



3/15/2017

Auditor-Controller
Internal Audit
Accounts Payable Audit, IA2016-01

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EXECUTIVE SUMMARY

Internal Audit (IA) completed the Accounts Payable (AP) Audit on January 23, 2017, and assessed internal control systems surrounding various AP checks processed. Based on the results of the audit tests performed (11,541 records totaling \$195,414,846), it was concluded IA did not identify any evidence the county lost significant money during the fiscal year 2015-16. However, IA did identify several areas surrounding the AP process that could be strengthened.

Areas identified include:

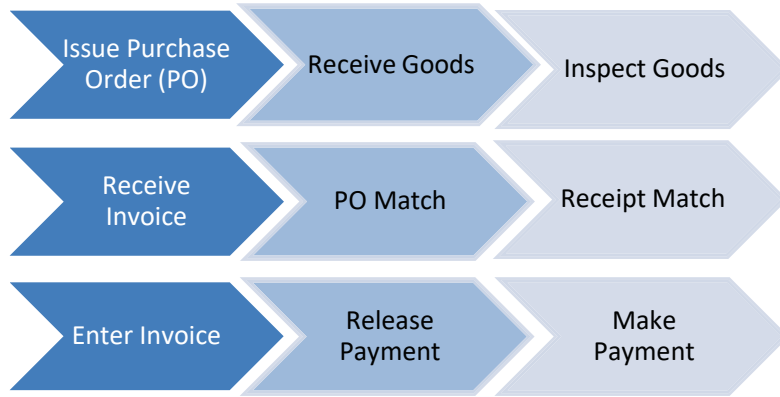
- Update policies and procedures.
- Strengthen internal controls.
- Clean up vendor master files.
- Increase efforts to automate certain AP processes and record keeping and employee reimbursements.
- Work with the county administrative office (CAO) and other departments to increase direct billing of costs at the time of payment.
- Provide county departments with instructions and guidelines regarding their role in AP and employee reimbursement processing.
- Capital asset misclassification.
- Lack of approval by the Board of Supervisors (BOS) for aggregate costs of vendor services provided.

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BACKGROUND

General

Characteristics of a quality AP cycle includes the following:

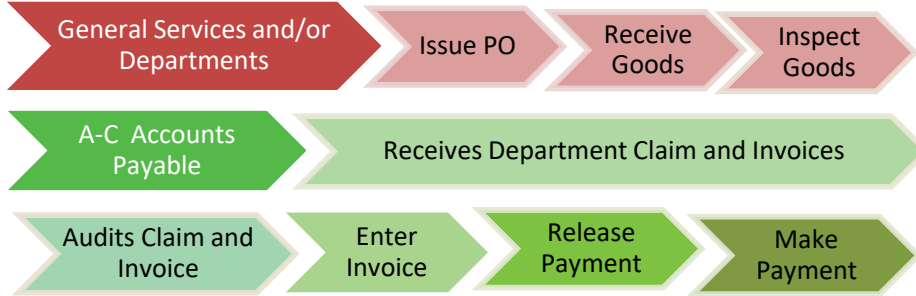


Best practices suggest the AP cycle includes a reconciliation of the receiving report and purchase order information, which is then compared to the vendor invoice. This is known as a three-way match. If the details from the three documents do not match, AP should not schedule the invoice for payment. While the best practice is using a three-way match, there are circumstances in which a purchase order or receiving report is not possible. As an example, a purchase order or receiving report would typically not be issued for utility bills. Also, there are recurring payments that could be made based on agreements or a contract. Even though these obligations may not have purchase orders or receiving reports the responsibility is unchanged, AP's mission is to pay only the amounts that are legitimate and accurate.

The auditor-controller (A-C) has established internal controls for AP staff when auditing AP claims and supporting document(s) provided for payment. However, since the A-C's office does not normally receive purchase orders or receiving documentation the responsibility for purchasing, receiving, verification of invoicing details, and costing resides with the individual department that placed the order for goods or services. This would include the general services purchasing division if they are utilized to purchase on behalf of any department within the county. If the documentation does not meet the AP requirements the AP staff will withhold processing of any AP claim until the issue is resolved.

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The current county AP cycle is as follows:



Regardless of the current process the mission of AP is to pay only the county’s invoices that are legitimate and accurate and to have internal controls in place to prevent fraudulent, inaccurate, or duplicate invoice payments.

Audit Specific

The A-C office is responsible for the payment of funds for all legal claims against the county as identified by the State of California Government Code §27005 which states:

The treasurer shall disburse county money or money placed in treasury custody issued only by the county auditor.

Also, code §27008(a) states:

The treasurer shall not receive money into the treasury or for deposit with him or her as treasurer, unless it is accompanied by the certificate of the auditor.

