



OFFICE OF INSPECTOR GENERAL PALM BEACH COUNTY

AUDIT REPORT: 2012-A-0001

Sheryl G. Steckler
Inspector General

"Enhancing Public Trust in Government"

SUMMARY RESULTS AT A GLANCE

On August 5, 2011 Palm Tran management discovered and reported to our office, an alleged theft of initially three toner cartridges by the Palm Tran Connection (PTC) Senior Secretary. It was further reported by Palm Tran management that the Senior Secretary had been selling items on eBay. The investigative unit of the Office of Inspector General (OIG) coordinated the alleged theft with the Integrity Unit within the State Attorney's office. With the assistance of the Palm Beach County Sheriff's Office, it was determined that the alleged theft consisted of 162 items valued at \$18,934 over a period of three years. To determine whether appropriate controls were in place, the OIG conducted an audit over the purchase of office supplies and equipment at PTC. We identified the following internal control deficiencies which contributed to the alleged theft occurring over a three year period until it was detected:

- (1) *Improper segregation of duties in the purchasing function;*
- (2) *Un-inventoried surplus computer equipment;*
- (3) *Incomplete surveillance camera coverage; and*
- (4) *Building access security controls weakness.*

During the audit, we noted that the Senior Secretary was also the payroll "timekeeper" for PTC. Considering the theft charges against her, we expanded

our scope to review the payroll function at PTC including her activities as payroll timekeeper. Our tests did not identify any evidence of falsification of payroll records. However, we found the following internal control deficiencies for non-exempt employees:

- (1) *Employee timecards and the payroll timesheets were not certified as true and correct;*
- (2) *Four non-exempt employees were not maintaining an approved daily time record;*
- (3) *The timekeeper entered payroll records without approved daily time records or certification; and*
- (4) *A pattern of using vacation leave with overtime inflated overtime costs.*

Our audit also reviewed actions taken by Palm Tran management in response to a FY 2008 County Internal Audit report on purchasing controls. We found that while all corrective actions were implemented at Palm Tran, the County Internal Auditor's recommendation with regard to proper segregation of duties should have been addressed in a more timely manner at PTC.

We have made twelve recommendations to correct the internal control deficiencies identified during this audit. Palm Tran management has already taken a number of actions during the course of this audit to strengthen controls in the wake of the alleged theft.

In a written response, the Palm Tran Executive Director concurred with all of our recommendations. In his response the Executive Director stated that a number of corrective actions were implemented either before the theft was detected or were initiated and completed prior to the completion of our audit. He also stated that he found the Audit to be a very detailed and fair process that would enable Palm Tran to close out the issue

of the theft with a high degree of certainty that there will be no opportunity for repetition of such an occurrence. We concur that the actions taken and those underway and planned will address each of our recommendations and strengthen the control environment at Palm Tran Connection. Management's complete response is included as Appendix 1.

BACKGROUND

Following a criminal investigation by the Palm Beach County Sheriff's Office and subsequent criminal felony charges filed by the Palm Beach County State Attorney's Office in August of 2011, the OIG initiated an audit at Palm Tran Connection. The criminal charges resulted from the alleged theft and sale of Palm Beach County (PBC) property on eBay by a PTC employee. This employee, the PTC Senior Secretary, was charged with Dealing in Stolen Property by Use of the Internet, Grand Theft, Official Misconduct, and an Organized Scheme to Defraud. The PTC Senior Secretary's employment was terminated on August 18, 2011.

OBJECTIVES, SCOPE AND METHODOLOGY

The primary objectives of this audit were to determine the effectiveness of the controls in place and whether or not such controls contributed to the length of time the Senior Secretary was able to commit the alleged theft of PTC property. Areas reviewed in the audit objectives included:

- (1) Non-cash asset misappropriation - supplies and equipment inventory;
- (2) Cash asset misappropriation including payroll;
- (3) Management internal control risk; and
- (4) Follow-up on Palm Beach County Internal Audit Findings/Recommendations.

The scope of the audit included purchasing and inventory controls, physical security, and any other potential areas for fraud where authority may have been assigned to the Senior Secretary. The audit period included Fiscal Year (FY) 2008 through August of FY 2011 for financial records and calendar years 2008 through mid September 2011 for payroll records. The audit began on August 17, 2011 and the field work concluded on December 6, 2011.

This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**FINDINGS
AND
RECOMMENDATIONS****PURCHASING AND INVENTORY CONTROLS**

Since the theft involved purchased office supplies (printer toner cartridges) over a three year period at the PTC office on Military Trail in West Palm Beach, we reviewed all the PTC purchases of printer toner cartridges from FY 2008 through August of FY 2011. The records reviewed were from the Palm Beach County (PBC) ¹Advantage Financial System (Advantage) and the detailed hard copy purchase records on file at PTC.

Finding (1): PURCHASING CONTROLS AT PTC NEED TO BE STRENGTHENED

We found that purchasing duties were not properly segregated during the period from October 1, 2008 through January 1, 2011. We also found that there was both an informal and formal process for the purchase of office supplies at PTC. The informal process involved the Senior Secretary. Her role in the purchasing of office supplies was to:

- (1) Advise the PTC purchasing staff of what supplies were needed;
- (2) Physically receive the order; and
- (3) Advise staff that the order had been delivered and placed in the supply area.

