



## Douglas County Internal Audit

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October 24, 2014

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

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

Dear Commissioners, Mr. Cavanaugh, and Mr. Carlson:

I have completed an audit of Douglas County fixed assets and construction-in-process. The purpose of the audit was to assess the adequacy and effectiveness of the control processes used to ensure that capital assets are properly authorized and recorded. The audit revealed that, overall, controls were adequately designed and worked effectively. However, there were exceptions related to maintaining formal and informal bid and quote documentation. Details appear in the Findings section below.

### **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 over fixed assets and construction-in-process.

### **Objectives**

The objectives of the audit were to determine that:

- Capital asset additions were properly authorized.
- Capital asset additions represented real assets owned by the County.
- All additions were recorded completely and accurately.
- Depreciation was recorded completely and accurately.

- Disposals were properly authorized.
- Disposals were recorded completely and accurately.

### **Scope and Methodology**

The audit included a test of twenty additions capitalized on the Oracle Fixed Assets system. The items were chosen using a judgmental sampling methodology. The sample included tests of items added to the fixed asset system in the 2014 fiscal year. The assets included in the sample were tested to verify that:

- Purchase orders and requisitions were approved by the appropriate persons.
- Board approval, bidding, and quotes were obtained according to policy.
- The additions were added to the system in the correct period, account, and amount.
- The purchase orders and invoices for the additions matched each other and agreed with the information recorded in the fixed asset system.

Twenty asset retirements were chosen for testing. Ten items were chosen judgmentally from a list of fixed assets that were retired during the 2013 fiscal year. Ten other items were chosen judgmentally from a file containing Fixed Asset Status Reports and a listing of items included in the yearly auction. The items were tested to verify that:

- The retirements were properly recorded in the system including all related transactions.
- The retirement was properly authorized.

Twenty transactions from the 2014 fiscal year were randomly chosen from various Oracle expense accounts that included both asset purchases and repairs and maintenance. The items were reviewed to determine if the transactions were expensed or capitalized appropriately.

Ten pre-existing assets were reviewed to determine that both the current depreciation expense and the accumulated depreciation were properly calculated.

Four of thirteen 2014 fiscal year Engineering Department construction projects tracked in Oracle were judgmentally selected for testing. The tests included:

- Verification of Board approval of the project.
- Review of 80% of the 2014 fiscal year expenditures related to the five projects to ensure that the amounts were valid capital costs.
- Examination of evidence showing that the projects were related to valid County assets. Evidence included review of plan approvals, purchase agreements, and GIS mapping that showed the assets were within County jurisdiction.

Three of nine construction projects completed during the 2014 fiscal year were judgmentally selected for testing. The tests included:

- Verification that the assets were transferred to fixed assets in the correct account, period and amount.

- Recalculation of depreciation expense for accuracy.

## **Findings**

### **Purchasing Documentation**

Criteria: Douglas County purchasing policy and State statute requires, if practical, that the Purchasing Department obtain at least three informal bids for purchases under \$20,000. Purchases over \$20,000 require that a formal bidding process be followed. Evidence of the bids and quotes should be kept by the Purchasing Department to prove that the proper procedures were followed.

Condition: Fourteen of the twenty additions were greater than \$20,000. Two of the fourteen lacked bid documentation. The two items were related and would have been included on the same bid. The asset additions were for skid loaders that are traded in every year as part of a buyback program. Only the tabulation sheet was available which showed the winning vendor. Six of the twenty asset additions tested were less than \$20,000 and required informal bids. One of the bids less than \$20,000 lacked documentation showing that informal bids were obtained. The item was a computer that may have been purchased under the Western States Cooperative Alliance contract. If the Western State contract was used no additional quotes would have been required. However, there was no documentation to show that is how the item was purchased.

Effect: Without appropriate documentation, it cannot be assured that the County had the information it needed to make an appropriate purchase decision and that the State and County requirements for obtaining the appropriate bids and quotes were met.

Cause: The highest level of effort was not put forth to appropriately document and safeguard the informal bid information.

Recommendation: Ensure that Oracle purchase documentation always includes the appropriate bids and quotes required and that there is a review to ensure that the information is included. Require that purchase documentation, including Oracle system documentation, properly reference preexisting contracts or cooperative purchasing agreements that may be used in place of bids or quotes. Consider using a checklist that references the documentation that includes explanations that fully present the rationale for each purchase decision.

Management Response: Purchasing recognizes that in these two acquisitions we did not meet our own expectations of having sufficient purchasing documentation for bids & quotes. Management will continue to strive to meet these documentation requirements and include these on all purchases of assets. This will be an emphasis through on-going training and development of Purchasing staff. Further, we will look to implement a method to verify the existence of appropriate documentation for purchases moving forward.

## **Audit Standards**

Internal Audit conducted this audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. 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.

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Internal Audit has reviewed this information with the Chief Deputy Douglas County Clerk and the 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.

Sincerely,

Mike Dwornicki  
Internal Audit Director

cc: Paul Tomoser  
Trent Demulling  
Donald Stephens  
Patrick Bloomingdale  
Joe Lorenz  
Diane Carlson  
Kathleen Hall  
Jerry Prazan  
Frank Hayes  
Tumi Oluyole