Orange County Property Appraiser Internal Controls Review

Phil Diamond, CPA
County Comptroller
Orange County, Florida

www.occompt.com

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Orange County Comptroller's Office

Mission

The mission of the Orange County Comptroller's Office is to serve the citizens of Orange County and our customers by providing responsive, ethical, effective, and efficient protection and management of public funds, assets, and documents, as specified in the Florida Constitution and Florida Statutes.

Vision

The vision of the Orange County Comptroller's Office is to be recognized as a highly competent, cohesive team leading the quest for continuing excellence in the effective safeguarding and ethical management of public funds, assets, and documents.

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**ORANGE
COUNTY
FLORIDA**

October 1, 2024

Amy Mercado, Orange County Property Appraiser

You requested an evaluation of internal policies, procedures, and related controls to assess efficiencies and ensure adequate controls were in place at the Property Appraiser's Office. In response to that request, we performed a review that was limited to the scope you requested. This review focused on the following processes:

- Procurement
- Payroll Processing
- Human Resource Management
- Budgeting

As the scope of the audit was based on your request and not an independent risk assessment by our office, we classify this review as a non-audit project under Government Auditing Standards. Therefore, it was conducted in accordance with the general and ethics standards.

The results of our non-audit review have been communicated to your office and are included in this report. Our limited procedures did not include testing the operating effectiveness of internal controls. As such, we do not express an opinion nor any form of assurance on the effectiveness of internal controls.

We hope that you have found the results of your requested review useful.

Phil Diamond, CPA
County Comptroller

c: Board of County Commissioners
   Byron Brooks, County Administrator

BACKGROUND

The Orange County Property Appraiser's Office (OCPA) is responsible for identifying, locating, and fairly valuing all real and personal property within Orange County for tax purposes. For fiscal year 2023, the Property Appraiser's budget was $26 million with 166 authorized positions. Specifically, OCPA:

- Tracks ownership changes;
- Maintains parcel boundary maps;
- Updates building and property characteristics;
- Accepts and approves applications for exemptions and other property tax relief; and,
- Analyzes sale price trends, construction costs, and rents to estimate property values.

Orange County Property Appraiser Amy Mercado, requested an evaluation of internal policies, procedures, and related controls to assess efficiencies and ensure adequate controls were in place. After identifying key financial processes, we focused our evaluation on the following areas:

- Procurement
- Human Resource (HR) Management
- Payroll processing
- Budgeting

OCPA uses information systems for various functions, including:

- ADP for payroll and HR management;
- BILL for vendor management and payment processing; and,
- Intacct for financial management and accounting.

Testing Approach

To perform the requested services, we met with OCPA employees to understand and document the processes and current controls in place. We identified risks and related controls significant to each process and assessed whether significant controls were implemented.

Management is responsible for internal controls. Common controls include, but are not limited to:

- Reviews by management
- Physical controls over assets
- Segregation of duties
- Proper execution and authorization of transactions
- Accurate and timely recording of transactions
- Access restrictions to and accountability for resources and records
- Appropriate documentation of transactions and internal controls

The period reviewed for this engagement was October 2021 through September 2022.

Key Processes Reviewed

Procurement

Procurement includes purchasing goods and services. The process involves identifying purchases, approving purchases, receiving goods and services, and processing payments. Large or specialized purchases require bids or requests for proposals. Purchases require varying levels of approval or support. Once approved, payments are made through the OCPA's agency credit card, fuel cards, online bill payment service (BILL), or Automated Clearing House payments (ACH). At month end, Finance reconciles BILL purchases with the general ledger (GL) and bank statement.

Procurement Process

Identify Purchase Needs → Review Purchase Request → Make Purchase → Perform 3-Way Match of Purchase, Invoice & Goods Received → Process Payment → MONTH END PROCEDURES: Agency Credit Card Reconciliation, General Ledger Reconciliation, Bank Reconciliation

Fuel and Credit Card Purchases

The department managers review all fuel purchases monthly on the Fuel Card Report. As part of this review, the manager verifies that the total fuel charges are reasonable. After the Fuel Card Report is reviewed, the report is uploaded to BILL for payment. The Director of Accounting and Finance validates that the reports uploaded to BILL support the total statement amount and the total expense is reasonable before approving the payment.

