitoring of key performance indicators (KPI's) by Division Management.</p> <p>Although we noted that certain information is reported on an ad-hoc basis, standard KPIs for recurring review have not been developed / approved.</p> <p>Consistent, documented, and timely review of KPI's is essential to give management the ability to identify trends, assess performance and progress against goals, and identify areas requiring a more in-depth review.</p>	<p>Moderate</p>

Executive Summary - continued

Observations	Risk Rating
3. Policies and Procedures	
<p>Through discussions and observations with Fleet Services personnel, we noted there are not documented policies and procedures in place regarding the following processes:</p> <ol style="list-style-type: none"> 1. Work Order - Invoice Review – In accordance with Observation #1, there currently does not exist a formally documented process to ensure Equipment Supervisor review of all invoices processed by the Operation Support Specialist. This includes invoices applied directly to work orders, or invoices entered into inventory for consumption. 2. Work Order – Timely Initiation & Closeout - During our procedures, we noted that RBM does not have a formally documented policy in place requiring initiation or closure of a work request within a specified time period. By not providing guidance to process owners regarding timely initiation and closure, RBM increases the risk of delayed or incomplete work requests, or work orders that remain open after work has been completed. 	Moderate
4. Runner's Time Entry	
<p>Through our discussions with Fleet Services personnel, we noted the Runner's time was not being formally tracked via service or administrative work orders.</p> <p>The Runner's main tasks include: delivering parts to other Fleet Services shops, picking up parts and equipment for specific work orders, and entering Mechanic's labor into the work orders on iMaint.</p> <p>Per Fleet Services personnel, the Runner spends 75%-80% of the time on the road. He is used to pick up parts and equipment when these items would be cost prohibitive to ship, or are needed within an expedited timeframe.</p> <p>By not adding the Runner's time to specific work orders, RBM increases the risk of completed work orders which do not accurately convey total cost of the work. In addition, RBM may reduce its ability to monitor and track the Runner's effectiveness and efficiency.</p>	Low

Background

Background

Overview

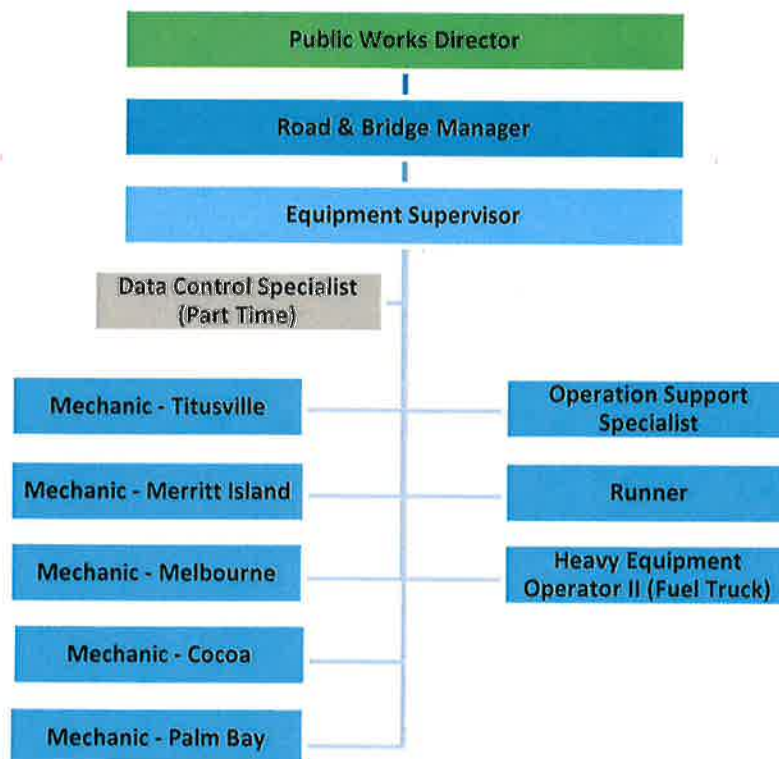
The Road and Bridge Fleet Services Division is responsible for maintaining all one ton or greater fleet vehicles. These vehicles are maintained by five shops located throughout Brevard County, with one located in each of the following areas:

- Titusville
- Merritt Island
- Melbourne
- Cocoa
- Palm Bay

The iMaint work order system was implemented for the –Road and Bridge Fleet Services Division on October 1, 2014. Per Fleet Services personnel, full implementation of all modules will likely extend to another year or more. Approximately 2,000 work orders are completed per year with roughly 50-100 open in iMaint at any given time. From the inception of iMaint through our work order testing date of March 14, 2016 there have been 2,693 completed work orders at a total cost of \$1,129,082.

