

Summit County Children Services

1st Follow-up Preliminary Audit Report

Prepared for:

John Saros
Audit Committee

Approved by Audit Committee
December 10, 2013



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Internal Audit Department
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Auditors:

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

Objectives and Methodology:

To determine if management has implemented their management action plans as stated in the previously issued Preliminary Audit report, approved on June 25, 2012.

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.

Scope:

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.

Testing Procedures:

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.

Summary:

Of the twelve (12) issues and the corresponding management action plans noted in the Preliminary Audit Report which required follow-up action, Summit County Children Services (SCC) fully implemented six (6), partially implemented four (4), and did not implement two (2) management action plans.

Based on the above-noted information, IAD believes SCCS has made some efforts towards implementing the management action plans as stated in response to the issues identified in the preliminary audit; however, further follow-up is needed to ensure additional effort is made on the management action plans deemed partially and not implemented.

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

Management action plans fully implemented:

Issue 3 - Upon review of the SCCS expenditure process and during interviews, IAD noted employees that are responsible for both the ordering and receiving functions within the agency, causing an improper segregation of duties.

Management Action Plan – The receiving function is now being performed by an employee separate from the ordering function who compares the items received to the packing slip and signs off as to completeness. Supplies are then distributed to the requesting department.

Through discussions with personnel, IAD noted that the receiving function was assigned to a separate employee upon conclusion of the prior audit. Duties were temporarily assigned back to the individual due to a grievance filed in July 2013, but permanently assigned to an individual who has no accounts payable or office supply duties, prior to the end of the follow-up audit fieldwork.

Issue 4 - During testing of SCCS expenditures, IAD noted eight (8) out of seventy-five (75) instances where the invoice was not properly approved by the respective SCCS Division Director, as required per SCCS Fiscal Procedures.

Management Action Plan – Appropriate Fiscal staff responsible for invoice processing and review have been instructed to monitor compliance and return invoices to the appropriate management level as necessary for required approval.

Through detail testing, IAD verified that invoices are being properly approved.

Issue 5 - Upon review of SCCS expenditures, IAD noted eight (8) out of seventy-five (75) instances where the invoice date was prior to the purchase order date, which is a violation of Ohio Revised Code §5705.41.

Management Action Plan – Improving compliance with ORC 5705.41 is a matter of educating and policing personnel in a position to place orders. We are communicating this rule to the departments and monitoring invoices to ensure that they do not commit to purchases prior to encumbering the funds on a Purchase Order.

Through detailed testing, IAD verified that funds are being properly encumbered prior to incurring the expense.

Issue 6 - During the interview process, observations, and detail testing it was noted that there is an improper segregation of duties for the following functions:

- The same individual performs the Cash Receipts and Cash Disbursements functions for the two off CAFR bank accounts,
- Checks are endorsed and deposited by the same individual for the two off CAFR bank accounts,
- On occasion checks and/or cash are delivered to the same individual that is responsible for preparing deposits,
- The individual who prepares bank reconciliations for the two off CAFR bank accounts is also the back up for the Cash Receipts and Cash Disbursements functions.

Management Action Plan – The logging and endorsing function has been separated from the depositing function for the Off CAFR bank accounts. Due to the limited number of staff and software licenses available, and bargaining unit job description constraints, it becomes difficult to segregate duties further. As a mitigating control, the Director of Finance (who signs checks) has been provided with the check register to ensure the completeness of the check series. Also, the Manager of Budget and Finance reviews and signs off on the bank reconciliations.

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Through discussions with staff and review of bank statements, IAD confirmed that the above-noted issues have been corrected.

Issue 7 – Upon detail testing for timely deposits in accordance with ORC §9.38 the following errors were noted:

- Twenty four (24) of thirty nine (39) deposits made in April 2011, and three (3) of twenty three (23) deposits in July 2011 were not deposited timely into the Trustee Betterment account,
- One (1) of two (2) deposits tested for April 2011 and July 2011 was not deposited timely into the Children’s Savings account,
- Six (6) of thirty nine (39) deposits tested for the year ended December 31, 2011 were not deposited timely into the Summit County Treasurer.

Management Action Plan – The process for depositing checks has been modified, allowing for decreased time necessary to prepare deposits. Checks are now endorsed, batch totals run to ensure accuracy/completeness and also scanned as soon as they are picked up from the mail room. Previously checks for deposit were manually logged. In addition to improving the process, staff have been reminded of the regulations and the importance of compliance stressed.

Through detail testing of the above-noted accounts, IAD noted that deposits were made timely.

Issue 12 - Upon review of employee personnel files, IAD noted fourteen (14) files that did not contain all of the twenty-two (22) required documents as noted on the HR Personnel Record Checklist.

Management Action Plan – The Human Resources Assistant reviews personnel files on a monthly basis. The review of the employee’s file will ensure that all information in the file is current and accurate.

Through detail testing, IAD confirmed that personnel files contained all required documents.

Management action plans partially implemented:

Issue 1 - Upon review of SCCS policies and procedures, IAD noted no written or incomplete policies and procedures for the following functional areas:

- Grant Procurement and Administration,
- Encumbrance change orders,
- Invoice approval,
- Petty Cash,
- Timely deposits,
- Fringe Benefits,
- Documenting and tracking Agency property.

Management Action Plan – The current existing practices and procedures will be formally documented where necessary by June 30, 2012. Accounting procedures will be included in Fiscal procedure manual and the critical need for monitoring for compliance has been addressed with the appropriate staff.

Upon review of the SCCS policies and procedures, IAD noted policies and procedures in place for all of the above-noted areas with the exception of grant procurement and administration and encumbrance change orders.

