



CENTRAL FLORIDA EXPRESSWAY AUTHORITY

Purchasing Spend Review

January 2017

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EXECUTIVE SUMMARY



Overview

- In accordance with the FY 2017 Internal Audit Plan, Internal Audit performed an electronic analysis of 46 months of expenditure data to identify potential financial leakage and other anomalies and trends in the data that may indicate opportunities to better control fraud or improve the efficiency and effectiveness of the Procure to Pay process at the Central Florida Expressway Authority (“CFX”)
- A complete electronic data set of vendor, invoice, and payment information from the Eden financial reporting system was obtained and analyzed for the period of January 1, 2013 through October 31, 2016. The electronic data set reviewed include 19,950 payment transactions totaling approximately \$1.16 billion. As detailed in the Appendix, 64 reports were developed and analyzed to complete the review of CFX’s accounts payable data.



Objectives, Scope, and Approach

The key objectives of this review were to:

- Perform a detailed spend risk assessment to identify and quantify opportunities for improving the efficiency and effectiveness of the Procure to Pay process
- Evaluate the design of key activities and controls within the Procure to Pay process specific to risks highlighted by the data analysis
- Consider leading practices to highlight areas of potential improvement for CFX

Internal Audit implemented a four phased approach as described below:



EXECUTIVE SUMMARY



Objectives, Scope, and Approach (continued)

Phase I:

Phase 1 consisted of data extraction for the sample period, loading data into Protiviti's **spendriskassessor** software tool, and validating that the data was properly extracted from CFX's Eden financial system to provide a complete data set.

Interviews were conducted to obtain an understanding of the current state policies and procedures, key risks, and applicable controls. The following areas were reviewed:

- Vendor Master File maintenance
- Invoice receipt and vouchering
- Invoice review and approval
- Disbursements processing

Phase II:

Utilizing Protiviti's **spendriskassessor** tool and payment data provided by CFX, Internal Audit performed analytical procedures to identify potential areas of opportunity. The data analysis included identification and quantification of the following:

- Potential duplicate invoice payments
- Potential duplicate and inactive supplier records
- Missing supplier information (Addresses and Federal Employee Identification Numbers)
- Supplier vs. Prison Address
- Supplier vs. OFAC Name/Address
- Employee vs. Prison Address
- Employee vs. Supplier Address
- Duplicate Employees
- Employee Payments after Termination

Phase III:

Internal Audit leveraged existing documentation, the results of the data analytics, and knowledge of leading practices to identify opportunities and to develop recommendations for improving the efficiency and effectiveness of the Procure to Pay process for management's consideration.

EXECUTIVE SUMMARY



Objectives, Scope, and Approach (continued)

Phase IV:

Internal Audit prepared a final report to include:

- Executive summary outlining the audit objectives, approach and results
- The detailed audit findings and observations for consideration by management
- Results of the analytical procedures performed and suggestions for follow-up
- Agreed upon management action plans

EXECUTIVE SUMMARY



Summary of Results

An electronic data set of 19,950 payment transactions totaling approximately \$1.16 billion for the period January 1, 2013 - October 31, 2016 was analyzed. Protiviti's spend data analysis tool identified five areas with anomalies. After further investigation and root cause analysis, only two opportunities to enhance the overall procure-to-pay process were identified. See the summary of results below:

| Scope of Activity | Summary of Observations | Observation # |
|---|--|---------------|
| Duplicate Invoices | Two duplicate payments totaling \$2,660 were identified out of 19,950 transactions analyzed during this audit. Each occurred during FY2015 and accounted for less than .00023% of total expenditures tested. The duplicate payments had been applied to subsequent invoices, therefore CFX did not experience any true leakage related to these payments. No unused vendor credits were identified during this review. | N/A |
| Vendor Master File Maintenance | Opportunities exist to clean up the vendor master file for (1) inactive vendors not used within the past 18 months, (2) potential duplicate vendors (based on Supplier Name and Address), and (3) incomplete vendor records (missing and/or incomplete address and Federal Tax Identification Numbers). | 1 |
| Open Purchase Orders | Aged open purchase orders (POs) create exposure for circumvention of purchase approvals and an increased risk of duplicating payments to the vendor associated with the open PO. CFX should perform an annual review of aged, open POs to more fully manage those risks. | 2 |
| Invoice Dated Prior to Purchase Order Approval | Of the 19,950 invoices analyzed during this review, 34 invoices were dated prior to the Purchase Order approval. However, none of these 34 invoices were paid until purchase order approval was obtained. | N/A |
| Accuracy of Invoice and Payment Data | Of the 19,950 invoices analyzed during this review, 11 invoices were identified with invoice dates subsequent to the payment date. Upon follow-up, these were attributed to invoice data entry keying errors. Actual payments were not made until after actual invoice dates. | N/A |

