



Douglas County Internal Audit

July 18, 2016

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

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

Dan A. Esch, Douglas County Clerk/Comptroller
Eric Carlson, Purchasing Agent
1819 Farnam Street
Omaha, NE 68183

Dear Commissioners, Mr. Esch 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, an issue related to the design of the procedures used to issue purchases orders (POs) was noted. Details related to the issue appear in the body of the report below. The issue regarding purchase orders issued after the purchases were made is a repeated finding from the four previous years.

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. Details related to the testing of the controls for processing the County's cash disbursements appear below.

Objectives

The objectives of the audit were to determine that

- Requisitions, POs, 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, 2015 through May 1, 2016. The sample was chosen from the Oracle Payments Register and included tests to verify that:

- POs are placed only for properly approved requisitions.
- POs are recorded accurately.
- Purchases are recorded in 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: Requisitions, POs, and invoices are properly approved, supported, and recorded completely and accurately. Payments are made to the appropriate vendors for all and only the goods and services received.

Condition: A number of issues were identified in the disbursement test.

- Twenty-one of the forty invoices sampled were paid using Direct Pay forms. The remaining nineteen invoices were paid using a PO. Three of the purchase orders were generated after the purchases were made. The purchases were not initiated by the Purchasing Dept.
- One purchase made using the Direct Pay process should have been made by Purchasing rather than the department for whom the purchase was made.
- A lease contract for a microfilm imaging machine was signed by an official not authorized to execute County contracts.

Effect: Purchases were made that were not properly authorized beforehand by the Purchasing Department. The best prices for the items may not have been obtained. Creating and approving POs that were not used to actually order goods or services created unnecessary work for the Purchasing Department and distorts information within the Oracle system.

Cause: Although not official policy, the Purchasing Department has historically created after-the-fact purchase orders. Individuals continued to ignore official policy and made their own purchases.

Note: The Purchasing Department amended its official policy in March 23, 2016 stating that departments were no longer to create requisitions for POs if the purchase had already been completed. If purchases were made outside of the defined process, it would be treated as an exception on the County's Board's agenda. None of the exceptions above occurred after March 23, 2016 date.

Recommendation: Continue to consider expanding the purchases that can be made using the Direct Pay process and enforce the amended policy.

Management Response: Purchasing acknowledges that more needs to be done in terms of limiting purchases made outside of the defined procurement policy. Purchasing management will meet with Clerk/Comptroller management this quarter to review Direct Pay process (consider possible expansion of Direct Pay categories) and discuss how to more effectively communicate and enforce the amended official policy.

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.

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 me at (402) 444-3576.

Sincerely,

Charles Lisenby
Staff Auditor

cc: Mark Rhine
Jude Lui
Richard File
Lenny Swanger
Mike Dwornicki
Patrick Bloomingdale
Joe Lorenz
Diane Carlson
Sheri Larsen
Frank Hayes
Tumi Oluyole
Lynette Allen