



Douglas County Internal Audit

August 22, 2013

Douglas County Board of Commissioners
1819 Farnam Street, Suite LC2
Omaha, NE 68183

Attention: Marc Kraft, Mary Ann Borgeson, Clare Duda, Mike Boyle, PJ Morgan,
Chris Rodgers and Pam Tusa

Tom Cavanaugh, Douglas County Clerk/Comptroller
Eric Carlson, Purchasing Agent
1819 Harney St., Room H08
Omaha, NE 68183

Dear Commissioners, Mr. Cavanaugh and Mr. Carlson:

I have completed an audit of Douglas County disbursements processing. The purpose of the audit was to assess the adequacy and effectiveness of the control processes used to authorize and record cash payments to vendors. The audit revealed that controls were adequately designed and worked effectively for the recording and payment of invoices. However, deficiencies were noted for the processes used in obtaining and recording purchase orders. Details related to the exceptions appear in the body of the report below. The issues identified are for the most part repeated from the prior year.

Background

As part of the fiscal year audit plan, Douglas County Internal Audit performs internal control testing for the Douglas County external audit firm, Hayes and Associates, LLC. The external auditor uses the test data provided by Internal Audit to formulate a professional opinion about the County's year-end financial statements. Below are the details related to tests of the controls for processing the County's cash disbursements.

Objectives

The objectives of the audit were to determine that

- Requisitions, purchase orders, and invoices are properly approved and supported and recorded completely and accurately.

- Payments are made to the appropriate vendors for all and only the goods and services received.
- Disbursements are properly calculated and recorded in the proper periods and accounts.

Scope and Methodology

The audit included a review of forty randomly chosen invoices paid from July 1, 2012 through June 30, 2013. The sample was chosen from the Oracle Payments Register and included tests to verify that:

- Purchase orders are placed only for properly approved requisitions.
- Purchase orders are recorded accurately.
- Purchases are recorded to the appropriate accounts.
- Disbursements are made only for goods and services received.
- Disbursements are made to the appropriate vendor.
- Disbursements are recorded completely and accurately.
- Travel expenses policies are followed.
- The County takes advantage of all discounts and sales tax exemptions.

Findings

Criteria: The following criteria relate to the issues outlined in the Condition section below:

- Duties should be adequately segregated so that one person does not control enough aspects of a transaction to conceal unauthorized activity.
- Information within the computer system where transaction information resides should be accurate and readily obtainable.
- Processes should be designed to add value to the organization and be as efficient as possible.

Condition: Eleven of the forty invoices sampled required a purchase order per Purchasing Department policy. The others were paid using Direct Pay forms. Issues related to the invoices that required purchase orders per current policy follow:

- Purchase orders and requisitions were issued after the invoice dates and receipt of the goods or services for six of the eleven invoices that required purchase orders for payment according to current policy.
 - One purchase for \$988 was made without the involvement of Purchasing personnel.
 - Three purchase orders were created where a formal purchase order would not make sense. These included a Youth Center doctor visit, a monthly gas utility payment, and a \$4 purchase for the gift shop.
 - Two new purchase orders were created for services for which preexisting contracts were in place. Neither the requisitions nor the purchase orders referenced them.

- There were no instances included in the sample of forty items where the person who initiated a requisition also approved it. However, the Oracle system and purchasing policy provides that as long as a person in the approval hierarchy has the appropriate approval limit, the requisition will be approved even if that person created the original submission. These same persons may also receive the goods or services.

Effect: The conditions outlined above had the following effects:

- Purchase orders were created which were not used for the actual vendor orders. Creating and approving purchase orders that were not used to actually order goods or services provided limited value and distorted data within the Oracle system.
- The true information regarding the actual purchase orders or contracts used was not always readily available in the Oracle system.
- Not adequately segregating the creation and approval of requisitions and receipt of goods and services combined with purchased orders issued after the fact in effect created an opportunity to control the entire purchase transaction and possibly conceal unauthorized activity (i.e., the purchase order approval does not serve as a preventive control when it occurs after the fact).

Cause: The Purchasing Department designed its procedures so that new purchase orders would be created for every non-direct pay invoice received and paid. Current procedures do not require the separation of requisition creation/approval from receiving the goods or services.

Recommendation: The following recommendations will provide better control of purchases and provide more accurate system information:

- The Purchasing Department and Douglas County Clerk/Comptroller personnel should meet to develop or change policies and procedures to help to ensure that purchase orders are no longer created after the invoices are received. Departments requesting payment should reference the preexisting contracts or purchase orders used to actually order the goods or services when creating requisitions.
- Consider expanding the types of invoices that can be paid using Direct Pay forms.
- Consider using Oracle's functionality to set-up recurring payments.
- Require the person approving the requisition or documenting the receipt of the goods and services be different than the person initiating the requisition.

Management Response: Purchasing agrees that changes need to be made in order to limit the practice of purchase orders being created after the invoices are received. Purchasing has met with the Clerk/Comptroller to begin implementing changes to the process including establishing contract POs for certain expenditures. This will be an ongoing process as we will need to train departments and vendors on the process and that the purchase order number must be included on all invoices. Additionally, Purchasing and the Clerk/Comptroller are reviewing the categories currently accepted by the Clerk/Comptroller under the Direct Pay forms and are in the process of adding categories where it is feasible. This process will be ongoing as Purchasing will need to

train all County departments. We will also look at how we might be able to leverage Oracle functionality to address recurring payments. Meanwhile we will also consider some form of “blanket purchase order number for these recurring payments so there is at least reference to one source document. Finally, Purchasing identified two departments where the same person was initiating requisitions as was approving and receiving the items purchased. We asked these departments to designate a new person to enter requisitions and these persons have been added to the Oracle with no approval permissions. We feel confident that these steps will allow the County to move towards a substantial reduction in the practice of issuing purchase orders after the fact.

Audit Standards

Internal Audit conducted this audit in accordance with generally accepted government auditing standards. Those standards require that the audit is planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Internal Audit believes that the evidence obtained provides a reasonable basis for its findings and conclusions based on the audit objectives.

Internal Audit has reviewed this information with the Chief Deputy Douglas County Clerk and the County’s Purchasing Agent. Internal Audit appreciates the excellent cooperation provided by management and staff. If you have any questions or wish to discuss the information presented in this report, please contact Mike Dwornicki at (402) 444-4327.

- cc: Paul Tomoser
- Joni Davis
- Trent Demulling
- Donald Stephens
- Patrick Bloomingdale
- Joe Lorenz
- Diane Carlson
- Kathleen Hall
- Jerry Prazan
- Mark Rhine