For the fiscal year ended June 30, 2016, IA identified 83,292 transactions totaling \$290,424,151, of which 58,283 checks were processed via the OneSolution (OS) Finance AP module. These transactions/checks are summarized as follows:

Check Type	Check Type Description	Total of Check Type	Total Transactions by Check Type	Total Checks by Check Type
01	AP Records	\$116,711,674	44,388	19,379
02	Welfare Records	6,176,123	5,037	5,037
04	Schools Payroll Records	21,496,498	12,290	12,290
05	Schools AP Records	146,039,856	21,577	21,577
	Total	\$290,424,151	83,292	58,283

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NOTE: the following were either excluded entirely from the review or were excluded from additional scrutiny during internal audit testing:

- Check types identified with a prefix of/or beginning with 04 & 05 (schools).
- Special district funds.
- Welfare payments processed by IT.

While the A-C office processes payments on behalf of schools and special district funds, these organizations have their own governing boards.

As for the processing of welfare payments, the Sutter County welfare department participates in the California statewide automated welfare system consortium (SAWS/C-IV). SAWS/C-IV is a joint powers authority comprised of 39 California counties. The consortiums C-IV project was established in 2001 and is responsible for designing, developing, implementing, operating and maintaining the C-IV system for the 39 participating counties. Welfare staff enters data into the SAWS/C-IV system for processing. The consortium then submits multiple secure file transfer protocol (SFTP) files directly to the county information technology (IT) department on a daily/monthly basis for processing. SFTP files provide file access, transfer, and management over any reliable data stream. Through an automated process, IT uploads the files into OS Finance AP module and payments (check type 02) are processed based on the data in the files. The payment of traditional welfare programs includes checks, electronic benefit transfers, and direct deposits. For welfare payments processed by check, AP is responsible for mailing the check to the clients. Suter county welfare also participates in a Welfare to Work program. The data for the Welfare to Work payments is also received from the consortium and uploaded by IT. However, these payments are processed using check type 01 and the AP staff must “approve” the file in the OS Finance AP module before payment can be processed. For the Welfare to Work program payments, AP is responsible for processing the payment and again mailing the check to the client. Once all the files are uploaded and processed, IT submits a file to the State of California to update the State system with payment information.

Currently AP is staffed with one accounting technician and one “extra help” account clerk II. AP staff audits and enters the invoices that have been approved by the appropriate department(s)/organization(s) staff.

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OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of the audit was to determine whether AP payments were made for authorized purchases during the fiscal year ended June 30, 2016; and that policies, procedures, and internal controls over the AP process and payments were in place as of July 1, 2015.

IA tests included:

- Evaluating internal controls over the AP process (sampled 138 transactions totaling \$180,380).
- Review:
 - duplicate vendor names and addresses (623 transactions totaling \$47,793,865);
 - duplicate vendor invoice and amounts (142 transactions totaling \$495,975);
 - abnormal invoice activity (1,981 transactions totaling \$42,814,719); and
 - vendor (3,675 transactions, no dollar associated) to employee (1,296, no dollar associated) cross-check.
- Review vendor addresses related to business criteria (1,193 transactions, no dollar associated).
- Review:
 - capital assets in excess of \$5,000 were recorded properly; and
 - Board of Supervisor (BOS) approval obtained for expenditures in excess of \$50,000 (1,988 records totaling \$102,157,519).
- Review a sample of transactions to ensure recognition in proper period (505 records totaling \$1,972,388).

The test population was 83,292 transactions totaling \$290,424,151, paid between July 1, 2015 and June 30, 2016.

Interviews were conducted, processes evaluated, and populations identified in order to perform substantive tests of records. Audit Command Language (ACL) software, a data extraction and analysis tool designed specifically for auditors, was used to facilitate data mining techniques to identify and analyze total populations and transactions. Using ACL, queries were designed and performed to identify related populations for detailed testing. Applicable transactions were traced to AP documents for review. Specific account details and on-line system reports were utilized throughout the audit to satisfy the audit objectives.

Department management is responsible for establishing and maintaining a system of internal controls to adequately comply with approved policies and procedures. The objectives of an internal control system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or theft, and that transactions are executed in accordance with management's authorization and are recorded properly.

Due to inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected timely. Also, projection of any evaluation of a system into future

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periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with procedures may deteriorate.

The purpose of the audit report is to furnish management with independent and objective analyses, recommendations, and information concerning activities reviewed. The audit report is a tool to help management discern and implement specific improvements. The audit report is not an appraisal or rating of management.

Although due professional care in the performance of the audit was exercised, this should not be construed to mean that unreported, noncompliance or irregularities do not exist. The deterrence of fraud is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud will be detected. Specific areas for improvement are addressed later in this report.

Other minor findings, not included in this report, have been communicated to management and/or corrected during the audit process.

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Lack of Receiving Documentation

Condition

Receiving documentation is rarely included when departments submit AP claims and invoices for payment.

Cause

Currently the A-C office has no requirement for receiving documents to be included when the department submits a claim and invoice for payment.

