



**Mecklenburg County  
Department of Internal Audit**

Criminal Justice Services Department  
Accounts Payable  
Report 1665

July 10, 2017

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**Internal Audit's Mission**

To support key stakeholders in cultivating an environment of accountability, transparency and good governance.

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**Staff****Acknowledgements**

Crystal Turner, CIA, CDFM, Auditor-In-Charge

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**Obtaining Copies of****Internal Audit Reports**

This report can be found in electronic format at

<http://charmec.org/mecklenburg/county/audit/reports/pages/default.aspx>



**MECKLENBURG COUNTY**  
**Department of Internal Audit**

**To:** Sonya Harper, Director, Criminal Justice Services  
**From:** Joanne Prakapas, Director, Department of Internal Audit  
**Date:** July 10, 2017  
**Subject:** Criminal Justice Services Accounts Payable Report 1665

The Department of Internal Audit has completed its audit of Criminal Justice Services' accounts payable process to determine whether internal controls effectively manage key business risks inherent to the activity. Internal Audit interviewed key personnel; reviewed and evaluated policies, procedures, and other documents; observed operations; and tested various activities for accounts payable that occurred July 1, 2012 through June 30, 2016.

This audit was conducted in conformance with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**OVERALL EVALUATION**

Overall, key risks inherent to the accounts payable process were managed to an acceptable level; however, opportunities exist to improve the design and operation of some control activities.

## RISK OBSERVATION SUMMARY

The table below summarizes the risk observations identified during the audit, grouped by the associated risk factor, and defined in Appendix A. The criticality or significance of each risk factor, as well as Internal Audit’s assessment of the design and operation of key controls to effectively mitigate the risks, are indicated by the color codes described in Appendix B.

RISK OBSERVATION SUMMARY			
Risk Factors and Observations	Criticality	Design	Operation
1. Policies and Procedures Risk	●	●	●
1.1 Formal Documentation			
2. Payment Accuracy Risk	●	●	●
2.1 Supporting Documentation			
3. Payment Timeliness Risk	●	●	●
3.1 Invoice Processing			
4. Segregation of Duties	●	●	●
4.1 Staff Roles			
5. Accounting Risk	●	●	●
No risk observations noted			
6. Authorization Risk	●	●	●
No risk observations noted			
7. Human Resource Risk	●	●	●
No risk observations noted			
8. Compliance Risk	●	●	●
No risk observations noted			

The risk observations and management’s risk mitigation strategies defined in Appendix C are discussed in detail in the attached document. Internal Audit will conduct a follow-up review to verify management’s action plans have been implemented and are working as expected.

We appreciate the cooperation you and your staff provided during this audit. Please feel free to contact me at 980-314-2889 if you have any questions or concerns.

c: County Manager  
Assistant County Managers  
Deputy County Attorney  
Senior County Attorney  
Board of County Commissioners  
Audit Review Committee

## BACKGROUND

Criminal Justice Services (the Department) provides support and direction to criminal justice-related agencies and programs by facilitating coordination and cooperation among local and state criminal justice agencies.

### Accounts Payable Process

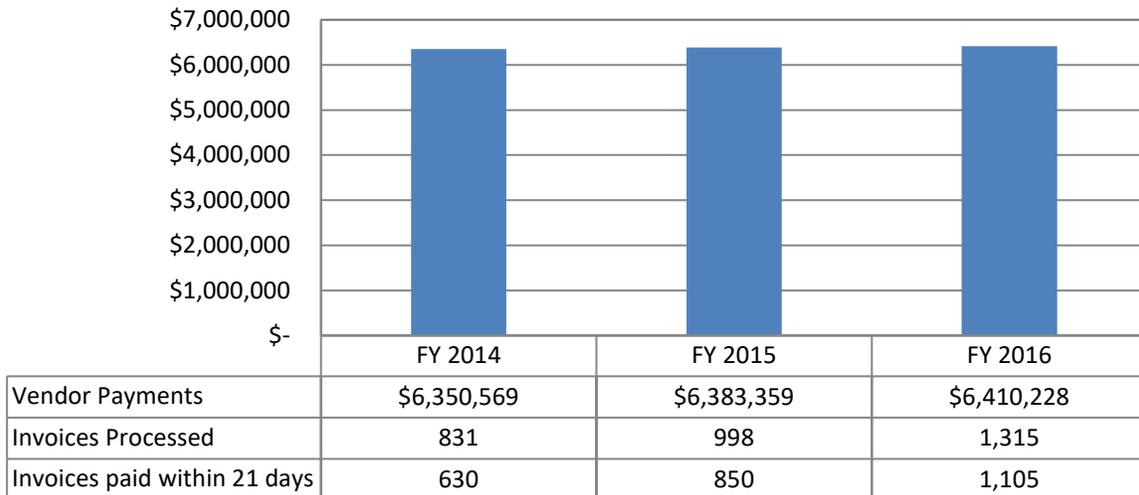
The Department is divided into eleven program units, each with an assigned program manager and administrative assistant. The administrative assistants place orders to vendors for goods and services, verifies the receipt of goods, and provides the initial approval to pay invoices prior to forwarding the invoices to the Departmental Financial Services Division<sup>1</sup> (DFS) for payment processing.

The DFS staff enter payment requests into Advantage, the County's financial management system and scans the invoices into OnBase, the County's electronic filing database. The team lead then reviews the invoices and payment requests prior to approving and submitting requests to the Financial Services Department for final approval and payment.

### Payment Activity

Vendor payments processed between July 1, 2013 and June 30, 2016 are shown below.