Organizational Chart

The following is the overview of the Road and Bridge Fleet Services Division. The Road and Bridge Manager services all Divisions within the Road and Bridge Program whereas the Equipment Supervisor specifically manages the day-to-day operations of the Fleet Services Division.



Background - continued

Work Order Types

The three main work order types are Corrective Maintenance, Preventative Maintenance, and Vendor Maintenance which contain 97% of the total cost of work orders completed from October 1, 2014 - March 14, 2016. The remaining 3% are categorized as Non-Maintenance, Store Billing Only, and Window Sheet. The description of these six different type of work orders are as follows:

Corrective Maintenance (CM)

A Corrective Maintenance work order is created due to a failure in equipment and is intended to restore the asset so that it can perform its intended function. An example of this work order is when a vehicle breaks down and parts and/or labor are needed to repair it in order to effectively operate.

Preventative Maintenance (PM)

A Preventative Maintenance work order is created due to regular and routine maintenance on equipment to prevent failure and typically occurs every set numbers of hours or miles. The Preventative maintenance service cycle for the Fleet Services Division is as follows:

- A Service: Change oil / overview of equipment
- B Service: 250 hours later / identical to A Service
- C Service: All filters are checked and repairs occur if needed

After the three service cycle levels are complete the vehicle then moves back to A Service, and the cycle begins again.

Vendor Maintenance (VM)

Vendor Maintenance work orders comprise approximately 5%-6% of all work orders and are created when the Fleet Services Division engages a third party vendor to perform maintenance. This usually occurs when a repair is complex or will take too long of a time period for their own Division personnel to handle.

Non-Maintenance (NM)

A Non-Maintenance work order is a task not related to the equipment. An example of such a work order is shop cleanup or training.

Store Billing Only (SBO)

A Store Billing Only work order is created when materials are ordered, but no labor is associated with the work order. For example, new floor mats may be purchased for a piece of equipment and installed by the equipment operator, rather than a mechanic.

Window Sheet (WS)

A Window Sheet work order is an internal work order created for miscellaneous shop supplies that aren't attached to assets over \$1,000. Example of these items are oil, car wax, or rags.

County-wide Metrics

Work Orders

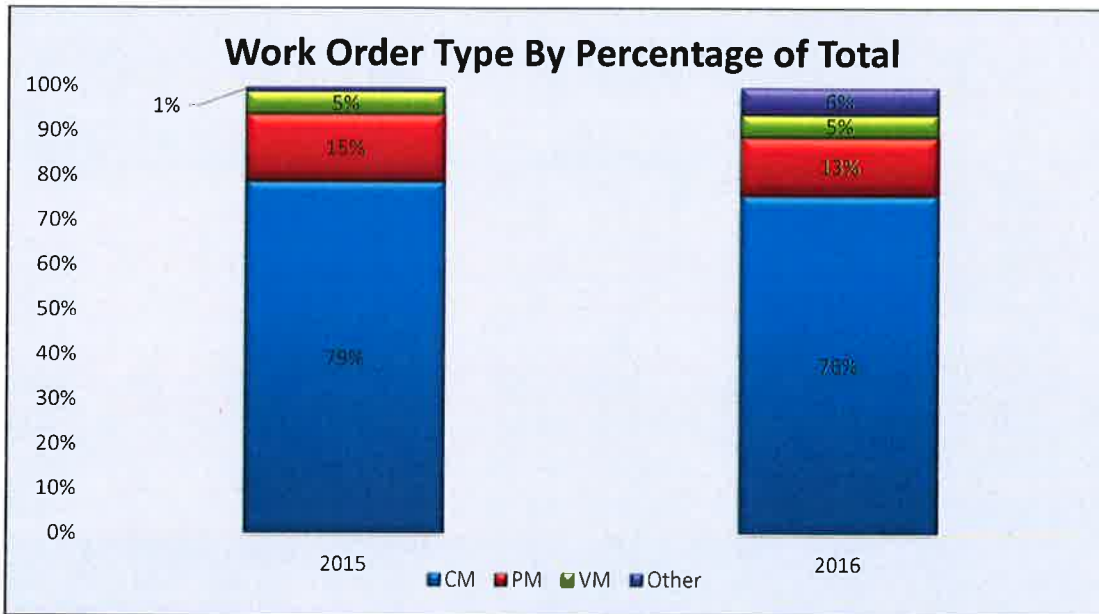
The below chart depicts the amount of completed work order costs from October 1, 2014 – March 14, 2016 and states what work order type the cost falls under. The cost columns are described briefly as follows:

- Labor equals the employee labor rate multiplied by the quantity of hours per employee
- Stock Parts are the total cost of all parts from inventory used on the work order
- Ordered Parts are the total cost of parts ordered, and thus not in inventory, that were used on the work order

Background - continued

Work Order Type	Labor	Stock Parts	Ordered Parts	Total Cost
Corrective Maintenance	198,066	57,926	544,254	800,245
Non-Maintenance	7,890	-	364	8,254
Preventative Maintenance	41,279	32,964	37,837	112,080
Store Billing Only	680	59	19,263	20,002
Vendor Maintenance	11,945	418	168,040	180,403
Window Sheet	264	3,597	4,238	8,098
Total	260,124	94,964	773,996	1,129,082

The following graph depicts the work order costs from iMaint in more detail by showing the percentage of all work orders completed for Fiscal Year 2015 and 2016 by work order type.



Inventory

Total inventory on hand at the Melbourne shop is approximately \$25,000 and comprises the majority of inventory between all five shops, as the other four have minimal supplies on hand. This relatively small inventory is due to the diversity of equipment maintained by Fleet Services. Many parts used in maintenance activities are large, and specific to only a few pieces of equipment. As a result, the Operation Support Specialist orders supplies and parts as needed from vendors.

We received the 2015 annual inventory count sheets for the Titusville and Melbourne shops as these were the only two shops with inventory on hand as of the annual inventory count date of September 25, 2015. Per Fleet Services personnel, the 2016 annual inventory will consist of inventory counts for all five of the Fleet Services shops as the Cocoa, Palm Bay, and Merritt Island shops now have inventory on hand as well.

Per our review of the annual inventory data, the Titusville shop had 278 units at a total cost of \$2,703 for an average unit cost of \$9.72. In contrast, the Melbourne shop had 4,300 units at a total cost of \$25,514 for an average unit cost of \$5.93. The difference is due to the Titusville shop only having oil on hand whereas the Melbourne facility has miscellaneous shop supplies on hand such as filters, hoses, bulbs, oil, paint, tape, and lights.