Criteria

Best practice for an AP cycle includes a reconciliation of the receiving report and purchase order information, which is then compared to the vendor invoice. This is known as a three-way match. If the details from the three documents do not match, AP should not schedule the invoice for payment. While the best practice is to use a three-way match there are circumstances in which a purchase order or receiving report is not possible. As an example, a purchase order or receiving report would not typically be issued for utility bills. There are also recurring payments that could be made based on agreements or a contract. Even though these obligations may not have purchase orders or receiving reports the responsibility to pay timely is unchanged, AP's mission is to pay only the amounts that are legitimate and accurate.

AP supporting documentation (see definitions) should include all four (4) documents when applicable:

1. purchase order/requisition;
2. receiving report/packing slip;
3. vendor invoice; and
4. AP claim form.

Effect of Condition

Improper payments can result in wasteful spending, a higher tax burden, and fewer people receiving services.

Recommendation

Request A-C management to establish a policy requiring departments to include all four (4) parts of AP supporting documentation when applicable.

Management Response

We concur with this finding. We will begin asking for receiving documentation immediately. As we update our policies and procedures surrounding AP, we will include language for

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receiving documentation. However, the A-C's plan is not to fully implement the receiving documentation requirement until we go-live with our auditor web-form in coordination with SunGard OS.

Responsible Manager: Nathan Black, Auditor-Controller
Implementation Date: June 1, 2017

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Lack of Budget Confirmation for Expenditures in Accounts Payable

Condition

Expenditures are not confirmed against an object level department budget when an invoice is entered to process for payment.

Cause

The previous county finance software had limitations. Based on the system limitations, to confirm expenditures against an object level department budget would have been cumbersome and inefficient and was not possible with the limited personnel resources available. In addition, the A-C office is not responsible for confirmation of payment against an object level budget.

Criteria

According to the California State Controller's Office, *Accounting Standards and Procedures for Counties*, § 8.26, expenditure control by object level within each budget unit is used for budgeting and financial statements. In addition, best business practice suggests measuring actual results against the budget is aimed at monitoring and recording activities to determine a variance and if the variance is favorable or unfavorable.

Effect

Risk of expenditures exceeding the BOS approved budget. In addition, monitoring expenditures is essential not just to verify appropriations are available, but to identify changing patterns or circumstances that need corrective action.

Recommendation:

Request A-C management to review the option to establish object level budget data within OS to confirm invoices do not exceed BOS approved budgets and if so payment is not processed until budget amendment is BOS approved.

Management Response

We concur with this finding. Although it is not the A-C's responsibility to ensure a department has sufficient budget to pay a claim, we do understand the importance of not going over budget. We will implement a system automated budget check at the object level during the claims audit and review processes.

Responsible Manager: Nathan Black, Auditor-Controller

Implementation Date: June 1, 2017

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Out of Date Accounts Payable Procedures and Processes

Condition

During the planning of the AP audit, AP staff and management stated the processes have not been updated to reflect AP processing in the OS Finance AP module. In addition, a claims procedure written by the A-C back in 2008 never completed the approval process.

Cause

AP is in the process of updating the procedures and processes. AP is accumulating the documentation, but has not had sufficient time to complete.

Criteria

The California State Controller, Internal Control Guidelines, suggest methods to address information and communication in stating:

Local governments may adopt policies and procedures to communicate important information about management's expectations for each process. Policies should be deployed thoughtfully and conscientiously to ensure that required actions are reasonable. Procedures should articulate the distinct responsibility and accountability of each individual involved in the process. Procedures lose effectiveness unless they are performed consistently, by qualified personnel who have been properly trained, and with a continuous focus on the risks to which they are directed.

Written policies and procedures establish management's criteria for executing the organizations operations. Business processes, personnel responsibilities and departmental operations should be established to promote uniformity in executing and recoding transactions. Organizations should have written policies and procedures to help provide guidance to their staff in making decisions.

Effect

If written policies and procedures do not exist, are inaccurate, incomplete, outdated, irrelevant, not written succinctly, and/or not communicated, results could include inconsistent practices among staff and/or departments, processing errors due to lack of knowledge, and/or the inability to enforce employee accountability.

Unwritten procedures are a problem in that they are not subject to review and approval or accountability, leaving staff to their own devices to determine what defines quality and what the organization deems important. With outdated policies and procedures staff could take it upon themselves to find a work around, which is the same as having unwritten policies and procedures. Well written policies and procedures increase organizational accountability and transparency and become fundamental to quality assurance and quality improvement programs.

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Recommendation

Request that A-C management complete the update to reflect current operations and incorporate “best practice” internal controls.

Management Response

We concur with this finding and will update our policies, processes and procedures.

Responsible Manager: Nathan Black, Auditor-Controller
Implementation Date: June 1, 2017

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Missing Accounts Payable Backup

Condition

During the review of 138 sampled transactions totaling \$180,378, two transactions totaling \$100 were identified in which no backup was attached to the paid claim file. These transactions are part of a restitution process in which one county department receives the restitution and requests the restitution be paid to the identified vendors. Department printouts with restitution detail are included with the AP claim request because an invoice is not part of the payment back-up documentation.

