



**Mecklenburg County
Department of Internal Audit**

Financial Services Department Accounts Payable Follow-Up
Audit Report 1363

November 5, 2012

Internal Audit's Mission

Through open communication, professionalism, expertise and trust, Internal Audit assists executive management and the Audit Review Committee in accomplishing the Board's objectives by bringing a systematic and disciplined approach to evaluate the effectiveness of the County's risk management, control and governance processes in the delivery of services.

Internal Audit Contacts

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Staff Acknowledgements

Felicia Gadson, Auditor-In-Charge

**Obtaining Copies of
Internal Audit Reports**

This report can be found in electronic format at
<http://charmeck.org/mecklenburg/county/Audit/Pages/Reports.aspx>



MECKLENBURG COUNTY
Department of Internal Audit

To: Harry Jones, County Manager

From: Joanne Whitmore, Director, Department of Internal Audit

Date: November 5, 2012

Subject: Financial Services Department Follow-Up Audit Report 1363

The Department of Internal Audit has completed follow-up procedures on reported issues from the Department of Finance Accounts Payable Audit Report 1162 issued July 18, 2011. The objective of the follow-up review was to determine with reasonable but not absolute assurance whether management took effective and timely action on the issues presented in the audit report.

Internal Audit interviewed key personnel, observed operations, reviewed written policies and procedures and other documents and tested specific transaction activity where applicable. Internal Audit conducted this audit under the guidance of the International Standards for the Professional Practice of Internal Auditing.

RESULTS

As noted in the following **Follow-Up Results** section, there were eleven recommendations in the Department of Finance Accounts Payable Audit Report 1162. Internal Audit determined seven recommendations were fully implemented, two recommendations have been partially implemented and two recommendations remain open. Of the two recommendations partially implemented, management has implemented the majority of the related components. Internal Audit will conduct a follow-up review at a later date to verify that the partially implemented recommendations are fully implemented and working as expected.

The cooperation and assistance of the Financial Services Department staff are recognized and appreciated.

c: Michelle Lancaster, General Manager
John McGillicuddy, General Manager
Bobbie Shields, General Manager
Leslie Johnson, Associate General Manager
Tyrone Wade, Deputy County Attorney
Robert Thomas, Senior Associate Attorney
Dena Diorio, Director, Financial Services Department
Board of County Commissioners
Audit Review Committee

Follow-Up Results
Finance Accounts Payable 1162

- **Fully Implemented** – The audit issue has been adequately addressed by implementing the original or alternative corrective action (X).
- **Open/Partially Implemented** – The corrective action has been initiated but is not complete (P) or the audit issue has not been addressed but management fully intends to address the issue (O).
- **Not Implemented** – The audit issue has not been addressed and management has assumed the risk of not taking corrective action (NI).
- **Withdrawn** – The audit issue no longer exist because of changes in the auditee’s operation (W).

Issue	Risk Observation	Recommendation	Corrective Action Taken			
			Fully Implemented	Open/Partially Implemented	Not Implemented	Withdrawn
1	<p>A. There are no documented procedures outlining the process for staff to verify the approval signature for travel-related expenditures.</p> <p>B. Existing policies and procedures do not provide staff guidance for validation of vendor information prior to setting up new vendors in the master vendor file. Nor do the policies and procedures require a periodic review of the master vendor file to remove or deactivate duplicate or inactive vendors and other maintenance efforts.</p>	<p>A. Establish an internal and countywide policy and procedure that requires each County department to submit to the Department of Finance a list of authorized approvers and their respective signatures for travel-related expenditures. The information should be updated when any changes occur.</p> <p>B. Develop and implement more comprehensive documented policies and procedures for master vendor file management to improve its accuracy and reliability. Staff should be trained on the policies and procedures. The written policies and procedures should have a framework that establishes, at a minimum:</p> <p>a. requirements and process to validate vendor names, addresses, TINs and telephone numbers prior to setting vendors up in the Advantage master vendor file</p> <p>b. requirements to compare new vendors against debarment lists</p> <p>c. timeframe to periodically review and clean up the master vendor file</p>	X	P		

