Audit Report Highlights

Fiscal Office Accounts Payable – Benford's Law **July 2021**

Total Potential Recoveries[1] = $5,041 **Total Cost Savings[2] = $3,820,000**

Issued Checks in 2018 = $764Million **County Annual Budget[3] = $1.4 billion**

Why DIA Did This Audit

This report provides results and recommendations from the Department of Internal Audit (DIA) related to financial activity, internal controls and operational procedures in the County's Accounts Payable Department (AP) in the Fiscal Office. The purpose of this audit was to:

1) **Review internal controls on AP's check issuance process for weaknesses such as data errors, process inconsistencies, segregation of duty issues, and unauthorized transactions.**
2) **Determine if operational procedures utilized by AP comply with governing laws, and policies are carried out accurately and consistently.**
3) **Use Benford's Law[4] to identify and analyze a sample of potential duplicate payments or other payments warranting further review.**

What DIA Found

Resources in AP appeared to be well managed, considering AP staff processed over 128,000 checks in 2018. Of 100 vouchers tested during the audit period of January 1 through December 31, 2018, DIA noted that all expenditures were for a proper public purpose and agreed to the supporting documentation. Furthermore, DIA did not identify any instances of payment splitting or rounding under thresholds or unusual spending habits. However, our audit procedures identified recoveries in the amount of $5,041 due to duplicate payments. The duplicate payments identified were not detected by AP; they were either identified and corrected by the vendor or corrected by AP after identification of such during the audit. Thus, we identified need for improvement within AP's disbursement process. Noteworthy issues are listed below:

- **Duplicate payments exist and are not properly prevented or detected.**
- **DIA noted that duplicate vendors existed and were not prevented.**
- **The voucher review process lacked evidence that indicated appropriate review was performed.**
- **The County does not appear to have a process which ensures that debarred vendors are not paid as required by policy.**
- **Records of vouchers and evidentiary matter to support the issuance of warrants is not properly retained.**
- **Authorization of vouchers is not consistently evidenced by original signatures.**

[1] *Total overpayments identified by DIA the County could potentially recover.*

[2] *The amount the County could save by implementing recommendations. This is a result of policy changes that could reduce expenses or increase revenue.*

[3] *Taken from the updated 2018 budget approved by Council in December 2017. The County Annual Budget includes operating appropriations from all County funds. The County's Annual Payroll Budget includes all personnel service expenditures (salaries and employers portion of contributions).*

[4] *Benford's Law is a mathematical theory of numerical data that identifies transactions outside the expected patterns for a set of data. These transactions warrant further review and may be potential duplicate payments. DIA utilized IDEA data analytics software to apply Benford's Law.*

Audit Report Highlights

What DIA Recommended

We provided County management with best practices and sound internal controls to mitigate potential risks related to various AP functions. We made recommendations focused on resolving the procedural issues noted above and to help move AP toward a more efficient and productive operation.

We communicated these recommendations to AP during the audit. Based on their responses, we believe corrective action has been or will be taken to mitigate the risks identified. The AP Manager and Deputy Fiscal Officer were cooperative and professional during the audit. Management responses follow each recommendation in the report. We made numerous recommendations to improve AP operations including:

- AP should determine the feasibility of implementing a routine assessment of their transaction history using a SaaS solution or of contracting with a recovery firm that can provide duplicate payment detection services each fiscal year. Studies have found that even the most well controlled AP processes may not prevent duplicate payments. Industry studies have shown that the rate of duplicate payments can be as high as 3%. In fact, 20% of the best performing companies, responding to the 2013 ePayables survey performed by Ardent Partners, had an average duplicate payment rate over 1%. A general guideline is that a duplicate payment rate over 0.5% indicates that controls are lacking, or perhaps the master vendor file needs a good spring-cleaning. As such, applying a conservative rate of 0.5% would suggest that the County's payable process would have a duplicate payment rate of approximately $3,820,000.

- AP should work with the ERP team to deactivate the duplicate vendor files. ,

- Since DIA identified some recent instances of missing vouchers, signatures, and invoices/support documents uploaded in the ERP, AP should send a new communication to all agencies reiterating AP's requirements.

- Although it is the responsibility of the vendor to register with the Inspector General, AP should still mitigate the risk of paying a debarred/excluded vendor by performing a search in the County's and State's debarred/excluded lists when AP adds a new vendor to ensure the vendor is not listed as a debarred/excluded vendor

- A record of all vouchers and files leaving the area should be documented by AP, preferably in an electronic log, including the name and department of the employee checking it out, as well as the dates the files were checked out and returned.

- AP and County departments comply with the ORC noted above and avoid using pre-signed blank forms or photostatic signatures.

Internal Audit Report

Cuyahoga County, Ohio

Department of Internal Auditing

Benford's Law Audit – 2018
Cuyahoga County Fiscal Office Accounts Payable
January 1, 2018 – December 31, 2018

Director of Internal Auditing: Monica Houston, CPA, CGMA, CFE, CIDA

Audit Manager: Rose Karam, CFE, CIA

Staff Auditor: Tom Schneider, CPA

Release Date: 8/9/2021

INTERNAL AUDIT REPORT
Cuyahoga County Fiscal Office Accounts Payable
Cover Letter

July 12, 2021

To: Fiscal Officer Michael Chambers, CPA, and the current management of the Cuyahoga County Fiscal Office Accounts Payable Department:

The Department of Internal Auditing (DIA) has conducted an audit of the financial operations and general accounting of the Cuyahoga County Accounts Payable Department (referred to within this report as "AP") within the Fiscal Office, for the period of January 1, 2018 through December 31, 2018. The audit objectives focused on identifying duplicate transactions and inadequate internal controls. Specifically, we conducted audit work related to the internal controls over the AP function of the Fiscal Office to determine if procedures currently being utilized are operating as intended by management; are consistent with Fiscal Office policies and procedures and all governing laws and regulations; and transactions are properly supported, approved and recorded.

