

Special Report 2006/07 – 05

**A Special Report of the Accounts Payable
Interface Processes**

**DOUGLAS COUNTY INTERNAL AUDIT DIVISION
FINAL REPORT**

The Honorable Thomas F. Cavanaugh
Douglas County Clerk/Comptroller
1819 Farnam St
Omaha, NE 68183

Mr. Cavanaugh,

We have reviewed the Accounts Payable interface processes in Douglas County. The period of the review was July 1, 2006 through December 31, 2006. The special report was conducted in accordance with Standards of the Professional Practice of Internal Auditing (IIA). The special report included examining, on a test basis, evidence supporting the accounts payable processes, including payments, and performing other procedures we considered necessary to support findings and recommendations.

The purpose of this report is to describe the results of our testing, including internal controls and compliance, and not to provide an opinion on the internal controls and compliance.

This report is intended solely for the information and use of the Department. However, this report is a matter of public record and its distribution is not limited.

Ms. Carmen Harmon
Internal Audit Division, Supervisor

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Purpose:

To ensure the IMS (mainframe) programs accurately interfaces with Oracle Accounts Payable and to assess the operating effectiveness of internal controls.

Scope and Methodology

The review was coordinated with the Finance Administrator, at the Douglas County Clerk/Comptroller's office. The scope of the review includes testing the design and operating effectiveness of internal controls relating to the interfaces through the billing and payment process of these fees. The review was coordinated with selected staff and management of the Douglas County Clerk/Comptroller's Finance Division procedure manual and the following selected departments:

- | | |
|-------------------------------|---|
| • Election Commission | Polling Place/ Election Payroll |
| • Juvenile Court | Juvenile Placements |
| • Douglas County Court | Attorney Fees |
| • District Court | Attorney Fees |
| • Douglas County Attorney | Witness Fees |
| • General Assistance | Assistance (Food, Clothing, Rent, Burial) |
| • Veterans Administration | Assistance (Food, Clothing, Rent, Burial) |
| • Clerk of the District Court | Jury Fees |
| • Juvenile Court | Attorney Fees |

The scope of the review included observing and interviewing personnel from the ten (10) departments regarding:

- Compliance with departmental policies and procedures
- Observe routine operations of each department
- Interview department personnel regarding payment processing
- Interview and observe department personnel interface reports

The special report contained the time frame from July 2006 through December 2006.

The sample test selection included:

- July 2006
- October 2006
- December 2006

One interface was selected from each department for our sample selection. The auditors used a non-statistical sampling technique to make the transaction selections. This sampling technique allows the auditors to use sound and seasoned judgment to randomly select items based on their value. The DCIAD results and recommendations are restricted to the sample tested.

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Objectives:

The objectives to this special report were designed to:

- Gain an understanding of the interface process flow by reviewing current policies, procedures, and flowcharts.
- Re-create each process flow from origination to completion
- Summarize the process activities and identify the key controls (such as: adequate segregation of duties, authorization, review, reconciliation, and safeguarding the assets.)
- Test the design of the controls for the interface billings
- Validate suppliers from a judgmental selection.
- Summarize findings and recommendations

Background:

Many departments have existing software systems to manage the work of their offices. An interface process between the offices' software and Oracle Accounts Payables makes the regular payments to landlords, jurors, election workers, attorneys, etc., but not regular departmental requisitions and purchase orders.

On November 2, 2006, the Douglas County Clerk/Comptroller's office requested Internal Audit review the interfaces into the Oracle Accounts Payable application. The review evaluated the documentation that was created when these interfaces were initially put into place, and make a determination as to what sort of regularly scheduled review would be appropriate to include in the Finance Division annual work plan.