Monthly, the Accountant reconciles the agency credit card statement with purchase request forms confirming payments are for approved purchases. The reconciliation is reviewed and approved by the Director of Accounting and Finance and the Property Appraiser.

We reviewed a sample of transactions and verified these controls were adequately designed.

Vendor Payments

The Director of Accounting and Finance and the Finance and Payroll Coordinator can print/process check payments in Intacct. Both users also have physical access to blank check stock. Additionally, the Director of Accounting and Finance performs the bank reconciliations, including check payment reviews. This is an inappropriate segregation of duties. Therefore, OCPA should ensure employees with access to check stock cannot also print/process checks or perform bank reconciliations.

We also noted that there is no current process to confirm that vendors and vendor information added to BILL is accurate before processing payments. After a new vendor is added or vendor information is changed, vendor information should be reviewed prior to processing payments. Vendor maintenance should be performed by someone who cannot also process vendor payments. This would help ensure an adequate segregation of duties is in place.

GL Reconciliation

Monthly, the Accountant prepares and the Director of Accounting and Finance reviews the GL reconciliation. The GL reconciliation matches the accounts payable and cash disbursement entries to the related payments processed through BILL. This ensures that all accounts payable entries are appropriately cleared from the GL account.

As part of this engagement, we reviewed the February 2022 reconciliation support. We identified accounts payable entries not processed through BILL, such as reimbursements for travel and payroll-related expenses, which were not reconciled. Specifically, $95,000 of transactions were not reconciled in February 2022. Unreconciled balances could result in incorrect or

$95K
Accounts payable credit balance not reconciled in February 2022

unauthorized purchases. This issue is compounded by inappropriate access to check stock and the security currently assigned in the ADP and BILL systems. These issues increase the risk of processing unauthorized transactions.

BILL System Access Controls

According to the Government Accountability Office (GAO) Standards for Internal Control in the Federal Government, "management [should] designs control activities to limit user access to information technology through authorization control activities such as providing a unique user identification or token to authorized users. These control activities may restrict authorized users to the applications or functions commensurate with their assigned responsibilities, supporting an appropriate segregation of duties."

The GAO Internal Control Management and Evaluation Tool describes various access and system software controls, such as establishing physical and logical controls. These controls should be established to prevent or detect unauthorized access, limit access to system software based on users' job responsibilities, divide or segregate access to enforce segregation of duties, and monitor information systems access.

Segregation of Duties
Authorization
Record Keeping
Custody of Assets
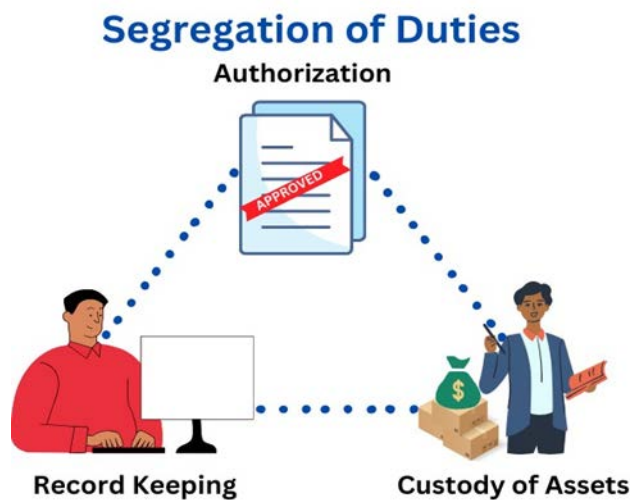
There are three security roles assigned in BILL:
- Approver — Only approve invoices for payment or vendor credits. Approvers cannot process payments or create purchase orders/invoices. Eleven users are assigned the approver role.
- Administrator — All permissions in BILL, including managing user roles/permissions, creating/modifying vendor information and purchase orders, creating/approving invoices, and processing payments, including unapproved invoices.
- Finance Coordinator — same permissions as the administrator role noted above except paying unapproved invoices.

The Director of Accounting and Finance is assigned the administrator role. This same user is also responsible for performing the monthly bank reconciliation and reviewing the monthly GL reconciliation. With the permissions mentioned above, the Director of Accounting and Finance can perform all aspects of the procurement

process. Thus, there is no segregation of duties. OCPA should consider removing the Director of Accounting and Finance from the administrator role and assigning this role to a user who is not responsible for the procurement process — such as someone in the Information Technology (IT) department.