Therefore, while the Senior Secretary did not initiate purchases and validate receipt within Advantage, the official who had those duties relied on her representations. In addition, the Senior Secretary was the custodian for office supplies including the toner inventory on hand.

The formal process involved initiating a purchase order within Advantage and then subsequently validating receipt within the Advantage system. However we found that those two duties were not properly segregated, as one individual in PTC performed both of those functions in Advantage.

Segregation of duties is critical to have effective internal controls over purchasing activities and office supplies inventory; it reduces the risk of both erroneous and inappropriate actions. Accordingly, the duties of staff involved in the purchasing, receiving, and authorizing payment for office supplies, as well as, custodianship of the office supplies inventory, should be segregated to minimize the risks of fraud and/or abuse.

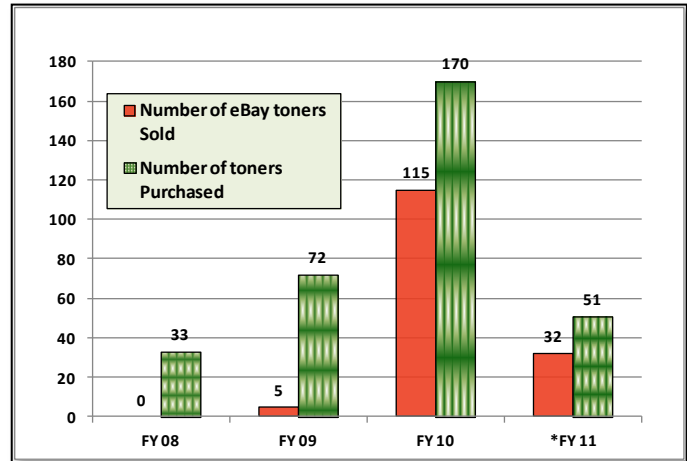
Since toners represented 96% of the value of items sold on eBay by the Senior Secretary, we compared the Advantage System toners purchased at PTC and the employee's eBay sales report for FY08, FY09, FY10 and the first 10 months of FY11.

¹ Palm Beach County utilizes the AMS Advantage 3.8.0.1 Financial Management System for purchase order processing. Palm Tran Connection uses the County Advantage system.

We found a high correlation between the volume of toners purchased by PTC and the alleged theft and subsequent sale of toners on eBay by the Senior Secretary.

The expenditures by fiscal year for toners at PTC were \$2,628 in FY08, \$8,841 in FY09, \$23,052 in FY10, and \$7,941 in the first 10 months of FY11. At the same time the value of the employee's sales on eBay were \$0 in FY08, \$185 in FY09, \$14,335 in FY10, and \$4,414 in FY11.

The number of toner cartridges ordered at PTC for FY08 through FY11 was 33, 72, 170, and 51 respectively. Considering FY08 as a base year that would be most representative of normal toner purchase volume, there was a significantly increasing trend in the number of toners ordered; 210% in FY09, 515% in FY10, and 155% in the first 10 months of FY11. This trend went unnoticed by PTC management.



In October of 2010 Palm Tran Connection changed the custodian for the toner inventory to the IT support staff member assigned to PTC. In January of 2011 Palm Tran changed the security rights and privileges in the Advantage System to separate employees “authorized to approve purchasing documents” from employees “authorized to approve receiving documents.” We have reviewed the security rights and privileges in the Advantage Financial System as of October 17, 2011, and conclude that the formal purchasing and receiving duties are now properly segregated at Palm Tran.

Recommendations:

(1) Management needs to ensure that appropriate segregation of duties are maintained in Advantage and are carried out in practice. The individual with authority to initiate purchases should ensure those purchases are necessary and the individual with authority to certify receipt should verify that goods have been received.

(2) PTC purchasing procedures should include a review of the purchasing trends for consumable supplies.

Management Response

(1) Management concurred with the recommendation to ensure that proper segregation of duties is maintained in the future at PTC. The response stated that proper segregation of duties was accomplished at Palm Tran Connection in early 2011 which resulted in Palm Tran's detection of the thefts.

(2) Management concurred and stated that PTC purchasing procedures will include a review of purchasing trends for consumable supplies.

Finding (2): CONTROL OVER AND RETENTION OF SURPLUS EQUIPMENT SHOULD BE EVALUATED

In checking the items sold by the Senior Secretary on eBay, it was determined that she had not only allegedly stolen “toners”, but also some “spare” computer accessories from the PTC’s surplus property area. Two computer monitors were allegedly stolen, but only one was recovered. The other miscellaneous computer accessories allegedly stolen and sold on eBay were not recovered.

During our walkthrough of the PTC offices we observed a significant number of surplus items that are stored on site as spare parts. The surplus items area is in “Suite I” and consists of open floor space and storage shelves. The area has surveillance camera coverage, but unlocked storage shelves. This is the same area where spare printer toner cartridges are stored. There were approximately 31 computer monitors, 12 printers, 2 fax machines, 2 battery backup units, 9 surge protectors, 10 USB wireless adapters, 12 digital phones, and 50 toner cartridges on hand. These items, parts and toners, were not being maintained on an inventory list.