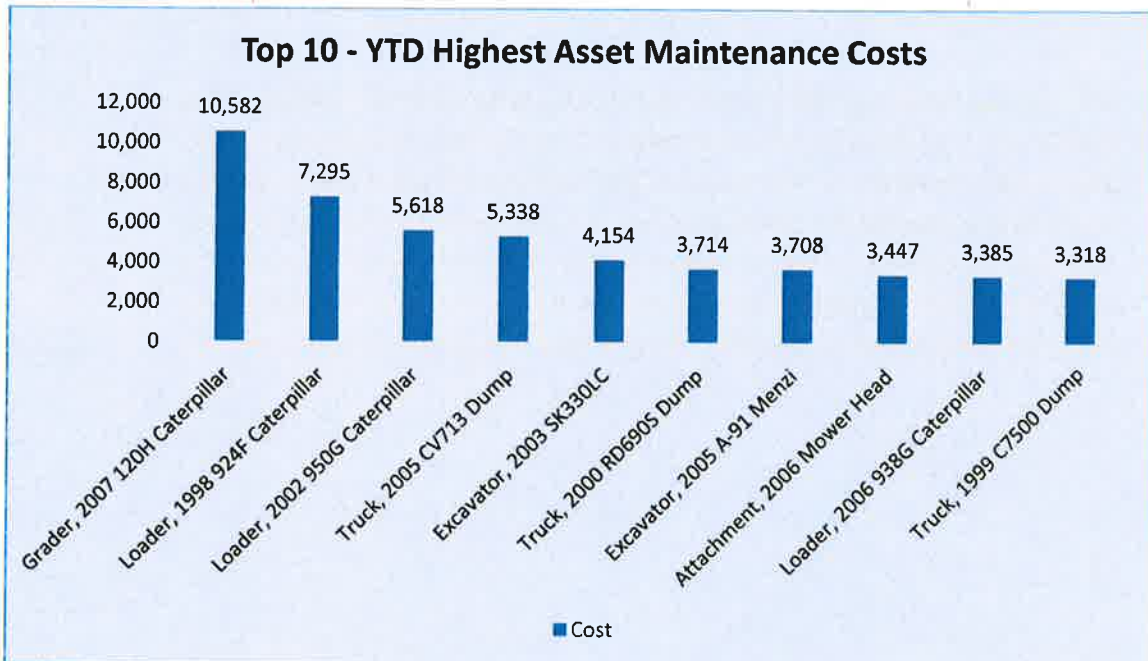
Background - continued

Assets

Through our review of the asset data within iMaint, we noted the average equipment age is 12 years. As of May 20, 2016, there were 866 assets within iMaint at a total purchase cost of \$23,604,049 with a purchased date range from 1981 – 2016. The following chart contains the largest eight asset categories which consist of \$19,652,942, or 83% of the asset total.

Rank	Asset Category	Purchase Cost	% of Total Purchase Cost
1	Truck	7,864,910	33%
2	Excavator	4,557,742	19%
3	Loader	2,157,450	9%
4	Grader	1,626,578	7%
5	Tractor	1,401,471	6%
6	Trailer	1,094,050	5%
7	Pump	512,439	2%
8	Roller	438,302	2%
	Other	3,951,107	17%
	Total	23,604,049	100%

From this above asset total, the graph below encompasses the top ten assets with the current, highest YTD maintenance costs through May 20, 2016.



Objectives and Approach

Objectives and Approach

Objectives

The objectives of this internal audit were as follows:

- iMaint Data: To evaluate the design and operational effectiveness of the process and controls currently in place for tracking and logging data / information accumulated throughout the maintenance process. iMaint is the software utilized by the County to facilitate this process.
- Labor and “Runner” Productivity: To evaluate the design and operational effectiveness of the process and controls currently in place for transporting parts and materials between locations.
- Asset Management: To evaluate the design and operational effectiveness of the process and controls currently in place for sourcing and inventorying parts and materials.

Approach

Our audit approach consisted of three phases:

Obtaining an Understanding and Risk Assessment

The first phase of this project consisted primarily of inquiry, in an effort to obtain an understanding of the key personnel, risks, processes, and controls relevant to the objectives outlined above. The following procedures were completed as a part of this phase:

- Conducted interviews with key personnel to obtain a detailed understanding of the Department's operating policies and procedures, monitoring functions, contractual arrangements and key performance indicators as they relate to the three (3) systems/processes within our scope.
- Obtained relevant system(s) output / management reporting and monitoring data available; reviewed for accuracy and benchmark against industry best practices or comparable, successful client applications.
- Co-developed with management, an Inherent Risk Matrix to specifically identify those risks with the highest likelihood of occurrence and highest potential impact.
- Performed walkthroughs with key process owners to obtain an understanding of the non-automated processes that involve each system and to identify relevant controls within each process.

Evaluation of the Design of Process and Controls

The process and control evaluation phase of this project consisted of an evaluation of the design and limited testing of select transactions identified within the Program's processes as identified in the previous Phase. The following procedures were conducted as a part of this phase of our review:

- We evaluated the design of the key processes and controls identified in the previous phase through industry benchmarking, best practices and comparable client experience.
 - To facilitate this evaluation, we performed limited sample testing of source documents identified in the respective processes.
- We reviewed processes to identify areas where instances of non-compliance with existing County policies and procedures could occur. The limited sample testing noted above facilitated this review and any instances of non-compliance are reported herein.
- We developed recommendations for process and control modification / addition / deletion for design gaps and non-compliance issues identified.
- We developed recommendations for process and control modification / addition / deletion for best practice and process improvements identified throughout our procedures.