To accomplish our objectives, we focused on AP's operational controls, the expenditure cycle, as well as specific compliance mandates. Interviews with management and staff, along with a general walk-through of the expenditure cycle were conducted to document the controls in place. In addition, analytical procedures were used for substantive testing. We utilized a data analytics system to apply Benford's Law[1] and identify potential duplicate payments and other transactions that warranted further review. A sample of these payments were selected for testing.

Based on the work performed DIA noted that expenditures were for a proper public purpose and agreed to the supporting documentation. Furthermore, DIA did not identify any instances of

[1] *Benford's Law is a mathematical theory of numerical data that identifies transactions outside the expected patterns for a set of data. Utilization of the digits tests produce results which may indicate broad categories of abnormality and identify transactions that may warrant further review. DIA initially utilized Excel to apply Benford's Law and subsequently confirmed the results utilizing IDEA software.*

payment splitting or rounding under thresholds or unusual spending habits. However, our audit procedures identified recoveries in the amount of $5,041 due to duplicate payments. The duplicate payments identified were not detected by AP; they were either identified and corrected by the vendor or corrected by AP after identification of such during the audit. Thus, we identified need for improvement within AP's disbursement process. This report provides the details of our findings.

We conducted this audit in accordance with generally accepted auditing standards. Those 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 the evidence obtained provides a reasonable basis for our findings and conclusions.

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projection of any current evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may weaken.

DIA would like to express our appreciation to the AP staff and interrelated departments that assisted throughout the process for their courtesy and cooperation during this audit. A draft report was provided to the Fiscal Office and AP management for comment. Management responses are included within the audit report.

Respectfully,

Monica Houston, CPA, CGMA, CFE, CIDA
Director of Internal Auditing

Cc: Audit Committee
Cuyahoga County Council
William Mason, Chief of Staff
Greg Huth, Law Director
Michael C. O'Malley, Cuyahoga County Prosecutor
Catherine Tkachyk, Chief Innovation Officer (Executive Agency Audit Liaison)

Contents

Glossary

Benford's Law	The mathematical theory used to measure the actual occurrence of leading digits in disbursements compared to the digits' expected probability. A mathematical observation where the leading digits occur in a specific, non-uniform way. This theory is applied to identify potentially abnormal transactions. DIA utilized data analytics software to apply Benford's Law to County financial transactions.
ERP	Enterprise Resource Planning – Business management software integrating core business processes. The County was in the process of implementing a new ERP system during the period of the audit.
FAMIS	Cuyahoga County's accounting information system during the period of the audit.
Invoice	An itemized bill from a vendor for goods sold or services provided, containing individual prices, the total charge and the terms. Invoices should be included with vouchers submitted to AP for payment authorization.
ORC	Ohio Revised Code.
Voucher	A form authorizing a payment of cash or a credit against a purchase or expense to be made in the future. County departments complete various vouchers (e.g. encumbrance vouchers, office vouchers, employee reimbursement vouchers) and attach supporting documentation to authorize payment. Vouchers include signatures, posting units, vendor information, transaction amounts, and description of transaction.

Report Details

Purpose

The purpose of this audit was to conduct a limited scope audit of Cuyahoga County's Fiscal Office Accounts Payable (AP) function related to the expenditure cycle. AP was scored as a high risk to the County during the 2018 risk assessment process. The Accounts Payable process is inherently highly susceptible to errors and irregularities. As the number of accounts payable transactions exceeds 100,000 annually, DIA committed to performing a limited review of those transactions on an annual basis utilizing Benford's Law and other analytical procedures to potentially identify unusual transactions, determine the effectiveness of controls, and confirm the organizations compliance with applicable laws and/or regulations. Benford's Law is a mathematical theory of numerical data that identifies transactions outside an expected pattern for a set of data. DIA utilized Excel and IDEA data analytics software to apply Benford's Law to County financial transactions in 2018.

DIA evaluated processes for compliance with existing policies, laws, and professional standards. We performed substantive tests on financial transactions. The audit included review and evaluation of procedures, practices and controls as deemed necessary.

During the audit, the County implemented a new ERP system that will help ensure data posted in the new financial system is accurate and complete. DIA was conscious of the new ERP system during the audit and where appropriate identified or confirmed the existence of relevant controls.

Audit Objectives

Based on the risk assessment conducted by DIA, the objectives of this audit are to determine whether:

- Procedures currently being utilized are operating as intended by management.
- Accounts Payable is operating in a control conscious environment with adequate controls in place to effectively and efficiently achieve the organization's goals.
- The County safeguards assets from errors and loss, and ensures disbursements are accurate, properly authorized, and recorded.
- Procedures and transactions are in accordance with all governing laws, regulations and policies.
- Potential duplicate payments are identified and reviewed using Benford's Law and/or other analytical procedures.

<u>Control conscious environment</u>
Adequate level of internal control awareness; proper separation of duties; existence of a proper monitoring system; appropriate authorization/approval of expenditures; and adequate safeguarding of financial, physical, and information assets.

Scope

To accomplish our objectives, we focused on the operational controls of AP and the expenditure cycle, as well as specific compliance mandates during the period of January 1, 2018 through December 31, 2018. Interviews with management and staff along with a general walk-through of the expenditure cycle were conducted to gain an understanding of the process, to document the controls in place, and to determine whether they are operating effectively.

