Summit County Fiscal Office
Countywide Accounts Payable
Audit Report

PREPARED FOR:

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Audit Committee

Approved by Audit Committee
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General Background

The Auditor Division Accounting Department (Accounting Department) is responsible for the disbursement of more than $1 billion in funds that are received by the county each year. The Fiscal Officer is the bookkeeper for all county elected officials and county agencies such as Children Services. The Fiscal Officer also keeps books for outside agencies such as the park district and the county health department.

During this audit the Fiscal Office purchased an add-on module to Banner, the accounting software utilized by the county, called Xtender which is being implemented in stages. Detail testing of the new processes, policies and procedures surrounding this implementation will be performed at the time of the Countywide Accounts Payable follow-up audit.

Audit Objectives And Methodology

The primary focus of this review was to provide the Summit County Fiscal Office Auditor Division; Accounting Department (Accounting Department) with reasonable assurance, based on the testing performed, on the adequacy of the system of management control in effect for the audit areas tested for the year ended December 31, 2008 and the seven months ended July 2009, unless otherwise specified in the individual test area. Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. Management is responsible for establishing and maintaining effective controls that, in general, include the plan of organization, as well as methods, and procedures to ensure that goals are met. Specific audit objectives include evaluating the policies, procedures, and internal controls related to the Accounting Department.

We conducted this performance 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.

Based on the results of our review, we prepared specific issues and recommendations for improvement that were discussed with management. These recommendations, as well as management's unaltered written response, can be found in the following sections of this report.

Specific Objectives:

1. To obtain and review the current policies and procedures.

2. To review the internal control structure through employee interviews, observation and testing.

3. To perform a general overview of the physical environment and security of the facilities, data, records and departmental personnel.

An overview and evaluation of the existing policies, processes, procedures, contracts and internal control structure utilized by each department.

The following were the major audit steps performed:

OBJECTIVE 1 – POLICY AND PROCEDURES REVIEW

1. Obtain and review the current policies and procedures.
2. Meet with the appropriate personnel to obtain an understanding of the current department processes and procedures. Compare those existing processes to the policies and procedures manual for consistency, noting all exceptions.
3. Test procedures for mandatory compliance where applicable.
4. Identify audit issues and make recommendations where appropriate.

OBJECTIVE 2 – REVIEW OF INTERNAL CONTROLS

5. Meet with the appropriate personnel to obtain an understanding of the control environment.
6. Document the existing control procedures in narratives and/or flowcharts.
7. Compare existing processes to the policies and procedures manual for consistency.
8. Test procedures for compliance where applicable, noting all exceptions.
9. Investigate discrepancies and summarize results.
10. Make recommendations where appropriate.

OBJECTIVE 3 – REVIEW OF SECURITY

11. Perform a general overview of the physical environment and security of the department/ agency being audited.
12. Interview various personnel to determine that confidential information is secure and processed only by appropriate parties.
13. Obtain and review the document retention policy and determine if policies and procedures are currently in place and being followed.
14. Test security issues where appropriate.
15. Analyze current policies and make recommendations.

Interviews:

To gain an understanding of the accounts payable function within the Accounting Department, IAD interviewed the following positions throughout the organization:

    a. Chief Deputy Fiscal Officer
    b. Support Services Administrator
    c. Fiscal Officer II
    d. Fiscal Officer III
    e. Account Clerk II
    f. Clerk III
    g. Clerical Specialist I
    h. Administrative Secretary
    i. Assistant Director of Administration

No issues were noted.

I.   Policies & Procedures Review:

IAD obtained and reviewed the Auditor Division, Accounting Department, Departmental Procedures Manual. The following issues were noted:

1. Issue:

Upon review of the Accounting Department policy and procedure manual, IAD noted the following items:

- One chapter/section was missing from the manual (Chapter 34-*County Departments and Authorized Approvers*).
- An inadequate policy and procedure for the one million dollar threshold for wire transfers. The policy and procedure simply stated that, "Vouchers $1,000,000 must be wired," it did not include the following procedures, in accordance with a memo sent by the Chief Deputy Fiscal Officer of Finance:

    a. A Summit County Fiscal Office Wire Request form, which is required to be completed prior to processing a wire transfer,
    b. Copies of contracts and original invoices, which are to be submitted in support of a payment,
    c. An email confirmation of the completed transaction will be sent via email, by the Accounting Division.