DETAILED OBSERVATIONS

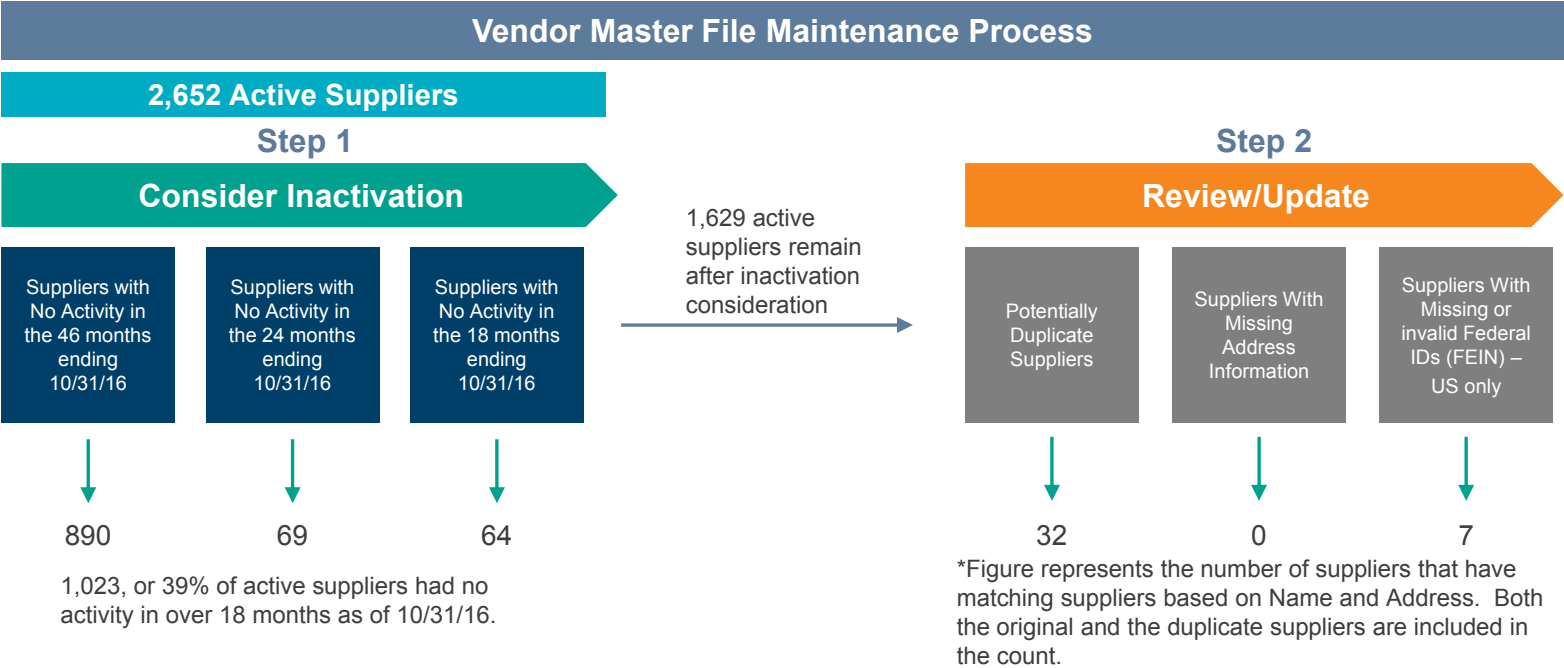
DETAILED OBSERVATIONS

Observation #1: Vendor Master File Maintenance

| No | Observations | Risk/Implication | Recommendation | Management Action Plan |
|----|---|---|--|--|
| 1. | <p>Specific Vendor Master File maintenance—and forensic review follow-up opportunities identified by the audit included the following:</p> <p>As of October 31, 2016:</p> <ul style="list-style-type: none"> A. The VMF contains 1,023 active supplier records (39%) that have not been utilized within the last 18 months. B. The VMF contains 32 potential duplicate active supplier records based on Supplier Name and Address. C. The VMF contains missing and/or incomplete address and Federal Employee Tax Identification Numbers (FEIN) for seven active supplier records <p>Root causes of these findings include the following:</p> <ul style="list-style-type: none"> A. The vendor master file consists of a vendor type identifier; however, that identifier is not consistently utilized, which limits CFX's ability to generate reports to effectively and efficiently analyze vendors to be deactivated or vendors with missing vendor information (e.g. address and FEIN numbers). B. CFX performed a quarterly review of the vendor master file in November 2016, after the date of the data set pulled for audit, to identify vendors to be deactivated. However, the review did not include all vendors types and the report utilized in the review was incomplete. The report parameters did not include vendors that never had payment activity. | <p>The VMF could contain unapproved, dormant, duplicate, incomplete, and/or fraudulent supplier records, increasing the potential of financial leakage (duplicate and erroneous payments, outstanding checks, unapplied credits, etc.).