This open storage area with no inventory control provides an opportunity for lost inventory or theft. We noted that the loss of the un-inventoried parts from the surplus area was not detected until the criminal investigation of the theft of the spare toner cartridges began.



Suite I, Storage Area

Recommendations:

(3) Palm Tran Connection should maintain a documented inventory of spare parts and toner cartridges and those items should be stored in a secure environment.

(4) The inventory should be reviewed periodically to ensure that the minimum number of items needed is maintained and excess items are disposed of in keeping with “best business practices”.

Management Response

(3) Management concurred and stated that Palm Tran Connection has addressed this recommendation. Spare computer equipment has been separated from the small value items like office supply items (toner cartridges as an example), and moved into two different and more secure storage locations. An inventory roster has since been added for the surplus computer equipment.

(4) Management concurred and will periodically review certain key office supply type equipment, such as printer cartridges and regularly monitor the procurement and use of such supplies.

PHYSICAL SECURITY

Pursuant to 119.071(3), Florida Statutes, the following has been redacted:

Finding (3): SURVEILLANCE CAMERA COVERAGE NEEDS TO BE ENHANCED

[Redacted content]

Recommendations:

(5) [Redacted content]

(6) [Redacted content]

Management Response

(5) and (6) Management concurred and will implement these recommendations as part of an ongoing security review of all of their physical sites. [REDACTED]

Finding (4): BUILDING ACCESS SECURITY CONTROLS NEED IMPROVEMENT

[REDACTED]

[REDACTED]

The procedures in the PBC's PPM CW-L-047, Master Key Systems; Key Issuance, provide the necessary instructions for issuance and inventory control over County building keys. In this PPM, the Electronic Services and Security Division provides standards and support for electronic key access control.

Recommendations:

(7) [REDACTED]

(8) [REDACTED]

Management Response

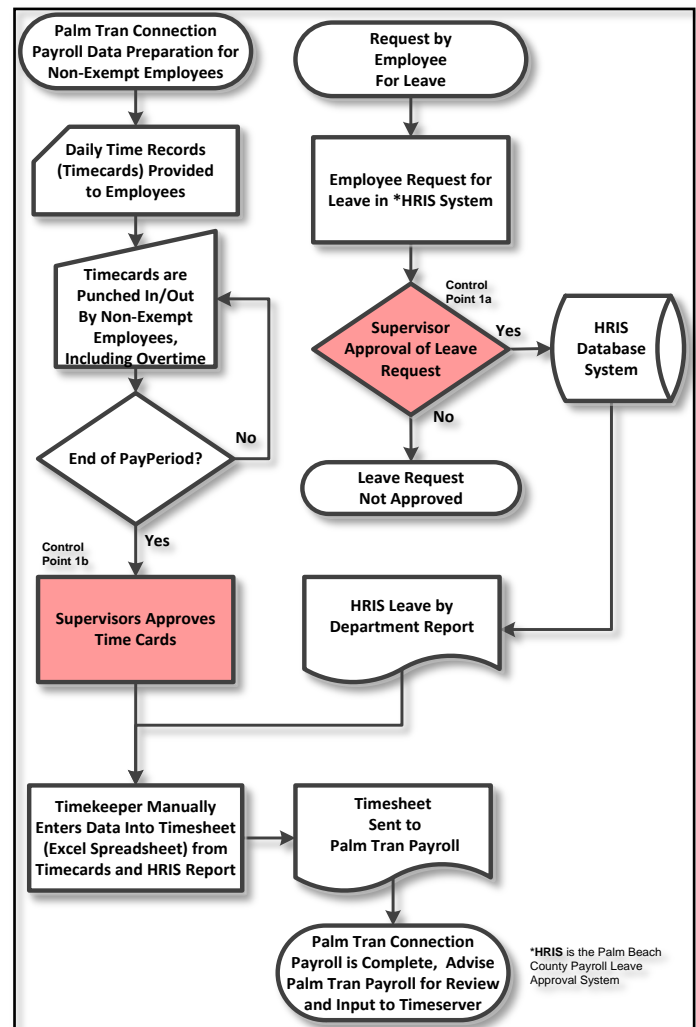
(7) and (8) Management concurred and will address these recommendations as part of the new security review of all physical sites. [REDACTED]

TIMECARD/TIMESHEET PAYROLL PROCESSING FOR NON-EXEMPT EMPLOYEES

The Senior Secretary was also the payroll “timekeeper” for Palm Tran Connection. Considering the theft charges against her, we expanded our scope to review the payroll and timekeeping functions at PTC. We reviewed the PTC employee timecards and payroll timesheets for calendar years 2008, 2009, 2010, and through July of 2011. The Senior Secretary’s payroll responsibility included transferring the daily time records (timecard Information) for non-exempt employees and the hours worked for exempt employees to the PTC payroll timesheets (Excel spreadsheet) for processing by the Palm Tran payroll staff.

In general, we found that PTC was not in compliance with the Federal Fair Labor Standards Act (FLSA), State of Florida General Records Schedule GS1-SL, County PPM CW-P-048-Time and Attendance Records, and Palm Beach County Merit System Rules and Regulations. The flowchart illustrates the Timecard/Timesheet process established at PTC.

Our testing of the historical PTC payroll/timesheet records did not identify any evidence of falsification of payroll records.



