

**Summit County Fiscal Office
Purchasing Department
Preliminary Audit Report**

PREPARED FOR:

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**Approved by Audit Committee
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**Summit County Fiscal Office
Purchasing Department
Preliminary Audit Report
Table of Contents**

I.	General Background.....	3
II.	Objectives and Methodology.....	3
III.	Scope.....	4
IV.	Detailed Comments.....	5-9

**Summit County Fiscal Office
Purchasing Department
Preliminary Audit Report
Background, Objectives and Methodology**

GENERAL BACKGROUND

As a result of various amendments to the Charter since its original adoption by the County voters, the statutory offices of Treasurer, Auditor, and Recorder have been consolidated into the singular office of Fiscal Officer. The Fiscal Officer performs all of the statutory duties of each of these offices.¹

As noted in prior audits of Fiscal Office (FO) departments, the procurement function is centralized causing a co-mingling of expenditures among organizational fund and account numbers making it difficult to segregate the charges of individual FO departments. Because of this, IAD performed a limited amount of expenditure testing in the various FO departments deferring to a detailed review of the FO procurement process.

AUDIT OBJECTIVES AND METHODOLOGY

The primary focus of this review was to provide the Summit County Fiscal Office Purchasing Department with reasonable assurance, based on the testing performed, on the adequacy of the system of management control currently in effect for the audit areas. 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 Purchasing 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.

Objectives:

1. To obtain and review the current policies and procedures.
2. To review the internal control structure through employee interviews and observation.
3. To perform a general overview of the physical environment and security of the facilities, data, records and departmental personnel.

¹ https://scene.summitoh.net:444/pdfs/Internet%20PDFs/AKRON-1699294-v1-Annual_Information_Statement_-_08-30-10.pdf

**Summit County Fiscal Office
Purchasing Department
Preliminary Audit Report
Scope**

Scope

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. Obtain and review the document retention policy and determine if policies and procedures are currently in place and being followed.
4. Test procedures for mandatory compliance where applicable.
5. Identify audit issues and make recommendations where appropriate.

OBJECTIVE 2 – REVIEW OF INTERNAL CONTROLS

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

OBJECTIVE 3 – REVIEW OF SECURITY (covered in a separate report in compliance with O.R.C. §149.433).

12. Perform a general overview of the physical environment and security of the department being audited.
13. Perform a general overview of the IT security environment,
14. Interview various personnel to determine that confidential information is secure and processed only by appropriate parties.
15. Test security issues where appropriate.
16. Analyze current policies and make recommendations.

**Summit County Fiscal Office
Purchasing Department
Preliminary Audit Report
Detailed Comments**

Interviews:

To gain an understanding of the Fiscal Office Purchasing Department, IAD interviewed the following positions throughout the organization:

- Assistant Fiscal Officers,
- Administrative Assistant,
- Support Services Administrator.

Flowcharts were created based on the discussions and were provided to the department for approval. Any issues noted are addressed in the respective sections of this report.

I. Policies & Procedures Review:

IAD obtained and reviewed SharePoint workflow procedures and purchasing procedures to gain an understanding of departmental processes and to test for completeness. The following documentation was obtained to test for compliance with County policy, if applicable:

- O.R.C. § 307.51 County law library resources board,
- Summit County Purchasing Procedures,
- Codified Ordinance 177.10 Purchase Contracts and Leases of Personal Property Exceeding \$25,000,
- Information and Technology Board Bylaws.

IAD obtained and reviewed the Fiscal Office records retention schedule (RC-2), specifically records pertaining to the Purchasing function, and reviewed it for completeness.

The following issue was noted:

1. Issue:

Upon review of the Fiscal Office Purchasing procedures, IAD noted the following:

Requisition Website Procedures

- There were no supervisory approvals or effective dates,
- There were no travel related procedures,
- There were names, rather than titles, referenced in the manual,
- Employee acknowledgment of their receipt of the procedures was not obtained.

Requisition Site Workflow Procedures

- There were no supervisory approvals or effective dates,
- The IT Board threshold amount for IT related purchases requiring approval was incorrect,
- There were names, rather than titles, referenced in the manual,
- Employee acknowledgment of the receipt of the procedures was not obtained.

**Summit County Fiscal Office
Purchasing Department
Preliminary Audit Report
Detailed Comments**

Recommendation:

IAD recommends that the Fiscal Office Purchasing Department continue their efforts to update and approve formal written functional policies and procedures for all of the processes of the department and incorporate them into the policies and procedures manual. These policies and procedures should include effective and revisions dates as well as approvals. This will help to ensure that procedures are in place to consistently achieve departmental goals.