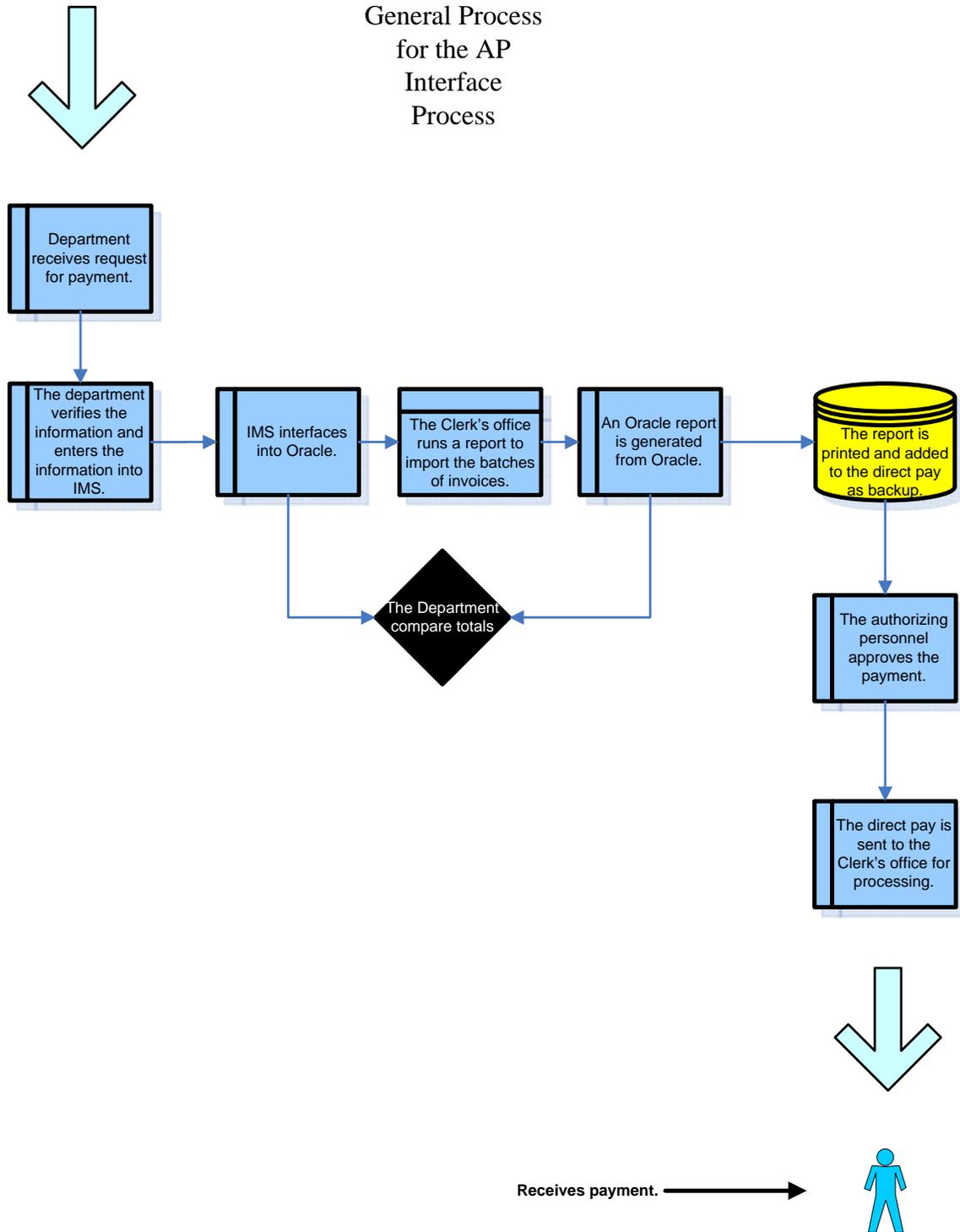
Overall Evaluation:

During the audit, the Internal Audit Division was provided with access to the Oracle database: Accounts Payable Inquiry and Reports module. This access does not allow the auditor to make any changes to the financial information, merely view the financial information and run reports. DCIAD was also allowed access to reports generated from the IMS mainframe system and the supporting daily documents provided by the departments. The DCIAD interviewed the designated personnel at each department via email, telephone, or in-person: Election Commission, Polling Place/ Election Payroll; Juvenile Court, Juvenile Placements; Douglas County Court, Attorney Fees; District Court, Attorney Fees; Douglas County Attorney, Witness Fees; General Assistance, Assistance; Veterans Administration, Assistance; Clerk of the District Court, Jury Fees; Juvenile Court, Attorney Fees.