Reporting

We summarized the findings of our assessment into one report. We discussed the draft of our results with Department management and process owners to ensure accuracy of the details included herein. Upon completion of the management and process owner vetting process, we issued a final report.

Observations Matrix

Observations Matrix

Risk	Observation	Recommended Action	Management's Response
<p>High</p>	<p>1. Segregation of Duties</p> <p>From our discussions and observations of roles, responsibilities, and employee access within iMaint, we identified duties that are not appropriately or ideally segregated.</p> <p>Effective segregation of duties helps detect errors in a timely manner, deters improper activity, and improves operational efficiency. Generally, an individual should not have responsibility for more than one of the three transaction components: authorization, custody of assets, and record keeping. In some cases, however, less than ideal segregation of duties may be allowed to exist when either there are effective monitoring procedures in place or the cost of setting up ideal controls exceed the expected benefits.</p> <p>The following areas of conflicting access and lack of segregation were identified:</p> <ol style="list-style-type: none"> 1. Inventory – The Operation Support Specialist, who has custody of the inventory, also has the responsibility and/or access to perform the following: <ol style="list-style-type: none"> a. Physical counts; b. Modify inventory records; and c. Place inventory orders. 2. Work Orders – The Operation Support Specialist has the responsibility and/or access to perform the following: <ol style="list-style-type: none"> a. Create work orders in iMaint; b. Order parts; c. Record parts; and d. Review/approve invoices for the ordered parts. 	<p>In reviewing the assigned roles, responsibilities, and system access of Fleet Services personnel, we recommend Management consider modifying its current structure to address the following:</p> <ol style="list-style-type: none"> 1. An employee who has access to the physical inventory should not be performing inventory counts. In addition, this employee should not be responsible for modifying the records or placing the inventory orders. If the modifying records function cannot be appropriately segregated, a documented review of changes to the records should be performed by someone independent of the inventory process. 2. An employee who has access to the recording of work order data should not be purchasing the parts or authorizing and reviewing the invoices for these purchases. 	<p>Response: We concur with the recommended action(s) and are currently working on a reorganization of duties within our Heavy Equipment Fleet Division to reduce inventory and work order management risks. The action will include a short-term plan whereby manual controls are implemented and a long-term plan that includes iMaint software controls.</p> <ol style="list-style-type: none"> 1. In the short-term, manual controls on the inventory will be implemented to ensure the Operations Support Specialist is responsible for only one of the three transaction components. <p>Estimated Completion Date: Q4 FY 2015-2016 (September 30)</p> <ol style="list-style-type: none"> 2. In the short-term, manual controls will be set and a process developed that segregates the work order responsibilities of the Operation Support Specialist. <p>Estimated Completion Date: Q2 FY 2016-2017</p> <p>Responsible Party: Susan Jackson, RB Program Manager</p> <p>Estimated Long-Term Completion Date: Q1 FY 2017-2018 (December)</p>