Methodology

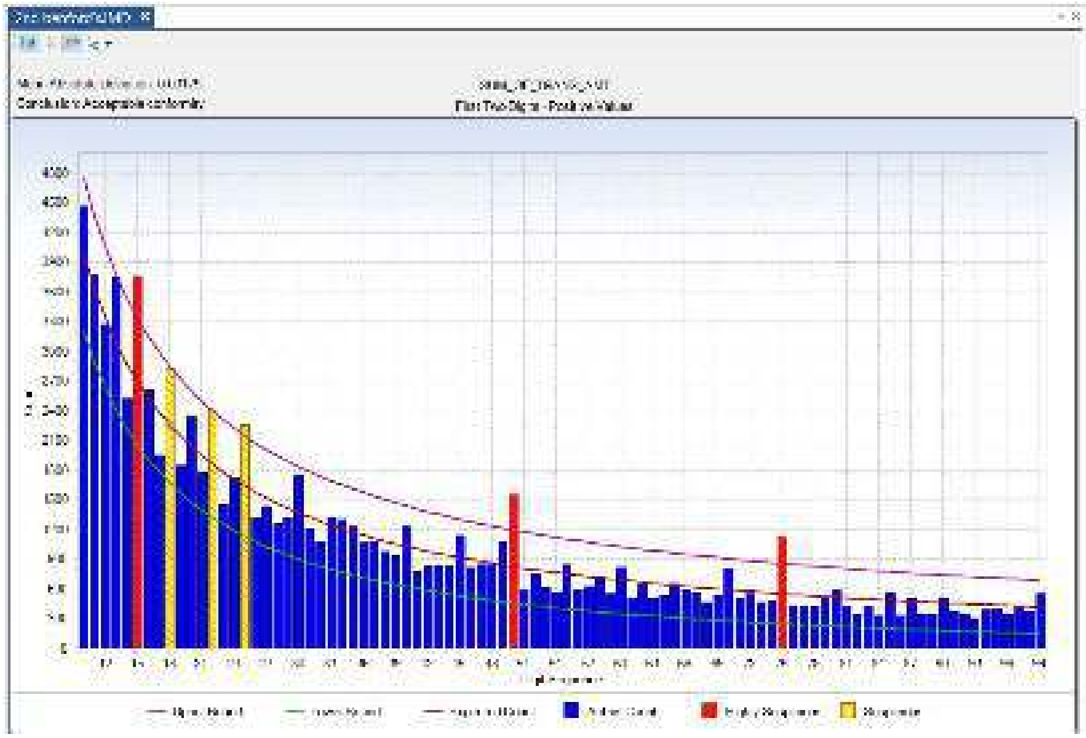
To analyze over 128,452 paid checks totaling over $764 million for 2018, we used the mathematical theory of numerical data called Benford's Law, utilizing Excel and our data analytics software. Benford's Law is an observation of digits in data sets where the leading digits occur in a specific, non-uniform way. We performed the First Digit, Second Digit, and First Two Digits tests. We further filtered the results of the First Two Digits test for recurring payments in uniform amounts. Some of the most common recurring payments included:

- Jury Duty Pay ($27, $54, $81)
- Poll Booth Worker Pay ($172)
- Legal Counsel Fees—Common Pleas, Municipal Courts, Juvenile Court ($175, $500, $75)
- Community Diversion Program Recipients (Municipalities)—Juvenile Court ($500)
- Employee Mileage Reimbursements—Common Pleas ($50)
- Payroll Deductions to Governmental Entities ($27x)
- Property Tax Refunds ($27x, $2,7xx)
- Veteran Rent Assistance ($750)
- Refunds of Adoption or Spay/Neuter Fees—Animal Shelter ($75)

DIA noted that, although Benford's Law may be a guide, research shows it can also wrongly imply fraud: "Forensic accountants need to be attentive of recurring payments, for example, rental payments on a monthly basis or monthly paychecks, because the duplication of such numbers may generate false anomalies when the data are being tested against Benford's law".[2]

[2] Evaluating the effectiveness of Benford's Law as an investigative tool for forensic accountants" Lizan Kellerman, North-West University

First Two Digits (filtered)



Note that 50 and 75 still were abnormally higher in occurrence than expected. However, as a consequence of filtering out the recurring payments, other digits became abnormally higher (15, 18, 22 and 25). DIA analyzed all the check payments that fell within these digits and identified these recurring payments:

- Legal Counsel Fees—Common Pleas, Municipal Courts, Juvenile Court ($150, $1,500, $225, $250)
- Poll Booth Worker Pay ($182, $225)

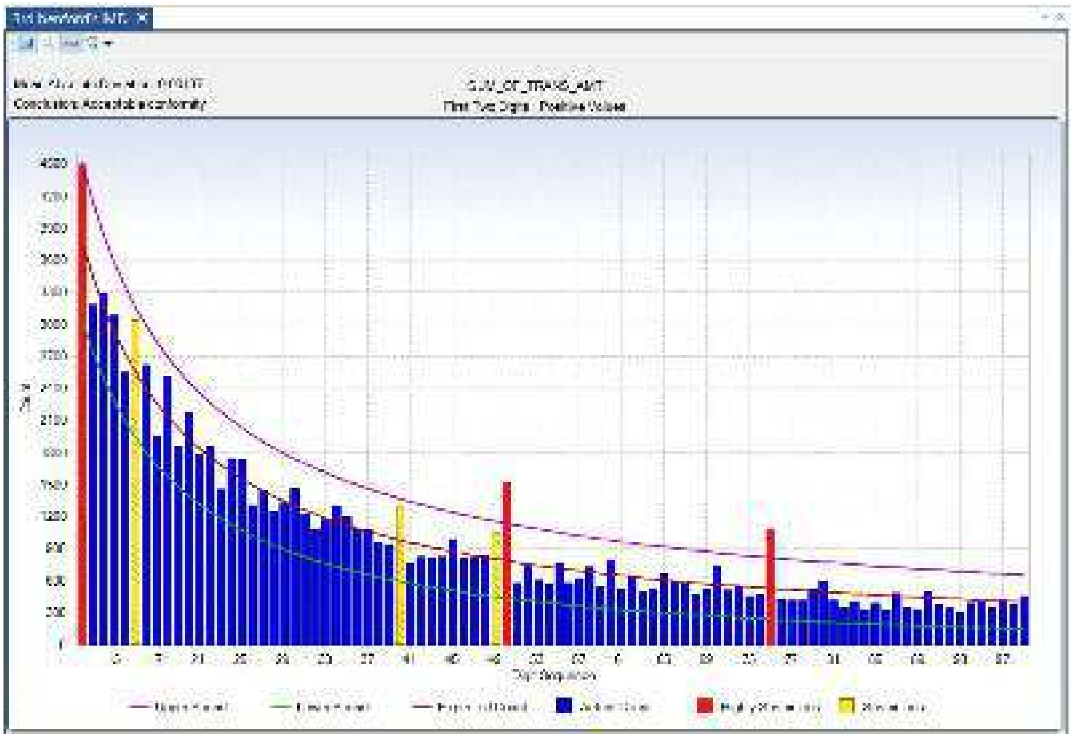
To identify all possible areas of abnormally high activity, DIA also analyzed the digits where the actual occurrences were only slightly above the line of the Benford's Law probability (11, 13, 20, 30, 33, 34, 35, 40, 45, 49, 55, 70, 85, 87, 99). DIA analyzed all the check payments that fell within these digits and identified many recurring payments. Some of the most common recurring payments were the following:

- Legal Counsel Fees—Common Pleas, Municipal Courts, Juvenile Court (various digits)
- Jury Duty Pay ($135, $200, $207, $300)
- Beds for Inmates—Protective Services ($300, $450)
- Beds for Veterans ($330)
- Veteran Rent Assistance ($450, $850)

- Veteran Funeral Cost ($999)

Again, DIA filtered out the above recurring payments from the data and re-ran the first two digits test.

First Two Digits (filtered again)



DIA noted there were no new two digits that became abnormally higher because of filtering out the recurring payments, and therefore concluded with false anomalies factored out, this chart was valid for identifying possible areas of abnormal activity. Although DIA included them in our sample for voucher testing to investigate all possible reasons, we noted the highly suspicious digits (10, 50, and 75 digits) could indicate possible rounding of invoice amounts or invoice splitting under thresholds for approvals (we analyzed this in the next section below).

Although these digits (10, 50, 75), as well as the others, were included in the sample for voucher testing, DIA noted the overall conclusion from its Benford's Law testing was that the data was generally within "acceptable conformity", and therefore considered other analytical procedures to identify additional areas of abnormal activity.

Analytical Procedures

In addition to our results from Benford’s Law, we also included in our sample for voucher testing checks that were identified from the following results of our analytical procedures:

- Per County Ordinance No. O2015-0006: "All contracts, purchases, sales, grants provided by the County resulting in the County's expenditure of more than $500 require Board of Control Approval". (This changed to $5,000 on 4/9/19 with No. O2019-0003.) Per Ordinance No. O2015-0006, "contracts or purchases greater than $1,000, but less than $25,000, the County shall solicit bids for the contract/purchase". Therefore, based on these criteria, we analyzed checks with amounts within a range of close proximity under these thresholds ($500 and $1000), to see if payment splitting or rounding under thresholds for approvals occurred.

- DIA set up tables to look at the upwards trends month-by-month of 1) payment frequency and 2) payment amount for each vendor. We identified the vendors with the highest level of deviation in the upward direction, both by overall increase for the entire year and by the largest increases in a particular month. We analyzed these trends to detect any unusual spending habits.

We used a statistical sampling to determine the sample for voucher testing. At 128,452 checks in 2018 based on our FAMIS report, with a 95% confidence / 10% tolerable deviation, our sample size calculation was 96; we rounded the sample size up to 100 to simplify any of our calculations. We determined our sample based on the results of Benford's Law and other data analytic procedures by vendor. We tested each voucher for accuracy and for adherence to controls as well as to applicable laws and regulations.

To accomplish our audit objective of detecting duplicate payments in the expenditure cycle we analyzed 2018 payments in the FAMIS system for duplicate invoice numbers using the concatenate function of Excel and identified 6,754 transactions with duplicate information. We sampled 60 of these payments, reviewing the vouchers and support to determine if they in fact resulted in duplicate payments.

Background

The AP staff, under the Fiscal Office Controller, works in a financial support function and carries out a multitude of duties in FAMIS (the County's financial system during the audit period). For example, they:

- Issue checks for all County agencies, including office vouchers, employee reimbursements, and contract payments.
- Process Automatic Clearing House (ACH) payments.
- Mail and hold checks for pick-up after issuance.
- Receive checks returned as undeliverable.
- Perform data entry for all expenditures and revenue in FAMIS.
- Perform data entry for contract encumbrance certification and decertification.
- Enter new vendors and revise vendor information in FAMIS.
- Issue 1099s.

Commendable Practices

AP personnel processed over 128,000 checks during the audit period, totaling nearly $764 million. AP manages to annually issue this many checks with a staff of eight employees. For the number of transactions processed and the variety of tasks they perform, resources appear to be well managed. In addition, the department is aware of areas in which better controls are needed and has sought to have an improved system of controls in the new ERP system particular in the areas of segregation of duties.

Priority Level Criteria for Recommendations

<table>
<tr><td rowspan="2">High

(P1)</td><td>Highest-Ranking Officer's immediate attention is required. Corrective action is strongly recommended (<u>30days</u>).</td></tr>
<tr><td>• Financially material loss or potential loss
• Lack of or failure of internal controls requiring considerable time and resources to correct
• Non-compliance with laws, regulations, and policies resulting in significant loss of funds, fines, or restrictions
• Significantly negative effect on the County's reputation or public perception</td></tr>
<tr><td rowspan="2">Moderate

(P2)</td><td>Senior Management's attention is required. Corrective action is recommended (<u>90days</u>).</td></tr>
<tr><td>• Financial loss or potential loss
• Internal controls exist but they are not effective, or they are not consistently applied
• Non-compliance with laws, regulations, and policies resulting in loss of funds, fines, or restrictions
• Negative effect on the County's reputation or public perception</td></tr>
<tr><td rowspan="2">Low

(P3)</td><td>Management's attention is required. Corrective action is recommended (<u>180days</u>).</td></tr>
<tr><td>• Financial loss or potential loss is minimal
• Internal controls exist, but could be improved
• Non-compliance with laws, regulations, and policies is a minimal risk
• No effect on the County's reputation or public perception</td></tr>
</table>

In an effort to assist the auditee in making the best use of their resources, we have prioritized the recommendations according to the table above.