</p> | <p>A well maintained vendor master decreases the risk of financial leakage and potential fraud and can increase processing efficiency. The following processes should be implemented specific to the Vendor Master File:</p> <ol style="list-style-type: none"> 1. To aid in the quarterly review of the vendor master file, CFX should update each vendor's vendor type identifier in the vendor master file to ensure each vendors is assigned a vendor type and the vendor type is used consistently in the vendor master file. 2. During the quarterly review of the vendor master file for vendors with inactivity, CFX should update the parameters of the report it uses to include all vendor types and all vendors with no invoice activity. CFX should deactivate duplicate and inactive vendors identified during the review, as deemed appropriate. 3. To reduce the possibility of having missing or inaccurate vendor information (addresses and FEINs), CFX should implement a preventative control to verify that each vendor name and FEIN agrees to the Form W-9 prior to finalizing the new vendor account set-up in Eden. | <p>Management Action Plan:</p> <ol style="list-style-type: none"> 1. CFX will update each vendor account's vendor type identifier to enable management to perform more efficient reviews of the vendor master file. 2. CFX will update the vendor account search parameters within Eden to ensure all vendors with no activity within the last 12 months are captured in the review. Vendors deemed inactive will be deactivated. 3. CFX will implement a procedure to verify the vendor name and FEIN agrees to the Form W-9 prior to finalizing the new vendor account in Eden. However, duplicate vendor accounts that currently have contracts and invoice data associated with each vendor account can not be deactivated until the contracts are complete. <p>Action Plan Owner/Due Date:</p> <p>Lisa Lumbard, Chief Financial Officer</p> <ol style="list-style-type: none"> 1. Vendor type identifier: September 30, 2017 2. Inactive vendor search: July 31, 2017 3. New vendor account verification: Upon the creation of a new vendor |

DETAILED OBSERVATIONS

Observation #1: Vendor Master File Maintenance (continued)



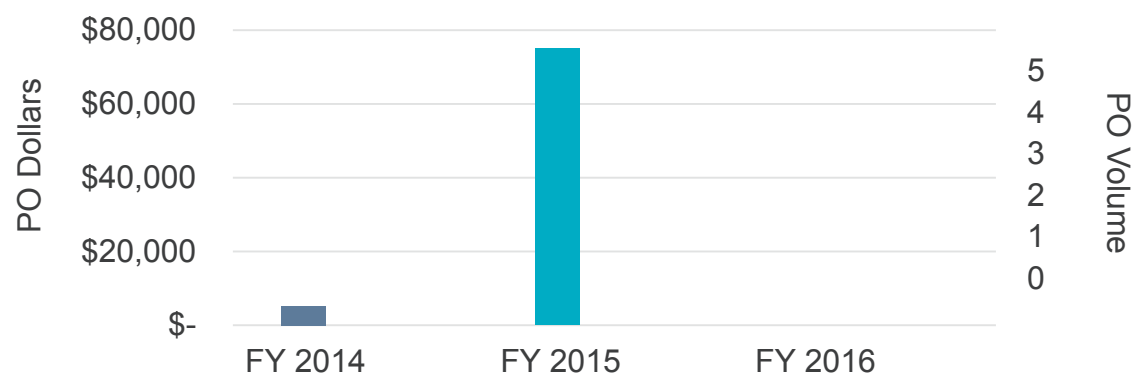
A well-controlled VMF reduces the risk of financial leakage and fraud while increasing processing efficiency.