The finance coordinator role is assigned to the Accountant and the Finance and Payroll Coordinator. At the time of our review, the Accountant performed the GL reconciliations, which were subsequently shifted to the Finance and Payroll Coordinator. With these permissions, the Finance and Payroll Coordinator and the Accountant can perform all aspects of the procurement process. Therefore, this results in no segregation of duties.

BILL Permissions for OCPA Employees

	Edit Vendor Info	Create/ Modify Purchase Orders	Invoice Processing		Payment Processing		Modify of GL Account Mapping	Bank Account/GL Recs	
			Create	Auth	Auth	Unauth		Prep	Auth
Director of Accounting and Finance	✓	✓	✓	✓	✓	✓	✓	✓	✓
Finance and Payroll Coordinator	✓	✓	✓	✓	✓		✓	✓	
Accountant	✓	✓	✓	✓	✓		✓	✓	
Approvers				✓					

According to BILL user roles and permissions, the Finance and Payroll Coordinator and the Accountant could assign themselves as invoice approvers. While manual approvals are currently in place with purchase forms requiring review and approval, this would not prevent a payment from being processed electronically. The BILL system should be used to implement automated controls in addition to the existing manual controls.

The lack of segregation of duties combined with the ability to override system approval allows all three finance employees to create, authorize, and process vendor changes, invoices, and payments. OCPA should consider reviewing all roles/permissions granted in BILL and re-assigning permissions to ensure the following procurement processes are appropriately segregated:
- Vendor maintenance from processing purchase requisitions, invoices, and payments;

- Purchasing from requisition and receiving;
- Invoice processing from accounts payable;
- Disbursement from accounts payable; and
- Accounts payable from the general ledger.

Additionally, if appropriate segregation of duties cannot be obtained due to the organization's small size, system required dual approval controls should be considered. The end user should not be allowed to override these controls.

Appropriate Documentation of Transactions and Required Approvals

During our engagement, OCPA was updating its written policies and procedures. We identified instances where the procedures were not reflected or conflicted with the written policies. The OCPA should ensure that written policies and procedures reflect the current processes in place. This will ensure that required processes are consistently followed.

OCPA should consider defining and documenting purchase thresholds, including required approvals. We noted that all purchases are approved by the Property Appraiser, regardless of purchase amount. These purchases included:
- Fuel card purchases
- Travel and training reimbursements
- Bids
- Requests for proposals
- Other purchases, including emergency/one-time purchases

The Property Appraiser also approves:
- OCPA's Annual budget;
- Budget amendments and transfers;
- All payroll entries — which are also reviewed and approved by the Director of Accounting and Finance;
- Bank Reconciliations; and,
- Agency credit card reconciliations — which are also reviewed and approved by the Director of Accounting and Finance.
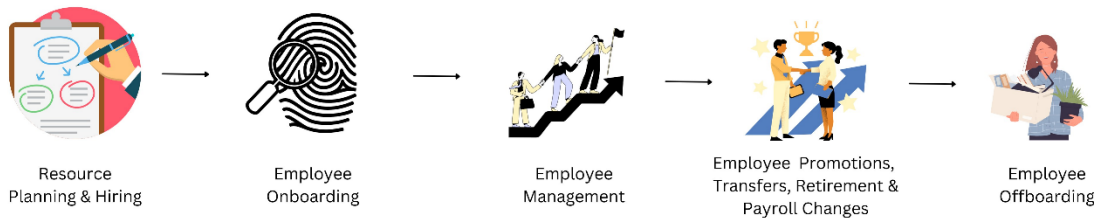
OCPA should consider whether required approvals should be adjusted based on transaction type, complexity, or dollar threshold to ensure transactions are both appropriately authorized and efficiently processed.

Human Resource Management

HR management performs the recruiting, hiring, new hire onboarding, employee retention, and employee termination. It also updates compensation rates through the employee master file. The employee master file includes each employee's electronic data file in ADP. It includes pay rates, positions, direct deposit information, etc. HR management uses ADP for recruiting and workforce management.