Findings and Recommendations

Operational Efficiency and Adequate Controls

FINDING Duplicate Payments Exist

The County should have procedures in place to prevent or detect material misstatements for the accurate presentation of the County's financial statements. Duplicate payments may result in a material overstatement of expenditures. Additionally, the County should only pay vendors for incurred expenditures. If detected, AP should correct duplicate payments in a timely manner to ensure only incurred expenditures are reported within the fiscal year.

Duplicate payments exist and are not properly prevented or detected. In 3 out of the 60 (5%) vouchers sampled for duplicate invoice payment testing, DIA identified duplicate payments to vendors totaling $5,041 that were not detected or prevented by Accounts Payable (AP). The duplicate payments were paying the same invoice submitted by County agencies twice on separate occasions.

The first duplicate for $1,400 was neither detected nor prevented. Upon DIA notifying AP and the County agency of the duplicate, the County agency initiated a correction by instructing the vendor send the County a refund check for $1,400. For the remaining two duplicates totaling $3,641, DIA confirmed with the County agency that the duplicates were already detected and corrected in 2018, by the County receiving credits for $3,641 in subsequent billings from the vendor.

DIA determined the reason that duplicate payments were made was that AP lacked either a manual or system control to prevent duplicate payments. AP lacked a procedure in its policy for staff auditing the voucher and invoice to research the vendor's payment history to verify the invoice was not already paid before issuing a payment. In an effort to assist the auditee in making the best use of their resources, we have prioritized the recommendations according to the table above. The FAMIS lacked a unique constraint for the invoice field to prevent staff from entering a duplicate invoice number.

Risk to the County if Findings Not Corrected

Duplicate payments may result in a misstatement of expenditures which my result in inaccurate financial statements. Additionally, the County may experience a loss of taxpayer funds if recovery of the payment is not possible. Lastly, vendor relationships may be negatively impacted.

Recommendations

1. (P1) AP should confirm that the current ERP system contains functionality to prevent duplicate payments, such as a unique constraint for the invoice field.

Management's Response:

The Lawson (ERP) accounting system has a built-in control function to help eliminate duplicate payments. The system has a unique constraint for the invoice field which allows an invoice number to only be utilized once for a particular vendor. This logic prevents duplicate invoices from being created. The old FAMIS system used invoice description as an invoice constraint, which had the potential to allow duplicate invoice payments.

Target Date for Completion:

The action plan became functional upon the implementation of the ERP system in February 2020.

2. (P1) If system controls do not exist or are not effective, AP should determine if it is realistic, considering the County's high volume of check payments, to implement a manual control to prevent duplicate payments, such as the staff auditing the voucher and invoice researching the vendor's payment history to verify the invoice was not already paid before issuing a payment.

Management's Response:

We also have implemented an additional manual control to prevent duplicate payments. The AP entry clerks throughout the County have been advise that if a duplicate vendor invoice number has been used, that the vendor's payment history needs to be researched to verify that invoices with identical invoices have not already been paid before creating the new invoice an issuing the payment.

Target Date for Completion:

The action plan became functional upon the implementation of the ERP system in February 2020.

3. (P1) As duplicate payments may plague even the best controlled AP processes, AP should determine the feasibility of implementing a routine assessment of their transaction history using a SaaS solution or of contracting with a recovery firm that can provide duplicate payment detection services each fiscal year.

Management's Response:

We will look into issuing a RFQ for SaaS as an additional detective control for duplicate payments. Once a SaaS product has been procured, AP can run the software to proactively search for duplicate payments on a semi-annual or annual basis.

Target Date for Completion:

We will look to issue the RFQ by 11/30/2021.

4. (P1) AP should follow up to ensure the outstanding $1,400 duplicate payment is paid back to the County.

Management's Response:

The $1,400 refund for the duplicate payment was received by the County on 9/10/2020 and deposited on 9/16/2020.

Target Date for Completion:

Already completed. 9/16/2020.

FINDING Duplicate Vendors Exist

The County should have procedures in place to prevent or detect material misstatements for the accurate presentation of the County's financial statements. Duplicate payments may result in a material overstatement of expenditures. Duplicate vendors within a vendor file are considered to be the biggest cause of duplicate payments. Storing the same information multiple times goes against the fundamental principle of a relational database. Sometimes an entity may choose to have multiple listings for a legitimate reason. This should be done with caution and everyone that processes payments should be aware of the exception. Multiple vendor listings lead to the issue of an invoice being recorded more than once, resulting in payment to multiple instances of the same actual expense. Additionally, a unique identifier, such as Tax ID, should be utilized for each vendor to prevent duplicate payments and ensure proper reporting on 1099s. Also, if a vendor file already exists under a different Tax ID than shown on a new W-9 form submitted by the vendor, the existing vendor file should be deactivated so only the new vendor file with the updated Tax ID may be used.

Based on testing performed, DIA noted that duplicate vendors existed and were not prevented by Accounts Payable (AP). At the time of our audit in 2020, the County was no longer using FAMIS and had transitioned to the ERP. All 32,781 vendor files from FAMIS were imported into the ERP on January 17, 2020.