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	C. Existing policies and procedures do not address separation of duties requirements for some invoice and disbursement functions.	d. procedures to identify and remove or deactivate duplicate or inactivate duplicate vendors e. an independent review of changes to the master vendor file f. data entry requirements, such as vendor naming conventions and critical field entries g. master vendor file change management for all changes h. management oversight requirements C. Develop and implement a more comprehensive documented policy and procedure for separation of duties requirements within the invoice and disbursement process that establishes, at a minimum: a. definition of adequate separation of duties for authorization, recording, verification, custody and system administration b. identification of incompatible functions based on authorized roles and responsibilities c. mitigating controls used to manage areas of inadequate separation of duties	X			

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	D. The Department does not have a documented policy and procedure in place to identify and recover duplicate payments disbursed to vendors.	d. periodic assessments to identify changes that may impact controls D. Develop and implement policies and procedures to identify and recover duplicate payments disbursed to vendors. In addition, management should follow up on the 113 potential duplicate payment events auditors identified in the audit period FY2008 through the first quarter of FY2011 to determine those that are actual duplicate payments and seek recovery where feasible.	X			
2	A. Although the Department requires all vendors to provide a completed and signed Form W-9 before they are set up in the master vendor file, it does not validate the information. Nor does staff ensure the vendors are not on a debarment list. Failure to have a validation process increases the risk of inaccurate master vendor file data and provides an opportunity for errors and fraud.	A. Validate information provided by the vendor on the IRS Form W-9 and check against debarment lists before entering vendor data into the master vendor file.		P		

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	<p>B. The master vendor file contains duplicate vendors and missing information, such as TINs and telephone numbers. Moreover, the master vendor file contains vendors who have been inactive for an extended period of time. Failure to update the master vendor file and remove or deactivate duplicate and inactive vendors increases the opportunity for duplicate payments and fraud.</p> <p>C. The Department does not review and approve all changes to the master vendor file.</p>	<p>B. Remove or deactivate duplicate and inactive vendors from the master vendor file. Because of the risk exposure of duplicate payments and fraud, management should make corrective action a high priority.</p> <p>C. Design a report detailing all additions, deletions and other changes made to the master vendor file, including the identity of the staff making the change. A senior level manager should periodically review and approve the report.</p>	X	O		
3	<p>A. Three department staff members are assigned specific County departments for which they approve all payment requests. They are also assigned on a rotational basis the responsibility to review the printed checks for accuracy. While management has separated the review and printing</p>	<p>A. Separate the authorization and review processes to ensure no one person has the responsibility to conduct two or more phases of the invoice and disbursement process. If adequate segregation of duties cannot be achieved, management should put appropriate mitigating controls in place.</p>	X			

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	<p>processes, staff still has the responsibility for multiple aspects of the invoice and disbursement process. Insufficient separation of duties, however, could increase the opportunity for errors and fraud.</p> <p>B. Internal Audit reviewed disbursement activity between FY2008 and the first quarter of FY2011 and identified 93 PRC and GAX payment requests¹ initiated by the Department’s two system administrators. While system administrators require full system access to carry out system support duties, which may include creating or approving payment requests, insufficient separation of duties could increase the opportunity for errors and fraud.</p>	<p>B. If adequate segregation of duties cannot be achieved, management should put appropriate mitigating controls in place. Periodically reemphasize the roles, responsibilities and restrictions of system administrator staff.</p>	X			
4	<p>While the Department has service level performance measures, as published each year by the County, it has not established key performance indicators (KPIs) for some of its accounts payable activities, such as the</p>	<p>Internal Audit recommends that the Department of Finance develop formal KPIs for the major components of its accounts payable process, such as accuracy, timeliness, training or other key</p>		O		

¹ PRC: Commodity-based Payment Request – Payment of a Purchase Order; GAX: General Accounting Expenditure – Payment that either references a general accounting encumbrance or has no reference to an encumbrance

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	percentage of invoices processed timely or the number of duplicate payments made. Such KPIs would articulate expectations, monitor performance and react to shortfalls.	process objectives.				
5	While a staff person reviews the check register for any unusual disbursements, it is not evidenced on the check register or otherwise documented. As a result, there is no way to validate that the review of the check register has been completed.	Internal Audit recommends that the Department of Finance have the check register reviewer initial and the date the check register or otherwise document that a review has been conducted.	X			