Human Resource Management Process

| Resource Planning & Hiring | Employee Onboarding | Employee Management | Employee Promotions, Transfers, Retirement & Payroll Changes | Employee Offboarding |

Salary Ranges and Starting Pay

In 2021, employee salary ranges were rolled forward from the previously elected Property Appraiser. Subsequently, salary ranges were not reviewed between 2021 and 2023. In 2023, the OCPA completed a salary study. OCPA management should periodically review and update salary ranges to help attract and retain qualified employees.

Once a candidate is selected for hire, the HR Specialist drafts an offer letter. OCPA management noted that there is only a verbal approval of the salary in the offer letter. OCPA should consider reviewing and documenting approval of offer letters to ensure the salary agrees to the approved salary range before issuance to any candidate.

Employee Terminations

When employees are terminated — either voluntarily or involuntarily — an Employee Status Change form is available to document information and approval of the employee's termination. Upon receipt of the Employee Status Change form, the HR Specialist:

1) Notifies IT of the termination date to remove employee access to systems;
2) Enters the employee termination date in ADP;
3) Updates employee benefits information; and,
4) Ensures any required property is returned such as building key/cards, ID badges, credit/gas cards, and any equipment.

A termination checklist was created based on the above procedures. However, the checklist was not being used at the time of our review. To test that controls were operating as designed, we selected one employee that was terminated during our review. Although the checklist was not used, we verified each of the four procedures noted above was completed.

We also reviewed a blank termination checklist and noted the following additional items that should be included on the checklist:

- Date the checklist was completed.
- Notifying additional system administrators for removal of access. The checklist includes notifying IT of the termination date. However, IT does not administer access to three additional computer systems.

Payroll Processing

Payroll processing includes employee timesheet preparation, earning and deduction calculations, payroll tax filing, and employee paycheck generation. Finance and HR management administer these payroll functions.

OCPA Payroll Process
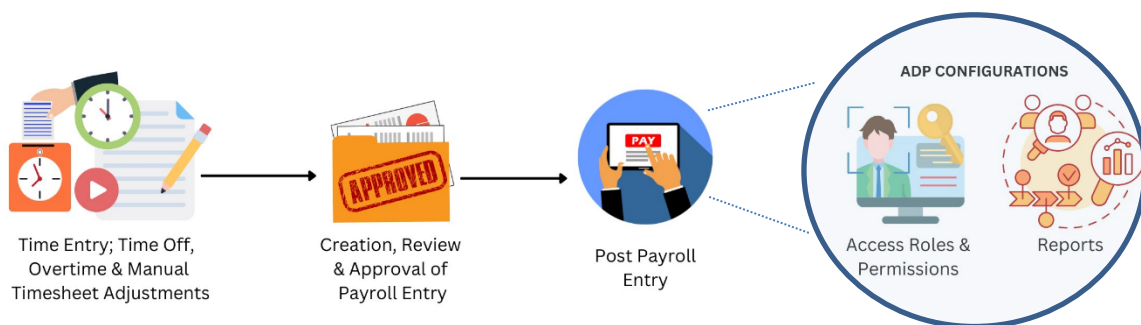
Timesheet Review and Approval

Applicable supervisors review all employee timecards in ADP. The Finance and Payroll Coordinator reviews ADP to ensure supervisors approve all employee timecards before processing payroll. In addition to the manual review, ADP notifies the Finance and Payroll Coordinator if timesheets have errors, including missing supervisor approvals.

The Finance and Payroll Coordinator also reviews the Employee Change Report before processing payroll and validates that all employee changes agree to an approved Employee Status Change form and Payroll Detail Report.

After the timesheets and payroll are processed, the Finance and Payroll Coordinator reviews the Payroll Detail Report — which summarizes all employee earnings — for any anomalies. The Payroll Detail Report is also reviewed and approved by the Director of Accounting and Finance.

We did not identify any issues related to timesheet review and approval.

Incentive Pay

OCPA provides incentive pay to employees who earn certain approved certifications. The policies and procedures manual should be updated because it currently authorizes $1,000 for each earned certification. However, employees are actually paid $1,500 for incentive payments.

Additionally, the current configuration in the ADP software only allows increases by percentage — not dollar amounts. This results in minor rounding errors for incentive payments. OCPA should consult with the software vendor to determine if pay increases can be entered with a fixed amount rather than a percentage. This should be considered when finalizing the policies and procedures manual.