DIA ran a report in ERP for a list of all vendor files. As of August 31, 2020, when DIA ran the report, there were 34,800 vendor files, of which 32,781 were imported from FAMIS and 2,019 created in ERP. We analyzed the list for duplicate vendor files. DIA identified 1,245 duplicates out of the 34,800:

- 717 duplicates all created in FAMIS, and imported into the ERP
- 104 duplicates all created in ERP
- 412 duplicates, the original created in FAMIS, the duplicate in ERP
- 12 duplicates, the original created in FAMIS, two duplicates in ERP

DIA determined that the root cause for this issue was that there was no unique constraint for the Tax ID field in FAMIS or ERP to prevent a duplicate vendor file.

Risk to the County if Findings Not Corrected

Duplicate vendor files could lead to errors and or irregularities. Failing to remove duplicate vendors from the master list can cause duplicate payments to occur regularly. Also, the County's process for 1099 reporting is at a greater risk of errors if multiple vendor files are used to pay the same vendor.

Recommendations

1. (P1) AP should work with the ERP team to deactivate the duplicate vendor files.

Management's Response:

The Accounts Payable team will work with ERP team to identify duplicate vendor files. The duplicate vendors will be deactivated in the Lawson (ERP) system.

Target Date for Completion:

The target date for completing the deactivation of duplicate vendors is October 31, 2021.

2. (P1) AP should ensure that the staff responsible for creating new vendor files in ERP are first verifying there is not an existing vendor file before adding to prevent unnecessary duplicates.

Management's Response:

Effective immediately, the Accounts Payable team will ensure that prior to a new vendor being added that they will verify that an existing vendor doesn't currently exist (ex. AP will perform a TIN/SSN search, name search, and vendor address search).

Target Date for Completion:

Effective immediately.

FINDING Voucher Reviews Not Properly Documented

The County should have adequate processes and controls which prevent or detect errors or irregularities in the payment of the County's obligations. Hence, there should be appropriate segregation of duties; both to comply with written procedures, and to prevent the misuse of voucher approval. AP should ensure departments provide invoices to support the payment and vouchers where still applicable. AP should also verify the existence and authenticity of signatures on vouchers and invoices. Signed vouchers and invoices indicate the department has checked for accuracy and approved the purchase before submitting for payment.

The voucher review process lacked evidence that indicated appropriate review was performed. During DIA's testing of voucher payments made during 2018, inconsistencies were identified in the documentation established to verify that the department and Accounts Payable (AP) conducted an appropriate review. Of the 100 payments tested, totaling $2,793,457, we noted the following errors:

Type of Error – of 100 Tested	***# Errors***	***$ Impact***
VOUCHERS		
Preparer's signature not on voucher	38	$ 380,186
No voucher present with invoice/support documents	14	$ 1,899,282
Authorized Approver's signature not on voucher (only on invoice)	6	$ 2,509
INVOICES		
Invoice not signed or initialed by Authorized Approver (only on voucher)	3	$ 67,781
VOUCHERS/INVOICES		
Lists Not Submitted to AP for 10 departments to authenticate signatures on vouchers and invoices	23	$ 139,704

Although there were missing signatures and vouchers, in all cases there was still an authorized approver's signature either on the voucher or invoice, and therefore DIA was able to verify there was at least some evidence of review by the department and AP.

However, the missing preparer's signature for the 38 vouchers resulted in a lack of evidence that AP ensured proper segregation of duties by verifying the department had a separate person prepare the voucher.

Also, the Authorized Approver Lists not submitted to AP for 10 departments resulted in a lack of evidence that AP was able to authenticate the signatures on the 23 vouchers/invoices to ensure proper segregation of duties and a complete review by the department. Although AP could verify that the person sending the voucher was a County employee, AP would not be able to verify that the person was authorized by the department's supervisor and whether the supervisor's signature was genuine.

As of February 2020, the County started using the Payables module in the new ERP which automated the voucher preparing, documentation retention, and approval processes for most departments. The County's ERP administrators have assigned the proper access to authorized employees, so AP no longer requires signatures to ensure proper segregation of duties and a complete review for these departments. However, AP is still verifying that the department uploads an invoice to the electronic voucher in ERP to support the payment.

As of our audit fieldwork, non-executive agencies are not set up in the ERP to prepare and approve vouchers electronically, and therefore AP must still require signed vouchers/invoices and Authorized Approver lists from these agencies to conduct a complete review. AP is still verifying that the agency submits a voucher and invoice, and AP uploads both to an electronic voucher they create in ERP on the department's behalf. DIA reviewed some electronic vouchers in the ERP paid to the same vendors tested in 2018 and identified the same issue of missing signatures and vouchers, as well as missing invoices/support documents.

The causative issue is that although the Fiscal Officer sent Fiscal Bulletin 2018-001 to all County agencies on February 20, 2018, asking departments to include the preparer's name, the agencies were still not providing it in many instances, indicating AP was not enforcing the policy. Additionally, AP was still allowing agencies to use non-standard vouchers, which in some cases did not have a separate line to distinguish the preparer from the approver. DIA noted this policy may have been difficult to enforce since there was not a standard voucher to follow. Effective February 2020, when the ERP went live, AP issued a new standardized voucher which included the preparer's name line. This should make it easier for agencies to remember to include the preparer's signature.

Risk to the County if Findings Not Corrected

All payments tested were supported and properly made. Nonetheless, the County is at a higher risk of unauthorized purchases or misappropriation of assets and the potential for undetected misrepresentation when procedures are not followed. In addition, a conflict of interest could result from a lack of a segregation of duties.

Recommendations

1. (P1) For the non-executive agencies, AP should verify that the Authorized Approver lists were received in 2021 and that AP staff is able to audit the electronic vouchers in the ERP for proper approvals by authenticating the wet signatures provided on the uploaded voucher forms.

   Management's Response:

   For the agencies that have not moved to the ERP platform yet, AP will ensure that all agencies have proper approval on the invoice and coversheet. As long as an invoice has the authorized department AP approver signing off on the invoice and coversheet, the invoice preparer is irrelevant. The signed invoice coversheet is indication that the approver has verified the accuracy of the invoice information before submitting, however the AP staff still performs an invoice validation to ensure that the information that has been listed on the invoice cover (invoice number, payee, invoice amount) is correct and that supporting documentation is uploaded into the system before final approval.

