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STATE OF FLORIDA

OFFICE OF INSPECTOR GENERAL

REPORT IA 23-502

MANUAL WARRANTS PROCESS

Division: Division of Accounting and Auditing

Subject: Manual Warrants Process

Findings: 1

Conclusion: The Division should strengthen its process for accepting manual warrant requests to help ensure manual warrant requests are only processed on an as-needed, exceptional basis.

Auditors: Crista Hosmer, CIA, CFE, CIFA, CIGE



A handwritten signature in blue ink that reads "Julie Jones".

Julie Jones, Interim Inspector General
Office of Inspector General
Florida Department of Financial Services
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EXECUTIVE SUMMARY

The Department of Financial Services (DFS), Office of Inspector General (OIG) conducted an operational audit on the Division of Accounting and Auditing (A&A). The audit's purpose was to evaluate the effectiveness of the manual warrant processing activities performed by A&A during Fiscal Year (FY) 2021-2022. This audit was based on the OIG's FY 2022-2023 Annual Audit Work Plan and was conducted in conformance with professional standards.

This audit focused on the effectiveness of the Division's manual disbursement of funds approval methodology. Additionally, the audit assessed the effectiveness of the process's internal controls against fraud and error risk.

The established warrant production process requires state agencies to enter their own payment information into Departmental FLAIR, which contains many edit checks to ensure the transaction is properly entered. After the payment request posts overnight to Central FLAIR, a warrant is automatically created to provide payment for the transaction entered by the entity. The manual warrant process, which saves only one day of processing, allows state agencies to bypass the multiple edit checks that are embedded within Departmental FLAIR by requesting that A&A's Bureau of Auditing (BOA) staff manually key their requests for payment into Central FLAIR, and manually produce a warrant on their behalf. As a result of the lack of edit checks available in the manual process, the risk is greatly increased that a transaction could be keyed with errors, and a payment sent to the wrong party, thereby increasing the risk of a permanent loss of state funds. During FY 2021-2022, the average value of a manual warrant request was \$26,123,259. Five of the manual warrants BOA staff produced during the period exceeded \$50,000,000.

The audit revealed an opportunity for A&A to strengthen its process for accepting manual warrant requests to help ensure manual warrant requests are only processed on an as-needed, exceptional basis. To address these areas, the OIG recommends that the Division limit use of manual warrant processing by developing a process or methodology in which the requesting agency is required to provide detailed justification for the request that must be signed by someone of sufficient authority within the requesting agency. In addition, the DFS OIG recommends that A&A release a Chief Financial Officer (CFO) Memo reminding the state agencies of their responsibilities regarding the processing of their own transactions.

INTRODUCTION

The Department of Financial Services (DFS), Office of Inspector General (OIG) conducted an operational audit with the Division of Accounting and Auditing (A&A). The audit's purpose was to evaluate the effectiveness of manual warrant processing activities performed by A&A during Fiscal Year (FY) 2021-2022. This audit was based on the OIG's FY 2022-2023 Annual Audit Work Plan and was conducted in conformance with professional standards.

BACKGROUND

According to the *Reference Guide for State Expenditures*, the mission of the Bureau of Auditing (BOA) is "to provide reasonable assurance to the taxpayers of Florida, that funds disbursed from the State Treasury are valid obligations of the State and are in general compliance with applicable laws and rules." To fulfil its mission, the BOA audits contracts and grants and conducts both pre-audits and post-audits of the disbursements of all State of Florida agencies, including legislative and judicial agencies.

The BOA, along with other A&A operating areas such as the Bureau of State Payrolls and Vendor Relations, uses the Florida Accounting Information Resource Subsystem (FLAIR) to perform its statutory duties. FLAIR's purpose is to "provide timely data for producing financial statements for the state in accordance with generally accepted accounting principles," per Section 215.94 (2), Florida Statutes (F.S.). The same statute also assigns functional ownership responsibility for the operation of FLAIR to the Department of Financial Services (DFS).

The designated point of entry for a state agency's accounting records, including its expenditures, is Departmental FLAIR. Each state agency is responsible for entering its own transactions and other financial information into Departmental FLAIR. Central FLAIR, A&A's designated point of entry, reconciles the state agencies' transactions and feeds that data to other statewide information systems so that the State's essential functions, such as the payment of employee payroll, retirement benefits, and State vendors, will operate properly.

The established warrant production process requires state agencies to enter their own payment information into Departmental FLAIR, which contains many edit checks to ensure the transaction is properly entered. After the payment request posts overnight to Central FLAIR, a warrant is automatically created to provide payment for the transaction entered by the entity.

The manual warrant process, which saves only one day of processing, allows state agencies to bypass the multiple edit checks that are embedded within Departmental FLAIR by requesting that BOA staff manually key their requests for payment directly into Central FLAIR, and manually produce a warrant on their behalf. In some circumstances, the agencies also request that the manual warrants be wired, directly to the payee listed on the warrant, by the Division of Treasury.

The manual warrant process requires nearly three times as many process steps to perform than the regular payment disbursement process. Specifically, the regular payment disbursement process requires nine steps. Three of the steps are performed by the state agencies and six are performed by BOA staff. All 22 additional steps that exist in the manual warrant process are performed by BOA staff.

Importantly, the manual warrant process bypasses the multiple edit checks that DFS has embedded into FLAIR to ensure the integrity of the State's payment data and to prevent transaction errors. During FY 2021-2022, the average value of a manual warrant request was \$26,123,259. Five of the manual warrants BOA staff produced during the period exceeded \$50,000,000.

During FY 2021-2022, a total of \$757,574,516 was disbursed using this manual process.