Finding (5): EMPLOYEE TIMECARDS AND THE PAYROLL TIMESHEETS WERE NOT ALWAYS CERTIFIED AS TRUE AND CORRECT

As a sample we reviewed a total of 357 timecards for March and June of 2011. We found that 50 (14%) of the timecards were unsigned. These 50 unsigned timecards were processed by the timekeeper into the employees' timesheet. Subsequently, there was no evidence of supervisory approval of these resulting timesheets that were submitted by the Senior Secretary and processed by the Palm Tran payroll staff.

PBC PPM CW-P-048, Time and Attendance Records Policy, states: "At the end of a pay period the time and attendance form must be signed by the employee and their supervisor certifying the time as reported is correct" and the supervisor instructions include the statement that, "Supervisors are required to approve and certify employees' time through the end of the pay period by signing the Employee Time Record."

With the exception of overtime, which is addressed in a separate finding, we did not find in our sample any irregularities with the actual timecard entry for regular time as posted to the payroll timesheet. However, there is no assurance that employees were not overpaid or underpaid regular time as a result of an undetected timecard error or unapproved timecard change. These 50 unsigned/unapproved timecards represented \$26,948 in regular pay and \$1,821 in overtime pay.

Finding (6): FOUR NON-EXEMPT EMPLOYEES WERE NOT MAINTAINING AN APPROVED DAILY TIME RECORD

After reviewing a sample of timecards for PTC non-exempt employees we found: (a) no daily timecard records existed for four of the non-exempt employees (This included the Senior Secretary as the payroll timekeeper) and (b) overtime worked is not always recorded on the actual timecard or otherwise documented. Overtime was entered by the timekeeper without supporting documentation.

Without supporting daily time records and overtime approval, the PTC staff has failed to comply with the requirements for non-exempt employees:

- The Federal Fair Labor Standards Act (FLSA) that requires daily record keeping for "hours worked" by non-exempt employees.
- The State of Florida General Records Schedule GS1-SL for State and Local Government Agencies states that, payroll records supporting documents be retained in a file for "three calendar years provided applicable audits have been released."
- The County PPM CW-P-048 states that, "It is the policy of the Board of County Commissioners to require a positive record of time and attendance to accomplish the following: accurately compute employee's earnings, deductions, and net pay; monitor and report employee's annual, sick and other types of leave. Exempt employees will not be required to maintain a daily record of their time and attendance."

Total regular time paid to the four non-exempt employees' based on payroll records from October 5, 2008 through September 24, 2011 was \$653,853 and total overtime paid was \$12,261. However, because of inconsistent or incomplete documentation of overtime and no daily timecard records, we could not verify that all regular time and overtime payments were correct.

Finding (7): THE TIMEKEEPER ENTERED PAYROLL RECORDS WITHOUT APPROVED DAILY TIME RECORDS OR CERTIFICATION

As payroll timekeeper, the Senior Secretary entered her own hours worked directly onto the manual timesheet for processing by the Palm Tran payroll staff. The Senior Secretary's supervisor is responsible to authorize payroll input into ²Time Server. We noted that the Senior Secretary prepared, as well as, authorized the payroll input into Time Server, which interfaces to the PeopleSoft System where the bi-weekly payroll is processed for payment.

We evaluated the payroll/timekeeping internal controls and reviewed for compliance with Palm Beach County PPM. PBC PPM CW-P-048, Time and Attendance Records, states that, "Employees will not be permitted to certify or approve their own Employee Time Record, except in rare circumstances where it is not practical to do otherwise and authority has been given in writing by the Department or Division Head, e.g., personnel working in the field." Segregation of duties is critical to effective internal control; it reduces the risk of both erroneous and inappropriate actions. Accordingly, the duties of initiating the payroll transactions and then authorizing the payroll transactions should be segregated as a means of monitoring the accuracy of the manual payroll preparation process, as well as, authorizing payments to employees.

The Senior Secretary was a non-exempt employee; however her supervisor did not require her to keep daily time records. Since we found no evidence of timesheet approval by her supervisor, entering her own hours without approval was "certifying" her time records. There is an internal control deficiency in the payroll input process, when unauthorized transactions can go undetected.

With no timesheet approval required by her supervisor, the Senior Secretary could have falsified time work records to financially benefit her and others. Her supervisor indicated to us that the Senior Secretary averaged about 6 hours overtime per pay period. Our sample of the last 53 pay periods of employment for the Senior Secretary resulted in an average of 6.9 hours of overtime per pay period. This is consistent with her supervisor's recollection. However, without regular bi-weekly timesheet approval by her supervisor, there is no assurance that all overtime paid was in fact earned.

² Time Server is the Palm Beach County Payroll Timekeeping System. Palm Tran payroll staff utilizes Time Server to upload Palm Tran employee biweekly payroll information for processing on the County Clerk's PeopleSoft Payroll System.

We determined from a review of the FY 2008 through August of FY 2011 expenditures reports, that as payroll timekeeper the Senior Secretary was responsible to input regular and overtime for all of PTC employees which resulted in expenditures of \$8,530,147 and \$585,737 respectively. Her regular annual salary (paid bi-weekly) was \$35,383 and for this period she was paid \$10,413 in overtime.