Segregation of Duties Between HR and Payroll Processing:

To maintain adequate segregation of duties, HR employees should not process payroll, and employees processing payroll should not edit HR information. After reviewing the ADP system security configurations, we determined that the following positions had incompatible functions:

ADP Permissions for Select OCPA Employees

User	Edit Employee Master File	Process Payroll		Payroll Recs	
		Prepare	Approve	Prepare	Approve
Director of Accounting and Finance	❌		✅		✅
Finance and Payroll Coordinator	❌	✅		✅	
HR Specialist	✅	❌			
HR Assistant	✅	❌			

✅   Permissions in ADP are adequately assigned per job duties

❌   Permissions in ADP are incompatible with job duties, resulting in a lack of segregation of duties.

All HR changes are entered in ADP without electronic approval. The Finance and Payroll Coordinator generates the Employee Change Report at the end of each pay period as a compensating control. This report is compared to the Employee Status Change form. If a change is made after the Employee Change Report is reviewed, it might not be detected. OCPA should consider electronic approval workflows within ADP to ensure that only authorized employee changes are processed.

Periodic User Access Reviews

We noted that the ADP access listing was not periodically reviewed to verify user role assignments or identify any issues. As stated above, OCPA employees had permissions in ADP incompatible with their job duties, resulting in inadequate segregation of duties.

ADP user access should be limited to users who require access to perform their assigned roles to ensure proper segregation of duties. OCPA should review all current users' roles and responsibilities to ensure access is appropriately limited. The review should be performed periodically to ensure any changes resulting from new hires, employee job responsibilities, or terminations are correctly reflected.

Budget Analysis

Annual budgets, budget amendments and budget transfers must be submitted to and approved by the Florida Department of Revenue. The Director of Accounting and Finance monitors spending against the budget throughout the year as part of the monthly budget to actual review process. The financial tracking system, Intacct, is used to track approved budgets, budget amendments/transfers, and actual expenditures.

Budget Process
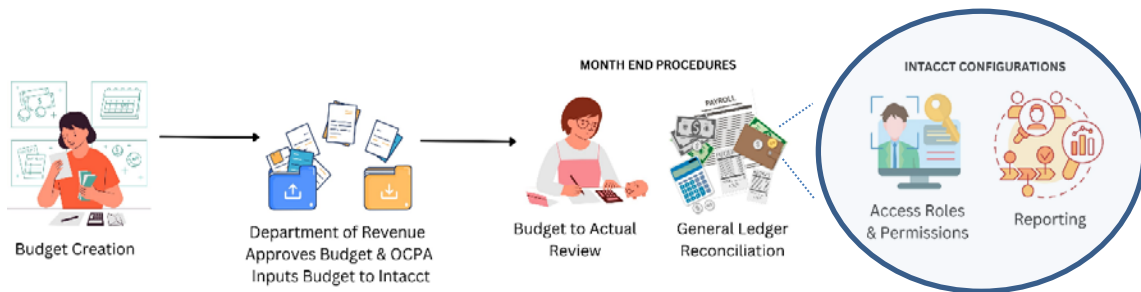
Budget Functions

OCPA management reviews the budget after creation. Once the budget is finalized, the Property Appraiser signs as evidence of approval for submission to the Department of Revenue (DOR).

The current budget amendment process requires each amendment/transfer to be documented on a budget amendment/transfer form. The Property Appraiser then approves that form. Once approved, the budget amendment is entered in Intacct by either the Director of Accounting and Finance or the Accountant. The change is then reviewed by whomever did not enter the change. While budget changes are documented, reviewed, and approved manually using a budget revision form, this does not prevent the three users with access to modify budgets from modifying the budget without an approved form.

Current Budget Amendment Process

Intacct does not record user data for budgetary changes. Without this information, OCPA is unable to determine who enters budget amendments. There is no electronic monitoring control of all changes made to budget. Additionally, Intacct does not require any authorization of a budget amendment prior to processing. OCPA should work with Intacct to require authorization for budget changes. Budget changes should require approval by a different employee than the employee who entered the amendment. If Intacct security cannot be modified, OCPA should develop system reports showing all budget changes. These change reports should be reviewed periodically to ensure unauthorized changes have not been made.