Recommendation:

IAD recommends that the Accounting Department review the policy and procedures manual for completeness, and that the missing chapter and policy, referenced above, be added to help to ensure that the manual is complete and that employees are following the most current policies and procedures.

Action taken prior to the end of fieldwork:

On 7/6/09, IAD obtained and reviewed revisions to the Auditor Division, Accounting Department, Departmental Procedures Manual (chapters 4 and 8), which include a more comprehensive policy and procedure for vouchers totaling one million dollars or greater. IAD noted that the memo sent by the Chief Deputy Fiscal Officer was also included in the policy and procedure. In addition, on 1/14/11, IAD obtained Chapter 34, which was missing in the manual.

II. Internal Control Testing:

Internal control testing and/or observations were performed in the following areas:

- o Banner vendor master
- o Vendor invoice verification
- o Vendor invoice processing
- o Electronic transfers
- o Check processing
- o Void and cancelled check processing
- o Duplicate payments
- o 1099 processing
- o Purchase Order and encumbrance balance changes

BANNER VENDOR MASTER

IAD obtained and reviewed Accounts Payable Best Practices, author Mary S. Schaeffer, to gain an understanding of best practices for accounts payable functions and operations. Additionally obtained and reviewed was the Auditor Division Accounting Department, Departmental Procedures Manual. Chapter 7 "Vendor Numbers," to gain an understanding of the policies and procedures that address Banner vendor master file maintenance.

IAD obtained and reviewed a listing of Banner users and their corresponding Banner class, from the Relational Database Admin 3, to gain an understanding of which employees have the ability to edit the vendor master file. IAD noted that 23 employees have the ability to add vendors to the vendor master file. IAD performed an observation of the vendor entry process with the Account Clerk II, and prepared a narrative and flowchart to gain a further understanding of the process.

Through discussions with the Chief Deputy Fiscal Officers, IAD was informed that the Accounting Department is in the process of eliminating duplicate vendor entries, and has a policy and procedure in place for the cleanup of the vendor master file. In addition, IAD contacted Rea & Associates, who performs the state financial audit for the county, and was informed that they had performed follow up testing regarding multiple vendor numbers. Therefore, IAD passes on testing duplicate vendor entries in the Banner vendor master file.

IAD generated a listing, utilizing WebFOCUS, of all vendors and randomly selected a sample of 25 to test for the presence of a Form W-9 (W-9), and to verify that the W-9 information matched information in Banner for the respective vendors. IAD obtained a listing of vendors that did not have a W-9 on file and

verified with the Administrative Secretary, who is responsible for this function, that attempts are made to collect the missing forms.

IAD generated a listing of one-time vendor payments greater than $600 from 1/1/09 to 5/8/09 to test for multiple payments to one-time vendors. This listing, along with a listing of all vendors in the Banner vendor master file, was imported into ACL (auditing and data analysis software) to generate a report of all one-time payments made to vendors that are also created as recurring vendors in the Banner vendor master file.

IAD generated a listing of employees and their respective addresses, and a listing of all vendors and their respective addresses. The two listings were imported into ACL to test for vendors with matching employee addresses. In addition, the data was filtered for vendors who, 1) were paid more than $2,500 since 2000, and 2) have done business with the County during or after 2005 and were not estates. Selected for testing were all vendors who received payment in 2008 and 2009 and were tested for proper management approval. No issues were noted during testing.

The following issues were noted during testing:

2. Issue:

    Upon review of Banner users and their corresponding Banner class, IAD noted that 23 employees had the ability to add new vendors as well as make changes to the vendor master file.

    Recommendation:

    IAD recommends that the Accounting Department limit the number of employees that have the ability to add vendors and make changes to the Banner vendor master file. In addition, by limiting the number of users having the ability to alter these files, it effectively reduces the risk of entering fraudulent vendors, as well as help to ensure that processes related to the Banner vendor master file are in accordance with best practices.