Observations Matrix - continued

Risk	Observation	Recommended Action	Management's Response
<p>Moderate</p>	<p>2. Performance Metrics / Key Performance Indicators</p> <p>Through our discussions, walkthroughs, and observations with Fleet Services personnel, we noted there is currently not a timely, consistent, and documented process for the recurring monitoring of key performance indicators (KPI's) by Division Management.</p> <p>Although we noted that certain information is reported on an ad-hoc basis, standard KPIs for recurring review have not been developed / approved.</p> <p>Consistent, documented, and timely review of KPI's is essential to give management the ability to identify trends, assess performance and progress against goals, and identify areas requiring a more in-depth review.</p>	<p>We recommend the Division develop a formal, recurring process for management level review of Key Performance Indicators. These KPI's should be selected with the objectives of monitoring trends, assessing performance, and identifying areas of concern, etc. The selected metrics and evidence of management's review should be documented in a recurring (ex. monthly, quarterly) report for ease of review.</p>	<p>Response: We concur with the recommended action. Prior to the launch of iMaint, specific KPI's were selected by the Director, RB Manager and Equipment Supervisor in order for the Data Control Specialist to establish protocols for data collection and report queries in iMaint. This process is still on-going as we continue to launch additional modules and tools. The iMaint system implementation should be complete in about a year. The data collection required to support performance measures and KPI's will be fully realized a year after implementation. To further that effort, the RB Program Manager will work with H.E.Fleet staff to institutionalize critical performance metrics/KPIs and develop a formal and recurring process for management level review.</p> <p>Responsible Party: Susan Jackson, RB Program Manager</p> <p>Estimated Completion Date: Q3 FY 2016-2017</p>

Observations Matrix - continued

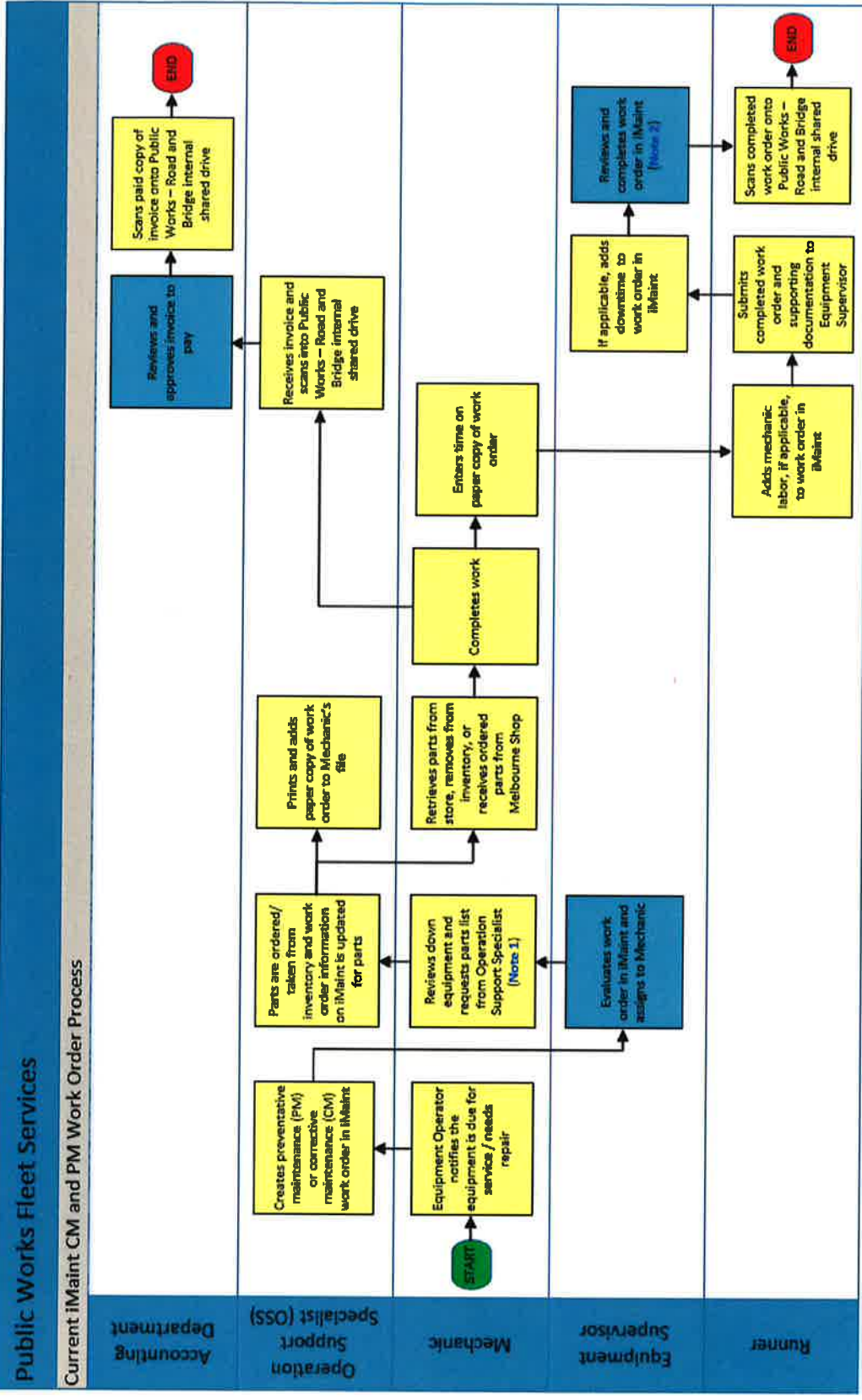
Risk	Observation	Recommended Action	Management's Response
<p>Moderate</p>	<p>3. Policies and Procedures</p> <p>Through discussions and observations with Fleet Services personnel, we noted there are not documented policies and procedures in place regarding the following processes:</p> <ol style="list-style-type: none"> Work Order - Invoice Review – In accordance with Observation #1, there currently does not exist a formally documented process to ensure Equipment Supervisor review of all invoices processed by the Operation Support Specialist. This includes invoices applied directly to work orders, or invoices entered into inventory for consumption. Work Order – Timely Initiation & Closeout - During our procedures, we noted that RBM does not have a formally documented policy in place requiring initiation or closure of a work request within a specified time period. By not providing guidance to process owners regarding timely initiation and closure, RBM increases the risk of delayed or incomplete work requests, or work orders that remain open after work has been completed. 	<p>We recommend Management consider developing policies and procedures which include:</p> <ol style="list-style-type: none"> A monthly reconciliation between invoices paid and parts added to work orders + inventory additions. As all invoices paid during the month should either be applied to specific work orders, or to the stocked inventory, a reconciliation will identify discrepancies between payments and applications. Further, this will help ensure that the Equipment Supervisor reviews all invoices processed by the Operation Support Specialist (either through review of periodic inventory count adjustments or review of attachments to each work order). A formalized process for initiating and closing a work order within a specified time period (also refer to Observation #2). This will help to ensure that all work orders are created, reviewed, and closed within an acceptable time frame, and will also provide comparable data for Management's consideration in ongoing monitoring of KPIs. 	<p>Response: We concur with the recommended action. The RB Program Manager will work with the Equipment Supervisor, Data Control Specialist, and Public Works Finance Manager to create standard operating procedures and Process Maps to address Observation 3, items 1 and 2.</p> <p>Responsible Party: Susan Jackson, RB Program Manager</p> <p>Estimated Completion Date: Q3 FY 2016-2017</p>

