



Douglas County Internal Audit

April 12, 2013

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

Dave Phipps, Douglas County Election Commissioner
Douglas County Election Commission
225 North 115th Street
Omaha, Nebraska 68154

Dear Commissioners and Mr. Phipps:

I have completed a financial audit of the Douglas County Election Commissioner's office. The purpose of the audit was to assess the adequacy and effectiveness of the controls in place over the recording of revenues and expenses and the handling of cash transactions. The audit revealed that, overall, controls were adequately designed and worked effectively. However, there were exceptions related to reimbursements, county cash handling policy and minor transactional errors. Opportunities to improve controls were identified and appear below.

Background

In the state of Nebraska election commissioners are appointed by the governor while the secretary of state serves as the chief election officer. As such, the secretary of state is responsible for overseeing election law and the conduct of elections in the state. Each individual county is responsible for funding their county election commissioner's activities. One of the duties of the county election commissioner is to track election expenses and obtain reimbursement of the expenses allocated to political subdivisions. The allocation formula is set in state statute §32-1203 as follows:

“The charge for each primary and general election shall be determined by a) ascertaining the total cost of all chargeable costs as described in section [32-1202](#), (b) dividing the total cost by the number of precincts participating in the election to fix the cost per precinct, (c) prorating the cost per precinct by the inked ballot inch in each precinct for each political subdivision, and (d) totaling the cost for each precinct for each political subdivision, except that the minimum charge for each primary and general election for each political subdivision shall be fifty dollars.”

Only expenses directly attributable to putting on an election are reimbursable. The cost of elections for county, state, and federal governments are not chargeable to other political subdivisions. The total cost attributed to the May 2012 primary was \$563, 611. The reimbursable amount was calculated as \$88, 365. The procedures used in recording and disbursing expenses for the Election Commissioner's operating activities are the same as for other county offices. Individual invoices are reviewed and approved and then forwarded to the County Clerk/Comptroller office where normal disbursement procedures are followed.

The Election Commission office has other revenue from filing fees, voter registration lists, maps, voter registration certificates, and other miscellaneous items. The revenue attributed to these items is relatively minor. The amounts collected are somewhat seasonal and average around \$1,000 per month.

Objective

The purpose of the audit was to assess the adequacy and effectiveness of the controls in place over the recording of revenues and expenses and the handling of cash transactions within the election office. Specifically, the audit included steps to see that there were controls to ensure that:

- The duties of persons involved in financial functions are properly segregated.
- Revenue is completely and accurately recorded, and receipts received in the office are adequately protected.
- County cash handling procedures are being followed to adequately safeguard cash receipts.
- Requisitions, purchase orders, 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.
- Expense disbursements are properly calculated and recorded in the proper periods, accounts, and elections.
- Election reimbursement billings include all political subdivisions and are prepared completely and accurately.
- Reimbursements billings are monitored to help ensure timely payments.

Scope

The policies and procedures in effect as of the date of fieldwork, February 25, 2012 were used to assess the design of the controls in place. The data tested included the period from February 1, 2012 through January 31, 2013. Election reimbursement testing was limited to the May 2012 primary election. The general election held in November 2012 had not yet been billed.

Methodology

The information documented by Internal Audit was obtained through interviews and observations of the processes and systems in place. The documentation was compiled and summarized in process flowcharts and narratives that were reviewed by the accounting coordinator for accuracy. Once the controls in place were identified they were assessed using specific criteria that would

result in meeting the objectives outlined above. This included the use of the county's cash handling policy, state statutes and generally recognized practices used to provide complete and accurate financial transactions. Oracle system access listings used to help assess appropriate segregation of duties were generated by internal audit. County Treasurer personal provided access information for the iNovah cashing system.

In addition to the assessment of the adequacy of the design of controls in place, financial data was obtained to determine if the controls were operating effectively. Detailed Oracle data files were generated by Internal Audit for both revenue and expense items. Forty randomly and thirteen judgmentally selected disbursements were tested to see that the controls were working effectively. The specific tests were devised to determine the following:

- Bids, quotes, and board resolutions were obtained according to purchasing policy.
- Purchase orders were properly approved based upon properly approved requisitions.
- Purchases were recorded in the appropriate accounts.
- Disbursements were made only for goods and services received.
- Disbursements were recorded completely and accurately.
- Disbursements were recorded in the correct period and election.

The expenditures included in the May primary election were tested. Amortization of specific election assets and costs associated with usage of supplies were recalculated. Individual expense items over \$1,000 were examined for legitimacy and to see that they were related to the May primary election. Temporary staffing and overtime pay were traced and agreed to payroll department reports. Payroll taxes related to the compensation was recalculated.