The Internal Audit Division performed a review of the interface processes and the internal controls. The special report conforms to the generally accepted auditing standards for government auditing issued by the Comptroller General of the United States.

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The figure below illustrates the typical interface process flow.



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An entrance meeting was held on December 6, 2006, with the Finance Division Administrator. An in-depth interview describing the process flow and internal controls were defined in writing by the Finance Administrator. Additional interviews were held with the interface offices key personnel requesting process flowcharts as well as written policies and procedures.

As a result of the interviews the Douglas County Internal Audit Division (DCIAD), determined the Douglas County Clerk/Comptroller's Finance Division has a uniform set of procedures regarding accounts payable which include the interface process. The interface process is explained in a general overview from the Finance Division's perspective. (See Attachment A – Accounts Payable Interface Process)

Several attempts were made, verbal and written, requesting formal policies and procedures from each interface department.

After discussing the feedback from the various departments it was determined that, the procedures are not formally written in each department. Some departments have no working knowledge of the interface process and presume the invoices are transmitted by "a flip of the switch," from one computer source to another for payment, while other departments have an antiquated outline of the procedures.

(Level of accuracy percentages depicted below specified by the DCFD Administrator.)

Department	Interface	Frequency of interface	Level of Accuracy	Procedures
Election Commission	Election Payroll	Every Election	99%	Yes
Election Commission	Polling Place	Every Election	99%	Yes
Douglas County Court	Attorney Fees	Every Two Weeks	98%	Yes
District Court	Attorney Fees	Every Two Weeks	98%	No
Douglas County Attorney	Witness Fees	Once a Month	99%	Yes
General Assistance	Assistance	Daily	98%	Yes
Veterans Office	Assistance	Every Two Weeks	100%	No
Clerk of the District Court	Jury Fees	Every Two Weeks	98%	No
Juvenile Court	Attorney Fees	Every Two Weeks	98%	Yes
Juvenile Court	Juvenile Placements	Every Two Weeks	100%	No

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In order to identify the exact complexity within the AP interface system, the DCIAD conducted additional discussions to outline the detailed requirements. These meetings consisted of extensive interviews among the respective Douglas County interface departments. The interviews covered all issues, concerns, problems, workflow, balancing and report processes.

The interview conducted with the Douglas County Finance Division (DCFD) indicated concerns with improper supplier selection by the department and inadequate balancing procedures. The departments indicated after the interfaces are processed and checked, there are occasionally errors in supplier information or duplications. These interface lines are still in the Open Interface Table and not yet in the invoice batch.

- These lines need to be corrected in the Open Interface Table and that interface batch needs to be re-run to bring in the corrected rejects by the DCFD. This often involves the DCFD contacting the departments to verify the intended payments.
- The interface report is checked by the DCFD for the grand total of the individual batches and DOT.Comm's confirmation e-mail.

Payments are generated weekly, monthly, or periodically as determined by the departments needs. The Election Commissioner's office uses the application periodically which is determined according to scheduled elections. All suppliers receive scheduled payments on the Tuesday following the payments batch run in Oracle Accounts Payable.

If errors (rejects) occur and are restricted to common rejects, the Finance Division has established the procedure to correct errors before payment is processed.
(See Attachment B –Correcting Rejects)

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According to David B. Crawford in Levels of Control,

Operating controls, which are embedded in a process, are provided by workers engaged in the process. The workers help to ensure that process objectives are achieved.

Operating controls include, for example:

- *Segregation of duties.*
- *Authorizations and approvals.*
- *Access.*
- *Reconciliations and comparisons.*
- *Verification through recalculation or reprocessing.*
- *Written policies and procedures.*

Finding #1

There are no formal written policies and procedures for the accounts payable interface process in four out of ten departments interviewed.

Recommendation:

The Douglas County Internal Audit Division (DCIAD), recommends each department evaluate the current process in place and design a comprehensive policies and procedures manual; documenting all established practices for each individual interface process.