In addition, during the review of an additional 1,981 vendor transactions, AP was unable to locate the claim and backup for one (1) transaction totaling \$8,000.

Cause

Paper records are easy to destroy or misplace.

Criteria

Managing an ever-growing abundance of documents requires a system to ensure that information is filed, found and retrieved quickly and efficiently. Technology today makes it easy to turn your paper documents into digital files that can be stored more efficiently and improve accessibility. When organizations digitize their documents and automate their business processes, their operational costs can decrease substantially over time. Cost savings can include lower consumption of paper and other office supplies, reduced need for storage, prevention of overstaffing by automating document based workflows, elimination of misfiled/lost files thereby eliminating the need to recreate documents.

Effect

Additional time is required by both AP staff and department staff to research and/or request copies of documentation originally sent to AP.

Recommendation

Request that A-C management work with information technology and OS to establish automation and workflows related to AP claims and documentation storage.

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Management Response

We concur with this finding. There exists an enormous amount of paperwork associated with AP. As we move forward in more fully utilizing SunGard OS, the county's electronic financial system, we will require electronic uploading of invoices, receiving reports and other documentation. A-C staff will then audit and review claims and corresponding supporting documentation onscreen, thereby reducing entirely incidences of lost paperwork. Additionally, county IT has an interest in obtaining a countywide document management system (DMS) that would allow us to go nearly entirely paperless, reducing costs and increasing efficiencies.

Responsible Manager: Nathan Black, Auditor-Controller
Implementation Date: June 1, 2017

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Employee Reimbursements

Condition

During the review of 138 sampled transactions totaling \$180,380, three transactions totaling \$995 were identified as employee reimbursements. While these reimbursements were made for “non-taxable” expenses, employee reimbursements should be processed via payroll to ensure proper handling of all taxable reimbursements.

In addition, during the review of an additional 1,981 vendor transactions, 101 transactions totaling \$59,313 were also identified as employee reimbursements. While most of the reimbursements were for non-taxable expenses the following reimbursements were potentially taxable and/or reportable as employee earnings.

- Two employee reimbursements (\$8,000 and \$960) for tuition; on one a large portion was taxable and both were reportable earnings/reimbursements.
- Two employee reimbursements totaling \$2,253 were not submitted timely; therefore, the non-taxable reimbursements should have been processed as taxable earnings/reimbursements.
- One employee reimbursement totaling \$184, included reimbursement of mileage to and from employee’s home. Mileage to and from home is generally considered commuting miles and therefore not reimbursable.
- One employee reimbursement totaling \$72 included reimbursement of mileage for use of personal vehicle for employee to travel to school. Mileage reimbursement for personal expenses are not reimbursable.

Cause

Historically employee reimbursements were processed via payroll, however at some point a decision was made to have the “non-taxable” expenses processed via AP. AP reviews each employee expense claim and determines if AP should process, or if the reimbursement should be processed via payroll.

Criteria

Best practices would suggest payroll personnel are best positioned to determine which expense reimbursements are taxable employee income.

Effect

Potential under reporting of employee taxable income to the Internal Revenue Service (IRS) and the State of California Employment Development Department.

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Recommendation

Request that A-C management process employee reimbursements via payroll and continue moving forward with implementing the online employee reimbursement web form.

Management Response

We concur with this finding. The A-C will update our policies and procedures as necessary to ensure employee reimbursements are reviewed and processed through payroll staff as opposed to AP staff.

Responsible Manager: Nathan Black, Auditor-Controller
Implementation Date: June 1, 2017

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Employee Reimbursed via Special Fund Account

Condition

In the review of 138 sample transactions, one transaction totaling \$3,039 was identified for an employee advance and reimbursement made directly by the district attorney's department from a special fund account. While this reimbursement was made for "non-taxable" expenditures, employee reimbursements should be processed via payroll to ensure proper handling of all taxable reimbursements.

Cause

Unable to determine since the transaction was processed by an employee who has since left the county's employment.

Criteria

Best practices would suggest payroll personnel are best positioned to determine which expense reimbursements are taxable employee income and special fund accounts are restricted to expenditures for specified purposes.

Effect

Potential under reporting of employee taxable income to the Internal Revenue Service and the State of California Employment Development Department. Additional risk, includes the potential of misspending special funds.

Recommendation

Request that A-C management issue a memo reminding all department management that employee advances and reimbursements are processed by the A-C office, as required in the County Travel and Business Expense policy (July 1994).

Management Response

We concur with this finding. Employee reimbursements must be processed by A-C staff as well as replenishments to special fund accounts. When reimbursements are made directly from special fund accounts (e.g. special investigation bank account), expenditures may not be recorded in the county books and records.

The A-C staff will prepare and distribute a memorandum reminding appropriate county staff of the procedures surrounding employee reimbursements and special fund accounts.

Responsible Manager: Nathan Black, Auditor-Controller
Implementation Date: June 1, 2017

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Lack of Accounts Payable Date Stamp

Condition

In the review of 138 sample transactions, 12 transactions totaling \$5,425 were identified where neither the claim nor the backup had been date stamped. Date stamping is supposed to occur when the records are received into the A-C's office.

