Summit County Executive Office
Department of Finance and Budget
1st Follow-up Preliminary Audit Report

Prepared For:

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Audit Committee

Approved by Audit Committee
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Summit County Executive Office
Department of Finance and Budget
1st Follow-up Preliminary Audit – General Report

<u>**Auditors:**</u>

Lisa Skapura, Director; Meredith Merry, Deputy Director; Jon Keenan, Senior Auditor; Lucas Immel, Jaime Vedrody, and Brittney Manfull, Internal Auditors; Zach Woloch, Audit Intern

<u>**Objectives and Methodology:**</u>

To determine if management has implemented their management action plans as stated in the previously issued Preliminary and Follow up Audit reports.

We conducted this follow up audit 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.

<u>**Scope:**</u>

An overview and evaluation of policies, processes, and procedures implemented by the department/agency because of management actions stated in the management action plans during the Preliminary and Follow up Audit process.

<u>**Testing Procedures:**</u>

The following were the major audit steps performed:

1. Review the final Preliminary report to gain an understanding of IAD issues, recommendations, and subsequent management action plans completed by the audited department/agency.
2. Review the work papers from the Preliminary Audit.
3. Review any departmental/agency response documentation provided to IAD with management action plan responses following the Preliminary Audit.
4. Identify management actions through discussions/interviews with appropriate departmental personnel to gain an understanding of the updates/actions taken.
5. Review applicable support to evaluate management actions.
6. Determine implementation status of management action plans.
7. Complete the first Follow-up Audit report noting the status of previously noted management actions.

<u>**Summary:**</u>

Of the sixteen (16) issues and the corresponding management action plans noted in the Preliminary Audit Report which required follow-up action, the Department of Finance and Budget (DFB) fully implemented twelve (12) and partially implemented four (4) management action plans.

Based on the above-noted information, IAD believes the DFB has made a positive effort towards implementing the management action plans as stated in response to the issues identified in the preliminary audit and no further follow up is needed. However, IAD will schedule to conduct an Executive Office Asset Inventory audit upon full completion and implementation of the asset inventory database. IAD will monitor the progress and schedule the audit, accordingly.

Listed below is a summary of the issues noted in the Follow-up Audit Report and their status. Each issue number is in reference to the Preliminary Audit general report:

ISSUES NOT REQUIRING FOLLOW UP

Fully Corrected Prior to the End of Preliminary Audit Fieldwork:

Issue 6 - Upon review of Banner document approval privileges, IAD noted an employee outside of the Department of Finance and Budget has the ability to approve Department of Finance and Budget invoices.

Management Assumed Risk:

Issue 5 - Upon testing of Banner permissions for the DFB and Purchasing Department personnel IAD noted two users assigned permissions to both create and approve requisitions and purchase orders causing an improper segregation of duties.

Management Action Plan – The DFB and the Purchasing Department should segregate assigned permissions so that the same employee is not able to both create and approve a requisition/purchase order. Two employees were identified under this issue, the Director of the DFB and the Purchasing Agent 3. The Director has this ability only for emergency situations. The Purchasing Agent 3 has the ability to enter requisitions due to limited staffing in the department. It is also the position of the DFB that this issue is not a problem because any requisition/purchase order entered this way would still follow the normal approval queue process. No further action is planned.

Issue 8 - PO change orders are to be entered by the Purchasing Department and approved by the Fiscal Office. Upon review of Banner access reports obtained from MIS, IAD deems the following access levels as unreasonable:

  a. Three Fiscal Office employees have the ability to enter and approve a PO change order in Banner,
  b. One Fiscal Office employee has the ability to enter a PO change order in Banner.

Management Action Plan – Purchase Order (PO) change orders are to be entered by the Purchasing Department and approved by the Fiscal Office. The Senior Administrator sent an e-mail to the Fiscal Office on 4/19/2011 to recommend removal of the ability for four Fiscal Office employees to enter purchase order changes since entering the changes are a function of the Purchasing Department. Subsequent to that e-mail and after discussion with the Fiscal Office, three Fiscal Office employees will retain the ability to enter purchase order changes. The DFB deems this appropriate for instances where certain corrections require entry by the Fiscal Office as administrators of the Banner system and where changes are needed for the Port Authority, Board of Elections and Soil and Water Conservation District. No further action will be taken.