Each interface department is responsible for establishing policies and procedures exclusive to their process. A copy of the finished document should be sent to the Clerk/Comptroller's Finance Division to be kept on file.

The documentation of these policies and procedures should be readily available to all essential department employees. It should delineate the authority and responsibility of all employees, especially the authority to authorize transactions and the responsibility of safekeeping of records. Likewise, the documentation should indicate which employees are to perform which procedures. Procedures should be described as they are actually intended to be performed rather than in some idealized form.

The documentation of policies and procedures should be evaluated annually and updated periodically. One important aspect of any policy and procedures system is its ability to make necessary additions and changes without disrupting the entire system. Further, the system must be able to notify all essential personnel when policies and procedures are added or changed.

These features must be addressed in order to effectively provide training for new employees and maintain efficient controls. Training is critical to the success of any organization operating effectively.

Management's Response: Management concurs and requests the Internal Audit Division send copies of this Special Report to the departments.

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Finding #2

The DCIAD identified several interface departments omitting a vital reconciliation stage before submitting payment requests. Subsequent to the interfaces run, the IMS and Oracle report totals were compared, but occasionally errors in vendor information or duplications yet existed.

The problems documented include data entry errors such as:

- Incorrect fees
- Incorrect site number selected
- Invalid site number selected
- Invoice mistakenly put in the incorrect interface batch

Recommendation:

Reconciliations must be performed by the department before submitting interface batch for payment. Instituting proper procedures in each interface department will help identify and prevent errors in the invoice batch interface. Each department must verify the IMS report with the Oracle interface payment batch report before submitting payment processing. This step will assist the detection of incorrect supplier names and addresses, erroneous amounts, and inaccurate batch names if each item is verified before submitting for payment processes.

Again, David B. Crawford in Level of Control states:

Monitoring Controls are performed within the process or immediately after the process has been completed. First-line supervisors or their representatives ensure that workers in the process are executing the operating controls properly through monitoring activities such as:

- *Sampling of transactions or events for adherence to operating controls such as proper documentation, authorization, and calculation.*
- *Investigation of abnormal and unusual items.*
- *Verification of existence.*
- *Reviews of reconciliations or comparisons.*
- *Analysis by exception reporting.*

Management's Response: Management concurs and requests the Internal Audit Division send copies of this Special Report to the departments.

Finding#3

Statistics are not maintained to analyze frequent errors or rejects from the interface batch run.

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Recommendation:

The DCIAD recommends the Finance Division monitor the actual number of errors, the type of error and the frequency of the error to detect any patterns from the exception reports. The Finance Division Administrator normally analyzes any rejects from the Oracle Accounts Payable payment process and correspond the inaccuracies with the department. These abnormal or unusual items should be investigated to ensure a pattern does not exist. A pattern could possibly validate the existence of fraud in the system.

Repeat occurrences can be avoided if consistent problems (rejects) are logged and reviewed periodically. Inter-office communication can be used to disseminate the identified problem areas to all interface departments. This solution will help alleviate duplication of this common inconvenience and allow uninterrupted processing in all departments.

Management's Response: Management concurs and has implemented a statistical collection process.

Finding #4

Periodic reviews of the interface departments should be performed by the Finance Division.

Recommendation:

The DCIAD recommends a regularly scheduled review to evaluate the accounts payable interface process. A system review test should be constructed by the Finance Division, incorporating the source documents of each interface type. The overall purpose is to guarantee the established guidelines are being adhered to, verify proper and fully documented audit trail exists for all transactions, and to ensure accountability for the expenditure of County taxpayer funds. The primary objective of validating the system is to assure each department program is being monitored ongoing for compliance. The Finance Division will then have the opportunity to substantiate the interface payment documentation.

The Finance Division should establish an appropriate schedule to include this review in their annual work plan. The results from this review should also be reported to each department to reasonably assure compliance.

Examinations, along with direct interaction with the department personnel will maintain open communications, provide consistency and accountability from the departments, and help determine which business processes are in place.

Management's Response: Management concurs and will work to develop regularly scheduled reviews of backup documentation in the departments to assure compliance with established guidelines.