    Action taken prior to the end of fieldwork:

    On 12/20/2010, IAD obtained e-mail confirmation that authorization to enter new vendor numbers was limited to FO Accounting Department personnel. IAD obtained and reviewed an updated listing of Banner users and their assigned Banner classes and noted that the number of active users had been reduced to 13 employees deemed reasonable by the Chief Deputy Fiscal Officer.

3. Issue:

    During observation of the vendor entry process, IAD noted that the "Discount" field in Banner is currently populated with the default due date, which is "today," rather than the actual vendor payment terms. Vendor invoices are being paid on the day they are entered into Banner rather than on the day they are due.

    Recommendation:

    IAD recommends that the Accounting Department update vendor master files with each vendor's respective terms so that available discounts and time value of money can be maximized.

Management action plan:

Based on current business practices the Accounting Department is instructing departments to enter the current date in the "Payment Date" field when processing invoices for payment. Even if terms are Net 30, it can take up to two weeks for an invoice to be entered by a department/agency, routed through the department/agency internal approval process, the Department of Finance and Budget County Signature List approval process and the Accounting Department for auditing and check processing. Taking into account mailing time, in order for the payment to be received timely by the vendor makes the current date reasonable for the "Payment Date" field.

4. Issue:

During detail testing of one-time vendor (vendors doing business with the county one time) payments from 1/1/09 to 5/8/09 and greater than $600, IAD noted the following:

- Thirty four instances out of two hundred and seventy where a one-time vendor received multiple payments,
- Seventeen instances of one-time payments to recurring vendors that were previously created in the vendor master file.

This could cause duplicate vendor records and payments.

Recommendation:

IAD recommends that the Accounting Department limit the usage of one-time vendor payments to juror payments and extraordinary payments to vendors who will only receive one payment. Furthermore, IAD recommends that Accounting Department employees verify that a vendor does not exist in the Banner vendor master file prior to issuing payment as a one-time vendor. This will help to ensure that payments are being recorded and accounted for properly.

Action taken prior to the end of fieldwork:

On 12/20/2010, IAD obtained and reviewed the policy and procedures regarding Vendor Numbers to confirm that the criteria for one-time vendor payments have been restricted. Furthermore, IAD reviewed one-time payments from 6/1/10 to 12/31/10 and noted that it appeared one-time vendor payments were made for only the types of transactions listed in the Vendor Number policy and procedure.

VENDOR INVOICE VERIFICATION

IAD obtained and reviewed Accounts Payable Best Practices, author Mary S. Schaeffer, to gain an understanding of best practices for accounts payable functions and operations. In addition, IAD obtained and reviewed the Departmental Procedures Manual for the Summit County Fiscal Office Auditor Division, Accounting Department, from the Support Services Administrator, to gain an understanding of the basic functions/operations.

An observation of the process for reviewing vouchers was performed with the Administrative Secretary and a flowchart was created. IAD confirmed that all vouchers greater than or equal to $500,000 are

reviewed and approved, in Banner, by either the Chief Deputy Fiscal Officer or the Deputy Fiscal Officer, and that the policy is incorporated in the Auditor Division Accounting Department policy and procedure manual. IAD generated a Banner report of all checks disbursed to outside vendors greater than or equal to $500,000, issued between 4/3/09 and 6/2/09, and tested for proper approval in Banner.

No issues were noted during testing.

VENDOR INVOICE PROCESSING

IAD obtained and reviewed Accounts Payable Best Practices, author Mary S. Schaeffer, to gain an understanding of best practices for accounts payable functions and operations, specifically for the posting of financial data into an accounts payable system for the issuance of payments. IAD obtained and reviewed the Auditor Division Accounting Department, Departmental Procedures Manual to gain an understanding of the procedures for entering vouchers into Banner for payment.

An observation of the voucher entry process into Banner was performed, with the Clerk III, and a narrative and flowchart was created to gain an understanding of the process. IAD randomly selected 15 voucher packets from 12/1/08 though 7/6/09 and performed detailed testing of vendor invoice processing. Additionally, IAD randomly selected 21 groups of vouchers consisting of 25 vouchers each from 12/1/08 through 7/6/09 to ensure all documentation was present.