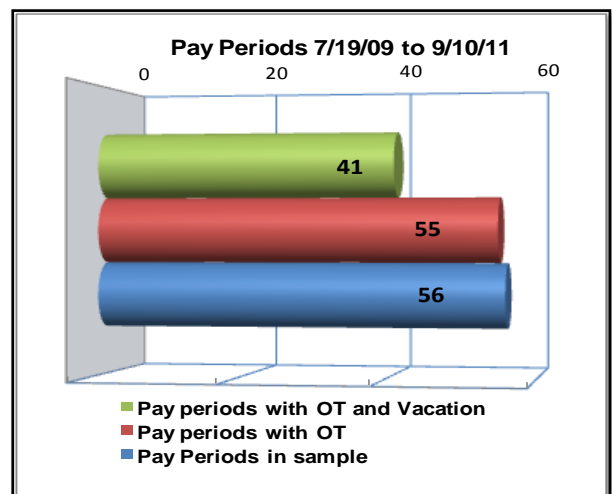
It appears that PTC staff did not fully understand and did not follow the requirements of PBC PPM CW-P-048 in the approval of employee timecards and the certification of the timesheet records by the supervisors and managers. We were told that only the PTC timekeeper received payroll training. Her last training was in 2009 on the PB County Human Resource Information System (HRIS) system by the financial analyst who manages the Palm Tran payroll system.

Note: At the conclusion of our audit PTC implemented a new Time Management System (TMS) that eliminated the existing manual timecard/timesheet processes. Therefore, with a different set of “controls” in the new TMS payroll and a new timekeeper process, we withheld recommendations on Findings 5, 6, and 7. The implementation of TMS is discussed further on Page 13 of this report.

Finding (8): A PATTERN OF USING VACATION LEAVE WITH OVERTIME HAS INFLATED OVERTIME COST

We found that a non-exempt employee at PTC has a pattern of using vacation time in the same pay period as overtime is earned. Using the most recent 56 pay periods (July 19, 2009 through September 10, 2011), the employee earned overtime in 55 (98%) of those pay periods with an average of 17 hours per pay period. Vacation leave was used in 41 of those pay periods with an average use of 11 hours per pay period. This “pattern” of using vacation leave with overtime occurred 73% of the time. The need for this employee to work regular weekly overtime appears inconsistent with his pattern of regular use of vacation time from week to week.

As a guide, the PBC Merit System Rules and Regulations, states that, “It shall be the general policy of the County not to require frequent or considerable overtime. However, Department Heads may authorize or direct an employee to work over 40 hours when necessary to meet emergency deadlines or operating needs.” “Frequent” or “considerable overtime” is a significant operational cost consideration.



In looking at the total cost of this employee's overtime and vacation time pattern from January 11, 2008 through September 10, 2011, he earned a total of \$60,420 in overtime. With his current regular annual salary of \$48,693 and an average annual overtime earning of \$16,195, it appears that this employee's overtime is "considerable" and effectively increases his salary cost to PTC by approximately by 33%.

Payroll records show that \$18,575 of the total overtime cost (\$60,195) was paid because of vacation time used. This regular pattern of preapproved vacation leave combined with total hours worked provides for the authorized payment of a significant amount of vacation leave at the overtime rate. Since County PPM CW-P-048 states that, "Preapproved annual leave is counted as time worked when computing overtime," preapproved annual leave (vacation) can result in generating overtime payments.

During the exit conference and in follow up discussions with Palm Tran management we were informed that the employee has outside employment that may contribute to his pattern of regularly taking vacation leave. We requested documentation for approval of the outside employment but were informed that no documentation exists as this is not a requirement for Palm Tran employees. Management indicated that they have been considering establishing a requirement for formal approval of outside employment.

Recommendations:

(9) PTC Management needs to review the approval process for the use of overtime, especially in situations where it is combined with the regular use of vacation leave.

(10) Palm Tran management should complete the current efforts underway to establish a policy to require formal approval of outside employment for its employees similar to Palm Beach County Merit System Rule 10, Outside Non-County Employment.

Management Response

(9) Management concurred and will continue to look at ways for reducing overtime and the efficiency of approving overtime versus hiring additional staff, and especially where the regular use of vacation leave may be involved. This will include an evaluation during the next 90 days of the specific instance involving the one employee identified during the audit.

(10) Management concurred and will implement a policy in 2012 clarifying that any outside employment cannot interfere with a person's primary duties at Palm Tran and will require employees to notify Palm Tran of any/all outside employment.