Management Action Plan:

The requested changes are currently being processed by the Fiscal Office Purchasing Department with a completion date of March 31, 2012.

II. Internal Control Testing:

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

- Expenditures
- Purchasing

EXPENDITURES

IAD obtained and reviewed SharePoint workflow procedures as well as procedures for purchases that exceed pre-established thresholds (e.g., IT Sub-committee, Board of Control, etc.) to gain an understanding of departmental processes. In addition, O.R.C. § 5705.41 and § 5705.44 were obtained and reviewed to gain an understanding of laws and regulations governing the expenditure process.

Expenditure process Interviews were conducted with the Assistant Fiscal Officers, Administrative Assistant and the Support Services Administrator and flowcharts were developed documenting the process.

WebFocus was used to extract FO expenditure transactions for the period of 4/1/10 through 3/31/11 from Banner. A sample of all expenditures \$5,000 and over was selected for detail testing.

The following issues were noted during detail testing:

2. Issue:

Upon review of FO expenditures, IAD noted five out of forty-three transactions where the invoice date was prior to the purchase order (PO) date which is a violation of O.R.C § 5705.41.

Recommendation:

IAD recommends that the Fiscal Office issue POs prior to making purchases. This will help to ensure compliance with O.R.C § 5705.41.

**Summit County Fiscal Office
Purchasing Department
Preliminary Audit Report
Detailed Comments**

Management Action Plan:

It is the Policy of the Fiscal Office to obtain a PO prior to making a purchase and receiving an invoice.

3. Issue:

Upon review of FO expenditures, IAD noted three out of forty-four transactions where a prior year PO was used. Per O.R.C. § 5705.41 (D)(3), POs can be outstanding over a period not extending beyond the end of the fiscal year, with the exception of contract expenditures, per O.R.C § 5705.44. The errors noted were not related to contracts.

Recommendation:

IAD recommends that the FO utilize current year POs for payment of current year expenditures. This will help to ensure compliance with O.R.C. § 5705.41.

Management Action Plan:

It is the Policy of the Fiscal Office to not use Prior Year Purchase Orders with the exception of a contract involvement.

4. Issue:

Upon review of the FO Purchasing Department expenditure process IAD noted the following areas that have an improper segregation of duties:

- a. The Support Services Administrator is responsible for both the ordering and receiving of office supplies,
- b. The Administrative Assistant is responsible for both the ordering and receiving of office supplies and equipment.

Recommendation:

IAD recommends that the FO Purchasing Department assign the ordering function and the receiving function to separate employees. This will provide for an appropriate segregation of duties and will help to ensure the proper control over and safeguarding of County assets.

Management Action Plan:

The Fiscal Office has separated the duties. The Policy currently in place has two employees doing all of the ordering and a separate employee receiving the goods.

PURCHASING

IAD obtained and reviewed SharePoint workflow procedures as well as procedures for purchases that exceed pre-established thresholds (e.g., IT Sub-committee, Board of Control, etc.) to gain an understanding of departmental processes. In addition, interviews were conducted with various FO staff members to gain a further understanding of the purchasing cycle.

**Summit County Fiscal Office
Purchasing Department
Preliminary Audit Report
Detailed Comments**

WebFocus was used to generate a report for FO procurement card expenditures for the period 10/1/10 through 3/31/11. A judgmentally selected sample of all expenditures greater than \$5,000 and an additional sample of twenty randomly selected expenditures under \$5,000 was selected for detailed testing of proper approval of purchases.

WebFocus was used to generate a report of FO expenditures for the period 4/1/10 through 3/31/11. A sample of all expenditures \$5,000 and over was selected for the following detail testing, if applicable:

- Law Library approval,
- IT Subcommittee approval,
- IT Board approval,
- Board of Control approval,
- County Council approval.

The following issues were noted during testing:

5. Issue:

Upon review of O.R.C. § 5713.01 (E) in regards to the auditor's duties as assessor and Summit County Codified Ordinance 177.08 Professional Service Contracts, it was noted that there is an inconsistency regarding required approvals for professional service contracts involving property assessments.

Recommendation:

IAD recommends that O.R.C. § 5713.01 and Codified Ordinance 177.08 be reviewed so that proper changes to procedures can be made to help ensure compliance.

Management Action Plan:

It is the policy of the Fiscal Office to treat all professional service contracts consistently.

III. Security:

Security issues noted during fieldwork are addressed under separate cover in the accompanying report in compliance with O.R.C. §149.433.