#### Criminal Justice Services Vendor Payments



Source: Advantage Financial System, Unaudited

<sup>1</sup> A division of Financial Services Department



are functioning as intended.

**Recommendation**

- 2.1 Internal Audit recommends management reemphasize to staff the County’s account payables document retention requirements and ensure they retain documents accordingly.

**Management’s Response**

- 2.1 **Risk Mitigation Strategy:** Reduce **Implementation Date:** July 2017

**Action Plan:** As part of training, the department will reemphasize accounts payables document retention requirements. In addition, to help ensure staff retains documents accordingly, refresher trainings will be given on a quarterly basis.

Risk Factor	Criticality	Design	Operation
3. Payment Timeliness Risk	●	●	●

**Risk Observation**

- 3.1 Invoice Processing—Ten of 82 or 12% of vendor payments sampled were not processed within 21 days of the invoice date as required by County policy. Late vendor payments can result in late fees or negatively impact vendor relationships.

**Recommendation**

- 3.1 Internal Audit recommends management reemphasize to staff the importance of executing payment responsibilities in a timely manner. In addition, management should formally assess the Department’s accounts payable process, identifying and documenting root causes for processing delays, and developing improvement action plans.

**Management’s Response**

- 3.1 **Risk Mitigation Strategy:** Reduce **Implementation Date:** July 2017

**Action Plan:** The department will continue to monitor, evaluate, and communicate invoice processing stats and requirements. Department procedures and training materials will be updated to emphasize the importance of timeliness in processing payments. When necessary, action plans will be developed and executed.

Risk Factor	Criticality	Design	Operation
4. Segregation of Duties	●	●	●

**Risk Observation**

4.1 Staff Roles—The Department’s administrative assistants can place orders for goods and services; receive goods ordered; match invoices to purchase orders and receiving reports; as well as make the initial approval to pay. Yet, adequate segregation of duties is an essential internal control to help prevent errors or fraud.

**Recommendation**

4.1 Internal Audit recommends management segregate the responsibilities of ordering goods and services, receiving goods, and authorizing payments. If adequate segregation of duties cannot be achieved, management should implement appropriate compensating controls.

**Management’s Response**

4.1 **Risk Mitigation Strategy:** Reduce **Implementation Date:** July 2017

**Action Plan:** The department segregated responsibilities for ordering goods and services, receiving goods, and authorizing payments in April 2017 for some business units. The department will fully implement segregation of duties in the remaining business units in the new fiscal year.

## APPENDIX A—Risk Factor Definitions

Risk Factor	Definition
Accounting Risk	Failure to accurately and timely record transactions may result in inaccurate or untimely compilation of information needed for financial and operational reporting and analysis.
Authorization Risk	Failure to clearly articulate and communicate authority to commit the organization may result in internal and external misunderstandings.
Compliance Risk	Failure to comply with established policies, procedures, and/or statutory requirements may result in unacceptable performance that impacts financial, operational, or customer objectives.
Human Resource Risk	Failure to attract, train, develop, deploy, and/or empower competent personnel may inhibit the organization's ability to execute, manage, and monitor key business activities.
Payment Accuracy Risk	Failure to accurately execute disbursement processes may result in incorrect and/or duplicate vendor payments.
Payment Timeliness Risk	Failure to timely execute disbursement processes may result in sub-optimal cash management, missed discounts, and/or interest and penalties.
Policies and Procedures Risk	Failure to have formal, documented, clearly stated, and updated policies and procedures may result in poorly executed processes and/or increased operating costs
Segregation of Duties Risk	Failure to adequately segregate duties may allow an employee or group of employees to perpetrate and conceal errors or irregularities without timely detection.

## APPENDIX B—Color Code Definitions

The criticality of a risk factor represents the level of potential exposure to the organization and/or to the achievement of process-level objectives before consideration of any controls in place (inherent risk).

Criticality	Significance and Priority of Action
	The inherent risk poses or could pose a significant level of exposure to the organization and/or to the achievement of process level objectives. Therefore, management should take immediate action to address risk observations related to this risk factor.
	The inherent risk poses or could pose a moderate level of exposure to the organization and/or to the achievement of process level objectives. Therefore, management should take prompt action to address risk observations related to this risk factor.
	The inherent risk poses or could pose a minimal level of exposure to the organization and/or to the achievement of process level objectives. Risk observations related to this risk factor, however, may provide opportunities to further reduce the risk to a more desirable level.

The assessment of the design and operation of key controls indicates Internal Audit’s judgment of the of the process and system design to mitigate risks to an acceptable level.

Assessment	Design of Key Controls	Operation of Key Controls
	The process and system design does not appear to be adequate to manage the risk to an acceptable level.	The operation of the process’ risk management capabilities is not consistently effective to manage the risk to an acceptable level.
	The process and system design appear to be adequate to manage the risk to an acceptable level. Failure to consistently perform key risk management activities may, however, result in some exposure even if other tasks are completed as designed.	The operation of the process’ risk management capabilities is only partially sufficient to manage the risk to an acceptable level.
	The process and system design appear to be adequate to manage the risk to an acceptable level.	The operation of the process’ risk management capabilities appears to be sufficient to manage the risk to an acceptable level.

### APPENDIX C—Risk Mitigation Strategy Definitions

Risk Mitigation Strategy	Definition
Reduce	Risk response where actions are taken to reduce a risk or its consequences.
Accept	Risk response where no action is taken to affect the risk.
Transfer	Risk response where a portion of the risk is transferred to other parties.
Avoid	Risk response to eliminate the risk by avoiding or withdrawing from the activity giving rise to the risk.