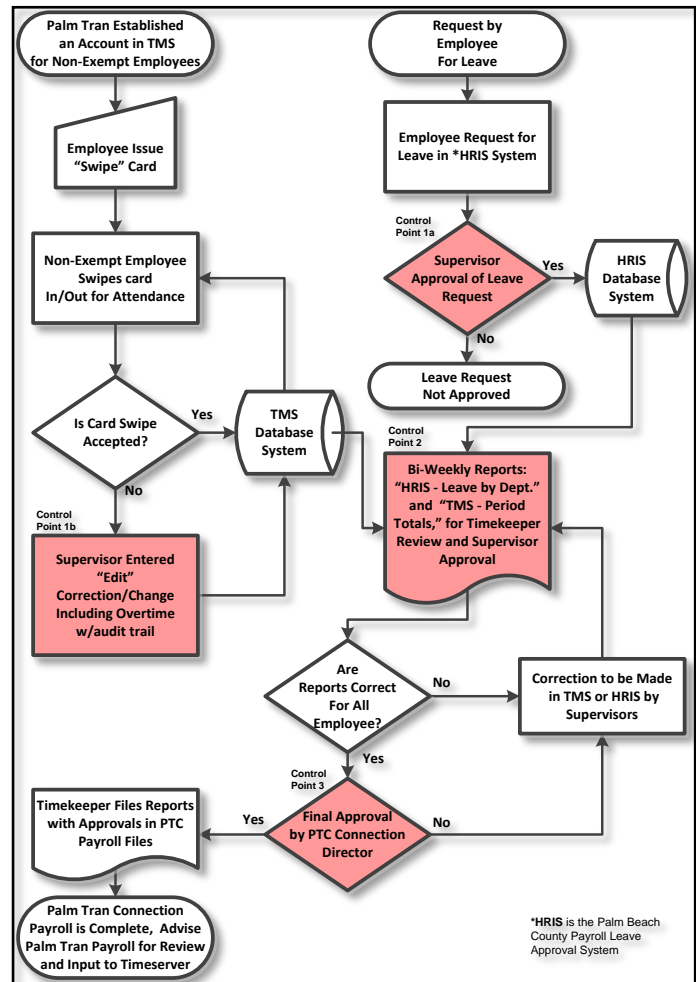
PALM TRAN MANAGEMENT ACTION TO IMPLEMENT THE TIME MANAGEMENT SYSTEM (TMS)

Since February 2011, PTC has recorded work time in the manual timecard/timesheet system, as well as, TMS. Effective October 23, 2011, the official record of work time for PTC is TMS. Non-exempt employees are required to record their time in TMS and supervisors are required to certify regular and overtime in TMS. In addition, the PTC Director is required to certify the PTC payroll before it is manually input into Time Server by Palm Tran payroll staff. It is our understanding that an interface is planned to be completed by PBC Information Systems Services Department in the near future which would eliminate the manual input into Time Server.

We reviewed the internal controls over TMS and concluded that it effectively resolves three of the control issues in findings previously identified:

- **Finding 5:** Employee timecards and the payroll timesheets were not always certified as true and correct;
- **Finding 6:** Four non-exempt employees were not maintaining an approved daily time record; and
- **Finding 7:** The timekeeper entered payroll records without approved daily time records or certification.

The flowchart on the right illustrates the new TMS system and highlights the key control points in the system. Non-exempt employee leave time and overtime are approved by their Supervisor (Control Point 1a & 1b). Non-exempt employee daily time records are logged into TMS and approved biweekly by their Supervisor (Control Point 2), and a final approval of all non-exempt employee regular, overtime and leave time is certified by the Director of Palm Tran Connection (Control Point 3).



We did note that the payroll records in TMS are not locked from editing after the Director approval. Palm Tran payroll is working with the TMS support staff to determine if "locking of the files" can be included in the system. Additionally, Palm Tran payroll staff is working on implementing a process to upload data directly from the TMS data files to the Time Server system. This will eliminate the need to manually enter the TMS data into Time Server by the Palm Tran payroll staff.

Recommendations:

(11) Considering the TMS System will address several control deficiencies identified in this report, we recommend that management conduct a follow-up review of the TMS system to ensure that the key internal controls are working as intended and to evaluate the effect of the locking of files procedure prior to implementing the automated upload of payroll data to Time Server.

Management Response

(11) Management concurs and within six months will perform a follow-up review of this system to ensure that the key internal controls are working as intended and to evaluate the effect of the locking of files procedure prior to the automated upload of payroll data.

FOLLOW-UP OF PALM BEACH COUNTY INTERNAL AUDIT

In planning for our audit we identified that the County Internal Auditor had conducted an audit of Palm Tran's purchasing controls and issued a report dated July 2, 2008. Therefore, as part of our scope, we evaluated whether Palm Tran had taken action to address the findings and recommendations from the County Internal Auditor's report.

The objective of the Palm Tran Purchasing Controls audit performed by the County Internal Auditor was: "Did Palm Tran's Executive Director ensure that internal controls were established and placed into operation for its purchasing function for transactions carried out in Fiscal Year 2007?"

The following is a brief summary of the resulting audit recommendations:

- (1) The Palm Tran Executive Director should ensure that written policies and procedures are issued for its Purchasing function as required by PPM CW-O-001. These policies and procedures should include reference(s) to Purchasing guidance as well as Palm Tran specific requirements.*
- (2) The Palm Tran Executive Director should consider developing checklists for each of its types of purchases made, particularly for purchases requiring Federal and/or State requirements, such as representations and certifications.*
- (3) The Palm Tran Executive Director should ensure that formal, written delegations of authority are issued for both the Maintenance and Finance Departments.*
- (4) The Palm Tran Executive Director should also consider streamlining its purchasing function to avoid any duplication and overlap.*
- (5) The Palm Tran Executive Director should ensure that proper segregation of duties of staff involved in the purchasing process is accomplished.*

As required by the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing (Performance Standard #2500), internal auditors “should establish a follow-up process to ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.”