DETAILED OBSERVATIONS

Observation #2: Open Purchase Orders

| No | Observations | Risk/Implication | Recommendation | Management Action Plan |
|----|--|---|---|--|
| 1. | Of the 564 open purchase orders (POs) within the Eden financial reporting system at the time of audit, six POs totaling approximately \$80,000 were aged over one year, with four of the six not having any invoice payments associated with the PO. | Aged purchase orders increase the risk of duplicating payments to vendors and the possibility of circumventing the PO approval process for products and services. | CFX should perform an annual review of open purchase orders at the end of each fiscal year to determine if open POs should be closed or carried forward into the subsequent year. | <p>Management Action Plan:</p> <p>CFX will perform a review of all open purchase orders at fiscal year-end to identify POs that should be closed or carried forward to the subsequent fiscal year.</p> <p>Action Plan Owner/Due Date:</p> <p>Lisa Lumbard, Chief Financial Officer June 30, 2017</p> |

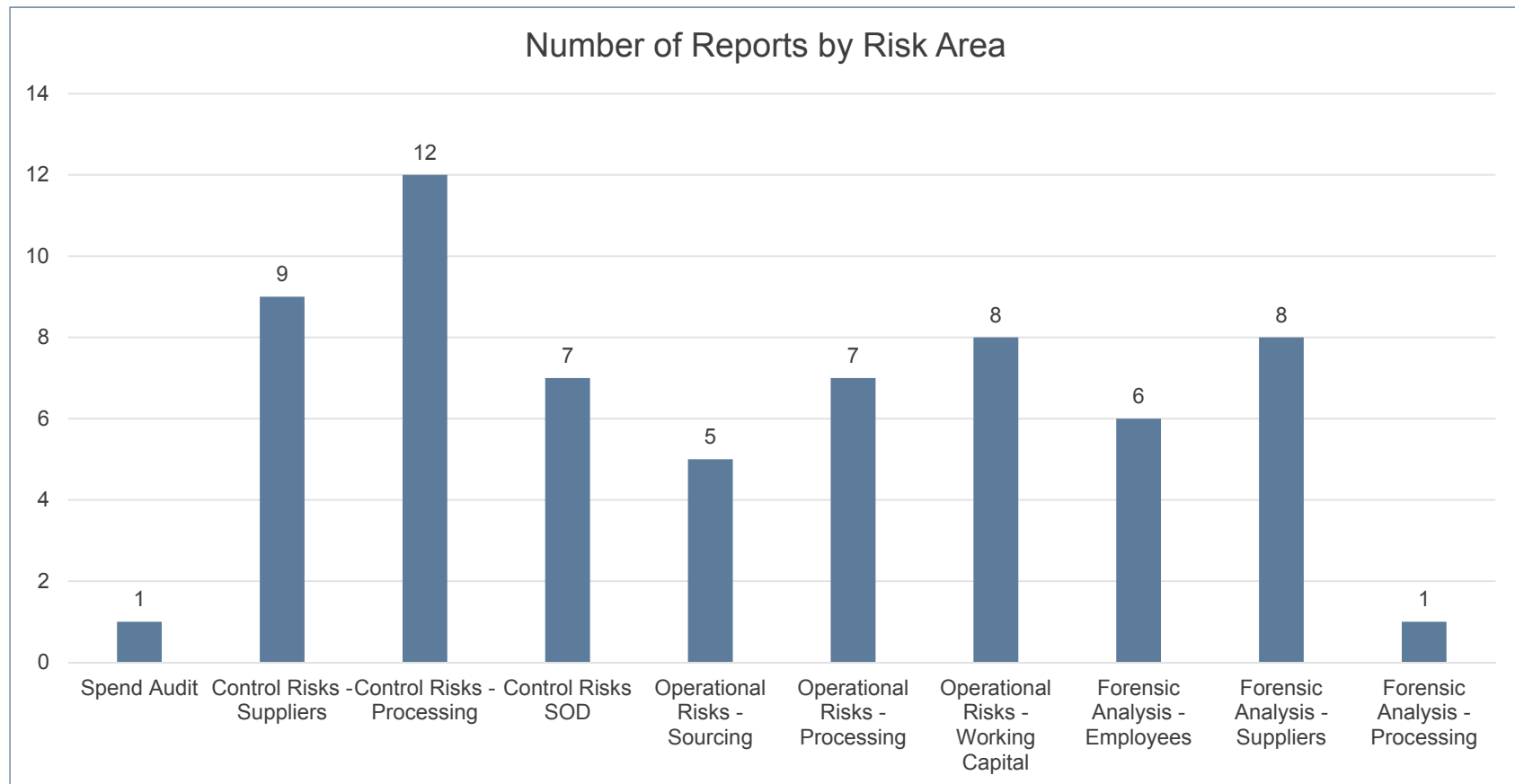
Open POs by Fiscal Year



APPENDIX

APPENDIX 1 – DATA ANALYSES SUMMARY

Below is a summary of the 64 reports developed and analyzed to complete the review of CFX’s accounts payable data to identify opportunities to improve the efficiency and effectiveness of purchase-to-pay process.