The following issue was noted during testing:

5. Issue:

    Upon observation of voucher entry into Banner by the Clerk III, IAD noted the following:

    a. The current date, at the time of entry, was entered in the "Invoice Date" field rather than the actual vendor invoice date,
    b. The "Vendor Invoice" field, a field designated for a vendor invoice number, was not populated with invoice numbers but rather left blank or contained other information,
    c. The "Discount Code" field, a field designated for invoice payment terms, was populated with "00," indicating that the invoice is due today.

    Recommendation:

    IAD recommends that the Accounting Department begin entering vendor invoice numbers into the "Vendor Invoice" field, vendor invoice dates into the "Invoice Date" field, and the payment terms into the "Discount Code" field in Banner at the time of invoice entry. This will help to facilitate the payment of invoices when they are due, take advantage of discounts, if applicable, and take advantage of the time value of money. Additionally, vendor invoice information will help to minimize the occurrence of duplicate payments because every invoice per vendor must have a unique invoice number.

    Partial Action taken prior to the end of fieldwork:

    On 12/21/10, IAD obtained e-mail confirmation from the Support Services Administrator that vendor invoice dates and numbers are currently being entered in the respective dedicated fields in Banner.

IAD randomly selected two transactions and traced and agreed the information to the vendor invoice in Banner Xtender effectively clearing points a. and b. noted above. Point c. noted above requires a management action plan.

Management action plan:

Based on current business practices the Accounting Department is instructing departments to enter the current date in the "Payment Date" field when processing invoices for payment. Even if terms are Net 30, it can take up to two weeks for an invoice to be entered by a department/agency, routed through the department/agency internal approval process, the Department of Finance and Budget County Signature List approval process and the Accounting Department for auditing and check processing. Taking into account mailing time, in order for the payment to be received timely by the vendor makes the current date reasonable for the "Payment Date" field.

ELECTRONIC TRANSFERS

IAD obtained and reviewed Accounts Payable Best Practices, author Mary S. Schaeffer, to gain an understanding of best practices for accounts payable functions and operations, specifically for wire transfers. Additionally, IAD obtained and reviewed the Auditor Division Accounting Department, Departmental Procedures Manual to gain an understanding of the threshold amount requiring payment to be made by wire transfer. Specifically reviewed was Chapter 4, "Warrant Issuance," and Chapter 8, "Distribution of Vendor Checks." IAD prepared a flowchart detailing the check cutting and wire transfer processes.

IAD generated a Banner WebFocus report of all wire transfers processed from 1/1/09 through 6/10/09 to gain an understanding of the quantity and amounts of wire transfers processed by the Fiscal Office. A sample of 18 wire transfers was judgmentally selected for detail testing. No issues were noted during testing.

IAD generated a Banner WebFocus report for all checks that were processed for an amount of $1 million or greater from 4/3/09 through 6/10/09 for detail testing**.** See Issue 6 below.

IAD obtained and reviewed the Procurement Card (P-card) Program Policy and Procedure Manual to gain an understanding of the processes and procedures regarding P-cards. IAD performed a walkthrough of the P-card payment process with the Fiscal Officer. The March 2009 P-card wire transfer payment was selected for detail testing. See Issue 7 below.

6. Issue:

   Upon detailed testing of payments that were $1 million or greater, IAD noted that in 2 out of 16 instances where payments were not wired in accordance with their policy. Upon review of the Accounting Department procedures manual, updated Issuing Warrants policy, "Checks $1,000,000+ must be Wired."

Recommendation:

IAD recommends that the Accounting Department be more diligent in processing payments of $1 million or greater by wire transfer. This will help ensure that the Accounting Department is compliant with their policies and procedures.

Action taken prior to the end of fieldwork:

The new policy has been added to the policies and procedures manual. All vouchers greater than $500,000 require approval of the Chief Deputy Fiscal Officer-Finance prior to payment processing. In addition, all vouchers greater than $1,000,000 required ACH or wire transfer through the Fiscal Office Investment Department for payment. Three 2010 transactions over $1,000,000 were randomly selected to verify that the department is following this policy.