Cause

Most of the records were related to special district requests for payments.

Criteria

The A-C established the internal control (date stamp) to ensure the timely processing of claims once the A-C's office received the requests.

Effect

The A-C's office would potentially be unable to confirm the timeliness of payment processing if questioned.

Recommendation

Request that A-C management take immediate steps to ensure date stamping occurs on all claims received for payment processing.

Management Response

We concur with this finding. The A-C staff will prepare a memorandum reminding special district staff of the requirement to date-stamp their claims and other business documents submitted for processing.

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Implementation Date: June 1, 2017

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Purchasing Delegate Exceeds Delegated Authority

Condition

In the review of 138 sample transactions, IA requested additional information related to one transaction totaling \$2,460 for an “emergency” repair. Upon further inquiry of management, this resulted in the department head identifying the claim was a normal repair, not an emergency repair. However, the responsible department head identified the purchasing delegate had exceeded their monetary limit by approving the claim submitted.

Cause

Unknown

Criteria

Per the Sutter County General Services Delegation of Procurement Authority dated September 1, 2014, the Facilities Maintenance Superintendent purchasing threshold was \$2,000.

Effect

County employees must have, and be perceived to have, the highest standards of honesty and integrity in the exercise of their duties.

Recommendation

Request the A-C issue a memo to purchasing delegates reminding them of the threshold limits as identified in the most recent letter of “Delegation of Procurement Authority.”

Management Response

We concur with this finding. The A-C staff will work with IT to more fully implement and calibrate workflows in One Solution. Workflows consist of “orchestrated and repeatable pattern of business activities...depicted as a sequence of operations.”¹ These workflows and associated user security setups will enshrine delegated purchasing limits and other county business rules in order to automatically check against the contemplated purchase/claim.

Responsible Manager: Nathan Black, Auditor-Controller
Implementation Date: June 1, 2017

¹ <https://en.wikipedia.org/wiki/Workflow>

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Direct versus Indirect Costs

Condition

In the review of 138 sample transactions, two transactions totaling \$3,367 were charged to a specific fund/department, instead of charging the payment directly to the fund or department in which the services were actually received.

In the review of an additional 1,981 vendor transactions totaling \$42,814,719, thirteen transactions totaling \$280,639 were identified as payment for fuel costs. The fuel costs were charged to fleet in the general ledger, fund 4580. However, fuel cards are assigned to specific vehicles/departments and should be expensed to the appropriate department at the time of payment. Also, three transactions totaling \$13,690 were paid for services provided and charged to building maintenance in the general ledger, department 170070. However, the services were specific to other departments and should be charged to those departments at the time of payment.

Cause

The county has historically charged expenditures to certain departments and those costs are subsequently journaled to others when they should be directly charged.

Criteria

Best business practices suggest tracking costs is an essential part of the budgeting/costing process and a crucial part of understanding your true cost of operations.

Direct costs are those costs that can be identified specifically with a particular final cost objective. Whereas, indirect costs are costs that are incurred for a common or joint purpose benefiting more than one cost objective. Indirect costs cannot be readily identified as benefiting a particular cost objective.

For governments to achieve the objective of accountability, financial information must be both relevant and reliable for reasonably informed users. Financial reports must satisfy numerous and diverse needs or objectives, including short-term financial positions and liquidity, budgetary and legal compliance, and issues having a long-term focus such as capital budgeting and maintenance.

Financial reports should provide:

- more relevant information that will result in greater accountability by state and local governments; and
- enhance the understandability and usefulness of the financial reports to users to enable them to make more informed economic, social, and political decisions.

Effect

Unpredictable and/or unreliable financial reports for department use.

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Recommendation

Request A-C management work with the CAO's office and other departments to set up policies and procedures to determine which additional services should be directly charged, thereby producing a more accurate reflection of true costs.

NOTE: In the current fiscal year 2016-17 development services started direct charging fuel costs at the time of payment.

Management Response

We concur with this finding. Wherever possible, directly charging costs to benefiting departments/budget units almost always produces better accounting outcomes. The reasons are twofold: first, information recorded contemporaneous with the event or transaction is generally higher quality and second, direct charging provides for greater ability to manage county financials by knowing what service costs have been incurred year-to-date.

The A-C will continue to work with the CAO staff to directly charge costs during the budget process where feasible and appropriate.

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Vendor Master Cleanup

Condition

During the review of 623 transactions, 42 transactions totaling \$17,755,511 were identified in which vendors with the same name and addresses had more than one vendor number. In several incidents, the vendor had up to five separate vendor numbers. This did not include welfare vendors assigned by the state or employee vendors.

During the review of 4,579 employees and vendor transactions, 368 employees were identified as having both an AP vendor ID and an employee ID. An additional 80 vendor records appear to have duplicate vendor ID's.