Management's Response

AMY MERCADO

ORANGE COUNTY PROPERTY APPRAISER

September 9, 2024

Dear Comptroller Diamond,

On behalf of the Orange County Property Appraiser's Office, I want to express my sincere gratitude to you and your team for the thorough review and thoughtful feedback on our requested audit of inherited practices and controls. The insights shared in your Internal Controls Review Report will certainly help us improve the efficiency of our processes moving forward.

Below, I have outlined our responses to each key areas of the report:

Procurement Process

We appreciate your team's thorough analysis of our procurement processes, particularly the points raised regarding vendor payments and the segregation of duties:

- **Vendor Payments:** We acknowledge your feedback on the importance of segregating duties between individuals with access to check stock and those responsible for processing and reviewing payments.

  Bank reconciliations are handled by a senior analyst, reviewed by the director, and signed by the property appraiser. Additionally, invoice payments require two to three levels of approval before being processed, providing multiple layers of segregation. Reconciliations are based on payments made after invoice approvals are completed.

  Access to physical checks is limited and used only in emergency situations. Staff members are not authorized to sign checks. All current vendor payments go through the Bill.com workflow, and Bill.com generates and mails checks to vendors.

- **General Ledger Reconciliation:** By ensuring that all entries, whether payroll-related or reimbursements, are included in the monthly reconciliations, we confirmed that no unauthorized transactions occurred. As discussed during our audit exit meeting, the accountant has been reconciling and balancing the 1040/2450 account lines to verify that postings from BILL were correctly transferring to Intacct.

- **BILL System Access:** Vendors are entered into the system by a team member who is not involved in the invoice payment process. For example, a senior analyst may enter or update vendor information, while an analyst processes payments. Currently, an analyst enters vendor details, and a specialist processes the payments.

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Management's Response

Each role has distinct access levels, ensuring segregation of duties. The BILL system includes an audit trail that cannot be altered or manipulated by any user, regardless of their access level. This audit trail is a built-in feature of the BILL system. Additionally, the process involves separate responsibilities for entering invoices and vendor details, further ensuring segregation of duties.

- **Appropriate Documentation of Transactions and Required Approvals:** We recognize the importance of ensuring that our written policies and procedures accurately reflect our current practices. As we continue updating our policies, we will work to resolve any inconsistencies and ensure alignment with actual procedures.

  We also appreciate your recommendation to define and document purchase thresholds, including required approvals. We will evaluate our current approval structure, considering transaction type, complexity, and dollar amount, to ensure that the necessary approvals are in place while maintaining efficiency in our processes.

Human Resource Management

- **Salary Ranges:** Your observation regarding the need for regular reviews of salary ranges is well-received. We have implemented a formal procedure to review salary ranges periodically to ensure our compensation structure remains competitive.

- **Termination Checklist:** We appreciate your recognition that, although the termination checklist was not utilized at the time of your review, all necessary procedures were completed for the employee termination you tested. We acknowledge the importance of using the checklist to ensure consistency and accountability across all terminations.

  We have standardized the use of a checklist and include the additional items mentioned, such as the date of checklist completion and notification to all system administrators regarding access removal.

Payroll Processing

We appreciate your commendation of our timesheet review and approval process.

We acknowledge the importance of ensuring that HR and payroll functions are segregated. We will explore the implementation of electronic approval workflows within ADP to reduce the risk of unauthorized changes going undetected.

Management's Response

- **ADP System Access Controls:** Your observation regarding ADP user access and the importance of periodic access reviews is noted. We will implement regular reviews of ADP user roles to ensure that permissions are aligned with job responsibilities and that no incompatible duties are assigned.

Budget Analysis

- **Budget Amendment Process:** We appreciate your recommendation to improve tracking and control over budget amendments in Intacct. As Intacct currently lacks user data for budget changes, we now document budget amendments more rigorously and take steps to secure authorization before processing any changes. Screenshots and additional review by the director will serve as a control of this process.

In closing, thank you again for your willingness to review our internal controls and share recommendations. Your insights are invaluable, and we are committed to implementing the changes necessary to strengthen our internal controls. We look forward to continuing to work closely with you and the Board of County Commissioners to ensure OCPA's highest standards of accountability and efficiency.

Kind regards,

Amy Mercado
Amy Mercado (Sep 9, 2024 14:33 EDT)

Amy Mercado
Orange County Property Appraiser