7. Issue:

Upon review of the 3/16/09 US Bank statement and supporting documentation for departmental P-card and "super" P-card (large dollar transactions P-card) transactions, IAD noted 2 charges made with the "super" P-card, totaling $16,602.11, out of the 79 total charges totaling $38,135.80, that did not have an invoice or receipt supporting the transaction. IAD notes that the statement was paid on 3/24/09 without supporting documentation for the 2 transactions. Per the Procurement Card Program Policy and Procedure Manual,

> "When making a purchase, the cardholder should obtain and retain the original receipt. The receipt must contain the vendor's name, date of purchase, itemized description of purchase, per unit price, and extended price. The cardholder will match and attach receipts, invoices, packing slips and pre-approval forms (such as Travel Part I) to monthly cardholder transaction approval logs as part of the account reconciliations."

Recommendation:

IAD recommends that when reviewing the P-card monthly bank statement, the Accounting Department should verify that each transaction is matched to an approved invoice or receipt in order to validate the expense prior to processing the payment. This will help to ensure that all charges made with the P-cards are properly supported and authorized prior to payment of the P-card statement.

Action taken prior to the end of fieldwork:

On 2/16/11, IAD judgmentally selected one US Bank statement to confirm that supporting documentation existed for all transactions. IAD noted one instance, a credit, where there was no supporting documentation. IAD then selected an additional US Bank statement for testing and noted no errors.

CHECK PROCESSING

IAD obtained and reviewed the Auditor Division Accounting Department, Departmental Procedures Manual to gain an understanding of the following processes:

      a.   Chapter 4 "Warrant Issuance,"
      b.   Chapter 8 "Distribution of Vendor Checks."

IAD performed observations and prepared flowcharts of the following processes:

      a.   Preparation of checks for printing in Banner with the Fiscal Officer II,
      b.   Running of the "paycheck" script that prepares the queue for check printing, and the printing of the checks queued with the Client/Server Operator,
      c.   Physically picking up of the checks printed with the Fiscal Officer 3,
      d.   Completion of the check run in Banner with the Fiscal Officer II,
      e.   Adding additional detail information to the upper copy of each check stub utilizing a WebFOCUS report with the Fiscal Officer 3,
      f.   Reconciliation of check amounts per Key Bank to the Banner check run with Fiscal Officer 3,
      g.   Distribution of the checks with the Account Clerk II.

IAD generated a listing of checks processed from 5/4/09 to 5/15/09, utilizing WebFOCUS, to test for multiple checks cut to a single vendor in a single day. IAD imported the data into ACL, generated a listing of multiple checks to a vendor per day, and performed detail testing. See Issue 10 below.

The following issues were noted during testing.

8.   <u>Issue:</u>

Through observation and discussions with Accounting Department personnel, IAD noted that vendor checks are processed a second time, via a WebFocus report, to add additional Banner detail information to check stubs. With the checks being processed a second time, through the printer, there is risk that wrong information is printed on the checks stubs, as well as entire batches of checks having to be run again if there is a mistake.

<u>Recommendation:</u>

IAD recommends that the Accounting Department work with the MIS Department to re-design the existing check template to include the required detail information on the check stubs. This will eliminate processing the checks twice, and having incorrect information on the check stubs.

<u>Action taken prior to the end of fieldwork:</u>

IAD obtained e-mail confirmation and a sample of a printed check to confirm that a new check design is currently utilized effectively eliminating the need to re-run checks through the WebFocus process.

9.   <u>Issue:</u>

Through observation and discussions with Accounting Department personnel, IAD noted that multiple check runs are processed per day.

Recommendation:

IAD recommends that the Accounting Department begin populating the "Invoice Date" field with the vendor's invoice date and the "Discount Code" field with a discount code that corresponds to the vendor's terms (as noted in issue 6) when entering vouchers. Once these fields are correctly populated, the Banner report utilized to select invoices for payment, FARINVS, will queue for payment only the invoices that are due on the day selected for printing. The remaining invoices will accumulate in an Accounts Payable account to be paid when due. This will help to facilitate the processing of checks to one check run per day, therefore increasing the efficiencies in the day-to-day operations of the Accounting Department.