(NOTE: some of the 80 could be included in the 42 records identified above)

During the review of 1,193 vendor transactions the following was identified:

- Three vendors were identified as possible medical provider vendors, but the 1099 box is unchecked in master file.
- Three vendors were identified as medical provider vendors with a federal tax identification number (TIN), but the 1099 box was unchecked in master file.
- 19 vendors identified as possible service vendors exceeding \$600 in payments, but the 1099 box was unchecked in master file.

Cause

With regards to regular AP vendors, it appears the primary issue is the inconsistency of establishing vendor primary and secondary addresses. As for employee vendors, in the previous financial system AP did not have the ability to utilize an employee number as an AP vendor, instead AP was required to actually assign an AP vendor number in order to reimburse an employee in the AP module.

Criteria

Managing a vendor file can seem like a thankless housekeeping task, however managing the vendor file is important because of the potentially disastrous consequences of not doing so. Allowing a vendor master file to go unchecked can lead to a variety of issues. Duplicate vendors are the cause of duplicate payments and AP fraud often starts with the creation of an imaginary vendor. Reducing the number of vendors can improve efficiency of the payables operation. A streamlined and well managed vendor database helps ensure compliance with regulations, internal controls, as well as 1099 tax legislation.

Effect

County could be subject to IRS penalties for mismatched vendor TIN's on IRS-1099 forms.

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Recommendation

Request A-C management work with the IT department and/or the software consultants to review the current AP vendor master system setup and AP security access, to determine what improvements can be made to increase the overall efficiency of the vendor master system. In addition, once AP vendor master improvements have been defined have AP work toward purging inactive vendors and merging duplicate vendors.

Management Response

We concur with the finding and potential effect. Currently, AP staff reviews the vendor list as transactions are audited and processed. In the old county financial system there was a need to categorize vendors depending on the kind of payment they were to receive. For example, a single vendor could both provide services to the county and therefore receive payment for said services, while also being a property owner that is due a property tax refund from overpayment.

With the implementation of our new financial system we have greater and more efficient options in developing and maintaining our vendor list. AP staff will request IT produce a master vendor listing report that will assist in identifying duplicate or otherwise erroneous vendors. We will work towards combining all categories into a single vendor list over the next few months.

Responsible Manager: Nathan Black, Auditor-Controller
Implementation Date: June 1, 2017

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Vendor Invoice Duplication by Two Departments

Condition

During the review of 142 transactions, one transaction totaling \$60 was identified as a duplication.

Cause

Documentation identified two separate departments (general services and development services) submitted a claim to AP for the same invoice.

Criteria

Having well written policies and procedures establish management's criteria for executing the organizations operations.

Effect

Duplicate payments could potentially go undetected.

Recommendation

Request A-C management send a communication reminding all county departments they are responsible for making sure invoices don't generate duplicate payments. An additional request is for A-C management to work with the IT department to consider the possibility of granting all county department finance employees access to "view only" the AP Vendor Inquiry screen.

Management Response

We concur with this finding. The A-C staff will prepare a memorandum reminding county staff of their responsibility to ensure invoices aren't paid twice.

Responsible Manager: Nathan Black, Auditor-Controller
Implementation Date: June 1, 2017

County of Sutter Auditor-Controller
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Accounts Payable Audit, IA2016-01
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Accounts Payable Data Entry Error

Condition

During the review of 142 transactions, one transaction totaling \$571 was identified with an AP data entry error.

Cause

Documentation identified a portion of the payment of \$535 was entered as \$35 in error.

Criteria

Best practice for data entry of AP invoices suggest AP entries be balanced against a “control total” when manually entering payments to be paid.

Effect

Over/under payments potentially could be undetected creating an over/under payment to a vendor.

Recommendation

Request A-C management implement a policy for data entry performance and review that defines the data entry work, how it will be performed, and how it will be reviewed, including timeframes such as daily or weekly data entry reports.

Management Response

We concur with this finding. Due to the high number of transactions keying errors will be made. However, with the implementation of the auditor web form, these sorts of errors will be significantly reduced. Currently county staff prepare claims using an IT form. The IT form and associated backup documentation is then remitted to the A-C office. AP staff then re-enter the transactional data into the finance system, OS. In the near future when we are able to utilize the auditor web form, re-keying claim information will no longer be necessary. County staff will input the transactional data as they do currently, however, once input that data crosswalks into our financial system. Thereafter account payable staff review and audit the claim on-screen.

Responsible Manager: Nathan Black, Auditor-Controller
Implementation Date: June 1, 2017

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Vendor Invoice Duplication by a Department

Condition

During the review of 1,981 transactions, one transaction totaling \$2,975 was identified as a duplication.

Cause

Documentation identified two separate claims for the same membership renewal was approved and submitted to AP for processing by the district attorney's staff.

Criteria

Best practices would suggest once a claim is submitted copies of backup documentation should be clearly marked as submitted to AP for processing.

Effect

Over/under payments could potentially go undetected.

Recommendation

Request that department management utilize the duplicate payment against vendor future claims.

Management Response

The district attorney's management agrees to use duplicate payment against current year membership renewal.