The billings were tested to see that the state allocation formula was used according to the statute. The election billings are generated out of an Access database using numerous queries within the database. The query formulas for the May election billings were analyzed for completeness and accuracy. The ballot inches used in the formulas were traced to the sample ballot for the primary election. The average precinct cost was recalculated based upon the total election costs and number of precincts. All of the ballot and precinct data combinations for the three city races included in the billings (i.e., Bennington, Valley, and Waterloo) were traced and agreed to the data generated by the queries and then subsequently traced to certified precinct maps. Twenty-five other precinct and ballot combinations were tested in the same manner as the cities for the billings made to the other political subdivisions (i.e., Learning Community, Metropolitan Community College, Metropolitan Utilities District, Papio-Missouri River Natural Resources District, Omaha Public Power District, Douglas County School District 0001, and Westside Public Schools).

The issues identified appear in the Findings section below:

Findings

Election Expense Reimbursements

Criteria: State statute §32-1201 indicates that the compensation of permanent employees is not a reimbursable expense. The statute does not differentiate between regular and overtime pay. The applicable language from §32-1201 follows:

“The compensation of the election commissioner or county clerk, the deputy election commissioner or deputy county clerk for elections, and all permanent employees of the election commissioner or county clerk, the expenditures for the rental, furnishing, and equipping of the office of the election commissioner or county clerk, the expenditures for necessary office supplies, books, documents, and appurtenances relating to or used in performing the duties of the election commissioner or county clerk in relation to elections, and the cost of elections for county, state, and federal governments shall be an apportioned county expense and shall not be chargeable to other political subdivisions.”

Condition: The overtime for permanent employees was being included as a reimbursable election expense. Billing for overtime was customary for Douglas and other Nebraska counties. An opinion was sought from both the Douglas County Attorney and the Nebraska Secretary of State regarding the matter. Both opinions stated that billing of overtime for permanent employees is not permitted according to the statute cited above.

Effect: Douglas County has billed for unallowable overtime expenses in past elections. The amount of overtime charged in the May 2012 primary election was approximately \$24,700 plus an additional \$1,700 for related payroll taxes.

Cause: Douglas County had been following customary practices as the election reimbursement statute was understood.

Recommendation: Discontinue the practice of billing for the permanent staff's overtime. Develop a strategy to change the statute if officials deem it is in the best interests of involved parties.

Management Response:

The Election Commission will follow these recommendations for future elections and work with the Nebraska Legislature to clarify state statutes so that permanent employee overtime is explicitly included as a billable expense.

Cash Handling

Criteria: Acting as general accountant and fiscal agent of the county, the County Clerk/Comptroller's office had recently established a county-wide policy for cash handling. The policy includes the following:

- Adequate separation of duties. An implication of this policy is segregating duties so that persons having custody of product do not also receive payments for the product.
- A daily deposit of receipts with reconciliation to supporting documentation.
- Accounting for all numbered receipts.
- Proper safeguarding of cash.

Condition: The Election Commission office was not in compliance with the County Clerk/Comptroller's cash handling policy. Exceptions to the policy follow:

- The duties for providing election products (i.e. voter files, maps, etc.) and collecting payment for the items were not properly segregated. Persons with access to the product also collected the receipts.
- The cash is not reconciled to receipts on a daily basis. The reconciliation and bank deposit is performed only once a month. County policy requires daily reconciliations and deposits to avoid large amounts of cash being kept in offices and to discover shortages in a timely manner. It is noted that the office normally collects approximately \$1,000 per month.
- There was no accounting for receipt sequences.
- The cash receipts are stored in a vault at night. All permanent employees have access to the vault and the keys to the cabinet within the vault where the cash is stored.

Effect: The primary effect of the above exceptions is to provide employees the ability to convert product receipts to personal use and possibly avoid detection by giving customers product without providing a written receipt or taking the receipt copy from the cash drawer. Any cash shortages due to theft or misplacement may not be discovered in a timely fashion since counts and reconciliations are performed only once a month. Additionally, accountability for cash shortages may not be established because all permanent employees have access to the cash drawer.

Cause: The Election Commission personnel did not have time to fully implement the county-wide guidelines for cash-handling. The cash-handling memo was dated January 9, 2013.

Recommendation: Implement the county cash handling policy. Persons receiving payment for product should not have custody of product. Product should only be provided upon presentation of a cash receipt. Perform daily cash reconciliations and deposits. Account for all receipt sequences. Restrict access to cash so that only two or three persons have access to the cabinet where cash is stored. Seek County Clerk/Comptroller office approval for any exceptions felt necessary in light of limited activity at the election office.

Management Response: The Election Commission agrees with these recommendations and will implement them. The new policies will instruct staff members assisting a customer purchasing a product to complete a receipt and show the receipt to the Accounting Coordinator. The Accounting Coordinator will initial the receipt and provide the product. All products will be stored in the Accounting Coordinator's office. Daily cash reconciliations will be performed, and all receipt sequences will be accounted for. Three copies of the vault cabinet key where the cash drawer is stored will be made and will be kept by the Elections Manager, Accounting Coordinator, and the Administrative Coordinator. The Election Commission will request that the County Clerk/Comptroller not require a daily deposit during times of limited activity and instead allow the Election Commission to make deposits each time \$200.00 is reached. During times of higher activity, more frequent deposits would be made.