Updated Management Action Plan – Will collaborate with appropriate agency staff in Fiscal, Legal and Organizational Research and Evaluation to develop a Grant and Administrative policy and procedure. Fiscal will

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document, in the Fiscal Procedure manual, the guidelines for purchase order encumbrance change orders that will also encompass an aggregate increase component. By 1/31/14.

Issue 8 - Upon detail testing of the Petty Cash disbursements, IAD noted nine (9) instances where the Reimbursement Approval Form was not fully completed and two (2) instances where the reimbursement amount exceeded the petty cash or employee meal reimbursements threshold, per SCCS policy and procedure.

Management Action Plan – Management reviewed approval process with staff to ensure the completeness of the Reimbursement Approval Form. The approved threshold for petty cash disbursements (\$10.00) was reviewed and noted that any disbursements in excess of that amount must be approved on the form by a Fiscal Manager or Director of Finance.

IAD obtained the petty cash receipts and Reimbursement Approval Forms for February and June 2013 and verified completeness, accuracy and that proper approval was obtained for petty cash disbursements over \$10.00. IAD noted four (4) out of twenty three (23) instances where the Request for Reimbursement Form was not completed in its entirety and one (1) out of two (2) instances where the Manager of Budget and Finance approval was not obtained for reimbursements exceeding the \$10.00 threshold.

Updated Management Action Plan – The Petty Cash Reimbursement Policy/Procedure will be expanded to encompass allowable documentation to support disbursements giving Fiscal staff more discretion for approval. By 11/30/13.

Issue 10 - Upon review of 2011 encumbrance changes, IAD noted three (3) of four (4) instances where the change increased the encumbrance over an approval threshold and did not receive an appropriate approval.

Management Action Plan – The amount of increases to purchase orders are being subjected to the same approval thresholds as for original Purchase Orders. The Manager of Budget and Finances will monitor at the electronic approval process in Banner.

Per discussion with the Budget and Financial Reporting Manager III IAD noted that encumbrance changes are being monitored individually, but not for cumulative changes. Policies and procedures have not been created for encumbrance change orders (See issue #1 under policies and procedures above). However, upon testing a sample of ten (10) randomly selected SCCS encumbrance change increase approvals, no issues were noted.

Updated Management Action Plan – As noted in issue 1 MAP, the procedure and subsequent practice will encompass and monitor for compliance with approval thresholds. By 11/30/13.

Issue 11 - Upon review of the Transitional Housing Program 1 Renewal and Transitional Housing Program 2 grant documents and through detail testing, it was noted that there is a discrepancy in the matching requirements between the grant application, the grant agreement, and the CFR 24 (Code of Federal Regulation).

Management Action Plan – SCCS requested and obtained clarification from HUD with regard to the cash match required under the grants. HUD confirmed that the amount of cash match required is consistent with the grant application and the amount of cash match that SCSS has been meeting. HUD also confirmed that the reason that the CFR was silent as to the amount of match required for Supportive Services is that match for such costs was added separately with the legislation approving these grants. SCCS has requested an amended contract from HUD which is consistent with the above.

Upon discussion with the Budget and Financial Manager III and review of correspondence with HUD, IAD noted that clarification had been received and a corrected HUD agreement was requested; however, the agreement was never received nor was follow-up conducted by SCCS. Therefore, IAD deems this management action plan partially implemented.

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Updated Management Action Plan – In order to fully implement the original action plan, HUD was not responsive to requests for an amended contract however they did clarify that the match interpretation was accurate. The grant has since expired and they deemed their clarification was sufficient. Current HUD contracts no longer differentiate between Operational and Supporting matching requirements (which was the basis for the original discrepancy) and are based upon one percentage applied to allowable cost in accordance with the CFR 24 (Code of regulations).

Management action plans not implemented:

Issue 2 - Upon testing of Banner permissions for the Summit County Children Services (SCCS), IAD noted three (3) SCCS users had permission to create and approve encumbrances, encumbrance change orders, journal vouchers, and invoices in Banner, causing an improper segregation of duties.

Management Action Plan – Remove entry and change permission for the three (3) fiscal management users, keeping approval permission only by July 1, 2012. This will segregate the permission to create encumbrances, change orders, journal vouchers and invoices in Banner from the approval of those transactions. This will help to ensure that a proper segregation of duties is in place for the purchasing and expenditure functions in Banner, in accordance with Best Practices.

IAD requested Banner User and Banner Class Form reports from MIS and created a summary to illustrate employees who are able to enter and approve an invoice, journal entry, encumbrance, and encumbrance change order in Banner, to test for proper segregation of duties. IAD noted three (3) employees able to enter and approve an invoice, journal entry, encumbrance, and encumbrance change orders in Banner, causing an improper segregation of duties.

Updated Management Action Plan – Request has been made to County Fiscal Office to modify Banner permissions for three (3) fiscal managers to ensure compliance with segregation of duties. Revised Banner User Access Forms received from Fiscal Office for authorization. Will monitor for completion. By 11/30/13.

Issue 9 - Upon testing of SCCS purchase order approvals, four (4) out of fifty-three (53) purchase orders did not contain the appropriate approval as required by the SCCS Fiscal Procedures.

Management Action Plan – Fiscal staff assigned to purchase order processing has been instructed to monitor closely for appropriate approval in compliance with agency procedure.

Upon testing of SCCS purchase order approvals, IAD noted three (3) out of twenty (20) purchase orders that did not contain the appropriate approval as required by the SCCS Fiscal Procedures.

Updated Management Action Plan – Diligence in monitoring purchase order approval thresholds will be reinforced with appropriate staff. Fiscal staff position responsible for initial data entry of Purchase Order into Banner will edit for all necessary approvals required. By 11/30/13.