Responsible Manager: Amanda Hooper, District Attorney

Implementation Date: Completed, March 24, 2017

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Questionable Fuel Charges

Condition

During the review of 1,981 transactions, one transaction totaling \$95 was identified as payment for questionable fuel charges totaling \$47. These charges occurred on the same fuel card, for the same day and within a few seconds of each other (\$16.01 and \$31.30).

Cause

The behavioral health department management was unable to determine cause of the charges because the travel log was no longer available.

Criteria

The fuel card program offers advantages to employees to purchase fuel when conducting county business in a county owned vehicle. However, management needs more than a simple payment instrument, they need data (i.e., logs that include reason for trip, mileage, etc.), controls at the pump, and the ability to track key fuel expenditures. Purchases must be made and documented for valid county business

Effect

Potential misuse of department fuel cards.

Recommendation

Request behavior health administrative services deputy director establish a policy/procedure to retain all documents related to fuel card activity based on county record retention policies.

Management Response

Behavioral health department management concurs and has directed staff to retain the vehicle logs until they have passed the audit of their annual Short-Doyle Medi-Cal Cost report (usually 5-6 years) and they have BOS approval for destruction of records.

Responsible Manager: Stephen Marshall, Behavior Health, Deputy Director – Administrative Services

Implementation Date: June 1, 2017

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Department Special (Petty Cash) Account

Condition

During the review of 1,981 transactions totaling \$42,814,719, one transaction totaling \$51.25 was identified reimbursing development services petty cash fund for employee travel/training expenditures, specifically parking.

Cause

Unknown.

Criteria

Best practices would suggest payroll personnel are best positioned to determine the taxability of employee income.

Effect

Potential under reporting of employee taxable income to the IRS and the State of California Employment Development Department.

Recommendation

Request A-C management issue a memo reminding all departments that employee advances and training/travel reimbursements are to be processed by the A-C office as required in the County Travel and Business Expense policy (July 1994).

Management Response

We concur with this finding. Employee reimbursements must be processed by A-C staff as well as replenishments to petty cash accounts. When reimbursements are made directly from petty cash accounts, expenditures may not be recorded in the county books and records.

The A-C staff will prepare and distribute a memorandum reminding appropriate county staff of the procedures surrounding employee reimbursements and petty cash accounts.

Responsible Manager: Nathan Black, Auditor-Controller
Implementation Date: June 1, 2017

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Lack of Backup Documentation

Condition

During the review of 1,981 transactions totaling \$42,814,719, 12 transactions for a total of \$26,400 were identified as payments processed to a long standing vendor without invoices for the expenditures. The vendor is also an employee who operates a business that provides the same services for which the employee is paid.

Cause

Historically, the employee's business has not been required to provide detailed invoices. The employee submits annual budget requests to the CAO for BOS approval. The employee's business submits a claim without backup.

Criteria

Worker classification is a complex area of employment tax law and an employer must carefully review work arrangements with employees who also provide "sideline" services. A person can be both an employee and an independent contractor if their "sideline services" are not part of their regular job duties.

Effect

Typically, a worker cannot be both an employee and an independent contractor at the same company. However, this can be the case under very specific circumstances. The concern is without an invoice detailing the specific items that are being paid to the employee's business, the county could potentially incur a risk in being challenged to prove the expenditures are not taxable via payroll.

Recommendation

Request that department management make arrangements with the employee/vendor to present a detailed invoice at the time of submitting an expenditure claim.

Management Response

The interim assistant county administrator concurs with the audit finding and will request the vendor provide detailed invoices of the expenditures for which the vendor is submitting monthly claims.

Responsible Manager: Steven M. Smith, Interim Assistant County Administrator Officer
Implementation Date: June 1, 2017

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Safety Footwear

Condition

During the review of 1,981 transactions totaling \$42,814,719, eight transactions totaling \$3,549 were identified as payments for personnel protection equipment. The purchases were made based on an outdated policy that does not allow the development services department to make such purchases.

Cause

The policy was not updated when the county reorganized in 2013.

Criteria

Written policies and procedures establish management's criteria for executing the organizations operations. Business processes, personnel responsibilities, and departmental operations should be established to promote uniformity in executing and recoding transactions. Organizations should have written policies and procedures to help provide guidance to their staff in making quality decisions.

Effect

Well written policies and procedures increase an organizations accountability and transparency and become fundamental to quality assurance and quality improvement programs.

Recommendation

Request the development services director update the safety footwear policies and procedures to reflect current operations.

Management Response

Management concurs with this finding and is working on updating all development services policies and procedures (P&P). The department has already updated this P&P. Moving forward the department will continue to incorporate the old public works and the old community services P&P's under the umbrella of development services.

Responsible Manager: Danelle Stylos, Development Services, Director
Implementation Date: Completed, March 28, 2017

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Volunteer Uniforms

Condition

During the review of 1,981 transactions totaling \$42,814,719, five transactions totaling \$1,064 were identified as payments for volunteer fire uniforms. While this practice has been in place for some time, no written policy exists.