Management action plan:

Due to the structure of County government, it is not practical for the Accounting Department to process one check run daily. On most days the Accounting Department is limiting check runs to two but there are occasions when a third or fourth check run may be required.

10. Issue:

During testing of checks printed per day over a two week period, IAD noted that each invoice was paid with a separate check, causing multiple checks per vendor per check run and per day. In most instances these checks could have been consolidated into a single check per vendor. Based on the results of the sample tested, on average, 79 multiple checks per vendor per day are generated that could have been consolidated into one check. Extrapolated, this is an approximate cost savings of $5,736.82 per year in postage, envelopes, etc. and does not take into account labor costs.

Recommendation:

IAD recommends that the Accounting Division begin utilizing the "Many invoices per check" functionality of Banner, which combines vendor invoices to be paid with one check. This will help to increase efficiencies in the day to day operations of the Accounting Department as well as reduce the cost of check printing, postage, labor, etc.

Action taken prior to the end of fieldwork:

On 12/21/2010, IAD received e-mail confirmation that the default setting for check processing in the vendor master files has been changed to "many invoices per check." In addition, IAD randomly selected several active vendors to confirm that the setting has been changed.

VOID AND CANCELLED CHECK PROCESSING

IAD obtained and reviewed the Departmental Procedures Manual for the Summit County Fiscal Office Auditor Division, Accounting Department, and copies of the forms required to be completed by the respective county departments/agencies when requesting a check to be voided and/or re-issued, to gain an understanding of the process.

A flowchart was created based upon discussions, observations, and review of the policy and procedure. IAD randomly selected a sample of ten current year and eight prior year voided checks for detail testing.

The following issue was noted during testing:

11. Issue:

Upon review of the Check Void/Reissue Request, Void in Absentia Request, and Replacement Check Request forms, IAD noted that there is no signature line for supervisor/management approval, therefore there is no evidence of proper authorization from the originating department/agency. Additionally, IAD noted during testing that 5 out of the 18 forms tested did not contain a signature by the individual submitting the form.

Recommendation:

IAD recommends that the Accounting Department review and revise the Check Void/Reissue Request, Void in Absentia Request, and Replacement Check Request forms to include a signature line for management/supervisor approval. IAD also recommends that all departments/agencies are notified of the revision, to help to ensure that new procedures are followed. Furthermore, IAD recommends that the Accounting Department not process any check voids or void/reissues without the presence of supervisor/management approval from the requesting department/agency and create a policy and procedure stating such.

Action taken prior to the end of fieldwork:

On 2/22/11, IAD confirmed that the Replacement Check Request, Void in Absentia Request, and Check Void/Reissue Request forms, located online, contained a signature line for supervisor approval.

DUPLICATE PAYMENTS

IAD generated a WebFOCUS listing of all checks over $100 for the period 1/1/09 through 6/26/09, and a listing of all checks over $100 for the year ended 12/31/08. IAD imported the listings into ACL, summarized by check number, and utilized the "Look for Duplicates" command on the vendor name and check amount fields. IAD judgmentally selected a sample of 39 pairs of checks that appeared to be duplicates and tested for duplicate payments. IAD then judgmentally expanded the sample by 201 additional possible duplicate payments for 2009 and 80 additional possible duplicate payments for 2008 and conducted further detail testing. A listing of all cash receipts for 2008 and all cash receipts through 7/6/09 for 2009 was generated to test for recovery.

The following issues were noted during testing:

12. Issue:

Of the 320 pairs of payments selected for duplicate payments testing, IAD noted 8 and 6 instances of duplicate payments for 2009 and 2008, respectively. Of these 14 errors, only 3 have been recovered.

Recommendation:

IAD recommends that the Accounting Department begin entering vendor invoice numbers into the "Vendor Invoice" field, and vendor invoice dates into the "Invoice Date" field in Banner.

Furthermore, IAD recommends that the Accounting Department establish a policy governing the assignment of a unique invoice number to any invoice that does not originally contain an invoice number (Ex: utility bills). This will help to ensure that vendor invoices are not paid more than once by preventing users from entering the same invoice number per vendor into Banner.