Observations Matrix – continued

Risk	Observation	Recommended Action	Management's Response
<p>Low</p>	<p>4. Runner's Time Entry</p> <p>Through our discussions with Fleet Services personnel, we noted the Runner's time was not being formally tracked via service or administrative work orders.</p> <p>The Runner's main tasks include: delivering parts to other Fleet Services shops, picking up parts and equipment for specific work orders, and entering Mechanic's labor into the work orders on iMaint.</p> <p>Per Fleet Services personnel, the Runner spends 75%-80% of the time on the road. He is used to pick up parts and equipment when these items would be cost prohibitive to ship, or are needed within an expedited timeframe.</p> <p>By not adding the Runner's time to specific work orders, RBM increases the risk of completed work orders which do not accurately convey total cost of the work. In addition, RBM may reduce its ability to monitor and track the Runner's effectiveness and efficiency.</p>	<p>We recommend RBM consider requiring the Runner to track his or her time within either a service or administrative work order. Further, and in accordance with Observation #2, we recommend RBM management implement procedures for a regular recurring review of the Runner's time.</p>	<p>Response: We concur with the recommended action and have already implemented recording and tracking the Runner's time through iMaint. The next task will be to build a performance metric and procedures for a regular review of the Runner's time.</p> <p>Responsible Party: Susan Jackson, RB Program Manager</p> <p>Estimated Completion Date: Q4 FY 2015-2016 (September)</p>