Cause

Historical practice is to purchase one uniform for each volunteer.

Criteria

Best practices suggest personnel must be able to identify themselves as representatives of the fire department when on emergency calls, training drills, or other events representing the fire department.

Written policies and procedures establish management's criteria for executing the organizations operations. Business processes, personnel responsibilities, and departmental operations should be established to promote uniformity in executing and recording transactions. Organizations should have written policies and procedures to help provide guidance to their staff in making quality decisions.

Effect

Well written policies and procedures increase an organizations accountability and transparency and become fundamental to quality assurance and quality improvement programs.

Recommendation

Request the development services director/fire services manager create a policy and procedure to reflect current operations.

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Management Response

Management concurs with this finding and is working on updating all development services P&P. The department has already updated this fire services P&P and the new P&P is attached for reference. Moving forward the department will continue to incorporate and update the fire services P&P's to properly show accountability and transparency in writing for past practices and to give clear direction.

Responsible Manager: Danelle Stylos, Development Services, Director /John Shalowitz, Fire Services Manager

Implementation Date: Completed, March 28, 2017

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Capital Assets Expensed

Condition

During the review of 1,988 transactions totaling \$102,157,519, four transactions totaling \$96,299 were identified as potential capital assets that were expensed.

Cause

The items identified are electronic equipment added to patrol vehicles and historically the department has expensed these items instead of including them as part of the capital asset.

Criteria

The California State Controller's Office *Accounting Standards and Procedures for Counties* manual, §15.08, states:

New and separate units, or extensions of existing units meeting the tests of significance should be capitalized.

Effect

Potential misstatement of capital assets on the annual financial statement.

Recommendation

Request A-C management issue a memo reminding all departments of the capital asset criteria.

Management Response

We concur with this finding. We employ procedures to assist accounting staff in identifying capital asset which have not been capitalized. However, it is the responsibility of county department staff to initiate capital asset accounting for capitalize expenditures. The A-C staff will prepare and distribute a memorandum reminding departments of the policies and procedures surrounding capital assets.

Responsible Manager: Nathan Black, Auditor-Controller
Implementation Date: June 1, 2017

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Aggregate Costs for Service Agreement Exceeded \$50,000

Condition

During the review of 1,988 transactions totaling \$102,157,519, six transactions totaling \$52,508 were identified for services in which the aggregate cost exceeded \$50,000 (plus the annual adjusted increase in the *California Consumer Price Index*). We were unable to establish whether BOS approval was received for these transactions collectively exceeding the fifty thousand dollar (\$50,000) limit.

Cause

Unknown.

Criteria

California Government Code §25502.3 states:

In counties having a population of less than 200,000, the board of supervisors may authorize the purchasing agent to engage independent contractors to perform services for the county or county officers, with or without the furnishing of material, when the annual aggregate cost does not exceed fifty thousand dollars (\$50,000), except that this amount shall be adjusted annually by any annual increase in the *California Consumer Price Index* as determined pursuant to §2212 of the Revenue and Taxation Code.

Effect

Although the immediate impact of violating California Government Code §25502.3 is uncertain, the future impact could be the perception of negligence or willful negligence regarding violation of the code.

Recommendation

Request the development services director work with A-C to determine best practices for preventing this in the future.

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Management Response

Management concurs with this finding and will work to set up better, additional, internal tracking control methods on contract so as to adhere to general services purchasing guidelines. Additionally, the department will work with the A-C to determine best practices in use of controls and tracking methods to ensure the proper spending hierarchy is appropriately applied in the future.

Responsible Manager: Danelle Stylos, Development Services, Director
Implementation Date: June 1, 2017

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AUDIT STANDARDS AND ADMINISTRATION

The audit was conducted in accordance with generally accepted government auditing standards. These standards require that Internal Audit plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the judgments and conclusions based on our audit objectives. We believe that our evidence provides a reasonable basis for our findings and conclusions based on our audit objectives.

ACKNOWLEDGEMENTS

Internal Audit would like to thank the A-C, development services, the district attorney, general services, health and human services, the sheriff-coroner, and the treasurer-tax collector, their management and staff for their cooperation throughout this audit.

Nathan M. Black

Nathan M. Black, CPA
Auditor-Controller

Judith K. Hartney

Judith K. Hartney, CGAP, CFE
Senior Internal Auditor

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DEFINITIONS:

AP SUPPORTING DOCUMENTATION:

AP CLAIM FORM - the A-C's documentation used to identify a variety of criteria including vendor detail, fund/department and account coding, and department authorized signature. This document must have supporting documentation attached.

PURCHASE ORDER OR REQUISITION - a form prepared to communicate and document precisely what the county is ordering from a vendor. Copies should be provided to the person(s) requesting the goods/services, the AP division, the receiving division, the vendor, and the person preparing the PO/requisition.

RECEIVING REPORT OR PACKING SLIP - the documentation of goods received and including quantities and description.

VENDOR INVOICE - the request for payment from the vendor to the county.