   Target Date for Completion:

   Effective with the implementation of the ERP system in February 2020.

2. (P1) For agencies with access to ERP, even though the voucher preparation and approval processes are automated, AP should ensure that AP staff is still verifying for every electronic voucher that the department uploads an invoice to support the payment and ensure proper record retention.

   Management's Response:

   The implementation of the Lawson (ERP) system has alleviated the need for validating invoice signatures with an approver's listing. The AP approver is set-up in the ERP systems at the accounting unit level. An invoice automatically routes to the authorized AP approver that has been set-up in the system. The invoice will not move forward in the workflow process until the authorized approver has reviewed and approved the invoice. Once the invoice comes to AP workflow for approval, the AP team will ensure that the appropriate supporting documentation is attached electronically to the invoice being submitted. The AP team will still check the invoice to ensure that the information that has been entered (invoice number, payee, invoice amount) is correct. Voucher expense cover sheets are no longer required.

   Target Date for Completion:

   Effective with the implementation of the ERP system in February 2020.

3. (P1) Since DIA identified some recent instances of missing vouchers, signatures, and invoices/support documents uploaded in the ERP, AP should send a new communication to all agencies reiterating AP's requirements. The communication should inform departments that failure to comply with this policy will result in rejection of vouchers. AP should inform the agencies of any changes that affect the AP process as they occur.

Management's Response:

AP will send out quarterly updates to remind individuals and/or departments about the need for invoice validation and/or required supporting documents as needed effective September 1, 2021.

Target Date for Completion:

September 1, 2021.

FINDING Payments May Be Made to Debarred Vendors

County policy requires vendors who do business with the County (for goods and services valued $10,000 or more annually) to register with the County's Inspector General (IG) office to verify they are not excluded/debarred. The County Code places the responsibility for registering with the IG on the vendor to determine if they have exceeded the amount that mandates registration.

The County does not appear to have a process which ensures that debarred vendors are not paid as required by policy. During the audit, Accounts Payable (AP) was unable to provide adequate assurance in their process that they were not paying vendors excluded/debarred by the County or State.

DIA determined that this issue exists because AP does not check vendors against the County or State excluded/debarred lists. AP assumes departments and/or the Office of Procurement and Diversity (OPD) perform this process prior to submitting the vouchers to AP for payment. Although OPD does ensure vendors are not excluded/debarred if the purchase follows its procurement process in the BuySpeed system, County non-executive agencies often follow alternative procurement processes that do not give OPD the opportunity to verify they registered with the IG and are not excluded/debarred, and therefore AP cannot rely solely on OPD to provide assurance.

Risk to the County if Findings Not Corrected

Ohio Attorney General Opinion 82-006 indicates that purchases must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. Thus, making payments to vendors who by ordinance or resolution are prohibited from the purchasing process may result in a violation of Ohio law. Further, paying debarred/excluded vendors could potentially result in a hindrance to the County's ability to protect the integrity of government programs by ensuring that only honest, ethical, and otherwise responsible persons and companies participate.

Recommendations

(P1) Although it is the responsibility of the vendor to register with the Inspector General, AP should still mitigate the risk of paying a debarred/excluded vendor by performing a search in the County's and State's debarred/excluded lists when AP adds a new vendor to ensure the vendor is not listed as a debarred/excluded vendor. AP should save the lists and attach to the New Vendor Form to evidence the review.

Management's Response:

The Department of Purchasing (DoP) requires departments to perform a check to ensure vendors are not on the debarred vendors lists and to submit a signed form certifying that a check has been completed to process a contract or PO. Some Non-Executive Agencies do not fall under the County Executive signing authority and therefore do not follow the Department of Purchasing procurement processes. For purchases by the Non-Executive Agencies that do not follow the procurement process in the OnBase system, AP will start requiring the NEAs to verify that that vendor is not excluded/debarred by the County or State. The NEAs will be required to provide documentation and signed form (same documentation required by DoP) certifying that they have performed the search in the County's and State's debarred/excluded lists when setting up a new vendor. This documentation will be saved along with the new vendor form as evidence of AP verification.

AP will also work with IT to determine if a report can be created to compare existing vendors to the County's and State's debarred/excluded lists. This process can be run annually as a detection control.

Target Date for Completion:

September 1, 2021 for vendor documentation to be provided with vendor set-up forms.

Target date of April 30, 2022 for IT to create a comparison report and/or file.

Physical Access to Assets

FINDING Insufficient Records Retention and Safeguarding

According to its record retention policy, AP is responsible for processing and storing vouchers, checks, and related documents. Protective measures should be taken to ensure that these records are maintained in a properly controlled and secured environment. The most important protective measure for safeguarding records is the use of physical safety measures such as locks and limited access. AP should have an adequate log to ensure any records leaving the AP department are accounted for and returned within the agreed upon timeframe. Additionally, ORC Section 119:16 mandates that the Fiscal Officer issue warrants upon presentation of vouchers and evidentiary matter. Thus, such documents must be properly retained in order to provide assurance of compliance.

AP's record retention policy allows W-9s to be destroyed after one year, provided that they were audited by the Ohio Auditor of State and the audit report was released pursuant to ORC 117.26. AP procedures require that voucher information match the source documents including vendor information. The Fiscal Office requires a W-9 from vendors before payment can be made, and a new W-9 is required when the vendor experiences an address change.

Records of vouchers and evidentiary matter to support the issuance of warrants is not properly retained. Of the 100 payments tested, totaling $2,793,457, five of the voucher/support originals requested from Accounts Payable (AP) during the audit could not be located in AP's storage area. DIA inquired with the agencies for copies of the voucher/support and received four out of the five by the completion of fieldwork. Only one voucher/support could not be located, either the original or a copy, for a payment totaling $750.