Disbursement Testing

Criteria: Payments are made to the appropriate vendors for all and only the goods and services received. The processes used to confirm and determine validity of the delivery of goods and services should be as efficient as possible.

Condition: Three Verizon phone bills were included in the sample for disbursement testing. In trying to establish the validity of charges, Internal Audit was told by Election Commission staff that the phones were not in use over the Jul 24 – Aug 23 for which they were billed and, for the Sep 24 – Oct 23 billing, an incorrect rate was charged. Election Commission personnel questioned their Verizon phone charges in January/February of 2013 when analyzing their budget.

Purchasing provided detailed spreadsheets of Verizon charges to all departments for the billing periods noted above on February 4. The information included in the spreadsheet for all Verizon numbers is eight to nine pages and is entered manually. This same information is available electronically with additional detail to help determine if usage was appropriate and reasonable.

Effect: More manual effort than was necessary was put into providing departmental billing information. The billing information was not provided in a timely fashion. According to the information provided by the Election Commission, they were overcharged approximately \$1,600.

Cause: The Election Commission office did not receive timely detailed billings. Purchasing did not take full advantage of electronic data to provide more timely information using a more efficient process.

Recommendation: Obtain any additional information that may be needed to seek credit for the unwarranted phone charges. Obtain the electronic billing information and provide the departments all the information they need to ensure accurate billings in a more timely fashion. Provide the departments clear instructions on how to ensure a thorough review for billing accuracy.

Management Response: Purchasing concurs that this process can and should be more automated to ensure accurate billing is provided to departments in a timely manner. To that end, Tara Holmstedt will contact DOT.Comm to gain access to the electronic billing information provided by Verizon. Tara will work with the Internal Auditor to set up a database with specific queries to allow easier analysis and distribution of billing information to the various departments.

Election Expense Tracking

Criteria: Election costs should include only and all expenses directly attributable to putting on the election.

Condition: The 2012 May primary expenses were understated approximately \$3,300. This calculation excludes the overtime billings. The understatement was related to the omission of Verizon phone usage, incorrect and omitted asset amortizations, and an incorrect rate being used for the calculation of payroll taxes related to temporary staff and overtime.

Effect: As a result of understating expenses, the County under billed the political subdivisions approximately \$500.

Cause: The previous Accounting Coordinator became ill in March 2012. His job duties were partially completed by two other employees until his subsequent retirement; the position was filled in August 2012. Inexperience in preparing portions of the election billing resulted in the phone and amortization errors noted above. There was not a thorough review of the payroll tax computation. The rate was carried over from previous spreadsheets.

Recommendation: Prepare written procedures outlining details for capturing all election expenses as well as the oversight of the process. Correct the payroll tax rate and ensure the correct rate is always carried forward.

Management Response: The Election Commission agrees that these charges were missed in the Primary Election. The Election Commission will work to ensure future billable expenses are not missed in the future. The missed charges will be added to the bill to the various political subdivisions for the 2012 General Election.

Criteria: Procedures used to properly account for elections costs should be the most efficient possible while still retaining all pertinent controls.

Condition: All invoices related to Election Commission expenses are entered into QuickBooks in order to track the expenses related to each election. This is in addition to the items being entered into the Oracle financial system.

Effect: Considerable time is spent entering information in two systems. Additionally, the Election Commission is the only organization with direct access to specific election cost information that may be pertinent to other personnel within Douglas County.

Cause: The Election Commission had determined that using QuickBooks was the easiest way to track expenses and was not aware that Oracle's Project module may provide a more efficient way to capture election costs.

Recommendation: Explore the use of the Oracle Project module to track election expenses. This would entail creating a separate project within Oracle for each election, and thus eliminate entering invoices twice.

Management Response: The Election Commission will explore this idea; however, we have had mixed success with Oracle's functions in the past. The amount of time used to enter this information into QuickBooks is generally less than five minutes per instance. Therefore, the Election Commission is reluctant to make this recommended change.

Audit Standards

Internal Audit conducted this financial audit in accordance with generally accepted government auditing standards. 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. This report was reviewed with Dave Phipps, Election Commissioner, Lisa Wise, Chief Deputy Election Commissioner, Justine Kessler, Elections Manager, Ty Stephenson, Accounting Coordinator, and Eric Carlson, Douglas County Purchasing Agent.

Internal Audit appreciates the excellent cooperation provided by the Election Commissioner’s managers and staff. If you have any questions or wish to discuss the information presented in this report, please feel free to contact me at (402) 444-4327.

Sincerely,

Mike Dwornicki
Internal Audit Director

- cc: Paul Tomoser
- Trent Demulling
- Joni Davis
- Donald Stephens
- Eric Carlson
- Thomas Cavanaugh
- Kathleen Hall
- Patrick Bloomingdale
- Diane Carlson
- Joe Lorenz
- Lisa Wise
- Justine Kessler
- Ty Stephenson
- Mark Rhine