Additionally, IAD recommends that the Accounting Department communicate with vendors who have not refunded the County for the identified duplicate payments and attempt to recover any excess payments made.

Action taken prior to the end of fieldwork:

On 12/21/10, IAD obtained e-mail confirmation from the Support Services Administrator that vendor invoice dates and numbers are currently being entered in the respective dedicated fields in Banner. In addition efforts for recovery have been made for the duplicate payments noted above.

13. Issue:

During testing of duplicate payments, IAD noted numerous instances of payments made with supporting documents that were not original invoices. The policy and procedures states that all vouchers submitted to the county Fiscal Officer for payment be accompanied by the original vendor's invoice. Payments were processed for expenditures with supporting documentation such as invoice copies, altered invoices, statements, call estimates, delivery tickets, and faxed invoices. Additionally, upon discussion with the Administrative Secretary, who is responsible for reviewing supporting documentation, it was verified that expenditures are not always paid from original invoices.

Recommendation:

IAD recommends that the Accounting Department only process payments for original invoices with appropriate supporting documentation. Furthermore, IAD recommends that the Accounting Department not process payment for any invoice that appears to have been altered. This will help to ensure the integrity of the invoice being paid as well as help to prevent duplicate payments to vendors.

Auditors' Note:

With the implementation of Banner Xtender, which will be completed in 2011, the Fiscal Office will only receive the electronic version of the invoice. The original will be kept by the originating department. Detail testing of this process will be performed at the time of the Countywide Accounts Payable follow-up audit. A management action plan is still needed stating how the Accounting Department will ensure that no invoice is paid from a vendor statement, altered invoice, etc.

Management action plan:

Effective June 1, 2010 when the first County department went live with Banner Xtender, the Accounting Department began auditing all invoices prior to check processing. A checklist was been created for auditing purposes. Checklist items include vendor statements and altered invoices. When there is a discrepancy with any item on the checklist the invoice is disapproved. The Accounting Department sends an email back to the department key puncher, as well as, the employee's supervisor explaining the deficient items.

<u>1099 PROCESSING</u>

IAD obtained and reviewed the Fiscal Office – Financial Reporting Department interviews from the preliminary audit to determine if there were any issues that needed follow up, and to gain an understanding of the procedures for 1099 processing. In addition, IAD met with the Director of Administration and the Computer System/Software Analyst 3 to review the processes and procedures related to year end processing of 1099 forms, and created a flowchart.
IAD obtained and reviewed IRS guidelines on 1099 forms to gain an understanding of what expenditures are reportable.

Utilizing WebFOCUS, IAD generated a list of total disbursements to vendors in 2008 and 2009, and a list of total 1099 reported disbursements (per Banner) in 2008 and 2009. Both sets of lists were imported into Microsoft Access, and were joined by vendor identification number (PIDM). A report was generated of all vendors whose total reported amount was not equal to the total disbursed amount for 2008 and 2009. IAD selected a sample of four vendors with the highest difference between reported and disbursed amounts from 2008, and generated detailed disbursement and 1099 reported amount listings to test whether the disbursements were 1099 reportable expenditures and, if so, were reported.

IAD contacted the Support Services Administrator and obtained and reviewed a copy of a previously generated Banner FARWHLY report to gain an understanding of the information that is reviewed prior to processing 1099 forms. IAD verified, with the Computer System/Software Analyst 3, that Banner screen FAA1099 contained all 1099 information and that changes made to the 1099 FIRE file, which is uploaded to the IRS, would be reflected on this screen. IAD noted that the form contained vendor names, reportable amounts, and amounts withheld; however, the report did not compare total amount disbursed to total reportable amounts and, therefore, cannot be used to reconcile the two amounts.

The following issue was noted during testing:

14. <u>Issue:</u>

 During the 1099 process walkthrough, IAD noted that no 1099 reconciliation was performed at year end.

 <u>Recommendation:</u>

 IAD recommends that amounts disbursed to vendors are reconciled with reportable amounts per the Banner 1099 report prior to preparing and reporting 1099's.