APPENDIX 1 – DATA ANALYSES SUMMARY

Data Analyses Tests

| | Test | # of Anomalies |
|-------------------------------------|---|----------------|
| Spend Audit | | |
| 1 | Duplicate Payment Review | 2 |
| Control Risks - Suppliers | | |
| 2 | Supplier Status | - |
| 3 | Active Supplier Utilization | 1023 |
| 4 | Payments to Inactive Vendors & Inactive Vendor Activity | - |
| 5 | Unusual Supplier Names | - |
| 6 | Unusual Supplier Addresses | - |
| 7 | Same Address Different Supplier | - |
| 8 | Missing Supplier FEIN | 7 |
| 9 | Missing Supplier Information | - |
| 10 | Duplicate Suppliers | 32 |
| Control Risks - Processing | | |
| 11 | Benford's Supplier Invoice Analysis | - |
| 12 | Benford's Purchase Order Analysis | 34 |
| 13 | Grief Supplier Analysis | - |
| 14 | Supplier Payments Before Invoice | 11 |
| 15 | Supplier Invoices Before Purchase Order | - |
| 16 | Unusual Supplier Invoice Dates | - |
| 17 | Unusual Supplier Payment Dates | - |
| 18 | Supplier Invoice vs. Purchase Order Amount | - |
| 19 | Supplier Invoice vs. Purchase Order Line Amount | - |
| 20 | Open Supplier Invoice Analysis | - |
| 21 | Open Purchase Order Analysis | 6 |
| 22 | Voucher vs. Invoice Data Comparison | - |
| Control Risks - SOD | | |
| 23 | SOD - Summary | - |
| 24 | SOD - Vendor vs. Invoice | - |
| 25 | SOD - Vendor vs. Payment | - |
| 26 | SOD - Vendor vs. Purchase Order | - |
| 27 | SOD - Vendor Invoice vs. Payment | - |
| 28 | SOD - Purchase Order vs. Payment | - |
| 29 | SOD - Purchase Order vs. Receipt | - |
| Operational Risks - Sourcing | | |
| 30 | Supplier Invoice Dollar Stratification | - |
| 31 | Supplier Invoice Volume Stratification | - |
| 32 | High Volume Supplier Payments | - |
| 33 | Purchase Order vs Non PO Invoice Activity | - |
| 34 | Suppliers with Purchase Order and Non-Purchase Order Activity | - |

| | Test | # of Anomalies |
|--|---|----------------|
| Operational Risks - Processing | | |
| 35 | Supplier Invoice Stratification | - |
| 36 | Supplier Payment Stratification | - |
| 37 | Supplier Invoice Summary | - |
| 38 | Supplier Invoices per Payment | - |
| 39 | Supplier Payment Type Analysis | - |
| 40 | Supplier Payment Status Analysis | - |
| 41 | Multiple Supplier Payments | - |
| Operational Risks - Working Capital | | |
| 42 | Supplier Missed Discount Analysis | - |
| 43 | Supplier Lost Discount Analysis | - |
| 44 | Late Supplier Payments | - |
| 45 | Supplier Invoice Terms Analysis | - |
| 46 | Average Days to Pay | - |
| 47 | Multiple Supplier Terms | - |
| 48 | Early Supplier Payments | - |
| 49 | Early Payments By Supplier | - |
| Forensic Analysis - Employees | | |
| 50 | Employee vs. Prison Address | - |
| 51 | Employee vs. Supplier Address | - |
| 52 | Employee vs. Payee Name | - |
| 53 | Employee vs. Supplier Name | - |
| 54 | Duplicate Employees | - |
| 55 | Employee Payment After Termination | - |
| Forensic Analysis - Suppliers | | |
| 56 | Supplier vs. Prison Address | - |
| 57 | Supplier vs. OFAC Name | - |
| 58 | Supplier vs. OFAC Address | - |
| 59 | Supplier vs. OFAC Name and Address | - |
| 60 | Supplier vs. Payee Name | - |
| 61 | Rising Supplier Invoice | - |
| 62 | Long Lag Supplier Invoices | - |
| 63 | Invalid Supplier FEIN's | - |
| Forensic Analysis - Processing | | |
| 64 | Holiday Supplier Payment Activity by Supplier | - |

Note: All anomalies were subsequently followed up on as part of this audit and either disposed of after further investigation or included as support for an audit recommendation.

Face the Future with Confidence

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