



**Mecklenburg County
Department of Internal Audit**

Mecklenburg County Child Support Enforcement
Accounts Payable
Report 1666

July 10, 2017

Internal Audit's Mission

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

Internal Audit Contacts

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Staff**Acknowledgements**

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

**Obtaining Copies of
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<http://charmeck.org/mecklenburg/county/audit/reports/pages/default.aspx>



MECKLENBURG COUNTY
Department of Internal Audit

To: Joan Kennedy, Director, Child Support Enforcement
From: Joanne Prakapas, Director, Department of Internal Audit
Date: July 10, 2017
Subject: Child Support Enforcement Accounts Payable Report 1666

The Department of Internal Audit has completed its audit of Child Support Enforcement's 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. Accounting Risk	●	●	●
4.1 Object Codes			
5. Compliance Risk	●	●	●
5.1 Sales Tax			
6. Authorization Risk	●	●	●
No risk observations noted			
7. Segregation of Duties Risk	●	●	●
No risk observations noted			
8. Human Resource 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

Child Support Enforcement (the Department) works to ensure both parents are responsible to the best of their ability for the financial support of their children. Specific services include noncustodial parent location, establishment of paternity and support obligation, and collection and enforcement of support obligation.

Accounts Payable Process

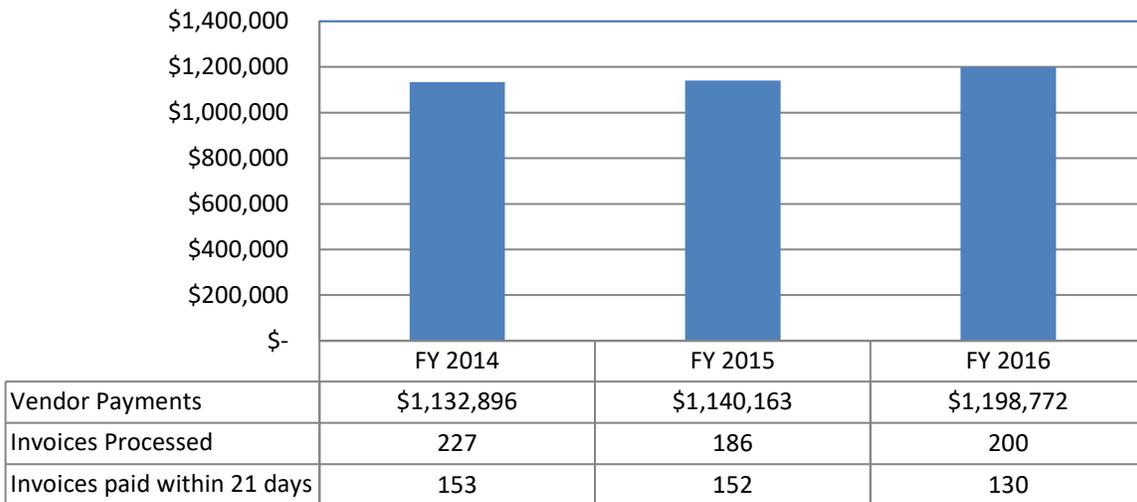
The Department’s accounts payable team is responsible for initiating payment requests to pay vendors for the procurement of goods and services.

Prior to entering a payment request into Advantage, the County’s financial management system, the Department’s Human Services Specialist reviews the vendor invoice to ensure the amount reflects the established terms and conditions. The specialist also ensures applicable taxes are correctly calculated, the invoice date is reasonable, and the invoice is properly supported before scanning the invoice into OnBase, the County’s electronic filing database. The Administrative Support Supervisor then reviews the invoice, supporting documentation, and payment request prior to approving and submitting the request 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.

Child Support Enforcement Vendor Payments



Source: Advantage Financial System, Unaudited

COUNTY MANAGER’S OVERALL RESPONSE

The County Manager concurs with all action plans and implementation timeframes.

RISK OBSERVATIONS AND MITIGATION STRATEGIES

Risk Factor	Criticality	Design	Operation
1. Policies and Procedures Risk	●	●	●

Risk Observation

1.1 Formal Documentation—While the Department had formal, documented policies and procedures for aspects of its accounts payable process, some procedures did not reflect current and/or best practices. In addition, the Department did not have a formal process to review and update as necessary its accounts payable policies and procedures. Yet, policies and procedures are important control activities to help management ensure its directives are carried out while mitigating risks that may prevent the organization from achieving its objectives.

Recommendation

- 1.1 Internal Audit recommends management update its accounts payable procedures and train staff accordingly. The updates should be comprehensive, consistent with applicable County requirements, and include at a minimum:
- Essential operating activities required to process payments, e.g., invoice verification and processing; recordation; supporting documentation maintenance; and monitoring
 - Staff roles and responsibilities
 - Staff training requirements
 - Periodic procedure reviews and updates
 - Internal and external communication requirements

Management’s Response

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

Action Plan: The Department will develop and implement policies and procedures that are consistent with the County’s. The business management staff will continue to complete annual trainings to ensure business management staff is up to date on new policies and procedures.

Risk Factor	Criticality	Design	Operation
2. Payment Accuracy Risk	●	●	●

Risk Observation

2.1 Supporting Documentation—The Department did not maintain supporting documentation, such as order confirmations, contracts, or purchase agreements for 54 of 69 or 78% of vendor payments sampled. Lack of adequate documentation limits management’s ability to ensure control activities 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: Management will reemphasize document retention requirements to staff. The Department will image and file supporting documentation such as, order confirmations, contracts, or purchase agreements for vendor payments.

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

Risk Observation

3.1 Invoice Processing—Fifteen of 69 or 22% of vendor payments sampled were not processed within 21 days of the invoice date as required by County policy. Late vendor payments may 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 reemphasize to staff the importance of paying invoices on time and will continue to assess our process for improvement. As a note, the Department does not receive mail directly as a third-party vendor receives incoming mail. Once received, the invoices will be stamped by the third-party vendor and the Department’s business management staff. Invoices will then be processed within 21 days of receipt. If invoices are not received timely, the Department will emphasize the importance to the vendors.

Risk Factor	Criticality	Design	Operation
4. Accounting Risk	●	●	●

Risk Observation

4.1 Object Codes—Eight of 69 or 12% of vendor payments sampled had the incorrect object code in Advantage. Failure to accurately code expenses may result in inaccurate financial and management reporting and may create an opportunity to conceal errors or fraud.

Recommendation

4.1 Internal Audit recommends management reemphasize the importance of accurately coding transactions in Advantage and train staff accordingly.

Management’s Response

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

Action Plan: Management will reemphasize to staff the importance of accurately coding transactions and will train staff accordingly. The Department is currently documenting the details of purchases and vendor payments. This will allow the Department to budget accurately for current and future fiscal years. Since the audit, the Department has created the account code 6010 – Food Supplies to begin capturing food purchases within this object code.

Risk Factor	Criticality	Design	Operation
5. Compliance Risk	●	●	●

Risk Observation

5.1 Sales Tax—The Department did not manually compute and record the 7.25% sales tax as required by County sales tax guidelines for two vendor invoices where the vendor had not charged a sales tax and the goods purchased were received within the State.

Recommendation

5.1 Internal Audit recommends management reemphasize to staff the County’s sales tax guidelines and train staff accordingly.

Management’s Response

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

Action Plan: The Department will develop procedures and complete annual trainings to ensure business management staff is up to date on new sales tax guidelines, policies and procedures.

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 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.