



INTERNAL AUDIT REPORT FOR

Professional Services
Gwinnett County Government
Audit Plan Year 2023

November 7, 2023

GWINNETT COUNTY
INTERNAL AUDIT DIVISION

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Background & Scope

Gwinnett County (the County) strives to use cost-effective resources to deliver high-quality services to the public and carry out other essential government functions. Third-party professional services are sometimes appropriate when temporary human resources are required to augment County staff or when a professional firm with specialized knowledge or technical skills is best suited for a specific type of project. These providers often operate outside of the County's organization, and payments to them are based on defined service deliverables rather than acquisition of tangible assets. For the County, this may include attorneys, architects, external auditors, and medical examiner services.

The Department of Financial Services (DOFS) Purchasing Division maintains policies and procedures to ensure professional services are obtained in accordance with the County's Purchasing Ordinance (Ordinance), dated March 15, 2016. The County frequently contracts with service providers through a bid process, but those under \$100,000 can be procured without a contract according to guidelines. After selection, agencies and departments are responsible for approving vendor invoices, validating service delivery, and compliance with contract terms. The County incurred professional services expenditures of approximately \$196 million during the audit period January 1, 2022, through April 30, 2023. Management's control objectives for professional services expenditures include the following:

- Professional services expenditures are authorized by management.
- Service costs and deliverables are supported by contracts, evidence of delivery or project completion per terms and, if applicable, adherence to Ordinance guidelines.
- Expenditures are recorded to the appropriate SAP general ledger (GL) account for budget and management reporting purposes.

The purpose of this audit was to evaluate the adequacy and effectiveness of management's control activities that are designed to provide reasonable assurance of achieving the objectives. Internal Audit (IA) conducted this audit in accordance with the *International Standards for the Professional Practice of Internal Auditing* (Standards). The Standards require that we plan and perform the audit to identify and evaluate sufficient information to support engagement results. We interviewed employees, observed certain control activities, and reviewed business documents on a sample basis for the audit period. We believe the evidence provided a reasonable basis for our assessment. See **Exhibit A** for a summary of our audit procedures. The scope of the audit excluded the District Attorney, Purchasing Division, and Tax Commissioner.

Assessment

Management's control activities were generally adequate and effective in providing reasonable assurance of achieving their control objectives. We found no evidence of unauthorized or irregular expenditures relative to contract terms and policy. IA evaluated the effectiveness of three key control activities and made a recommendation to improve evidence of service delivery. The recommendation is an improvement opportunity rather than a significant weakness that could prevent management from achieving their control objectives.

Recommendation

1. Unable to validate services were performed.

Agencies and departments are responsible for ensuring professional services expenditures are valid and conform with contractual provisions prior to payment of invoices. Management must obtain sufficient evidence to verify the nature and scope of actual work. The type of evidence will vary according to contractors and services, but generally, they should include the following: a) an agreement or contract that delineates work requirements; b) an invoice that explains what was done for the specific payment request; and c) any documents to prove what was accomplished or done such as time sheets, reports, PowerPoint presentations, and drawings. To assess compliance with these guidelines, IA selected a judgmental and random sample of 132 professional services expenditures posted to the GL during the audit period and vouched them to supporting documents. Samples included expenditures for, among others project planning, data analysis, investigations, and workshops. See **Exhibit B** for Sampling Approach. We obtained all invoices and agreements when applicable without exception. However, we did not find proof of services or work products for 36 invoices (27%) totaling approximately \$1.7 million. We acknowledge several exceptions were below \$50,000, but currently there are no monetary threshold requirements for documenting proof of delivery or work product.

RECOMMENDATION

Agencies and departments should ensure professional services fees and work deliverables meet contract terms prior to payment. They should obtain sufficient tangible evidence to confirm what contractors or consultants accomplished and include the documents in payment packages. DOFS should establish minimum documentation guidelines for professional services payments as described above and communicate them to agencies and departments via training sessions. DOFS should incorporate materiality considerations for supporting documentation in their guidance.

Management Response:

IA discussed recommendations with the applicable departments and DOFS for concurrence. IA will evaluate compliance during corrective action follow-up.

Other Considerations

IA observed opportunities to improve certain business activities based on best practices and included related advisory comments for management consideration only. Management is not required to provide written responses or corrective action plans. The advisory comments are as follows:

- DOFS maintains a GL chart of accounts coding structure to organize expenditure transactions by key business activities in SAP for budgeting, regulatory compliance, and financial reporting purposes. Agencies and departments are responsible for coding costs to the appropriate GL accounts based on transaction characteristics when they process vendor invoices for payment. They typically use SAP GL account code 50401201, Professional Services, to record costs for advice, evaluation, planning, design, or other efforts involving the exercise of judgment, discretion, and knowledge. We selected a sample of 132 transactions posted to professional

services accounts during the audit period and reviewed supporting documentation for proper coding. Sixty-three (48%) did not fit the professional services classification criterion and should have been coded to other GL accounts. Misclassifications among others included purchases of computer hard drives, printer toner cartridges, and annual renewal fees for online system maintenance. These transactions are appropriately categorized for Annual Comprehensive Financial Reports, but they may impact management analysis of professional services costs. Agencies and departments should only code costs that meet the definition of professional services to this account. DOFS should develop GL account coding guidelines and disperse them to agencies and departments to improve coding consistency. DOFS should also provide more frequent countywide training on this topic.