 <u>Action taken prior to the end of fieldwork:</u>

 Per conversations with the Chief Deputy Fiscal Officer, a 1099 reconciliation was performed for 12/31/2009 1099s. On 1/26/11, IAD observed the Webfocus scripts that generate reports used to reconcile 1099s and reviewed the reconciliation steps performed to confirm that a reconciliation is being performed for 12/31/10. In addition, the updated policy and procedure, Chapter 40 Form 1099 Reconciliation, was obtained and reviewed.

PURCHASE ORDER AND ENCUMBRANCE BALANCE CHANGES

IAD obtained and reviewed Accounts Payable Best Practices, author Mary S. Schaeffer, to gain an understanding of best practices for accounts payable functions and operations. In addition, IAD obtained and reviewed the Departmental Procedures Manual for the Summit County Fiscal Office Auditor Division, Accounting Department. Upon review of the manual, IAD noted a policy and procedure for General Encumbrance increases and decreases and Purchase Order increases and decreases.

IAD performed observations of a Purchase Order and a General Encumbrance balance change with the Clerical Specialist II, and an observation of a journal voucher correction with the Fiscal Officer 3. The following request forms were obtained and reviewed:

    a. Purchase Order Balance Change Request,
    b. General Encumbrance Balance Change Request,
    c. Journal Voucher Correction Request.

IAD met with the Purchasing Specialist 2/Clerk of Board of Control to discuss PO/Encumbrance increases with regard to Board of Control (BOC), and obtained an updated purchasing procedures flowchart, and a Board of Control procedures packet for review. In addition Fiscal Officer 3 was contacted to gain an understanding of procurement card encumbrances.

IAD judgmentally selected a sample of 19 Purchase Order Balance Change Requests, and 18 General Encumbrance balance change requests from 2009, and tested for proper form submittal and proper approvals (e.g., BOC, County Council, IT Subcommittee, and IT Board). Additionally, IAD randomly selected 10 Journal Voucher Correction Requests from 2009 and tested for proper form submittal.

The following issues were noted during testing:

15. Issue:

    During testing, IAD identified 7 out of 11 Purchase Order balance changes in 2009, causing the original purchase order to exceed the Board of Control threshold ($5,000). These requests did not go through the proper Board of Control approval process.

    Recommendation:

    IAD recommends that all Purchase Order Balance Change Request and General Encumbrance Balance Change Request forms be submitted to the Central Purchasing Department of the Department of Finance and Budget (DFB) prior to being submitted to the Accounting Department for processing. This will help to ensure that a proper approval is obtained prior to a change of a purchase order and/or general encumbrance balance.

    Action taken prior to the end of fieldwork:

    On 12/17/2010, IAD confirmed with the Director of DFB that all purchase order and encumbrance changes are processed by the DFB Purchasing Department for all County of Summit appointing authorities, offices, departments, divisions and units that are subject to Chapter 169.

16. Issue:

Upon review of the Purchase Order Balance Change Request, General Encumbrance Balance Change Request, and Journal Voucher Correction Request forms, IAD noted that there is no signature line for supervisor/management approval; therefore, there is no evidence of proper authorization from the originating department/agency.

Additionally, IAD noted during testing that 4 out of 10 Journal Voucher Corrections tested did not contain a signature by the individual submitting the form.

Recommendation:

IAD recommends that the Accounting Department review and revise the Purchase Order Balance Change Request, General Encumbrance Balance Change Request, and Journal Voucher Correction Request forms to include a signature line for management/supervisor approval, and an approval disclosure stating that this request has been approved by all respective Boards prior to submission. This will help to ensure that no request is processed without management's confirmation that the appropriate boards and/or Summit County Council, if applicable, have properly approved the change.

Auditors' Note:

On 12/17/2010, IAD confirmed with the Director of DFB that all purchase order and encumbrance changes are processed by the DFB Purchasing Department for all County of Summit appointing authorities, offices, departments, divisions and units that are subject to Chapter 169. No further action is needed by the Accounting Department.

III. Security:

Security issues noted during fieldwork are addressed under separate cover in the accompanying report in compliance with Ohio Revised Code §149.433.