

DOUGLAS COUNTY INTERNAL AUDIT DIVISION



**CONSTRUCTION IN PROGRESS TESTING
SPECIAL REPORT FY 2009/2010 #09**

FOR 2008/2009



DOUGLAS COUNTY INTERNAL AUDIT DIVISION

To: Honorable Thomas Doyle, Douglas County Engineer
Honorable Thomas Cavanaugh
Douglas County Clerk/Comptroller

From: Carmen Harmon, Internal Audit Administrator
Douglas County Internal Audit Division

Date: November 4, 2009

RE: Construction in Progress (CIP) Testing

As part of the fiscal year audit plan, Douglas County Internal Audit Division (DCIAD) staff performs compliance and internal control testing for the Douglas County external audit firm, Hayes and Associates, LLC. The external auditor uses the test data provided by DCIAD to formulate a professional opinion, issued in the Comprehensive Annual Financial Report (CAFR), concerning financial reporting in Douglas County.

This special report describes the results of the compliance and audit testing of the Douglas County construction in progress reporting process.

Objective:

Determine that construction in progress reports are properly accounted for and transferred to fixed assets when completed.

Scope and Methodology

Seven (7) construction in progress records were randomly selected from the Engineer's 2008/2009 Six Year Plan. The auditor used a random selection technique to make the selection. This technique allows the auditor to randomly select items based on all records for the fiscal year. This is a limited selection of the total population of construction projects reported by the Engineers Office.

Audit Steps

Test Attributes:

Step 1: Selection of Audit Sample:

Randomly select 25% of total CIP's from the Engineers 2008/2009 Six Year Plan.

Step 2: Record total accumulative costs for the CIP projects from worksheet completed by the Engineers Office. Copy invoices for current year additions, and verify that current year additions were indeed related to the project they were added to. Verify for on-going CIP that the end of the year cost is accurate based upon the proper roll-forward of the end of the year cost from the prior year and any additions and transfers out of CIP.

Record capitalized costs for the finalized asset project. Compare this with the amount entered into the Oracle Fixed Asset module.

Step 3: Run a Project sub-ledger detail report (from Oracle Grants module) and compare with total accumulated costs from worksheet. Print other relevant information from Oracle.

Step 4: Make a copy of the resolution authorizing the construction of the project.

Step 5: Verify ownership percentage of construction projects matches Six Year Plan and County resolutions.

Step 6: Depreciation is properly recorded for fixed assets. Six months of depreciation is recorded in a fixed asset's first year.

Step 7: Trace costs of CIP projects to Adjusted Journal Entry (AJE) totals.

Exception 1 – Amounts billed to and payments received from SIDs and other third parties for CIP projects are not properly accounted for.

Criteria: Amounts billed and payments received as reimbursements for construction costs should be recorded as an addition to CIP only if the related work has been completed and either paid for by Douglas County or recognized as a liability.

Condition: When reimbursements are made by third parties before Douglas County has paid the supplier, it is accounted for as an addition to CIP. Since the reimbursement to DC is not offset by a payment from DC, the reimbursement increases net assets twice; once as an increase to cash and once as an increase to CIP.

Cause: Current accounting practices assume reimbursements to DC are offset by payments by DC in the same year.

Effect: When payments are made by Douglas County in a year following the receipt of reimbursement, net assets will be overstated until payment is made by Douglas County.

Recommendation: The Engineer's Office should determine whether reimbursement payments have been offset by a matching expense in Oracle. If they have not, a liability should be accrued for the amount received.

Cc: Kathleen Hall, Chief Deputy, Douglas County Clerk/Comptroller
Tom McDonald, Engineer Maintenance & Construction Manager
Jerry Prazen, Finance Administrator, Douglas County Clerk/Comptroller
Audit Committee Members¹
Brad Yoder, Manager, Hayes and Associates, LLC

¹ The audit committee members are: Honorable Chris Rodgers, Douglas County Commissioner; Mr. Ronald Bucher, Metropolitan Utilities District, Dr. Jack Armitage, Professor University of Nebraska at Omaha; Mr. T. Paul Tomoser, Creighton University; and Ms. Joanie Davis, Omaha Public Power District.

DCIAD Staff participants in Special Report FY 2009/10 #04

(signed)
Ryan Taft, Internal Audit Analyst
Primary Auditor

(signed)
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