- SAP is configured to detect duplicate payments by comparing values in multiple record fields for new payment transactions to stored values from previous transactions. They include invoice number, amount, date, vendor name, and purchase order number. SAP will reject transactions for payment processing only when all five fields match historical data. The system will process transactions with one or more mismatches. DOFS should configure the new Oracle system to detect duplicate payment records based on one or two key fields such as invoice numbers or invoice numbers and payment amounts. Departments should establish analytical procedures to identify potential duplicates that bypass automated controls during the transition period from SAP to Oracle.
- The County does not have a delegation of authority policy for invoice approvals by departments. Consequently, some departments require multiple approvals while others only require one manager or an equivalent position to approve invoices for payment. The County should establish which positions have the authority to approve invoices based on monetary thresholds and transaction types. To validate invoice support, departments should include approvers with first-hand knowledge of the services that were performed. These measures will streamline approval workflows and reduce financial and operational risks.

Exhibit A: Summary of Audit Procedures

We obtained appropriate evidence that was sufficient to support our conclusions about the operating effectiveness and design of key controls. We considered risk assessments and engagement objectives in selecting the number and combination of audit procedures to obtain sufficient evidence. The audit procedures consisted of tests of controls and certain substantive procedures which were as follows:

- Interviewed departmental management to identify key control activities. Walked through these activities to confirm understanding and validate procedures.
- Selected a judgmental and random sample of 132 transactions recorded to professional services GL accounts in SAP during the audit period (See **Exhibit B** for Sampling Approach). Vouched transactions to invoices, approvals, contract terms, and proof of services. Confirmed billing rates. Also, evaluated proper GL classifications based on documentation (**Recommendation 1**).
- Reviewed processes used to detect duplicate payments and obtained supporting documentation to verify the legitimacy of potential duplicates observed during the review.
- Compared judgmental sample of professional services transactions to capitalization criteria for potential errors.
- Walked through SAP processes for goods receipt (GR)/invoice receipt (IR) accounting.
- Assessed compliance with key directives contained in the Ordinance and other applicable policies.
- Evaluated adequacy of control activities to ensure payments did not exceed the financial limits in contracts.

Exhibit B: Sampling Approach

We used sampling procedures to select vendor invoices for test of controls due to the large volume of professional services transactions. Our sampling objectives were to select representative samples of the population with the smallest sample sizes necessary for evaluating control effectiveness. Based on our risk assessment and engagement objectives, we used a nonstatistical sampling approach. We judgmentally selected samples based on their dollar value to cover 10% or more of the total dollar value of expenditures for the period. We also randomly selected additional invoices to obtain representative samples, i.e., cover all departments regardless of dollar values. We believe the sample size and selection methods provided sufficient evidence for our evaluation.

Professional Services Expenditures for Audit Period			Test Samples	
Agency/Department	Count	Amount	Count	Amount
Board of Commissioners	1	\$ 257.00	1	\$ 257.00
Child Advocacy and Juvenile Services	36	15,214.12	1	1,166.26
Clerk of Court	745	1,707,680.31	5	131,920.32
Clerk of Recorder's Court	40	20,013.80	2	409.18
Community Services	1,741	2,076,984.35	5	142,823.18
Community Services - Elections	625	1,438,431.75	4	78,870.33
Community Services Subsidies	15	229,764.54	2	129,160.86
Corrections	197	2,023,742.00	5	306,446.90
County Administration	163	354,893.36	3	310,686.74
Countywide Expenditures	11,052	107,407,803.83	24	9,968,699.68
Debt Service, Loganville EMS, Tourism	136	116,540.10	3	6,345.00
Financial Services	610	4,433,255.00	7	401,946.70
Fire & EMS	531	1,392,230.20	5	71,506.74
Human Resources	325	794,940.39	2	58,736.98
Information Technology	128	1,103,902.18	2	157,929.99
Judiciary	24,468	9,621,908.15	8	94,076.00
Juvenile Court	4,752	2,126,963.42	6	34,743.61
Law	66	56,590.57	2	3,324.00
Planning & Development	740	1,347,590.27	3	55,557.90
Police Services	1,265	3,148,483.43	5	131,350.85
Probate Court	1,829	508,237.10	3	5,855.00
Recorder's Court	822	324,411.65	2	2,253.00
Sheriff	845	13,300,875.94	7	3,238,560.37
Solicitor General	80	74,289.95	3	7,823.00
Support Services	471	396,052.96	2	25,566.28
Transportation	743	15,507,515.39	8	4,793,787.07
Water Resources	3,391	26,636,986.77	12	2,257,529.27
Totals	55,817	\$196,165,558.53	132	\$ 22,417,332.21

Data Source: SAP (Unaudited for Financial Reporting Purposes)