The Palm Beach County Internal Auditor Office performed two audit recommendation follow-ups on Audit 2008-21. In May of 2009, the County Internal Audit staff found that recommendations 1 and 2 were complete. Recommendations 3, 4 and 5 were partially implemented. In December of 2010, the internal audit staff again followed-up and found recommendations 3 and 4 were completed and recommendation 5, segregation of duties, was checked as complete in January of 2011.

The Internal Auditor’s July 2, 2008 report did not include a review of purchasing controls at PTC. Recommendation #5 regarding proper segregation of duties was addressed at Palm Tran in both Finance and Maintenance Departments and was completed in April 2010. While Palm Tran management recognized the applicability of this recommendation at Palm Tran Connection, it was not addressed until organizational changes were made in October 2010 and changes to permissions in the Advantage system were made in January 2011. If weaknesses in segregation of duties had been addressed at PTC at the same time as Palm Tran, the alleged theft might have been detected sooner.

During the course of our audit, we reviewed the Palm Tran segregation of duties roles in Advantage. We verified that proper segregation of duties has now been established in Advantage for Palm Tran Maintenance, Palm Tran Connection, and Palm Tran General Administration.

Recommendations:

(12) Palm Tran Management needs to ensure that agreed upon audit recommendations are implemented timely.

Management Response

(12) Management concurs with the need to ensure that audit recommendations are timely implemented.

ACKNOWLEDGEMENT

The Inspector General's audit staff would like to extend our appreciation to the Palm Beach County Assistant County Administrator and both the Palm Tran and Palm Tran Connection management for the cooperation and courtesies extended to us during this audit.

This report is available on the OIG website at: <http://www.pbcgov.com/OIG>. Project conducted by John T. Lynch, Auditor II, under the supervision of Kenneth L. Johnson, Audit Manager. Please address inquiries regarding this report to Dennis Schindel, Director of Auditing, by email at inspector@pbcgov.org or by telephone at (561) 233-2350.

To promote accountability, integrity and efficiency in government, the OIG completes audits and reviews of government programs, activities, and functions. This audit was conducted under the authority of Article XII, Section 2-423, and in accordance with the International Standards for the Professional Practice of Internal Auditing, published by the Institute of Internal Auditors, as well as, in accordance with generally accepted government auditing standards published by the General Accountability Office.

APPENDIX 1

**Palm Tran**3201 Electronics Way • West Palm Beach, FL 33407-4618
Phone: (561) 841-4200 • Fax: (561) 841-4291**Palm Beach County
Board of County Commissioners**
Shelley Vana, Chair
Steven L. Abrams, Vice Chairman
Karen T. Marcus
Paulette Burdick
Burt Aaronson
Jess R. Santamaria
Priscilla A. Taylor**County Administrator
Robert Weisman**

December 29, 2011

Dennis Schindel
Director of Audit
Office of Inspector General
Palm Beach County
P.O. Box 16568
West Palm Beach, FL 33416

Dear Mr. Schindel:

Palm Tran appreciates the time and effort put into this audit by you and your staff. In regard to the Audit findings, recommendations and observations, we offer the following specific points:

Finding No. 1: Purchasing Controls at Palm Tran Connection (PTC) need to be strengthened

- Recommendation #1 was accomplished at Palm Tran Connection in early 2011 which resulted in Palm Tran's detection of the thefts. The Audit found that with the implementation of these changes prior to the detection of the thefts (and this Audit) that the formal purchasing and receiving duties are now properly segregated. We agree with the recommendations to ensure that this is maintained in the future and that PTC purchasing procedures will include a review of purchasing trends for consumable supplies (recommendation #2). No further action required.

Finding No. 2: Control over and retention of Surplus Equipment and Spare Office Supplies should be Evaluated

- Palm Tran's procedures were and are in accord with County PPM's in regard to surplus inventory control, which does not require surplus parts/equipment to be inventoried. The toner cartridges like other supplies that have a low individual fixed asset value are treated similarly, in accord with County procedures. Recommendation #3 in regard to Palm Tran Connection has been accomplished as we have moved the spare computer equipment and separated them from the small value items like office supply items (toner cartridges as an example), and moved these items into two different and more secure storage locations. We have since added an inventory roster for the surplus computer equipment that we are maintaining as a cost saving measure, as was recommended. Further, we will establish in accord with recommendation #4 a procedure to periodically review certain key office supply type equipment, such as printer cartridges and regularly monitor the procurement and use of such supplies. We plan to do such a review every six months beginning in April 2012.

Finding No. 3: Surveillance Camera Coverage Needs to be Enhanced

- We agree with and will implement the recommendations #5 and #6. This was pointed out to your audit team and will be examined as part of an ongoing security review of all of our physical sites that we have since implemented. We expect that this review will be completed by the end of April 2012.

Finding No. 4: Building Access Security Controls Need Improvement

- As discussed in Item #3 above, we are currently undergoing a new security review of all of our physical sites. We expect that this review will be completed by the end of April 2012. One goal of this review is to implement an electronic card key access system at all our facilities, which should meet the recommendation, with implementation starting by June 2012.