MANAGEMENT ACTION PLANS FULLY IMPLEMENTED

Issue 1 - Upon review of the County of Summit Executive-Department of Finance and Budget Operating Procedures Manual, IAD noted the following:

Finance & Budget

  - There were no supervisory approvals or effective dates,
  - There were miscellaneous documents maintained in the policy and procedures manual that were not reflected on the Table of Contents (e.g., departmental key listing, Directive from IAD, etc.),
  - There were outdated procedures/processes/forms contained within the manual (e.g., Capital Improvement Request Form, Grant Process, Accounts Payable/Expenditure, CDBG and HOME Draw Down Procedures,

Telephone Chargebacks, Voucher Processing, Social Service Advisory Board Budget Procedures, Auto Reimbursement Policy, etc.),

- There were incomplete procedures (e.g., Debt Service, Review of Budget Process, etc.),
- Outdated information was referenced in the manual (e.g., Charter, Codified Ordinances),
- There were handwritten procedures noted on the table of contents that were not incorporated into the manual (e.g., Inventory, P-Card Chargeback procedure, Indirect Costs, etc.),
- All existing departmental procedures were not incorporated into the manual (e.g., Fixed Asset Tracking Policy, Inventory Procedure, AMPCO Parking Deck Revenue Collection Procedure, Appropriation Adjustments by Executive Order Procedure, etc.),
- The Auto Reimbursement policy is not in compliance with the 2011 IRS Publication 15-B,
- There were no grants management procedures,
- There were numerous hand written corrections throughout the manual,
- Employee names were noted throughout the manual.

Upon review of the Department of Purchasing Policies and Procedures Manual, IAD noted the following:

Department of Purchasing

- There were no supervisory approvals or effective dates,
- There were incomplete procedures (e.g., Purchase Order Change Orders),
- There were outdated procedures/processes/forms contained within the manual (e.g., Summit County Bidders list, On-line requisitions, Purchasing Procedure Change Order Form, Procedures for Purchases Not Exceeding $1,000, etc.),
- Outdated information was referenced in the manual (e.g., Codified Ordinances).

Through initial review of policies and procedures, IAD noted significant improvements made from the prior policy and procedures manual; in addition to the corrective action taken prior to the end of follow-up audit fieldwork.

Issue 3 - Upon review of the DFB expenditure process IAD noted that the same employee is responsible for both the ordering and receiving of supplies.

Upon discussion and review of policy and procedure, IAD confirmed the ordering and receiving functions are performed by separate employees.

Issue 4 - Upon review of DFB and Purchasing Department expenditures, IAD noted two out of twelve transactions where the invoice date is prior to the purchase order date which is a violation of O.R.C § 5705.41.

Upon review of encumbered transactions, no exceptions were noted.

Issue 7 - During testing and discussions, IAD noted that the same individual is responsible for placing and receiving orders for electronic equipment for the Executive's Office which is an improper segregation of duties.

Upon discussion and review of policy and procedure, IAD confirmed the ordering and receiving functions are performed by separate employees.

Issue 9 - Upon discussion with DFB personnel, it was noted that WebFocus is used to generate a report to track purchases to vendors for aggregate spending, in accordance with BOC policies and procedures; however, the report only includes funds encumbered (i.e., purchase orders) and is not an accurate reflection of funds actually spent. Per Codified Ordinance, County Council approval is required when purchases, not encumbrances, exceed $25,000 to a single vendor. In addition, IAD notes that direct-to-code and p-card purchases are not included on the report.

Upon discussion and observation, IAD confirmed the aggregate spending tracking report includes all transactions.

Issue 10 - During testing, IAD noted four out of sixteen instances where individual expenditures of less than $5,000 each totaled more than $25,000 in aggregate to a single vendor were not approved by County Council.

Per Codified § 177.03, purchases made under a County elected officeholder, to a single vendor that exceed $25,000 in aggregate for any calendar year should only be made upon authorization of County Council. Additionally, per the BOC policy and procedure manual, the DFB is to monitor aggregate spending and notify the respective office or department when expenditures are getting close to threshold.

Upon review of aggregate payments to a single vendor paid for out of a judgmentally selected Executive Department, no exceptions were noted.

Issue 12 - Upon review of the Summit County Charter § 2.03 titled "Powers and Duties of the County Executive" it was noted in paragraphs (8) and (8) (c) that the County Executive has the following duties:

(8) To submit to the County Council a proposed operating budget for each fiscal year which shall contain at least the following

    (c) A schedule of estimated revenues and proposed expenditures for each County department, office, agency, authority, board and commission, on a quarterly or more frequent basis.

In addition, it was noted that the DFB policy and procedure for the budget process states the same.

Upon review of the 2011 Operating Budget it was noted that a quarterly basis schedule of 2011 Cash Flow Projections was present for the General Fund. Quarterly schedules of estimated revenues and proposed expenditures were not present for any non-General Fund County departments, offices, agencies, authorities or boards and commissions.

Upon review of the 2012 and 2013 Operating Budgets, IAD confirmed that applicable language was included.

Issue 13 - Upon review of the Summit County Charter § 2.03 titled "Powers and Duties of the County Executive" it was noted in paragraphs (9) and (9) (d) that the County Executive has the following duties:

(9) To submit annually to the County Council a capital improvements program which shall contain at least the following:

    (d) A five year debt management projection for capital improvements.

In addition, it was noted that the DFB policy and procedure for the budget process states the same.

Upon review of the 2011-2016 Capital Improvement Program it was noted that it did not contain a five year debt management projection

Upon review of the 2012 and 2013 Capital Improvement Program reports, IAD confirmed that five-year debt management projections are included.

