



## Douglas County Internal Audit

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May 19, 2014

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

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

Thomas F. Cavanaugh, Douglas County Clerk/Comptroller  
Eric Carlson, Purchasing Agent  
1819 Harney St., Room H08  
Omaha, NE 68183

Dear Commissioners, Mr. Cavanaugh 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 identified is a repeated finding from the two 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. Below are the details related to tests of the controls for processing the County's cash disbursements.

### **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 twenty-five randomly chosen invoices paid from July 1, 2013 through April 24, 2014. 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: The following criteria relate to the issues outlined in the Condition section below:

- System transaction data should be accurate, useful, and readily obtainable.
- Processes should be designed to add value to the organization and be as efficient as possible.

Condition: Ten of the twenty-five invoices sampled were paid using a PO. The other fifteen were paid using Direct Pay forms. Nine of the ten required a PO per current Purchasing Department policy. Issues related to the invoices that required POs per current policy follow:

- POs were issued after the invoice dates and receipt of the goods or services for all nine of the invoices that required POs for payment according to current policy.
  - Two were for recurring utility-type payments.
  - Three were for recurring services or lease payments for which existing contracts were already in place.
  - Two were for orders created initially in the Garage's Faster system.
  - The remaining two items were for miscellaneous supplies (\$123) and a lunch for seminar attendees (\$50) for which a credit or purchasing card reimbursements may have made more sense.

Effect: The conditions outlined above had the following effects:

- POs were created which were not used for actual vendor orders. Creating and approving POs that were not used to actually order goods or services created unneeded work and distorted information within the Oracle system.
- The true information regarding the actual orders or contracts used to obtain goods or services was not always readily available in the Oracle system.

Cause: The Purchasing Department designed its procedures so that new POs would be created for every non-direct pay invoice received and paid.

Recommendation: The following recommendations will provide better control of purchases and provide more accurate system information:

- The Purchasing Department and Douglas County Clerk/Comptroller personnel should continue to develop or change policies and procedures to help to ensure that POs are no longer created after the invoices are received.
- Departments requesting payment should reference the preexisting contracts or POs used to actually order the goods or services when creating requisitions.
- Expand the types of invoices that can be paid using Direct Pay forms.
- Consider using Oracle’s functionality to set-up recurring payments and contract POs.
- Approve the use of a County purchasing card program as soon as possible and include the Garage as one of the key users of the card.

Management Response: Purchasing agrees with all recommendations listed above and concurs that issuing POs after invoices are received does not provide any control of the purchasing process. To that end, Purchasing staff is in the process of meeting with all County departments over the next 6 months to train them on the proper utilization of either funded or preexisting contract POs to work toward limiting POs being created after the fact. Additionally we will train departments on the use of Direct Pays for all categories approved by the Clerk’s Office (we will continue to look at this and expand further where feasible). Purchasing is also working on implementing the use of specific POs for recurring payments as well. Finally, in conjunction with the on-going implementation of an Electronic vendor payments program through US Bank, Purchasing will look at leveraging a P-Card for use by specific departments such as the County Garage.

**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 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 Mike Dwornicki at (402) 444-4327.

cc: Paul Tomoser  
Joni Davis  
Trent Demulling  
Donald Stephens  
Patrick Bloomingdale  
Joe Lorenz  
Diane Carlson  
Kathleen Hall  
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