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The DCIAD would like to thank everyone for the cooperation and assistance they provided us during the review process. We would also like to compliment everyone involved in assisting with the Special Report. Special thanks to the Douglas County Clerk/Comptroller's Finance Division and the various departmental personnel involved for their tremendous assistance and collaboration during this project.

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Exhibit A

Accounts Payable Interface Process

- 1) The Department software is used to enter payments to suppliers. This software prepares a report of the payments that are to be made.
- 2) DOT.Comm uploads these to the server in an overnight process. The Senior Systems Analyst also prepares an e-mail with an attachment that contains the lines, subtotals of each department, and the grand total of all the County interfaces for that day. The e-mail is sent to the Finance Administrator, the AP Supervisor and the Functional Manager of the County Clerk/Comptroller's office, and to the departments that have interfaces that day.
- 3) Either the Finance Administrator or the AP Supervisor runs the Interface requests. This process does three things: Uploads the invoices to the "Staging Table", then uploads them to the "Open Interface Table", and then places them into the appropriate Invoice Batches. These processes also check the entries against the supplier files for correctness, that the supplier is active, and that there are no duplicate invoices.
- 4) The Department staff looks up the interfaced batch in Oracle to verify the lines and totals against the report from their department software. They then create the Direct Pay form and send it with the back-up documentation, reports and totals to Finance Division of the Clerk/Comptroller's office for invoice batch validation.
- 5) The Direct Pay form and back-up arrive in the Finance Division and are time stamped. Auditors will check for back-up reports. The totals on the Direct Pay form and supporting reports are matched with the interfaced invoice batch totals and validated. They will become part of the "Standard" print batch as validated invoices. The validated Direct Pay form and the back-up are filed in a separate folder in the invoice batch filing cabinets. At the end of the day the Finance Division accountants run a number of processes as part of the daily AP accounting that posts the validated invoices as an "Invoice Encumbrance" in the General Ledger.
- 6) The business day before the Board of Commissioners meeting the invoice batches are confirmed and the checks are printed. This combines multiple invoices into one payment to each supplier, assigns a check number and prints the checks. The Appropriation Book is printed and prepared for the Board of Commissioners' agenda. Certain portions of the Appropriation book are faxed to departments that have requested them.
- 7) At the Board of Commissioners' meeting the claims for payment are approved. Checks are only released after the Board of Commissioner's has approved the payments. Regular procedures are followed on picking up and mailing out the checks.

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8) Checks will have a document number, amount and a payment date in Oracle. They will be classified as “negotiable” until they are cleared through the First National Bank. Every day a download from the FNB is processed by the Finance accounting staff and uploaded to AP. Those checks that have cleared will then show up as “reconciled”.

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EXHIBIT B

Correction of interface rejects: Mistakes can be made in the process. They usually result in a rejected invoice. On the department side they are usually due to: incorrect Interface Mapping Code use, incorrect Vendor Site ID selection, and incorrect setups in the department software for suppliers, etc. On the Oracle side rejects can result from merged suppliers, duplicate line numbers, duplicate invoice numbers, etc. When an invoice is rejected that invoice can not be processed further unless it is corrected in Oracle. The interface process is re-run to pick up the corrected invoice.

In the case of rejects the Oracle batch total will not match the totals from the department software. In most cases the correction can be made by the Finance personnel after consultation with the department to ensure that the correct payment is made. In difficult situations the Direct Pay may need to be changed and the department backup and reports changed by the department to accommodate an invoice that can't be paid. At any rate the department should confirm the corrected totals in the Oracle batch before sending the Direct Pay.

After the interface is run or after the batch is validated for payment if an invoice needs to be cancelled the department should e-mail the AP Supervisor and Finance Administrator. The e-mail message will be entered into the invoice screen for reference purposes.

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DCIAD Staff participants in 2006 – 2007 Special Report # 5, Accounts Payable Interface

_____ (sign)
Brandon Clark, Auditor
(Primary Auditor)

_____ (sign)
Carmen Harmon, Internal Audit Supervisor

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