Process Maps

Process Maps

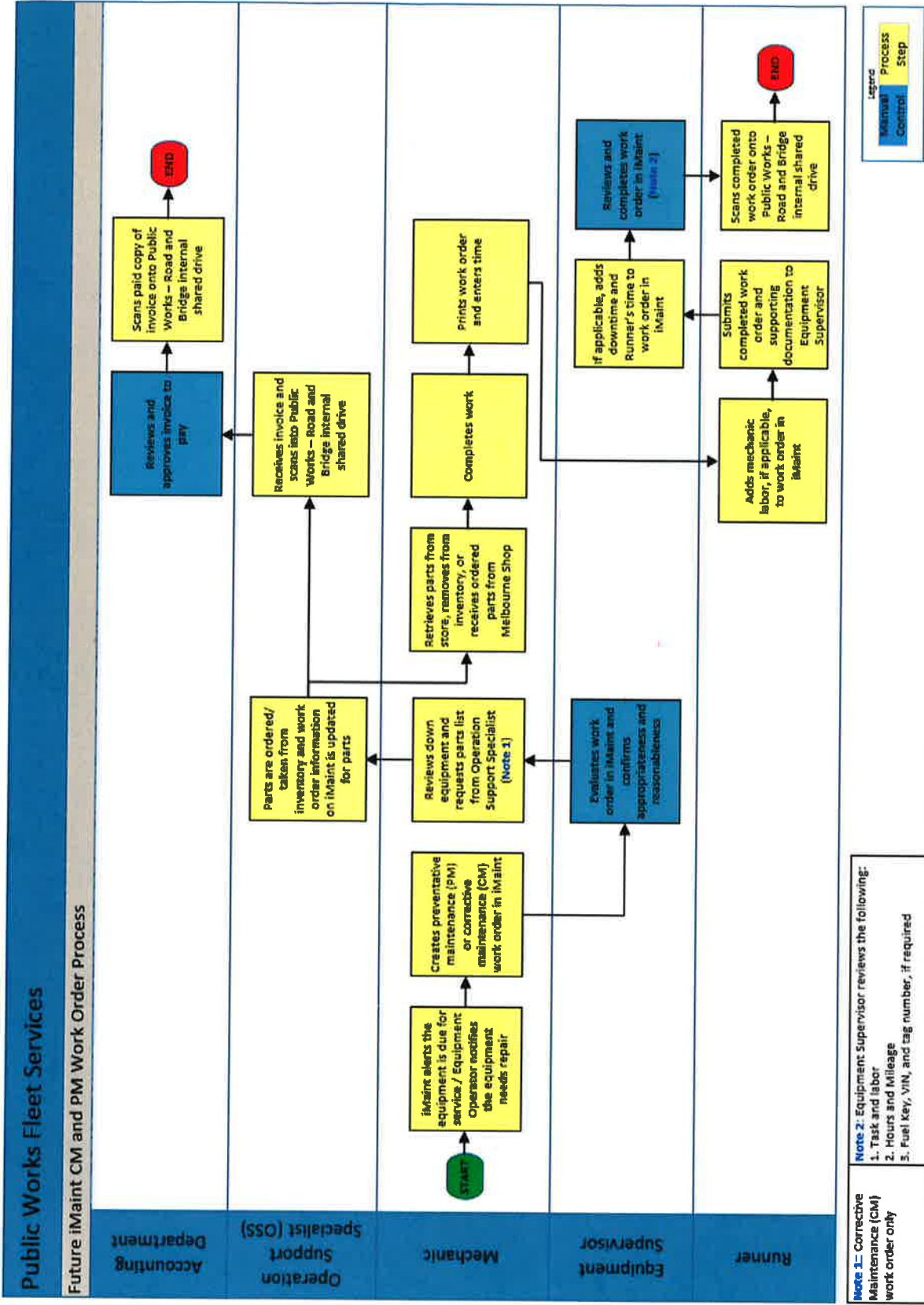


Note 1: Corrective Maintenance (CM) work order only

Note 2: Equipment Supervisor reviews the following:
 1. Task and labor
 2. Hours and Mileage
 3. Fuel Key, VIN, and tag number, if required

Legend:
 Process Step (Yellow)
 Manual Control (Blue)
 End (Red)

Process Maps - continued



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