AUDIT OBJECTIVES AND SCOPE

The audit's purpose was to evaluate the effectiveness of manual warrant processing activities performed by A&A during FY 2021-2022.

The scope of the audit focused on A&A's manual warrant processing policies, procedures, and activities during the period July 1, 2021, through June 30, 2022.

The audit objectives were the following:

- 1) Determine whether the manual warrant process effectively establishes a method of approval for when performing a manual warrant is in the best interest of the State of Florida.
- 2) Determine whether the process has controls in place to effectively mitigate internal and external fraud risks.
- 3) Determine whether the process has controls in place to effectively mitigate error risks.

METHODOLOGY

To accomplish the audit objectives, the DFS OIG:

- Reviewed applicable rules, laws, standards, and DFS policies and procedures.
- Conducted interviews with appropriate DFS staff regarding the processes and controls implemented for the manual disbursement of funds process.
- Performed walk-throughs and observations of the manual voucher process and manual warrant process.
- Received and reviewed manual voucher and manual warrant payment data for FY 2021-2022.
- Received and reviewed staff time and effort data and calculations relating to the manual disbursement of funds process during FY 2021-2022.
- Received and reviewed supporting documentation for 15 selected manual vouchers and manual warrants that were performed during FY 2021-2022.
- Performed testing of controls related to manual disbursement of the funds process using the supporting documentation for the 15 selected manual vouchers and manual warrants by comparing the supporting documentation to criteria identified in applicable rules, laws, standards, and DFS policies and procedures.

FINDINGS AND RECOMMENDATIONS

Finding 1: Method of Approval

Section 215.86, F.S., requires that, "Each state agency and the judicial branch as defined in s. 216.011 shall establish and maintain management systems and internal controls designed to:

- (1) Prevent and detect fraud, waste, and abuse as defined in s. 11.45(1).
- (2) Promote and encourage compliance with applicable laws, rules, contracts, and grant agreements.
- (3) Support economical and efficient operations.
- (4) Ensure reliability of financial records and reports.
- (5) Safeguard assets."

As such, the management system established for use by the state is the Florida Accounting Information Subsystem (FLAIR), owned by the Department of Financial Services (DFS), which consists of a Departmental and a Central component. State agencies are tasked with entering their expenditure transactions into FLAIR through the Departmental component, which includes various internal controls, such as edit checks, to ensure the reliability of each transaction. After a transaction is entered into Departmental FLAIR, it flows through to the Central component, where it is recorded for financial reporting purposes and the payment is processed. However, some state agencies are requesting that DFS process various transactions through a manual process in which the internal controls within the Departmental component are bypassed and the transaction is immediately recorded within the Central component.

DFS leadership explained that the manual warrant process was designed to assist agencies with processing time-sensitive and urgent payments on an exceptional basis. Additionally, they stated that, in recent years, it appears many state agencies have come to expect the manual warrant process to be a normal means for DFS to process their payments.

By performing manual warrants for the requesting state agencies, the internal controls within Departmental FLAIR are bypassed and the risk is increased that a payment may be processed in error. As a result, responsibility for processing the transaction error-free is transferred from the requesting agency to DFS leadership.

Recommendation:

The DFS OIG recommends that the Division limit the use of manual processing by developing a process or methodology in which the requesting agency is required to provide detailed justification for the manual transaction that must be signed by someone of sufficient authority within the requesting agency. In addition, the DFS OIG recommends that A&A release a Chief Financial Officer (CFO) Memo reminding the state agencies of their responsibilities regarding the processing of their own transactions.

MANAGEMENT'S RESPONSE

The A&A responses are provided as an attachment and the DFS OIG agrees with the responses.

ACKNOWLEDGEMENTS

The OIG would like to thank A&A leadership and staff for their input, cooperation, and assistance throughout the performance of this engagement.

The Office of Inspector General performs audits, consulting activities, and reviews of the Department of Financial Services' programs, activities, and functions to promote accountability, integrity, and efficiency in state government.

This engagement was conducted in conformance with The *International Standards for the Professional Practice of Internal Auditing*, published by The Institute of Internal Auditors, Inc., pursuant to Section 20.055, Florida Statutes, and *Principles and Standards for Offices of Inspectors General*, published by the Association of Inspectors General. This engagement was conducted by Crista Hosmer, CIA, CFE, CIGA, CIGE, FCCM, Senior Auditor, under the supervision of Debbie Clark, CPA, CIA, CISA, CIGA, CGAP, Director of Audit.

Please address inquiries regarding this report to the DFS Office of Inspector General at 850-413-3112.

DISTRIBUTION LIST

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ATTACHMENT

RESPONSE TO PRELIMINARY AND TENTATIVE AUDIT FINDINGS

Finding 1: Method of Approval

The audit revealed an opportunity for A&A to strengthen its process for accepting manual warrant requests to help ensure manual warrant requests are only processed on an as-needed, exceptional basis.

Recommendation: The OIG recommends that the Division limit use of manual warrant processing by developing a process or methodology in which the requesting agency is required to provide detailed justification for the request that must be signed by someone of sufficient authority within the requesting agency. In addition, the DFS OIG recommends that A&A release a Chief Financial Officer (CFO) Memo reminding the state agencies of their responsibilities regarding the processing of their own transactions.

A&A's Response: We concur that manual warrant production should be limited to exceptional circumstances. We further concur that authorization from agency leadership should be required, at a minimum. We appreciate the OIG's recommendation that the Division release a memo reminding state agencies of their responsibilities regarding the state's payment processes and deadlines. Such memo would reiterate that invoices for payment without sufficient time for FLAIR processing will be rejected.