Issue 14 - The Summit County Charter § 187.01"Department of Finance and Budget to Annually Prepare Five-Year Projections" states:

The County Executive's Department of Finance and Budget, as a budgetary officer of the County, shall annually prepare five-year projections for the County's General Fund, Federal Revenue Sharing Fund, County Sales and Use

Tax Fund, Real Estate Assessment Fund, Debt Service Funds, Department of Job and Family Services Funds, and any other funds that may have an impact on the general operations of the County, in accordance with the guidelines of the American Institution of Certified Public Accountants (A.I.C.P.A.), the first of which shall cover the period 1986 through 1990, inclusive.

It is noted that a five-year projection for the General Fund is prepared and included in the Summit County 2011 Operating Budget. These projections are not prepared for the remaining funds noted above.

Upon review of the 2012 and 2013 Operating Budgets, IAD confirmed that five year forecasts are included.

Issue 15 - Upon testing of Executive Orders (EO) for appropriation adjustments, it was noted that one out of ten EOs did not contain a statement of necessity as required by County Charter § 130.03.

Upon review of appropriation adjustments in Banner, no exceptions were noted.

Issue 17 - Upon review of the receipting log utilized to track cash receipts as well as discussions with the Accountant 2, there is currently no reconciliation process in place to ensure that all checks received were deposited into Banner.

Upon discussion and review of the policies and procedures and receipt log, no exceptions were noted.

Issue 18 - Upon observation and discussion with the Executive Assistant, the DFB accepts post-dated checks, some for time periods greater than one month, which is a violation of O.R.C. §9.38.

Upon discussion and review of the policies and procedures and the receipt log, no exceptions were noted.

MANAGEMENT ACTION PLANS PARTIALLY IMPLEMENTED:

Issue 2 - Upon review of the DFB Records Retention Schedule (RC-2) IAD noted that the RC-2 needs updating to include all records maintained by the department.

IAD obtained the DFB RC-2 from the Records Manager on 7/16/13 and made comparisons to the prior RC-2 (from the audit in 2011). It was noted that the RC-2 has been updated and approved by the Auditor of State on 9/19/11; however, through discussions with the DFB Senior Administrator and the Records Manager, IAD noted the following items that still need to be added:

- *Inventory*
- *P.O. change orders (Purchasing)*
- *Surplus auction related documents (Purchasing)*
- *Vehicle logs (Purchasing)*
- *Pay-in logs/documents (DFB)*

IAD noted updates made to the RC-2; however, several areas/documents still need to be included.

Issue 11 - During testing, IAD noted eighteen out of forty-five instances where the Purchase Order Balance Request form was not properly authorized by the requesting department. Of the eighteen instances, two did not contain any authorization, and sixteen were improperly authorized. Upon discussion with DFB personnel, authorization should only be made by the individual responsible for approving the purchase order requisitions in Banner.

Upon discussion with the DFB Senior Administrator, IAD confirmed the policy has been updated to require the PO Change Order Forms to be signed by the department head or a designee and the policy has been approved by the DFB Director. IAD generated a WebFOCUS report for all Purchase Order changes (document type CORD) in

2012 and randomly selected ten (10) purchase order changes to confirm a Purchase Order Balance Change Request Form was submitted and properly approved. One (1) of ten (10) instances was noted where the Purchase Order Balance Change Request Form was not properly approved.

Issue 16 - Upon review of the cash receipts log, utilized to track receipts into the DFB, and the pay-in log utilized to track deposits into the Treasurer's office, it was noted that there were twelve instances out of fifty-six where the deposits were not made on a timely basis which is a violation of O.R.C. §9.38. IAD notes that this error may be understated because cash receipts are not time stamped immediately upon receipt making it difficult to determine the exact date of receipt. In addition it was noted there is no apparent back-up for the check receiving function.

IAD obtained and reviewed the DFB Policies and Procedures Manual and confirmed that the above-noted changes/updates have been incorporated into the manual. Additionally, IAD met with department personnel to gain an understanding of their current processes for receipting payments and paying them into the Fiscal Office. The receipt log was obtained from the Fiscal Officer 3 and twenty-two (22) receipts were judgmentally selected for detailed testing to confirm that checks were being timely deposited. IAD noted two (2) out of twenty-two (22) instances where checks were not being deposited timely, in violation of ORC §9.38.

(Fixed Asset Inventory) Recommendation - IAD recommends that the DFB work with the Fiscal MIS department to implement a fixed asset tracking solution in SharePoint. This web-based document and sharing resource would allow both departmental and employee assigned assets to be tracked in an efficient and effective manner. Additionally, user access privileges could be granted on a departmental level to allow Executive Office Departments to take responsibility in tracking their own assets. Utilizing SharePoint would help to ensure that an accurate central listing of Executive Office assets is maintained as well as help to ensure that County assets are safeguarded.

On 7/16/13, IAD met with the Senior Administrator to discuss the new fixed asset tracking system. IAD also obtained the DFB's policy on inventory and fixed assets in order to gain an understanding of the procedures that are in place. It is noted that the system has been developed; however, it is in the initial asset entry phase. Per the Senior Administrator, the target completion date for full implementation is January 1, 2014.