Finding No. 5: Employee Time Cards and Payroll Timesheets were not always certified as True and Correct**Finding No. 6: Four Non-Exempt Employees Not Maintaining an Approved Daily Time Record****Finding No. 7: The Time Keeper Entered Payroll Records Without Approved Daily Time Records or Certifications**

- We note that there are no recommendations for Findings #5, 6 & 7. We believe that Palm Tran's acceptance of our new Time Management System (TMS) at PTC will rectify the weaknesses identified in findings #5, 6 & 7 and consider these recommendations to be completed. The Time Management System software was under development for implementation at Palm Tran and PTC for the last several years, and was always intended to replace much older and more archaic time keeping processes. This System was first implemented in our Maintenance Department and then after successful testing there brought over to PTC, where its implementation and testing took almost one year.
- The Audit Team found no evidence of any payroll falsification or deliberate abuses, other than the weaknesses in the processes as previously discussed. Given the thoroughness of your staff and the amount of payroll data reviewed, I am confident that any payroll abuses would have been found if they existed.

Finding No. 8: Pattern of Using Vacation Leave with Overtime has Inflated Overtime Cost

- The need and level of overtime work at PTC occurs for several reasons, mostly because we have reduced staff levels without reducing the workload. Ridership has increased on both Fixed Route and Connection services, which results in a heavier workload on many staff functions at both Palm Tran and Palm Tran Connection. Your review focused on one employee that you found using vacation time in many of the same pay periods as the overtime was earned. While not a violation of County's PPM's, we fully agree that we must do all we can to reduce unnecessary overtime. In the case of this one employee, the cause for the overtime is also the result of him doing by himself what was previously two (2) full time jobs in overseeing Palm Tran's customer complaint process. *Good customer service requires a timely response to all customer inquiries some which are more time sensitive than others.* Given that we cannot put

off this work and that we do not have additional staff to shift the work to, overtime may be the only other alternative. In this case the average of 17 hours of overtime per 80-hour work period, translates to 8.5 hours per week, far less expensive than hiring another staff member to fill the vacant position. The report also alleges that this is as a result of him having an additional part time job. The employee has previously informed his Supervisor about his part-time employment and that (based on his part time work hours) it would not interfere with his duties at Connection. Clearly, however, we need to more closely monitor this and prevent an employee(s) from being able to use a benefit such as vacation time to increase their overtime.

Recommendations:

#9: We will continue to look at ways for reducing overtime and the efficiency of approving overtime versus hiring additional staff, and especially where the regular use of vacation leave may be involved. Palm Tran agrees that a more indepth review of this issue at PTC needs to be undertaken during this fiscal year and to specifically address the findings in regard to the one employee that the report cited during the next 90 days.

#10: We will implement a policy during 2012 clarifying that any outside employment cannot interfere with a person's primary duties at Palm Tran and will require employees to notify Palm Tran of any/all outside employment.

Palm Tran Management Action to Implement the Time Management System (TMS)

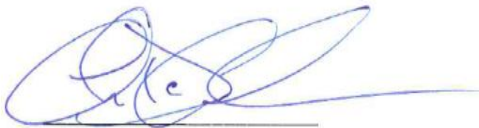
- The implementation of TMS as discussed previously was completed in November 2011 after an almost one-year implementation program.
- Recommendation #11. We fully agree with the IG Team analysis that this will address the deficiencies identified and agree with Recommendation #11 that Palm Tran Management should do a follow-up review of this system to insure that the key internal controls are working as intended and to evaluate the effect of the locking of files procedure prior the upload of payroll data. An audit of Connection's TMS payroll data is being done by Palm Tran's Payroll Supervisor following each payroll. An overall follow-up review of the system as recommended will be done within the next six (6) months.

Follow-up on Palm Beach County Internal Audit Report #2008-21

- We concur with recommendation (#12) that Palm Tran Management should ensure the timely implementations of Audit recommendations.
- The Purchasing Audit in 2008 did not include Palm Tran Connection, which your report states. However, Palm Tran staff recognized that the findings were applicable to Connection and other staff duties once the Audit follow-up was complete undertook a separate review examining all Palm Tran staff's access rights under Advantage to insure the proper segregation of duties. This work was completed with the assistance of the County Audit staff and changes to all staff positions access rights including those of Palm Tran Connection's staff were completed in January 2011. Staff recognizes the validity of the observations of this report that had we implemented these actions sooner than it is likely that the thefts at PTC would have been detected sooner.

In Summary

- Palm Tran's implementation of changes to staff positions insuring the appropriate access rights and the proper segregation of duties in early 2011 led to the discovery of the thefts by Palm Tran staff. Palm Tran staff then reported the matter and fully cooperated with the Inspector General's Office and the Sheriff in the follow-up investigation of the matter.
- Clearly the key findings in the Audit # 1, 2, 5, 6, & 7 all were implemented either before the theft was detected or were in the process of being implemented and/or were completed prior to the completion of this Audit. Further, Findings #3 and 4 and recommendations #5, 6, 7, and 8 are currently being reviewed as part of an overall security review being done for all Palm Tran facilities with the assistance of the County's Facility Department staff.
- We found that your Audit process to have been a very detailed and fair process, one that we believe would enable us to close out this issue with a high degree of certainty that there will be no opportunity for repetition of such an occurrence.



Charles D. Cohen
Executive Director

- c: Brad Merriman, Assistant County Administrator
Charles D. Frazier, Assistant Executive Director, Palm Tran
Ron Jones, Director, Palm Tran Connection