Since the last audit, the AP department implemented DIA's recommendation by locking up vouchers and checks held for pickup or returned in the mail, so only authorized AP personnel could access them and ensure any requests to check out vouchers and AP files are documented. However, AP still does not have an electronic log of all vouchers and AP files leaving the AP department and was unable to determine who might have the one voucher/support original in their possession.

Further, AP was unable to provide DIA copies of W-9 forms for any of the vendors in our testing of 2018 vouchers. Without W-9s to compare, DIA was unable to test the accuracy of the vendor information entered into FAMIS and printed onto the checks.

The ERP was planned to allow AP to upload the W-9s digitally, which would make the retention period indefinite for the electronic version. However, during the audit, AP was still using its manual filing process that follows the one-year retention period, because the ERP was not yet set up to upload W-9s.

DIA noted that the new AP manager was not aware of DIA's past audit recommendation to create an electronic log because of the issue with missing voucher/support originals. Therefore, the AP manager was still using printouts of the voucher requests as a tracking system, which is not as effective as a log for keeping track of requests.

AP could not provide the W-9 forms from 2018 because DIA's request occurred in 2020 and the records are destroyed after one year.

Risk to the County if Findings Not Corrected

If AP does not formally track the custody of its files, there is an increased risk that files and checks leaving the AP department could go missing and not be recovered, which is not in compliance with AP's record retention policy. Missing files could result in undetected fraud or the County possibly losing revenue if the payment is related to a Federal or State reimbursement grant/agreement and cannot be substantiated. Missing checks could result in misappropriated funds.

Since AP does not maintain W9s beyond one year, DIA cannot confirm the accuracy of vendor information in FAMIS which can potentially be manipulated. Incorrect vendor information can cause checks to be returned or misdirected. The effect of this weakness is a lack of accountability over the payables process that could result in unauthorized purchases, misappropriation of assets, and misdirected checks.

The record retention policy places the County at risk of not being able to prove compliance during reviews that may be performed by other entities such as the Internal Revenue Service.

Additionally, as there was not a specific form for agencies to submit any vendor changes to AP, the expectation to submit any vendor changes is not clearly communicated to the agencies in the ERP. This could result in checks mailed to the wrong address or AP issuing inaccurate 1099s.

Recommendations

1. (P1) A record of all vouchers and files leaving the area should be documented by AP, preferably in an electronic log, including the name and department of the employee checking it out, as well as the dates the files were checked out and returned. In case the filing card is misplaced or taken out without the return of the file, this ensures someone knows the whereabouts of all records. Additionally, AP

should review the log periodically to ensure records have been returned in a timely manner.

Management's Response:

The ERP system is an electronic repository for the warehousing of all vouchers/invoices' supporting documentation. The check registers are also warehoused within the ERP system so the maintenance of a log is not required.

The AP Manager implemented a new policy in March 2020, that no vouchers/and or records for invoices processed in FAMIS were to be given to individuals. All requestors are given a copy of vouchers and/or AP files with the originals remaining in the AP file. Effective with the new process, maintain a log no longer became necessary as no original documents are allowed to be taken.

Target Date for Completion:

New policy was implemented in 2020.

2. (P1) AP should follow up with the ERP team for the existing request for access to upload W-9s electronically for better retention.

Management's Response:

Effective November 2020, the W-9s for new vendors are being electronically stored in the ERP system. The old W-9s' that we still have on file will be uploaded to the ERP system by December 31, 2021

Target Date for Completion:

December 31, 2021

ORC Compliance

FINDING Use of Pre-signed Forms or Photostatic Signatures

ORC § 9.10 & § 9.11 (Effective Date 10/1/1953) does not authorize the use of a rubber stamp signature by the official or authorized employee. Although not specifically stated, the use of other methods of circumventing controls would include copying a blank form with approval signature(s) already in place and filling in those pre-approved forms as needed as these methods prevent the active acknowledgement of accountability for the expenditure. An approval signature from the submitting agency and the AP Manager implies review of the payment for accuracy, proper public purpose, and compliance with policies and legal requirements. Pre-signing blank forms should not be allowed, as it is the same as signing blank checks and can easily be misappropriated or abused. Tighter control over the approval process is required and the seriousness and reason for the approval should be understood by all persons involved.

Authorization of vouchers is not consistently evidenced by original signatures. During review of a sample of 100 vouchers selected for compliance testing, DIA noted in 9 out of 100 (9%) vouchers that pre-signed blank forms were used to authorize voucher approvals for payment. When comparing the 9 vouchers, all of which were prepared by the Board of Development Disabilities, it was noted that the signatures were printed and identical for each manager.

DIA determined that this concern existed because although Accounts Payable's policy on approving vouchers and invoices disallows the use of rubber stamps for approvals by all Departments, the policy was not being enforced as Accounts Payable accepted the vouchers from the Department for payment in numerous instances.

Risk to the County if Findings Not Corrected

The use of a photostatic signature or pre-signed blank forms could allow individuals the ability to circumvent the segregation of duties control and issue unauthorized payments. This could result in noncompliance with Ohio Revised Code.

Recommendations

1. (P1) DIA recommends AP and County departments comply with the ORC noted above and avoid using pre-signed blank forms or photostatic signatures. For non-executive agencies like Board of Developmental Disabilities without access to approve vouchers electronically in the ERP, AP should ensure for every voucher the agencies are still filling out the proper voucher forms and providing wet signatures consistently (not rubber stamps or copied).

Management's Response:

For any department/agency that uses the Lawson (ERP) system for data entry, this control condition is no longer applicable with the change to the new accounting system. All signatures/approvals occur electronically and voucher cover sheets are no longer required.

For the Non-Executive Agency (NEA) that still submits vouchers to AP for data entry, the voucher cover forms and/or invoices are verified to ensure that all signatures are original signatures and the use of rubber stamps are not acceptable

Target Date for Completion:

The action plan became functional upon the implementation of the ERP system in February 2020.